



ISSN 1582-5949  
E-ISSN 2247-8620

<http://www.upet.ro/annals/economics/>

[annals.up.economics@gmail.com](mailto:annals.up.economics@gmail.com)

*Universitas Publishing House  
Petroșani - Romania*

**ANNALS  
OF THE UNIVERSITY OF PETROȘANI  
~ ECONOMICS ~**

***VOL. XIII - PART II***

**2013**



**EDITOR OF PUBLICATION**  
**Prof. Ioan-Lucian BOLUNDUȚ Ph.D.**

**ADVISORY BOARD**

- **Prof. Ioan ABRUDAN Ph.D.**  
Technical University of Cluj-Napoca,  
*Romania*
- **Prof. Crișan ALBU Ph.D.** Academy  
of Economic Studies, Bucharest,  
*Romania*
- **Prof. Ionel BARBU Ph.D.** „Aurel  
Vlaicu” University of Arad, *Romania*
- **Prof. Mircea BARON Ph.D.**  
University of Petroșani, *Romania*
- **Prof. Constantin BĂGU Ph.D.**  
Academy of Economic Studies,  
Bucharest, *Romania*
- **Prof. Maria BOLDEA Ph.D.** West  
University of Timișoara, *Romania*
- **Prof. Petre BREZEANU**  
Ph.D. Academy of Economic Studies,  
Bucharest, *Romania*
- **Prof. Sorin BRICIU Ph.D.** „1  
Decembrie 1918” University of Alba-  
Iulia, *Romania*
- **Assoc. Prof. Ovidiu BUNGET Ph.D.**  
West University of Timișoara, *Romania*
- **Prof. Lucian CERNUȘCA Ph.D.**  
„Aurel Vlaicu” University of Arad,  
*Romania*
- **Prof. Laura Mariana CISMAȘ Ph.D.**  
West University of Timișoara, *Romania*
- **Prof. Ioan COSMESCUS Ph.D.**  
„Lucian Blaga” University of Sibiu,  
*Romania*
- **Prof. Horia CRISTEA Ph.D.** West  
University of Timișoara, *Romania*
- **Prof. Tatiana DĂNESCU Ph.D.**  
“Petru Maior” University of Tg.  
Mureș, *Romania*
- **Prof. Ioan Constantin DIMA Ph.D.**  
“Valahia” University of Târgoviște,  
*Romania*
- **Assoc. Prof. Marius DINCĂ Ph.D.**  
“Transilvania” University of Brașov,  
*Romania*
- **Prof. Elena DOBRE Ph.D.** „Ovidius”  
University of Constanța, *Romania*
- **Prof. Luigi DUMITRESCU Ph.D.**  
„Lucian Blaga” University of Sibiu,  
*Romania*
- **Assoc. Prof. Codruța DURA Ph.D.**  
University of Petroșani, *Romania*
- **Assoc. Prof. Valentina FETINIUC**  
Ph.D. International Center for  
Research into Economic  
Transformations, *Republic of Moldova*
- **Prof. Jaime GIL ALUJA Ph.D.**  
Royal Academy of Economics and  
Finance, Barcelona, *Spain*
- **Prof. Janusz GRABARA Ph.D.**  
Czestochowa University of  
Technology, *Poland*
- **Prof. Constanța IACOB Ph.D.**  
University of Craiova, *Romania*
- **Assoc. Prof. Claudia ISAC Ph.D.**  
University of Petroșani, *Romania*
- **Prof. Mihaela KELEMEN Ph.D.**  
Keele University, *United Kingdom*
- **Prof. Mariana MAN Ph.D.**  
University of Petroșani, *Romania*
- **Prof. Gheorghe MATEI Ph.D.**  
University of Craiova, *Romania*
- **Prof. Arnaldo MAURI, Ph.D.**  
University of Milano, *Italy*
- **Assoc. Prof. Ilie MITRAN Ph.D.**  
University of Petroșani, *Romania*
- **Prof. Vladimír MODRÁK Ph.D.**  
Technical University of Košice,  
*Slovakia*
- **Prof. Aladár NAGY Ph.D.**  
University of Miskolc, *Hungary*
- **Prof. Jozef NOVÁK-MARCINČIN**  
Ph.D. Technical University of Košice,  
*Slovakia*
- **Prof. Dumitru OPREAN Ph.D.**  
„Babeș-Bolyai” University of Cluj-  
Napoca, *Romania*
- **Prof. Natalia PASHKEVICH Ph.D.**  
St. Petersburg State Mining Institute,  
*Russia*
- **Assoc. Prof. Francesco PASTORE**  
Ph.D. Second University of Napoli,  
*Italy*
- **Prof. Svetislav PAUNOVIĆ Ph.D.**  
Union University, Belgrade Banking  
Academy, *Serbia*
- **Prof. Marina PESHKOVA Ph.D.**  
Mine University of Moscow, *Russia*
- **Prof. George POEDE Ph.D.**  
„Al.I.Cuza” University of Iași,  
*Romania*
- **Prof. Mirjana RADOVIĆ**  
**MARKOVIĆ Ph.D.** Institute of  
Economic Sciences, Belgrade, *Serbia*
- **Assoc. Prof. Ilie RĂSCOLEAN**  
Ph.D. University of Petroșani,  
*Romania*
- **Prof. Oleksandr ROMANOVSKIY**  
Ph.D. National Technical University  
of Kharkov, *Ukraine*
- **Prof. Bruno SCHÖNFELDER Ph.D.**  
Technical University of Freiberg,  
*Germany*
- **Prof. Elena Claudia ȘERBAN Ph.D.**  
Academy of Economic Studies,  
Bucharest, *Romania*;
- **Prof. Aurelia-Felicia STĂNCIOIU**  
Ph.D. Academy of Economic Studies,  
Bucharest, *Romania*
- **Prof. Ion STEGĂROIU Ph.D.**  
“Valahia” University of Târgoviște,  
*Romania*
- **Prof. Ovidiu STOICA Ph.D.**  
“Alexandru Ioan Cuza” University of  
Iași, *Romania*
- **Assoc. Prof. Alexandru STRATAN**  
Ph.D. National Institute for Economic  
Research, *Republic of Moldova*
- **Prof. Emilia VASILE Ph.D.**  
“Athenaeum” University of  
Bucharest, *Romania*
- **Prof. Yuriy VILKUL Ph.D.** -  
Technical University of Krivoirog,  
*Ukraine*

**EDITORIAL BOARD**

- Editor-in-chief:** • **Prof. Mariana MAN Ph.D.**, University of Petroșani, *Romania*
- Deputy Editor-in-chief:** • **Assoc. Prof. Imola DRIGĂ Ph.D.**, University of Petroșani, *Romania*
- Associate Editors:**
- **Assoc. Prof. Oana DOBRE-BARON Ph.D.**  
University of Petroșani, *Romania*
  - **Assoc. Prof. Alin MONEA Ph.D.**  
University of Petroșani, *Romania*
  - **Assoc. Prof. Mirela MONEA Ph.D.**  
University of Petroșani, *Romania*
  - **Lecturer Dorina NIȚĂ Ph.D.**  
University of Petroșani, *Romania*
- Editorial Secretary:**
- **Lecturer Bogdan RĂVAȘ Ph.D.**  
University of Petroșani, *Romania*
  - **Assist. Prof. Ana-Petrina PĂUN**  
University of Petroșani, *Romania*
- Language Reviewer:** • **Assoc. Prof. Gabriela DUMBRAVĂ Ph.D.**, University of Petroșani, *Romania*
- Technical Editor:** • **Assist. Prof. Marian FOAMETE** University of Petroșani, *Romania*

## Contents

<b>Andrioni, F.; Popp, L.E.</b> The General Contextual Frame for Placing Superior Studies Graduates in the Work Market	5
<b>Baron, M.; Dobre-Baron, O.</b> Vâlcan Gorge - A Bridge between the Carpathian Provinces	13
<b>Celea, S.; Brezeanu, P.; Păun, A.P.</b> Fiscal Discipline within the EU: Comparative Analysis	23
<b>Cucu, C.</b> Mapping Complex Debates: A Case Study on Austhink Rationale	31
<b>Cucu, I.</b> A Study Regarding the Use of the Functional Maintenance Model Using a Systemic Approach	37
<b>Drigă, I.; Dura, C.</b> New Trends Regarding OFDI from Russia	41
<b>Dura, C.; Drigă, I.</b> The Amazing Universe of Russian Multinationals: New Insights	51
<b>Ghuman, R.S.; Singh, I.</b> Providing Affordable Higher Education to Rural Girls in Indian Punjab: A Case Study of Baba Aya Singh Riarki College	61
<b>Guță, A.</b> Comparative Analysis of Public Management in Romania and EU Countries	85
<b>Guță, A.</b> The Models of Presentation of Ensemble Circular Flow of the National Economy from the Provisional Science	93
<b>Iacob, S.V.</b> Cause and Effect in Promoting a Project	99
<b>Isac, A.</b> Use of Mobile Technology in Banking Services	109
<b>Isac, C.</b> Interdependence of Entrepreneurship – Economic Development	117
<b>Isac, C.</b> Bankruptcy – Effects on Business Environment	125
<b>Isac, C.; Dura, C.</b> Expansion of Russian MNCs Continues: The M&A Road	133
<b>Monea, M.</b> Performances of the Romanian Insurance Market	141
<b>Monea, M.</b> Informational System of the Financial Analysis	149
<b>Munteanu, R.</b> On The Calculation of the Success Rate in Mining	157
<b>Pleșa, R.</b> Assessment of Economic Increase and Social Development By Means Of Social Indicators	165
<b>Pleșa, R.</b> Social Exclusion and Vulnerable Populations	173
<b>Popp, L.E.; Andrioni, F.</b> Socio-Economic and Dynamic Relocations in the Workplace	181
<b>Preda, A.; Monea, M.</b> How Affected Was World Insurance Market By Global Crisis?	191
<b>Preda, A.; Monea, M.</b> Comparative Analysis and the Place of Romania on Insurance Global Market	203

<b>Răvaș, B.</b> Study on Internal Control of Suppliers and Customers in a Construction Company	213
<b>Răvaș, O.C.</b> Analysis of the Changes to the Labour Market and Unemployment in Republic of Moldova from the Perspective of Signing the Association Agreement with the EU	221
<b>Răvaș, O.C.</b> Homeworking Contract and Teleworking - Importance and Role in the Economy	231
<b>Stelescu, I.</b> The Profile of the Romanian Football Manager	243
<b>Stelescu, I.</b> The Management of the Sport Activity at the University of Petroșani	251
<b>Ținta, A.E.</b> The Influence of Accounting Policies over the Entities' Result	259
<b>Zuca, M.R.</b> The Accounting Treatment of Asset Depreciation and the Impact on Result	271
<b>Isac, C.; Dura, C.</b> The Place of Enterprise Economy within Economic Sciences	281

## **THE GENERAL CONTEXTUAL FRAME FOR PLACING SUPERIOR STUDIES GRADUATES IN THE WORK MARKET**

**FELICIA ANDRIONI, LAVINIA ELISABETA POPP \***

**ABSTRACT:** *Integration in a workplace is an interaction rapport between the individual and the environment. The process of professional integration is strongly linked to the professional aspiration, individual expectations, motivation, and work satisfaction. Placing young graduates of superior studies on the labour market is a challenge for contemporary society. Identifying a suitable work place as well as the certainty of the attained work place are very important elements for young superior studies graduates in the current context of economic crisis. The difficulties in getting a job for superior studies graduates are most frequently associated with lacks in what regards the speciality practical skills and generally, insertion in the work market is achieved by getting a position in fields that are related or even different from the speciality field. In an extremely unstable social and economic context, people's ability to quickly adapt to the requirements of the labour market is fundamental. In this respect, education and professional training have an important role, contributing to the update of knowledge, skills and qualifications of superior studies graduates or future superior studies graduates, eventually allowing them to stay active, flexible, adapted to the situations and requirements of the labour market.*

**KEY WORDS:** *work integration, professional placing, superior studies graduate, labour market.*

**JEL CLASIFICATION:** *J21.*

### **1. THE PROCESS OF PROFESSIONAL INTEGRATION IN THE LABOUR MARKET**

Work has been into the attention of men of science for a very long time, the right to work having been recognized as one of the fundamental human rights, but the practical application of this right is deficitary (Preda, 1998, p.53).

---

\* Lecturer., Ph.D., University of Petroșani, Romania, [felicia\\_andrioni@yahoo.com](mailto:felicia_andrioni@yahoo.com)  
Assoc. Prof., Ph.D., „Eftimie Murgu” University of Reșița, Romania, [L.popp@uem.ro](mailto:L.popp@uem.ro)

By work integration we understand „a complex, leveled social process, of the person that integrates and the integrating environment, which results in the young graduate’s acceptance, internalizing, and fulfilment of the value and normative requirements of the integrating environment” (Zamfir & Vlăsceanu, 1998, p.439).

Work aspirations, as a factor of the integration process, express the finality of human action, the fundamental values towards which the individual strives, and based on which he assesses the ensemble of his achievements. Work integration is not a mechanic rapport of interaction between the individual and the environment. It is not enough for the individual, through his work ability, to correspond to the characteristics and requirements of the integrating environment, in respect to his integration in the labour market. It is necessary that he reacts to these characteristics and requirements with the desire to act according to the values and norms of the integrating environment.

So, his aspirations must head towards these values and norms and effectively adhere to them, which is to understand them in the meaning they have for himself. The individual rapport to the integrating environment differentially, in rapport to his aspirations. In the same integrating environment, people can evolve differently, as a result of their individualised aspirations. Based on what they are „searching” for in this environment, they will or will not find aspects that can fulfil their aspirations, and, according to these, integrate or not in the work field.

In the opinion of Lefter and Manolescu (1985, pp. 29-38), work aspirations are determined by a group of important factors, out of which the most important, stressed by the authors, are: personal necessities (related to life necessities that the individual seeks to satisfy, requirements related not only to his life, but also of those he supports, reason for which knowing the family situation has an important role in understanding the aspirations); age and sex; acquired achievements (as it is known that aspirations make the individual strive for objectives he hasn’t accomplished yet, but which are linked to the status he has; the values to which he subscribes (based on which he hierarchizes and selects these necessities, gives them meaning and elaborates his action preferences).

Knowing these aspirations gives us not only an explanation of the situation, but also the possibility of preventive practical intervention, as understanding what the members of the collective desire, we can intervene to create such life and work conditions that stimulate integration, avoid conflicts, frustrations and other aspects that can lead to disintegration. Another important factor of the work integration process is expectations. Thus, „expectation refers to the individual’s belief about the possibility or subjective probability that a collective behaviour will be followed by a certain result and it is the easiest to think about, as a judgment of particular probability” (Ivancevich, et al., 2008, p.134).

The professional integration process is in close relation to work satisfaction. Research regarding work satisfaction show the direct rapport that this has with work integration. Work satisfaction determines the successful fulfilment of the work tasks, receptivity to the general problems of the institution or organization, stability of the work force, the desire for professional perfecting, whereas, at the opposite, work dissatisfaction can generate lack of interest for work, passivity, the desire to change

profession, the desire for fluctuation and other such effects with negative repercussions both for the individual and for the organizational environment.

In this respect, Chambart Lauwe considers that work motivation is defined as “the orientation towards a purpose of the volitional actions of the individual, in this respect, motivation gives answer to the question Why?” (1972, p. 225). So, we can conclude that in the work integration process, work motivation constitutes and extremely important factor for the individual.

Hoffman (1996) considers that different motivations can generate the same aspiration, but also that different aspirations can have the same motivation (the motivation of earning can generate the aspiration to promotion, to have an easy and safe work place), the author thus including in the concept of motivation heterogeneous elements. „ In the motivation spectrum, besides needs or necessities, other reasons are included (aspirations, attitudes, expectations, interests, purposes etc), these are specific both for each type of activity, being distinct from the motivation of work and creation, and for each person” (Hoffman, 1996, p.70).

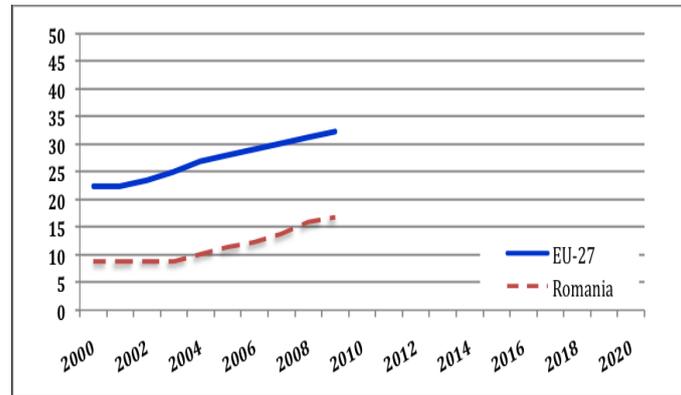
A few characteristics of motivation can be acknowledged, among which different authors include: the persistence which characterizes the strength to maintain a motivation for as long as a person continues to make efforts in order to fulfil his objectives; the direction, which expresses what the individual chooses to obtain, or for what reason he elaborates a behaviour or another (gain, prestige, safety, health, to make something good in life, etc), this characteristic is directly linked to the axiological base of motivation and represents the mechanism that triggers aspirations: intensity, referring to the strength through which motivation acts regarding its practical capacity to generate an individual’s behaviour, hierarchy (rank), takes into consideration the place of a motivation in respect to the motivational system of an individual, the priority that it is given in the elaboration process of personal behaviours.

The integration process must be led based on a solid knowledge of its particularities, owing to the fact that integration implies interaction-type social relations, it is necessary that the process is not allowed to take place spontaneously. As was shown, both the person integrated and the integrating environment play an active role, a reciprocal change of influences taking place (mentalities, aspirations, behaviours). Relations within the integrating environment play an important role in the direction of the course of the process of work integration. The individual’s integration depends on the collective’s force, on its power of influence and on its quality. The degree of work integration directly influences the affective, cognitive and axiologic dimension of the individual, it repercutes on his life. The better an individual is integrated in work, the greater the satisfaction he will find in the activity that he undertakes.

## **2. THE GRADUATES’ INTEGRATION IN THE WORK MARKET. GENERALITIES**

Beginning with the year 2000, in Romania, there was a significant decrease in the number of persons that drop out of the educational system, achieving a low education level. The value of this indicator for 2009 is close to the European average

(EU 27 – 14.4%; RO – 16.6%, v. figure 1) (Vamanu, 2012, p. 21). The reduction of the rate of early dropping out of the education and formation system is also formulated as an objective in the Fiscal – Budgetary Strategy on medium term of Romania.



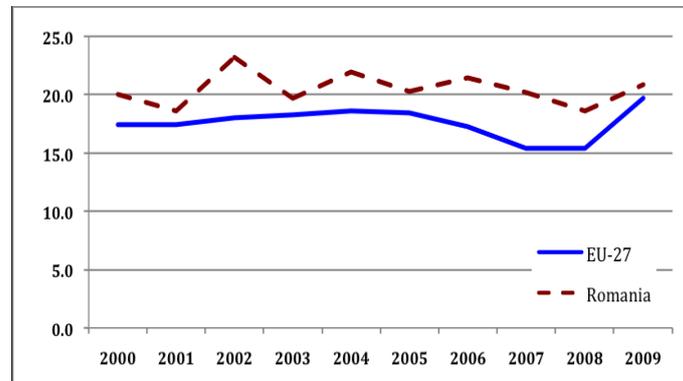
Source: Eurostat, 2008. Note: indicator calculated as a percentage of persons with superior studies from the total population aged between 30 and 34.

**Figure 1. Rate of graduates of superior studies**

The low participation of the youth and of vulnerable groups on the work market was and is seen as one of the main short and medium term challenges by the current National Strategy Regarding Social Protection Social Inclusion. In the past, measures taken in this respect have been directed to subsidize employers in order to employ graduates of schooling institutions (for example, in 2007, 12.182 persons were hired, out of which 1.624 graduates of the inferior cycle of highschool or schools of arts and crafts; 5.412 graduates of secondary superior schooling or post-highschool schooling; 5.146 graduates of superior studies).

Between 2007-2013, in our country The National Development Plan 2007 – 2013, (NDP), proposed by the Government of Romania stated that the problem of integrating young people in the work market as one of the action priorities, as a result of the increase of the rate of unemployment among them. The Government's document emphasised the integration of young people on the work market in close relation to the education's system ability to offer relevant competences and qualifications and to adapt to the requirements of the market. Moreover, the government has set as an objective the achievement of some targets until 2015 for a series of indicators regarding the integration of young people in the labour market.

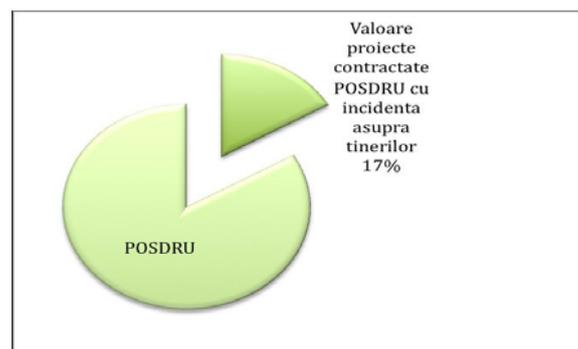
In our country, in the document The National Development Plan 2007-2013, (NDP), proposed by the Government of Romania the problem of young people's integration on the work market was emphasized as one of the action priorities, as a result of the increase of unemployment among them. The Government's document emphasised the integration of young people on the work market in close relation to the education's system ability to offer relevant competences and qualifications and to adapt to the requirements of the market.



Source: Eurostat, 2008

**Figure 2. The rate of unemployment among young people (15 – 24 years of age)**

Moreover, the government has set as an objective the achievement of some targets until 2015 for a series of indicators regarding the integration of young people on the work market. The fulfilment of the objectives in the NDP regarding young people's integration in the labour market was and is delayed due to the ongoing reform of the Romanian Education system and in the last years, even worse by the economic crisis. Or example, in 2009, the providing of funds necessary to funding the active measure that stipulates the employing of certain categories (young graduates, unemployed persons < 45 years of age) was badly damaged by the economic crisis. The necessary funds were not allocated from the national budget to the employment agencies, or, in the best cases, in some counties, they were allocated for a few months (Stănculescu, 2009). Also, from the following graphic it can be observed that the unemployment rate among young people between 15-24 in Romania is higher than the rate of unemployment among young people between 15-24 in the European Union.



Source: Government of Romania, The National Development Plan 2007-2013

**Figure 3. The value of projects aimed at young people, financed through POSDRU**

The interest for the problem of the inclusion of young people is also reflected by the degree of accessing European funding. The list of funding from Structural Funds

is available on the site of Authority for the Coordination of Structural Instruments ([www.fonduri-ue.ro](http://www.fonduri-ue.ro)). Figure 3 illustrates the value of the projects that reach young people financed through POSDRU. It shows the percentage that is related to the plans and projects that are aimed at young people and their inclusion on the work market from the totality of the projects elaborated by The Operational Sectorial Programme for the Development of Human Resources. Unfortunately, only 17% of this programme were aimed for the development of these projects, the remaining percentage representing other social programmes, like „The Transition from school to active life”, „Doctorate programmes”, etc. (Government of Romania, The National development Plan, 2008).

### **3. THE EXPECTATIONS OF YOUNG GRADUATES FROM THE LABOUR MARKET**

The expectations that young graduates have from the work market differ significantly, according to previous experience in the work market. The young people that have not had experiences in the work market project the work place that they will have at a given time as a sum of their expectations. Likewise, the young people that have already joined the work market, before having direct interaction with a workplace, had unrealistic projections and expectations. They all agree that, as result of this interaction, their expectations have changed, adapting to what the work market can really offer.

In the subjective evaluation of the work place that young people have or that they wish to have, they are taking into consideration criteria like: the stability of the work place, psychological stress, remuneration, independence in taking decision, intrinsic motivation, and promotion opportunities. In the opinion of a number of 12 young superior studies graduates, that participated as respondents in a focus group brought together in the event of an analysis that looked at general aspects of the insertion of superior studies graduates in the labour market, the labour force market and the absorption of graduates in the labour market constitute, in their opinion, a major part of existence. „The work place must offer, in their opinion, fulfilment and material safety: decent wage, meal tickets, telephone, a job car, payed extra hours, and the respect of individual values: the respect for the person and for the work done, acknowledgment, appreciation, promoting, correctitude, colegiality” (Vamanu, 2012).

“I should feel respected at my work place, to enjoy what I do and feel well, and to be able to evolve in this perspective. The salary is important and it should be at least high enough for my to cover my expenses and live decently” (G., 24 years old, superior studies graduate, Petroşani). The situation changes when the experience that the employees have had at different work places comes into discussion. The young people agree that most often, the expectations and projections that they had made before they began working were not met, even more so, they had to reevaluate these expectations, taking into consideration the realities of the work market. The interaction with the work market made the young people appreciate more the relationships with their colleagues and bosses at the work place, the way they are respected or the surplus value that they bring through their work.

The current economic context and the situation in the work market determines young graduates that are hired to be satisfied with the work place they have, even though it does not meet their expectations and conditions. Young graduates are of the opinion that things are going for the worse, and the economic crisis favours the context in which they have to accept the compromise situations at the work place: lack of criteria for performance and competence, their studies not being taken into consideration and the irrelevance of acquired knowledge, the job description and the conditions in the work contract not being taken into account, extra hours not paid, not correlating the wage with the volume of work done, not observing the work safety conditions etc.

“These days, you don’t raise the problem if you like your job or you don’t, you’re just glad that you have a job, and that you get some money from somewhere” (A., 23 years old, young graduate of superior studies, Vulcan) (Vamanu, 2012). “There is no certainty about your job, even if you are competent, hiring is not done taking into consideration competence criteria, studies, experience, but through relations” (C., 27 years old, superior studies graduate, unemployed, Petroșani) (Vamanu, 2012).

The certainty of the work place, one of the very important conditions for young employees is put in jeopardy in the current context of economic crisis. Losing the job is one of their main fears, in the context in which the offer for a work place is greatly reduced compared to the moment when they joined the labour market.

#### **4. CONCLUSIONS AND DISCUSSIONS**

In what regards the labour force market and the employment possibilities that young graduates of superior studies have nowadays, whether we look from the perspective of the young graduates that are not yet hired, or from the perspective of the ones that work, the unanimously accepted opinion is that the offer from the work market is more and more deficitary. If, at a structural level, the labour force market with the fluctuations caused by the economic crisis offers the same conditions (few work places, small wages, uncertainty etc.) in what regards employment for all the young people, individually, the difficulties in finding a job are closely linked to the experience that they have in the work market. Thus, in the opinion of young superior studies graduates employment in the labour market is difficult.

“It is very difficult to find a job, especially because the education system in Romania doesn’t help at all, as it emphasizes theory too much and practice too little, in a time when every employer asks for experience” (A., 22 years old, graduate of superior studies, employed, Lupeni) (Vamanu, 2012). “You can’t really find a job according to the training you have because of the poverty of the offer on the labour market at this time, at a local level, and because of nepotism” (T., 23 years old, superior studies graduate, in search of a job, Petroșani) (Vamanu, 2012).

Identifying work places for young people is limited by the apparition of age groups that include more people on the labour force market, on one hand, and on the other hand, by a lasting economic crisis. The narrowing of the demand for labour force puts the people that wish to work in a situation that is even more difficult than those that have already had a work place. The exclusion of the new generation from the

inclusion in the labour force has long term social and political dangers and its moral effects are extremely harmful. It is hard to understand that the years spent in school were useless, as the acquired knowledge is no longer necessary. The fundamental cause is the degree of qualification of the young people that begin their career and which is not higher, but lower than that of the employed persons (Lefter & Manolescu, 2009, p.108).

In an extremely unstable social and economical context, the individuals' ability to quickly adapt to the requirements of the labour market is fundamental. Thus, an important role is played by education and professional training, contributing to the updating of knowledge, competences and qualifications of the employees that are superior studies graduates or of future employees that are superior studies graduates, eventually allowing them to stay active, flexible, adapted to the situations and requirements of the work market.

The difficulties in occupying the jobs are most frequently associated with lacks in what regards the speciality and general practical abilities, but also in what regards responsibility, not unfrequently, the insertion in the labour market is done by occupying jobs in domains that are connected or even different from the speciality domain. Taking into consideration the reduced mobility of the labour force in the region, one can expect that at least a part of these young graduates will continue their careers in different fields of activity.

#### REFERENCES:

- [1]. Hoffman, O. (1996) *Sociologia muncii (Labour's Sociology)*, Hyperion Publishing House, Bucharest
- [2]. Ivancevich, J.M.; Konopaske R.; Matteson, M.T. (2008) *Organizational Behavior and Management*, Mc Graw Hill Irwin
- [3]. Lauwe, C. (1972) *Pentru o sociologie a aspirațiilor (For a sociology of aspirations)*, Dacia Publishing House, Cluj
- [4]. Lefter, V.; Manolescu, A. (2009) *Managementul resurselor umane (Human Resources Management)*, Didactic and Pedagogic Publishing House, Bucharest
- [5]. Preda, D. (1998) *Ocuparea forței de muncă și dezvoltarea durabilă (Occupying the labour force and enduring development)*, Economic Publishing House, Bucharest, 1998;
- [6]. Stănculescu, M.S. (2009) *Rapid Assessment of the Social and Economic Impact of the Economic Crisis in Romania*, UNICEF and World Bank Report , Bucharest
- [7]. Vamanu, C. (2012) *Insertia absolvenților de asistență socială pe piața muncii (The insertion of social assistants graduates in the labour markets)*, Petroșani
- [8]. Zamfir, C.; Vlăsceanu, L. (1998) *Dicționar de sociologie urmat de indicatori demografici, economici și sociologici (Dictionary of sociology, followed by demographical, economical and sociological indicators)*, Babel Publishing House, Bucharest
- [9]. Agency for Governmental Strategies (2008) *Angajatorul român (public și privat) și piața forței de muncă (The Romanian employer public and private and the labour force market)*. Research raport. Bucharest, [www.publicinfo.ro/pagini/index.php](http://www.publicinfo.ro/pagini/index.php)
- [10]. Romania's Government (2010) *Strategia Fiscal Bugetară pe perioada 2011-2013 (The Budgetary Fiscal Strategy on the period 2011-2013)*, Bucharest
- [11]. [www.fonduri-ue.ro](http://www.fonduri-ue.ro) [date of acces December 2012]
- [12]. [www.eurostat.ro](http://www.eurostat.ro) [date of acces March 2013]

## **VÂLCAN GORGE - A BRIDGE BETWEEN THE CARPATHIAN PROVINCES**

**MIRCEA BARON, OANA DOBRE-BARON \***

**ABSTRACT:** *Situated in the Southern Carpathians of Romania, Vâlcan Gorge was, from the Antiquity to the end of the XIX-th century, the main connection between southern Transylvania/Hațeg County and northern Oltenia/Gorj area. Under the circumstances, the area situated at the source of the Jiu Rivers, generically named the Jiu Valley and crossed by the road coming from Crivadia and going up in Vâlcan Gorge, sometimes benefited from being a transit area for those who traveled from one side of the Southern Carpathians to the other, but it was also always in the way of invasions that lasted up to the beginning of the modern age. Today, this road seems to regain the attention of local authorities as a possible touristic route, losing its initial role at the end of the XIX-th century when, on September 4, 1894, the present road through Jiu Gorge was inaugurated.*

**KEY WORDS:** *the Southern Carpathians, Vâlcan Gorge, the Jiu Valley, Transylvania, Southern Romania.*

**JEL CLASIFICATION:** *N90.*

The Jiu Valley, the generic name for the geographic, social and economic area in southwestern Transylvania is, from a morphological point of view, a narrow and deep depression, one of the few in the Southern Carpathians<sup>1</sup>.

The Jiu Valley, lying along the two sources of the Jiu, has the form of a triangular asymmetric syncline, oriented towards ENE-WSW, with its point to the west and its base to the west; it covers 137.6 km<sup>2</sup>, having a length of 45.6 km, and a width of 2 km to the

---

\* Prof., Ph.D., University of Petroșani, Romania, [baron\\_mircea@yahoo.com](mailto:baron_mircea@yahoo.com),  
[mirceabaron@upet.ro](mailto:mirceabaron@upet.ro)

Assoc. Prof., Ph.D., University of Petroșani, Romania, [oanabaron@yahoo.com](mailto: oanabaron@yahoo.com)

<sup>1</sup> Enea Giurchescu, *Valea Jiului*, Anuarul II al Liceului de stat pentru băieți din Petroșani pentru anul școlar 1920/21, Jiul Cultural, Petroșani, p. 3.

west and 9.6 km to the east, with a maximum at the confluence of the Eastern and the Western Jiu<sup>2</sup>.

The bottom of this depression is relatively high: 556 m altitude at the entrance in Surduc Gorge, where the Eastern and the Western Jiu meet, and 800 m altitude towards the eastern and western borders; it is a high depression surrounded by mountains, which accounts for its relatively cold climate and poor agricultural activities. The depression is surrounded by three massifs, namely: the Retezat Mountains to the NW and W; the Vâlcan Mountains to the S; the Parâng Mountains on the other side of Surduc Gorge<sup>3</sup>.

Situated in the inner area of the Southern Carpathians, the depression is apparently inaccessible. Lucian Blaga stated that “throughout the Middle Ages, the Carpathians were the axis, the spine that sustained and strengthened our people’s unity”. The mountains surrounding the Jiu Valley, covered by vast deciduous and coniferous forests, are crossed by natural and man-made gorges and roads connecting the areas of the depression with one another and with other regions in Transylvania and south of the Southern Carpathians. Initially, most of the circulation was limited to routes known only by the local people.

From a historic, social and economic point of view, the Jiu Valley was mostly dependent on Hațeg County<sup>4</sup>, which calls for the building of transport routes meant to facilitate the contact with this region and, implicitly, with Transylvania. At the same time, the Jiu Valley was a transit space of strategic and, later on, of economic importance, being a gate to the Gorj area and, implicitly, to Southern Romania or to the north, to Hațeg County and Transylvania.

The road through Vâlcan Gorge, situated at 1,621 m altitude, connecting Schela commune in Gorj with present Vulcan municipality was the main road between the territories situated south of the Southern Carpathians and Transylvania until the end of the XIX-th, when the present road through Surduc-Lainici Gorge was officially inaugurated on September 4, 1894<sup>5</sup>. This road met another road going from Vulcan, through Crividia and Dealu Babii Gorge (931 m altitude) to Hațeg County, which still exists, its use being limited to local pastoral needs. On the Western Jiu, the road met the main transcarpathian road - Transalpina - between Novaci and Sebeș<sup>6</sup>, the highest road in Romania - 2,145 m altitude, in Urdele Gorge, which connects northern Oltenia, across the Parâng Mountains, with south-western Transylvania.

In the modern period, the following were built: the railway through Banița-Merișor Gorge (755 m) on the top of the massif separating the basins of the Jiu and the Strei

---

<sup>2</sup> Bujor Almășan, *Exploatarea zăcămintelor minerale din România*, vol. I, Editura Tehnică, București, 1984, p. 72.

<sup>3</sup> V. Tufescu, C. Mocanu, *Depresiunea Petroșanilor*, Editura Științifică, București, 1964, p. 11; Societatea Petroșani, *Monografie*, Editura „Cartea Românească”, București, 1925, p. 5.

<sup>4</sup> Mircea Baron, *Legături social-economice între Țara Hațegului și Valea Jiului în zorii epocii moderne. Contribuția la popularea Văii Jiului și la constituirea sistemului de așezări din această zonă*, Annales Universitatis Apulensis, Series Historica, 13, 2009, p. 255-271.

<sup>5</sup> Sebastian Stanca, *Monografia istorico-geografică a localității Petroșani*, Editura Fundației Culturale „Ion D. Sîrbu”, Petroșani, 1996, p. 62.

<sup>6</sup> Lucian Badea, *Valea Jiului*, Editura Științifică, București, 1971, p. 89-92.

Rivers (1868-1870)<sup>7</sup>, which called for the modernization of the road entering the Jiu Valley from the east, through Crivadia and Bănița. These two were prolonged to the south, through Jiu Gorge, by the completion in 1890-1894 of the road, and in 1948 of the Bumbești-Livezeni railway<sup>8</sup>; the Petroșani-Livezeni-Lupeni railway (1891-1892)<sup>9</sup>, extended in 1956 with industrial purposes, towards Uricani Mine; the roads within the Jiu Valley, meant to connect dwellings and economic objectives, etc.

The road through Vâlcan Gorge is so old that it was certainly used by the Agathyrsi and the Greeks in the Antiquity and, later on, by the Romans in their attempt to conquer Sarmizegetusa Regia during the Dacian-Roman wars. Hadrian Daicoviciu states that, in 102, during the first Dacian-Roman war, “Lusius Quietus, Moorish chieftain in the service of the Romans and a high dignitary in Traian’s time, attacked with his horsemen, entering Transylvania either through Turnu Roșu, or Vâlcan Gorge”<sup>10</sup>. Possibly, this was the moment when the Dacian city of Bănița was destroyed. During the 105-106 war, some of the Roman troops attacked “probably through Turnu Roșu or Vâlcan Gorge”<sup>11</sup>. The Romans continued to use this access - the Jiu Valley not being passable - as a connection with the road from Drobeta to Transylvania, which was intensely circulated towards the capital of the province, Ulpia Traiana Sarmizegetusa, and towards Apulum<sup>12</sup>.

In “Franz Joseph’s Topographic Elevation” („Josephinische Landesaufnahme”), drawn up by the Habsburgs between 1764-1785, and for the area in question between 1769-1773, we can follow the route of the wagon road from Hațeg, which passes from Merișor through Dealu Babii Gorge (944 m), descends along Crivadia creek and, crossing the Western Jiu, gets to Vulcan Pas, the hamlet where in 1855 there were eight houses, nine families and 30 inhabitants<sup>13</sup> and where the empire officials and the border guards lived together with their families. The customs point and the horse changing post were also here; from here, the road climbed to Vâlcan Gorge, passing by the winter post, the summer post, Radu’s Fountain and getting as far as the top (Adler) at 1621 m<sup>14</sup>. From this point, the road descended to Gorj, through Buliga hamlet and Vama Veche, to Schela and farther to Târgu Jiu<sup>15</sup>.

The condition of the road in Vâlcan Gorge is described in *The Final Report on the Journey in Transylvania* which the future Habsburg emperor, Joseph the II-nd (1780-1790) undertakes in 1773, occasion on which he also visits the Jiu Valley on May 22, 1773. He writes that „there are two roads, one crossing a steep mountain

<sup>7</sup> Vâlceanu Constantin și colectiv, *125 de ani de la inaugurarea liniei Simeria-Petroșani și a depoului de locomotive Simeria*, Editura Gutenberg, Deva, 1995

<sup>8</sup> Dionisie Daniel Ardelean, Mircea Dorobanțu, *Lucrări de artă feroviară în defileul Jiului. Linia Bumbești-Livezeni*, Editura Măiastra, 2013.

<sup>9</sup> A. Schreiber, *Valea Jiului. 1840-1926*, Montanistică și Metalurgie, VI, 1927, nr. 5, p. 6

<sup>10</sup> Hadrian Daicoviciu, *Dacii*, Editura pentru Literatură, București, 1968, p. 256

<sup>11</sup> *Ibidem*, p. 263

<sup>12</sup> *Istoria Românilor*, vol. II (Daco-romani, romanici, alogeni). Coordonatori Dumitru Protase, Alexandru Suceveanu, Editura Enciclopedică, București, 2001, p. 193

<sup>13</sup> Adrian Andrei Rusu, *Un manuscris inedit a lui Ștefan Moldovan privitor la Țara Hațegului la mijlocul secolului al XIX-lea (II)*, Sargetia, XXI-XXIV, 1988-1991, p. 274

<sup>14</sup> Wikimedia.org/wikipedia/commons/f/ff/Iosephinische Landaufnahme\_pg.265.jpg

<sup>15</sup> Octavian Floca, Victor Șuiaga, *Ghidul județului Hunedoara*, Tipografia Județeană, Deva, 1936, p.416-417.

called Dealu Babii, and the other through the so-called Hungarian Jiu, which gets very difficult to circulate at flood time. The roads converge to the customs, from where the resulting road leads on a very long route across the Vulcan Mountain, on whose top lies the border. Except one short section, this road is accessible, and circulated by many carts but, owing to its narrowness, it is not without danger, and we assume that, in extreme cases, it can be life threatening. The narrow road can be managed or even destroyed if necessary. The road goes farther to Valahia where I covered it in a three quarters of an hour's ride...<sup>16</sup>.



**Figure 1. Franz Joseph's Topographic Elevation, chart 265**

<sup>16</sup> Ileana Bozac, Teodor Pavel, *Călătoria împăratului Iosif al II-lea în Transilvania la 1773*, vol. I, Centrul de Studii Transilvane, Cluj-Napoca, 2007, p. 717.

Johann Lehmann, the director of a theater company in Bratislava, traveled in Transylvania in the 80s of the XVIII-th century and, in a writing printed at Leipzig in 1785, points out that „the second pass is Vulcan Gorge, starting from the threefold border (between Transylvania, Oltenia and Muntenia) and extending to the point where the Olt river leaves Southern Romania. The road is passable only two thirds of the year because of the heavy snow. To rivers, both named Jiu: the Hungarian and the Romanian Jiu, unite here. Beyond this point there used to be the Germans' defense line. The gorge itself is naturally so strong that it can easily do without artificial fortifications, which are actually quite scarce<sup>17</sup>.

Friedrich Schwanz von Springfels, military engineer in the Habsburg imperial army, in his comments on his own map of Oltenia and the regions bordering Transylvania, Southern Romania and Bulgaria, submitted to the imperial authorities in Viena on April 30, 1723, shows that „in the past, communications between Transylvania and this province (Southern Romania - n.n.) were very slow because of the high and rugged mountains, the only access being through Vulcan Gorge (Vâlcan, Rothen Thurm, Terzburger Pass), Turnu Roșu and Bran. Only a path from Hațeg valley crossed the Vulcan Mountains, and there was no cart road and no possibility to build one, both because of the high and massive mountains, and because of the storms, as the high mountains, which one was forced to cross, are in such a way that if a storm catches someone on the top, it almost smothers people and animals and, and throws them down in the valley among the rocks, of which there are unfortunately plenty of examples, as not one year passes without claiming the lives of people and animals...”<sup>18</sup>.

Throughout the history, Vâlcan Gorge served both as a connection between Transylvania and Southern Romania, and as a gate for invasions, most of which being initiated by the Turks.

Thus historian Téglás Gábor from Deva believes that, on their way to the gold deposits area in the Apuseni Mountains, passed either through the Olt Gorge at Turnu Roșu, or from the Istru, to inner Dacia, along the Jiu. The Greeks' passage through the Jiu Valley is proven by the discovery in Vâlcan Gorge of a gold plated bronze bust featuring a warrior with helmet and shield, probably a representation of the war god Ares or of Alexander the Great, the work supposedly being attributed to Lysipus (sec. IV î.Ch.)<sup>19</sup>.

Discovering the Dacian gold separators, the Romans probably continued this activity, which is attested by the discovery in 1884 and 1914, as a result of diggings in the former gold separators at the foot of the Vâlcan Mountains, of two bronze busts,

---

<sup>17</sup> *Călători străini despre Țările Române*, vol. X, partea I. Volum îngrijit de: Maria Holban, M.M. Alexandrescu-Dersca Bulgaru, Paul Cernavodeanu (redactor responsabil), Editura Academiei Române, București, 1998, p. 615.

<sup>18</sup> *Călători străini despre Țările Române*, vol. IX. Volum îngrijit de: Maria Holban (redactor responsabil), M.M. Alexandrescu-Dersca Bulgaru, Paul Cernavodeanu, Editura Academiei, București, 1997, p. 48.

<sup>19</sup> Téglás Gábor, *A dacziai bányászat legegibb bizonyítékai, tekintettel a Zsilvölgy s különösen a Vulkánhágó bányásztörténelmi jelentőségére*, Bányászati és Kohászati Lapok, XXXVI, vol. II, octombrie 1903, nr. 19, p. 499.

representing Roman gods<sup>20</sup>, of Roman monetary treasures, and of remains of a local craftsman's shop at Vulcan-Crividia<sup>21</sup>.

It is possible that the first inhabitants of Câmpu lui Neag village, lying in the northernmost area of the Jiu Valley came on this road from northern Oltenia. Iacob Radu, Greek-Catholic vicar of Hațeg states at the beginning of the XX-th century that "by virtue of the local tradition, the name [of the village] comes from an outlaw named Neagu who, at the beginning of the XVI-th century, hiding from the Turks with a group of companions, took refuge in these deserted mountains in the place known today as Dosul Pribeagului and, later on, they built permanent dwellings on the wide open banks of the Jiu, their settlement being named after their leader, Câmpu lui Neag."<sup>22</sup>

It is known that, in the first half of the XVI-th century, in 1528-1529, Transylvania's ruler, Petru of Perény, builds the defense and survey city-tower at Crivadia, a round stone building, on several levels, with a diameter of 13.50 m, which guarded the road from the Jiu Valley to Hațeg County, being apparently meant to collect toll from the carts that passed through Vâlcan Gorge and to protect the travelers coming from the south<sup>23</sup>.

Franz von Gerstorff, in *Information on the Mining in the Great Kingdom of Transylvania*, elaborated at Sibiu in 1768, showed that "in the Great Kingdom of Transylvania there are several separators, known almost exclusively by their names, usually at Bran (Törzburg), in *Vulcan Gorge on the Jiu ...*, but fewer attempts have been made with all these in recent years"<sup>24</sup>.

Also in relation with the 1773 journey of emperor Joseph the II-nd to Transylvania, we find out from the data gathered by Baron Samuel von Brukenthal, head of the Province Chancery at the time, that "Vulcan Gorge and the customs station here serve the travelers from Valahia to Banatul region for summer jobs during crop made gathering and hay making months. The coalmen (the ones who made charcoal-n.n.) in the service of Hunedoara rulers in Zlatna Region also come from Valahia. That is why the Imperial Chamber was in favor of removing this customs, which, as the situation presented itself in 1770, was not crossed by a large quantity of goods. The buildings are all made of wood on stone foundations, and the whole area lacks a water source"<sup>25</sup>. Even the emperor concludes that the customs in Vâlcan Gorge "is poorly built, with the wooden shacks in front, inhabited by 30 immigrant border guards, some of whom from Transylvania, and most from Banat and Arad regions; they lived here together their women and children, after they had been in Valahia for a few years, from where they returned as beggars with no money left"<sup>26</sup>.

Goods traffic intensity through Vâlcan Gorge is unknown, but it is obvious that the Habsburgs were dissatisfied with their scarcity in 1770 and, implicitly, with the

<sup>20</sup> Téglás Gábor, *Hunyádvármegye története*, Athenaeum, Budapest, 1902, p. 22.

<sup>21</sup> Ion Poporogu, *Pe urmele căutătorilor de aur din Valea Jiului*, Steagul Roșu, XXVIII, 1971, nr. 6633, p. 2.

<sup>22</sup> Iacob Radu, *Istoria vicariatului greco-catolic al Hațegului*, Tipografia Gutenberg, Lugoj, 1913, p. 176-177.

<sup>23</sup> Ștefan Pascu, *Voievodatul Transilvaniei*, vol. II, Editura Dacia, Cluj-Napoca, 1979, p. 302-303.

<sup>24</sup> Ileana Bozac, Teodor Pavel, *op. cit.*, p. 413.

<sup>25</sup> *Ibidem*, p. 393

<sup>26</sup> *Ibidem*, p. 585.

amount of perceived taxes. However, it is known that after the half of the XIX-th century, perhaps under the influence of the Customs, commercial and navigation convention between Romania and the Austrian-Hungarian Empire on June 10/22, 1875<sup>27</sup>, 60-70,000 cattle passed through Petroșani annually, going to Budapest and Viena, and the coal in the Jiu Valley found a market in the territories south of the Carpathians<sup>28</sup>.

In this context, the statements of ethnographer Valer Butură are very interesting, emphasizing the connections between the Jiu Valley and Gorj region, across the mountains, supposedly established through the road in Vâlcan Gorge: “in Hațeg County and Petroșani Depression houses on two rows appeared and developed under the influence of those in the neighboring Gorj. Actually, older building are also alike, due to the permanent contact between the villages on the two sides of the mountains, facilitated not only by the Jiu Gorge, but also by the paths winding from the top to the foot of the mountains, crowded with villages, some of which settled by immigrants from Transylvania, named *ungureni* by the locals. The striking resemblance of newer houses in the west of the Depression with the ones in Gorj is also due to the fact that the former are usually built by craftsmen from Oltenia”<sup>29</sup>.

As we have already shown, Vâlcan Gorge was also a gate for invasions, since the Antiquity. The most relevant data in this sense refer to the Turks’ incursions in this region and the battles against them.

Thus, in 1439, the king of Hungary Albert of Habsburg (1437-1439) renews, by issuing a diploma, the donations from king Sigismund of Luxemburg (1387-1437) to the family of Romanian rulers Căndeia (by the Hungarian name Kendeffy) at Râu de Mori, in Hațeg County, including estates in the Jiu Valley; the previous diploma and, implicitly, the possessions, had been lost as a result of the Turkish invasion in 1438. Nicolae Căndeia/Kendeffy, who had been rewarded with estates 1439, confronted the Turks with his own army in 1442, “in Alpibus Wolkan” (Vâlcan Mountains - n.n.), and died in this battle; the serfs of the Căndeia family also fought against the turks at Varna in 1444 and later on in 1446 and, as a result, the family was awarded villages and their pertaining estates - Iancu of Hunedoara, and later on, in 1462, the king of Hungary Matei Corvin (1458-1490) mentioning the battle of 1442 - reinforcing their privileges<sup>30</sup>.

Clergyman Iacob Radu, states that “it was to the memory of this battle ( of “Alpibus Wolkan” - n.n.) that the History Society in Deva (the History and Archaeology Society of Hunedoara County - n.n.<sup>31</sup>) erected in 1896 a commemorative monument” at Vulcan, at the entrance in the Gorge<sup>32</sup>, which was to be demolished in the 80’s of the XX-th century under the pretext of urban management, and whose trace was completely lost. It should also be mentioned that a similar monument was erected by the same Society, in

---

<sup>27</sup> Maria Mureșan, Dumitru Mureșan, *Istoria economiei*, Editura Economică, București, 1998, p. 148-150.

<sup>28</sup> Sebastian Stanca, *op. cit.*, p. 62.

<sup>29</sup> Valer Butură, *Străvechi mărturii de civilizație românească. Transilvania-studiu etnografic*, Editura Științifică și Enciclopedică, București, 1989, p. 113.

<sup>30</sup> Sebastian Stanca, *op. cit.*, p. 32.

<sup>31</sup> Vezi, Petre Dan, *Asociații, Cluburi, Ligii, Societăți. Dicționar cronologic*, Editura Științifică și Enciclopedică, București, 1983, p. 160-161.

<sup>32</sup> Iacob Radu, *op. cit.*, p. 341.

the same year, at in the area of the Iron Gates of Transylvania, to commemorate the victory of Iancu of Hunedoara against the Turks in 1442<sup>33</sup>.

Also connected with the military confrontations in the area is the episode narrated by Nicolae Iorga, according to whom Mihai Viteazul, the ruler of Southern Romania, who firstly unified the Romanian Provinces may have passed through Vâlcan Gorge, from Oltenia to Transylvania, together with 7,000 warriors, in November-December 1600<sup>34</sup>. Regarding this episode, it is worth mentioning that the 70's-80's of the XX-th century was predominated by the idea that the respective was actually dedicated to the latter passage, as a result of a confusion with the monument erected on September 25, 1932, at Schela Gorjului, and which is mentioned by the distinguished archaeologist dr. Octavian Floca, in 1936<sup>35</sup>.

The last Turkish invasion of the Jiu Valley took place in 1788. There are documents that attest this moment, which forces the end of the first stage in the population of western Jiu Valley. There are documents that attest this moment that forces the end of the first stage in the population of the Western Jiu Valley with people coming from Hațeg County.

The Turkish invasion in 1788 is also mentioned in the November 1855 manuscript of Ștefan Moldovan, the Greek-Catholic vicar of Hațeg; Sebastian Stanca, in, *The Historical-Geographical Monography of Petroșani*, shows that the Turks attacked the Jiu Valley in 1782 when they reach the villages on the Romanian Jiu. General Laudon had erected defense walls in 1778 in Vulcan area and had set on fire an entire coal hill to scare off the invaders, the fire burning for fourteen years and probably being the source of the name Valea Arsă (the Burnt Valley). The Turks attacked again in 1788 and set fire to Uricani, Bărbătenii de Sus, Lupeni, and Iscroni; the settlements of Petroșani, Livezeni, and Petrila remained untouched, not being in the invaders' way, who followed the "main road" that went from Vulcan, through Dealu Babii, to Merișor<sup>36</sup>.

It should also be added that Vulcan Gorge, as a customs point and borderline area, owing to the neighboring buildings, had an important role in the emergence of Vulcan town as we know it today. Clergyman Iacob Radu states that "the old Romanian village consisted of two small hamlets: Crividia and Vaidei, Vulcan being the name - in the latter half of the XVIII-th century - a small colony of official clerks, settled here to serve the customs and to guard Vâlcan Gorge, to which a few peasant houses were added"<sup>37</sup>. After the Turkish invasion in 1788, the survivors gathered from all the valleys and built a church in 1791, and those who stayed together around this church formed a community named Crividia. In 1855 the village held 48 houses, with 58 families and 279 people, and in Vulcan-Gorge there were eight house, nine families and 30 inhabitants<sup>38</sup>.

<sup>33</sup> *Ibidem*, p. 343-344.

<sup>34</sup> Nicolae Iorga, *Istoria lui Mihai Viteazul*, Editura Militară, București, 1968, p. 378.

<sup>35</sup> According to Octavian Floca and Victor Șuiaga, *op. cit.*, p. 417, "there are many historic memories regarding Vulcan Gorge. Invaded by the Tartars and the Turks, fierce battles were waged here. Mihaiu Viteazul passed through this gorge with his armies, in memory of which a monument was erected here".

<sup>36</sup> Sebastian Stanca, *op. cit.*, p. 47.

<sup>37</sup> Iacob Radu, *op. cit.*, p. 340-341.

<sup>38</sup> Adrian Andrei Rusu, *op. cit.*, p. 274.

Then, in the last quarter of the XIX-th century, the industrial revolution, the existence of coal in Vulcan area, mentioned by emperor Joseph the II-nd himself<sup>39</sup>, the building of the Petroșani-Livezeni-Lupeni railway in 1891-1892, and capital infusion are the factors that turned the hamlets mentioned earlier into the present modern town.

At the same time, the building of the Simeria-Petroșani railway (1868-1870) and of the present road through Surduc-Lainici Gorge, completed in 1890-1894<sup>40</sup>, Vulcan Gorge entirely loses its role as a main connection between the Carpathian provinces.

It should also be mentioned that parts of the old road through Vâlcan Gorge, and even its extension through Dealu Babii Gorge to Merișor still exist, and that a series of projects have been initiated for the rehabilitation of the road and for the reopening of the old connection, at the beginning only for touristic purposes, between the territories north and south of the Southern Carpathians.

#### REFERENCES:

- [1]. **Almășan, B.** (1984) *Exploatarea zăcămintelor minerale din România*, vol. I, Editura Tehnică, București
- [2]. **Ardelean, D.D.; Dorobanțu, M.** (2013) *Lucrări de artă feroviară în defileul Jiului. Linia Bumbesti-Livezeni*, Editura Măiastra
- [3]. **Badea, L.** (1971) *Valea Jiului*, Editura Științifică, București

---

<sup>39</sup> “The Valley, which split Crivadia into two, was fairly covered with woods, and at the end of this valley a mound was discovered from where brown coal was dug out, not very valuable, however, in a country rich in wood... Near to the narrow gorge, among the afore mentioned rocks, (in Vâlcan Gorge- n.n.), one can still see the mine hole dug by prince von Lobkowitz, covered though by old trees, but also by younger forest” (Ileana Bozac, Teodor Pavel, *op. cit.*, p. 585-586).

<sup>40</sup> From Sebastian Stanca we find out that, after 1874, understanding the huge perspectives of coal mining in the Jiu Valley, the Hungarian government drafts the layout of a wide and solid road through Vulcan Gorge, which was to allow general commerce, and mainly the selling of coal to the areas south of the Carpathians.

The idea of such a project had existed as early as the beginning of the XVIII-th century, when the Habsburgs received, as a result of the Passarowitz Peace Treaty, the Bana of Timișoara and Oltenia. Friedrich Schwanz von Springfels shows that, due to this reality, the Habsburgs aim at “seeing and finding out if there is a possibility to find and establish uninterrupted communication across the mountains... And it was discovered that there was a possibility to establish access along the Jiu River upwards, across the mountains, from Bumbesti to the Jiu plain, precisely where the Jiu Rivers meet in the mountains, as seen on the maps... From the Jiu plain on, there is no difficulty whatsoever, as one follows the old road from the Vâlcan mountains through Crivadia valley across the Tartar’s Mountain at Baru, where there is the first customs in Transylvania, situated in Hațeg valley; the Tartar’s Mountain is not hard to climb, since the peasants cross it with loads of hay; but even this one could be avoided by going round Merișor, through Crivadia valley, to the Hungarian Jiu. If it were possible to build a road along the Jiu, it would be wise and necessary to abandon the path in the Vâlcan Mountains...” (*Călători străini despre Țările Române*, vol. IX, p. 59-61).

The building operations are started in 1870 by the Company of Brașov but, because the project could not be rapidly carried from the Romanian side, they are interrupted; they are resumed in 1879, and in 1880 a Romanian-Hungarian commission establishes the trajectory of the road through the Jiu Gorge, officially stating the involvement of both states. The six km sector of the road that belonged to the Hungarian side was finished soon after, whereas the longer segment to be built by the Romanians was completed only in 1890; the official inauguration took place on September 4, 1894 (Sebastian Stanca, *op. cit.*, p. 62).

- [4]. **Baron, M.** (2009) *Legături social-economice între Țara Hațegului și Valea Jiului în zorii epocii moderne. Contribuția la popularea Văii Jiului și la constituirea sistemului de așezări din această zonă*, în „Annales Universitatis Apulensis, Series Historica”, 13, pp. 255-271
- [5]. **Bozac, I.; Pavel, T.** (2007) *Călătoria împăratului Iosif al II-lea în Transilvania la 1773*, vol. I, Centrul de Studii Transilvane, Cluj-Napoca
- [6]. **Butură, V.** (1989) *Străvechi mărturii de civilizație românească. Transilvania-studiu etnografic*, Editura Științifică și Enciclopedică, București
- [7]. **Daicoviciu, H.** (1968) *Dacii*, Editura pentru Literatură, București
- [8]. **Dan, P.** (1983) *Asociații, Cluburi, Ligi, Societăți. Dicționar cronologic*, Editura Științifică și Enciclopedică, București
- [9]. **Floca, O.; Șuiaga, V.** (1936) *Ghidul județului Hunedoara*, Tipografia Județeană, Deva
- [10]. **Giurchescu, E.** (1921) *Valea Jiului*, în „Anuarul II al Liceului de stat pentru băieți din Petroșani pentru anul școlar 1920/21”, Jiul Cultural, Petroșani
- [11]. **Iorga, N.** (1968) *Istoria lui Mihai Viteazul*, Editura Militară, București
- [12]. **Mureșan, M.; Mureșan, D.** (1998) *Istoria economiei*, Editura Economică, București
- [13]. **Pascu, Ș.** (1979) *Voievodatul Transilvaniei*, vol. II, Editura Dacia, Cluj-Napoca
- [14]. **Poporogu, I.** (1971) *Pe urmele căutătorilor de aur din Valea Jiului*, în „Steagul Roșu”, XXVIII, nr. 6633, p. 2
- [15]. **Radu, I.** (1913) *Istoria vicariatului greco-catolic al Hațegului*, Tipografia Gutenberg, Lugoj
- [16]. **Rusu, A.A.** (1988-1991) *Un manuscris inedit a lui Ștefan Moldovan privitor la Țara Hațegului la mijlocul secolului al XIX-lea (II)*, Sargetia, XXI-XXIV, p. 272-277
- [17]. **Schreiber, A.** (1927) *Valea Jiului. 1840-1926*, în „Montanistică și Metalurgie”, VI, nr. 5, p. 6
- [18]. **Stanca, S.** (1996) *Monografia istorico-geografică a localității Petroșani*, Editura Fundației Culturale „Ion D. Sîrbu”, Petroșani
- [19]. **Téglás, G.** (1903) *A dacziai bányászat legregibb bizonyítékai, tekintettei a Zsilvölgy s külonösen a Vulkánhágó bányástörténelmi jelentéségére*, în „Bányászati és Kohászati Lapok”, XXXVI, vol. II, octombrie, nr. 19, p. 498-501
- [20]. **Téglás, G.** (1902) *Hunyádvármegye története*, Athenaeum, Budapest
- [21]. **Tufescu, V.; Mocanu, C.** (1964) *Depresiunea Petroșanilor*, Editura Științifică, București
- [22]. **Vâlceanu, C. (și colectiv)** (1995) *125 de ani de la inaugurarea liniei Simeria-Petroșani și a depoului de locomotive Simeria*, Editura Gutenberg, Deva
- [23]. **Societatea Petroșani** (1925) *Monografie*, Editura „Cartea Românească”, București
- [24]. (1997) *Călători străini despre Țările Române*, vol. IX. Volum îngrijit de: Maria Holban (redactor responsabil), M.M. Alexandrescu-Dersca Bulgaru, Paul Cernavodeanu, Editura Academiei, București
- [25]. (1998) *Călători străini despre Țările Române*, vol. X, partea I. Volum îngrijit de: Maria Holban, M.M. Alexandrescu-Dersca Bulgaru, Paul Cernavodeanu (redactor responsabil), Editura Academiei Române, București
- [26]. (2001) *Istoria Românilor*, vol. II (Daco-romani, romanici, alogeni). Coordonatori Dumitru Protase, Alexandru Suceveanu, Editura Enciclopedică, București

## **FISCAL DISCIPLINE WITHIN THE EU: COMPARATIVE ANALYSIS**

**SORIN CELEA, PETRE BREZEANU,  
ANA PETRINA PĂUN \***

**ABSTRACT:** *This paper focuses on the analysis of the convergence indicators relative to fiscal area in the EU; subsequent to a description of the main peculiarities of the convergence criteria, the research develops a critical analysis on a comparative perspective of the actual values of fiscal convergence indicators registered in EU countries compared with the reference values of the indicators, with emphasis on the differences between emerging and developed countries.*

**KEY WORDS:** *nominal convergence, the Maastricht criteria, benchmarks.*

**JEL CLASIFICATION:** *E52, E61, E62.*

### **1. INTRODUCTION**

In order to create an economic and monetary union, the Treaty of Maastricht introduced as fundamental parts of the nominal convergence an assembly of criteria on which the EU appreciates the ability of countries to join the euro area. Nominal convergence criteria are related to a set of policies - financial, monetary, currency, fiscal and macro-financial architecture that substantiates the nations that will become members of the Euro-zone.

In essence, the **convergence criteria** consist of a series of macroeconomic indicators that have been calibrated to specific reference levels considered to be sustainable for a stable macroeconomic environment.

---

\* *Ph.D. Student from The Bucharest University of Economic Studies, Romania*  
*Ph.D. Professor from The Bucharest University of Economic Studies, Romania,*  
[brezeanupetre@yahoo.com](mailto:brezeanupetre@yahoo.com)  
*Ph.D. Student from The Bucharest University of Economic Studies, Romania,*  
[stanciu.anapetrina@yahoo.com](mailto:stanciu.anapetrina@yahoo.com)

**Reference values** for the analyzed indicators are<sup>1</sup>:

- 1.5% above the average of the three best performing states recorded over the last two years in case of the inflation rate;
- 2% above the average of the three best performing states recorded over the last two years in case of the interest rate;
- 3% share of GDP years in case of the budget deficit;
- 60% share of GDP in case of the public debt.

In the following chapters, there will be conducted an analysis of the indicators of fiscal convergence that is achieved during the period 2000-2010, with the fore in the EU countries. The analysis will be conducted on a comparative perspective of the actual values of macroeconomic indicators registered in EU countries compared with the reference values of the indicators.

Fiscal indicators that show the highest degree of divergence derive from the fiscal area. The actual share of the budget deficit and public debt to GDP is moving away from the reference value as the time of financial crisis is approaching, ie 2006-2007. Out of the two indicators specific to fiscal convergence process, the budget deficit is the most divergent.

## **2. CHAPTER 1**

With regard to budgetary discipline, it is noted that Germany has evolved to balance the budget deficits within the limits imposed by the convergence criterion, except the years of 2002, 2003 and 2010 where the share of budget deficit to GDP reached values of 3.7%, 4% and 3.3%; during the other years the effective deficit was below 3% of GDP (see Annex 2).

However, as regards the fiscal rigor, Denmark is ranked first for the period under review, the budget balance was predominantly positive, except the last two years (2009, 2010), when the deficit was below the threshold (2,7%).

Financial crisis generated a swelling budget deficit to GDP ratio; if during the period 2000-2007, France, Italy, Luxembourg, Netherlands, UK and even Portugal have effectively managed public finances, managing to maintain a positive budget balance or slightly negative, below the limit imposed by the convergence criteria, with the financial crisis, budget deficit ratio to GDP increased significantly, reaching alarming levels even more than 7% of GDP for France (7%), Spain (9.2 %), Portugal (9.1%) or UK (10.4%).

Nevertheless, in terms of leverage, Spain managed to ensure its proper control by 2009, with any breach of the reference level. A galloping growth occurred in 2009-2010, with a share of GDP amounting from 60.1% to 53.3% (see Annex 1).

---

<sup>1</sup> Out of all the convergence criteria, the analysis did not focus on the inflation, interest rate and exchange rate, these criteria being outside the scope of this research.

Luxembourg has the lowest indebtedness degree during the analyzed period, with an average of about 6% by 2007, while later on the public debt to GDP increased to 14.6% in 2009 and to 18.4% in 2010.

Other countries with rigorous management of public debt to GDP are the Netherlands, Finland and Sweden, where the appearance of financial turmoil has increased the debt over the fence required by the convergence criteria, leading only to an increase of 10%, which continued to maintain the public debt to GDP in the 60% limit.

Greece is in a position to state the highest deficit recorded over the period analyzed, either before the financial crisis, the share of GDP budget deficit was not managed effectively, reaching almost permanently above the reference values ( 4.5% in 2001, 5.2% in 2005, 6.4% in 2007). The emergence of the financial turmoil triggered the inflammation of unprecedented budget deficit, which in 2008 reached 9.8%, while in 2009 its value amounted to 15.4% and 10.5% in 2010.

The same situation is found at the level of public debt to GDP, Greece recording an average of this indicator superior to 100% over the period.

Another country with a high degree of fiscal indiscipline is Italy, which even in the period before the outbreak of the financial turmoil experienced a GDP share of public debt exceeding 100%. This is in contrast to the deficit that, with certain exceptions, it was maintained within the default convergence criteria, with any slippages not even under the impact of the financial crisis.

At the opposite pole lies Ireland which until the outbreak of financial imbalances has failed to show adequate control of public finances, accounting for almost the entire analyzed period a positive budget balance, once the financial crisis broke out, since 2007, suddenly the budget balance became negative, reaching alarming levels: 7.3% in 2008, 14.3% in 2009 and 32.4% in 2010.

Moreover, the same considerations can be made and the debt ratio to GDP, by 2008, Ireland met this criterion of convergence, giving leverage to approximately half the reference value, while in 2009 and 2010 the values of this indicators rose alarmingly to 65.6% and 96.2%.

France and Britain have applied a more relaxed management of public finances, maintaining a share of public to debt GDP close to baseline throughout the analyzed period. Under the impact of financial crisis, public debt to GDP increased, reaching 81.7% in 2010 if the value of 80% in France and the UK.

### **3. CHAPTER 2**

The average share of budget deficit to GDP in the EU27 and the euro area increased in the period under review from 3.1% in 2003 to 6.4% and 6% in 2010. It is noted that even in the euro area the share of budget deficit to GDP is much lower than the value within EU27, which shows poor management of public finances including at the level of the euro area countries.

A particularly interesting aspect is that public debt to GDP in the euro area average is higher than the EU27 average, reflecting significant levels of debt for countries in this area. From this perspective, we appreciate that eurozone countries

have exerted a negative effect in the EU27, essentially causing a spiraling financial crisis, anchored initially in the sub-prime loans, subsequently passing on public finances.

The work brings to the fore the innovative idea of disparities in the EU through the gaps created not only due to significant differences between the economic development of emerging countries compared with developed countries but also in terms of imbalances caused by the degree of excessive indebtedness of euro area countries. Practically non-existent budgetary discipline in Portugal, Italy, Greece and Spain led to significant accumulation of deficits over time that conducted to the emergence of significant turbulences, with negative effects on the macroeconomic stability.

As for the budget deficit, the situation is characterized by diversity. There are a number of countries - Bulgaria, Latvia and Lithuania, where budgetary policies have been managed effectively, highlighting a convergence of budget deficit towards the reference value; in opposition, there are countries such as Romania, Poland and Hungary which are characterized by differences.

Except for Hungary, all countries present convergence for the debt indicator both previously to the crisis outbreak, as well as beyond. This is in opposition against the developed countries - Greece, Ireland, Portugal, Spain - where the values reflect an extremely high leverage.

As regards Romania, budget is quite far removed from the reference value.

#### **4. CONCLUSIONS**

Analysis of the nominal convergence criteria reflects important disparities both within countries and within the indicators. Inflation and budget deficit have generated problematic situations, breaching the reference values in the post-crisis period. This is explained in terms of decreasing tax revenues generated by macroeconomic imbalances and financial turmoil.

The actual share of the budget deficit and public debt to GDP is moving away from the reference value as the time of financial crisis is approaching, ie 2006-2007. Out of the two indicators specific to fiscal convergence process, the budget deficit is the most divergent.

An important aspect is the comparative analysis of the budget deficit registered in Romania in relation to other countries in Central and Eastern Europe that went through similar experiences. The research highlighted that Romania has managed to keep control of budgetary and fiscal policy.

Generally, the values recorded by this indicator for all countries are close to the period analyzed, with a similar dynamic while Czech Republic has a higher value for this indicator in the years 1992-2005, like Romania, Bulgaria, Poland and Hungary.

The only country that has a much higher budget deficit compared to the other is Slovakia, which in 2000 shows a deficit amounting to over 10%.

Although Romania was characterized by control of the budget balance, highlighting, except for the period marked by financial crisis, a policy to avoid the accumulation of a significant deficit, fiscal strategy has not proved to be most successful in this respect, given the deficiencies in the collection of taxes.

Integration into the European Union imposed a series of challenges in terms of ensuring a proper management of public expenditure policy. Indeed, as a member state, Romania has a number of grants that can help improve living standards, but also to contributions to the EU budget. Average contributions in this period were approximately 1% of GDP.

Between 2007 and 2009 Romania has contributed to the EU budget by about 9 billion, but it was to take over the same period, over 30 billion.

Given that Romania's position is the net contributor to EU budget and not the beneficiary, the financial turmoil creates real difficulties in maintaining a budget deficit limits imposed by the Maastricht Treaty.

In the future, it remains of great interest for different research approaches the issue of nominal convergence from the perspective of recently integrated the new Member States. Their ability to rank within the reference values depends on the harmonization of economic policies to reduce the gap between nominal convergence and real convergence indicators.

#### REFERENCES:

- [1]. **Abiad, A.; Leigh, D.; Mody, A.** (2007) *International finance and income convergence: Europe is different*, IMF Working Paper, 64
- [2]. **Baumol, W.J.** (1986) *Productivity Growth, Convergence, and Welfare: What the Long-Run Data Show*, American Economic Review, 76(5)
- [3]. **Bergs, R.** (2001) *EU Regional and Cohesion Policy and Economic Integration of the Accession Countries*, Policy Research and Consultancy Discussion Paper
- [4]. **Bjorksten, N.** (2000) *Real Convergence in the Enlarged Euro Area: A Coming Challenge for Monetary Policy*, Bank of Finland Economics Department Working Papers, 1
- [5]. **Michelis, L.; Koukouritakis, M.** (2007) *EU Enlargement and the EMU*, Journal of Economic Integration, 22
- [6]. **Mink, M.; Jacobs, J.P.A.M.; de Haan, J.** (2007) *Measuring synchronicity and co-movement of business cycles within an application to the euro area*, CESIFO Working Paper Series, 2112
- [7]. **Morar, A.** (2008) *Financial system and monetary policy in EU*, Perfect Publishing House
- [8]. **Raileanu-Szeles, M.; Marinescu, N.** (2010) *Real convergence in the CEECs, euro area accession and the role of Romania*, The European Journal of Comparative Economics, 7(1)
- [9]. **Rinaldi-Larribe, M.J.** (2008) *Is economic convergence in New Member States sufficient for adoption of the Euro*, The European Journal of Comparative Economics, 5(2)
- [10]. **Romer, P.M.** (1986) *Increasing Returns and Long-Run Growth*, The Journal of Political Economy, 94(5)
- [11]. **Romer, P.** (1994) *The Origins of Endogenous Growth*, The Journal of Economic Perspectives, 8(1)

- [12]. **Romer, D.** (1996) *Advanced Macroeconomics*, MacGraw-Hill
- [13]. **Solow, R.M.** (1956) *A Contribution to the Theory of Economic Growth*, The Quarterly Journal of Economics, 70(1)
- [14]. **Solow, R.M.** (1994) *Perspectives on Growth Theory*, Journal of Economic Perspectives, 8(1)
- [15]. **Staicu, G.; Moraru, L.C.** (2006) *Paradigma creșterii endogene. Implicații privind teoria și politica economică*, Economie Teoretică și Aplicată, 10(6)

**Annex 1.**  
**The dynamics of public debt to GDP in the EU over the period 2000-2010**

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
<b>European Union (27 countries)</b>	61.9	61.0	60.4	61.8	62.2	62.8	61.5	59.0	62.3	74.4	80.0
<b>Euro area (17 countries)</b>	69.1	68.1	67.9	69.0	69.5	70.0	68.4	66.2	69.9	79.3	85.1
<b>Belgium</b>	107.9	106.6	103.5	98.5	94.2	92.1	88.1	84.2	89.6	96.2	96.8
<b>Bulgaria</b>	72.5	66.0	52.4	44.4	37.0	27.5	21.6	17.2	13.7	14.6	16.2
<b>Czech Republic</b>	18.5	24.9	28.2	29.8	30.1	29.7	29.4	29.0	30.0	35.3	38.5
<b>Denmark</b>	52.4	49.6	49.5	47.2	45.1	37.8	32.1	27.5	34.5	41.8	43.6
<b>Germany</b>	59.7	58.8	60.4	63.9	65.8	68.0	67.6	64.9	66.3	73.5	83.2
<b>Estonia</b>	5.1	4.8	5.7	5.6	5.0	4.6	4.4	3.7	4.6	7.2	6.6
<b>Ireland</b>	37.8	35.5	32.1	30.9	29.6	27.4	24.8	25.0	44.4	65.6	96.2
<b>Greece</b>	103.4	103.7	101.7	97.4	98.6	100.0	106.1	105.4	110.7	127.1	142.8
<b>Spain</b>	59.3	55.5	52.5	48.7	46.2	43.0	39.6	36.1	39.8	53.3	60.1
<b>France</b>	57.3	56.9	58.8	62.9	64.9	66.4	63.7	63.9	67.7	78.3	81.7
<b>Italy</b>	109.2	108.8	105.7	104.4	103.9	105.9	106.6	103.6	106.3	116.1	119.0
<b>Cyprus</b>	58.8	60.7	64.6	68.9	70.2	69.1	64.6	58.3	48.3	58.0	60.8
<b>Latvia</b>	12.3	14.0	13.5	14.6	14.9	12.4	10.7	9.0	19.7	36.7	44.7
<b>Lithuania</b>	23.7	23.1	22.3	21.1	19.4	18.4	18.0	16.9	15.6	29.5	38.2
<b>Luxembourg</b>	6.2	6.3	6.3	6.1	6.3	6.1	6.7	6.7	13.6	14.6	18.4
<b>Hungary</b>	54.9	52.0	55.6	58.3	59.1	61.8	65.7	66.1	72.3	78.4	80.2
<b>Malta</b>	55.9	62.1	60.1	69.3	72.4	69.6	64.2	62.0	61.5	67.6	68.0
<b>Netherlands</b>	53.8	50.7	50.5	52.0	52.4	51.8	47.4	45.3	58.2	60.8	62.7
<b>Austria</b>	66.5	67.3	66.7	65.8	65.2	64.6	62.8	60.7	63.8	69.6	72.3
<b>Poland</b>	36.8	37.6	42.2	47.1	45.7	47.1	47.7	45.0	47.1	50.9	55.0
<b>Portugal</b>	48.5	51.2	53.8	55.9	57.6	62.8	63.9	68.3	71.6	83.0	93.0
<b>Romania</b>	22.5	25.7	24.9	21.5	18.7	15.8	12.4	12.6	13.4	23.6	30.8
<b>Slovenia</b>	:	26.7	27.9	27.3	27.4	26.7	26.4	23.1	21.9	35.2	38.0
<b>Slovakia</b>	50.3	48.9	43.4	42.4	41.5	34.2	30.5	29.6	27.8	35.4	41.0
<b>Finland</b>	43.8	42.5	41.5	44.5	44.4	41.7	39.7	35.2	34.1	43.8	48.4
<b>Sweden</b>	53.9	54.7	52.5	51.7	50.3	50.4	45.0	40.2	38.8	42.8	39.8
<b>United Kingdom</b>	41.0	37.7	37.5	39.0	40.9	42.5	43.4	44.5	54.4	69.6	80.0

Source: Eurostat

**Annex 2.**  
**The dynamics of government budgetary position to GDP in the EU over the period 2000-2010**

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
<b>European Union (27 countries)</b>	0.6	-1.4	-2.5	-3.1	-2.9	-2.5	-1.5	-0.9	-2.4	-6.8	-6.4
<b>Euro area (17 countries)</b>	0.0	-1.9	-2.6	-3.1	-2.9	-2.5	-1.4	-0.7	-2.0	-6.3	-6.0
<b>Belgium</b>	0.0	0.4	-0.1	-0.1	-0.3	-2.7	0.1	-0.3	-1.3	-5.9	-4.1
<b>Bulgaria</b>	-0.5	1.1	-1.2	-0.4	1.8	1.0	1.9	1.1	1.7	-4.7	-3.2
<b>Czech Republic</b>	-3.7	-5.6	-6.8	-6.6	-3.0	-3.6	-2.6	-0.7	-2.7	-5.9	-4.7
<b>Denmark</b>	2.3	1.5	0.4	0.1	2.1	5.2	5.2	4.8	3.2	-2.7	-2.7
<b>Germany</b>	1.3	-2.8	-3.7	-4.0	-3.8	-3.3	-1.6	0.3	0.1	-3.0	-3.3
<b>Estonia</b>	-0.2	-0.1	0.3	1.7	1.6	1.6	2.4	2.5	-2.8	-1.7	0.1
<b>Ireland</b>	4.7	0.9	-0.4	0.4	1.4	1.6	2.9	0.1	-7.3	-14.3	-32.4
<b>Greece</b>	-3.7	-4.5	-4.8	-5.6	-7.5	-5.2	-5.7	-6.4	-9.8	-15.4	-10.5
<b>Spain</b>	-1.0	-0.6	-0.5	-0.2	-0.3	1.0	2.0	1.9	-4.2	-11.1	-9.2
<b>France</b>	-1.5	-1.5	-3.1	-4.1	-3.6	-2.9	-2.3	-2.7	-3.3	-7.5	-7.0
<b>Italy</b>	-0.8	-3.1	-2.9	-3.5	-3.5	-4.3	-3.4	-1.5	-2.7	-5.4	-4.6
<b>Cyprus</b>	-2.3	-2.2	-4.4	-6.5	-4.1	-2.4	-1.2	3.4	0.9	-6.0	-5.3
<b>Latvia</b>	-2.8	-1.9	-2.3	-1.6	-1.0	-0.4	-0.5	-0.3	-4.2	-9.7	-7.7
<b>Lithuania</b>	-3.2	-3.6	-1.9	-1.3	-1.5	-0.5	-0.4	-1.0	-3.3	-9.5	-7.1
<b>Luxembourg</b>	6.0	6.1	2.1	0.5	-1.1	0.0	1.4	3.7	3.0	-0.9	-1.7
<b>Hungary</b>	-3.0	-4.0	-8.9	-7.2	-6.4	-7.9	-9.3	-5.0	-3.7	-4.5	-4.2
<b>Malta</b>	-6.2	-6.4	-5.5	-9.9	-4.7	-2.9	-2.8	-2.4	-4.5	-3.7	-3.6
<b>Netherlands</b>	2.0	-0.2	-2.1	-3.1	-1.7	-0.3	0.5	0.2	0.6	-5.5	-5.4
<b>Austria</b>	-1.7	0.0	-0.7	-1.5	-4.5	-1.7	-1.6	-0.9	-0.9	-4.1	-4.6
<b>Poland</b>	-3.0	-5.3	-5.0	-6.2	-5.4	-4.1	-3.6	-1.9	-3.7	-7.3	-7.9
<b>Portugal</b>	-2.9	-4.3	-2.9	-3.0	-3.4	-5.9	-4.1	-3.1	-3.5	-10.1	-9.1
<b>Romania</b>	-4.7	-3.5	-2.0	-1.5	-1.2	-1.2	-2.2	-2.6	-5.7	-8.5	-6.4
<b>Slovenia</b>	-3.7	-4.0	-2.5	-2.7	-2.3	-1.5	-1.4	-0.1	-1.8	-6.0	-5.6
<b>Slovakia</b>	-12.3	-6.5	-8.2	-2.8	-2.4	-2.8	-3.2	-1.8	-2.1	-8.0	-7.9
<b>Finland</b>	6.8	5.0	4.0	2.4	2.3	2.7	4.0	5.2	4.2	-2.6	-2.5
<b>Sweden</b>	3.6	1.5	-1.3	-1.0	0.6	2.2	2.3	3.6	2.2	-0.7	0.0
<b>United Kingdom</b>	3.6	0.5	-2.1	-3.4	-3.4	-3.4	-2.7	-2.7	-5.0	-11.4	-10.4

Source: Eurostat

## **MAPPING COMPLEX DEBATES: A CASE STUDY ON AUSTHINK RATIONALE**

**CIPRIAN CUCU** \*

**ABSTRACT:** *Argumentation is considered the most important way humans can deal with conflicting information (Besnard & Hunter, 2008) by finding and organizing justifications for proposed claims. Argumentation is widely used in several domains such as law, politics and management (as decision support). Consequently, for any domain in which a structured argument may be developed, a computer system may be used to aid the process (eg. by storing facts, automatically evaluating arguments or visually representing argument maps). The current paper presents a case study on creating argument visualizations (argument maps) for complex arguments, using the Austhink Rationale software.*

**KEY WORDS:** *argumentation, computer systems, learning.*

**JEL CLASSIFICATION:** *D83, L86.*

### **1. ELEMENTS OF ARGUMENTATION**

#### **1.1. Basic concepts**

Argumentation is a complex domain with various concepts that may be defined and interpreted in different ways. A few short definitions are provided below to some of the more basic yet defining concepts of argumentation.

**An argument** is defined as “a sequence of statements such that some of them (the premises) purport to give reasons to accept another of them, the conclusion.” (The Cambridge Dictionary of Philosophy)

The **premises** are assumptions that are usually proposed as true and serve as reasons to trust the conclusion.

A **counterargument** may be either a rebutting argument or an undercutting argument. An argument A2 is a rebutting argument for A1 if the conclusion proposed

---

\* *Assist. Prof., Ph.D., „1 Decembrie 1918” University, Alba Iulia, Romania,  
[cucu.ciprian@gmail.com](mailto:cucu.ciprian@gmail.com)*

by A2 is the negation of the conclusion proposed by A1. A2 is an undercutting argument for A1 if its conclusion is the negation of one of the premises of A1. (Besnard & Hunter, 2008)

An **argument map** “is a diagram that captures the logical structure of a simple or complex argument” (Lau & Chan, 2004), or, more simply put – a graphical visualization of the structure of an argument.

The model proposed by Toulmin, S. (2003) introduces some new elements of practical argumentation. However this model is not directly implemented in the *Austhink Rationale* software and is therefore outside the scope of the current paper.

## 1.2. Types of argumentation

Argumentation may be classified using various criteria such as *argumentation objective* or *conversation type*.

Considering the argumentation objective, the two most used types of argumentation are *completion argumentation* and *collaboration argumentation*. Argumentation is competitive when it is backed by the desire to persuade a public or an opponent of a certain conclusion or set of conclusions (Andriessen, 2006). Argumentation is collaborative when it is backed by a desire to explore a problem domain using different (opposing views) and search for the best solution in an argumentative setting (Nonnon, 1996). Some authors, e.g. Besnard and Hunter (2008), propose other possible objectives of argumentation such as *information* (informing the audience about some verifiable information) and *positional argumentation* (informing the audience about the speaker's position on an issue).

Considering the conversation, there are two types of argumentation: *monological* (in which there is only one speaker that presents his argument) and *dialogical* (in which there are two or more speakers that develop their arguments and rebut the arguments of others).

The current paper provides a study on a dialogical, competitive argument, developed by the interaction of two speakers, as presented in section 2.2.

## 2. MAPPING COMPLEX DEBATES IN “RATIONALE”

### 2.1. Rationale overview

*Austhink Rationale* is an argument mapping software with desktop and online versions. More specifically, it is a *graph-based system*, i.e. a system that displays claims, premises and data as boxes or nodes and the relations between them as edges (or arrows) (Scheuer et al., 2010).

*Rationale* has allows the creation of three types of maps: grouping maps, reasoning maps and advanced reasoning maps.

- **Grouping maps** are the most basic; they can be used to represent any top-down graph with different colour boxes with no role.
- **Reasoning maps** provide three types of boxes: *contention*: used to specify the conclusion or claim; *reason*: a premise (or a group of premises) used to

support the conclusion or another reason; *objection*: a conclusion, premise or group of premises used to contradict a reason or a contention.

- **Advanced reasoning maps** provide the same boxes as reasoning maps and a *co-premise* box. The contention, reason and objection boxes may hold more than one premises, making a clear distinction between “premise” and “reason”. This allows developing more clear maps (e.g. by explicitly adding implied co-premises) and also allows the representation of both rebutting and undercutting arguments: the first is shown as an objection to a conclusion, reason or objection and the second is displayed as an objection to a specific co-premise of a reason or objection.

Since container maps are simple and less relevant, Figure 1 shows a simple argument structure represented in a simple and an advanced map.

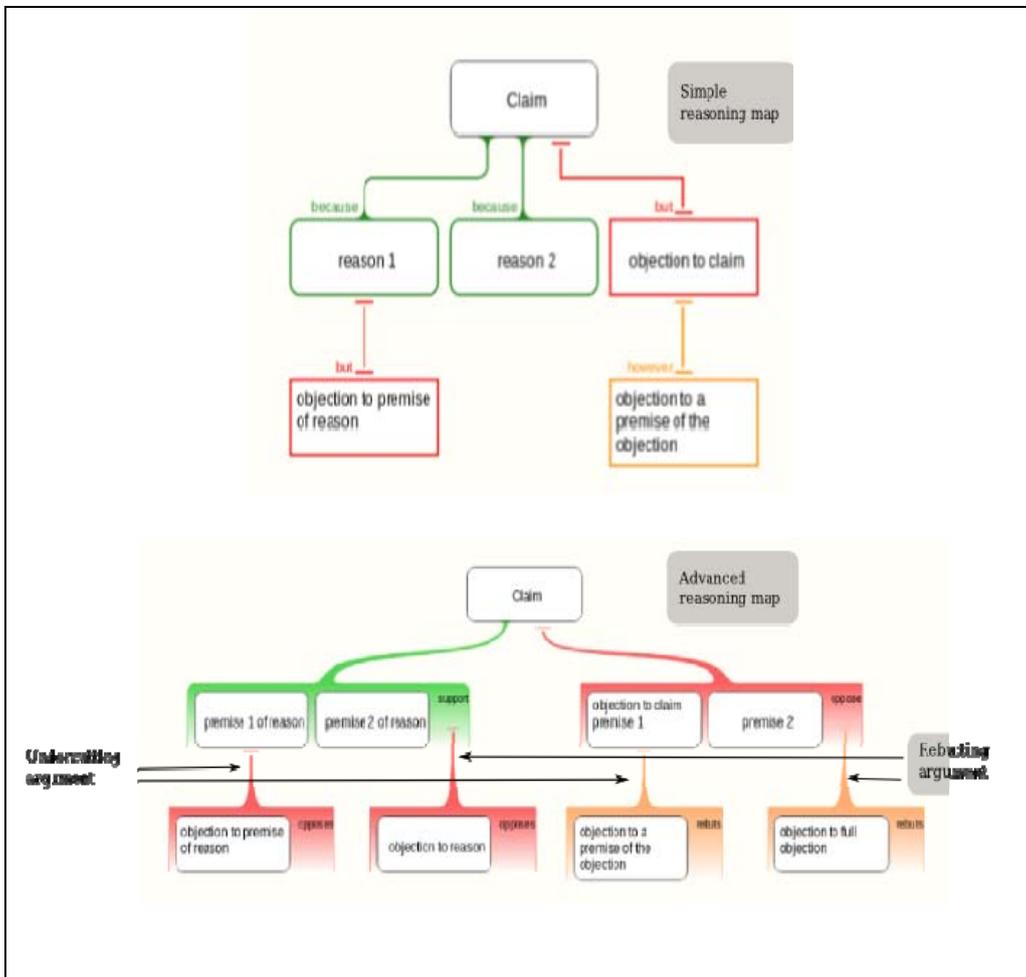


Figure 1. Simple and advanced reasoning maps in Rationale

### 2.3. Some findings

To better test the system, a more complex text has been chosen: a transcript of the debate on the benefits of religion, between Christofer Hitchens and Tony Blair. (hitchensdebates, 2010).

The selected text is a natural-language expression of several arguments that create a hierarchy pointing to the main argument (that “Religion is not a force for good in the world”). The hierarchy is expected, since each reason (or objection) for any claim may have supporting reasons (or objection) itself, thus turning it into a simpler, lower-lever argument.

To represent the text, it had to be first prepared, so that most figures of speech have been disregarded, focus has been put on claims (for each argument, including low-lever ones) and on the reasons for each claim. Thus the text has been changed as shown in figure 2:

<p><b>Argument no. 5</b></p> <p><b>Premises:</b></p> <p>1. Religion supports political power even when that political power doesn't uphold human rights.</p> <p style="padding-left: 40px;"><i>Proof:</i> The Russian Church openly supports the Russian Government, which is an increasingly xenophobic, tyrannical, expansionist, and aggressive regime.</p> <p>2. Religion promotes ideas that put people at risk.</p> <p style="padding-left: 40px;"><i>Proof:</i> In Africa, the Church teaches that "AIDS may be wicked but not as wicked as condoms"</p> <p><b>Conclusion:</b> Religion has a detrimental effect on society.</p>
---

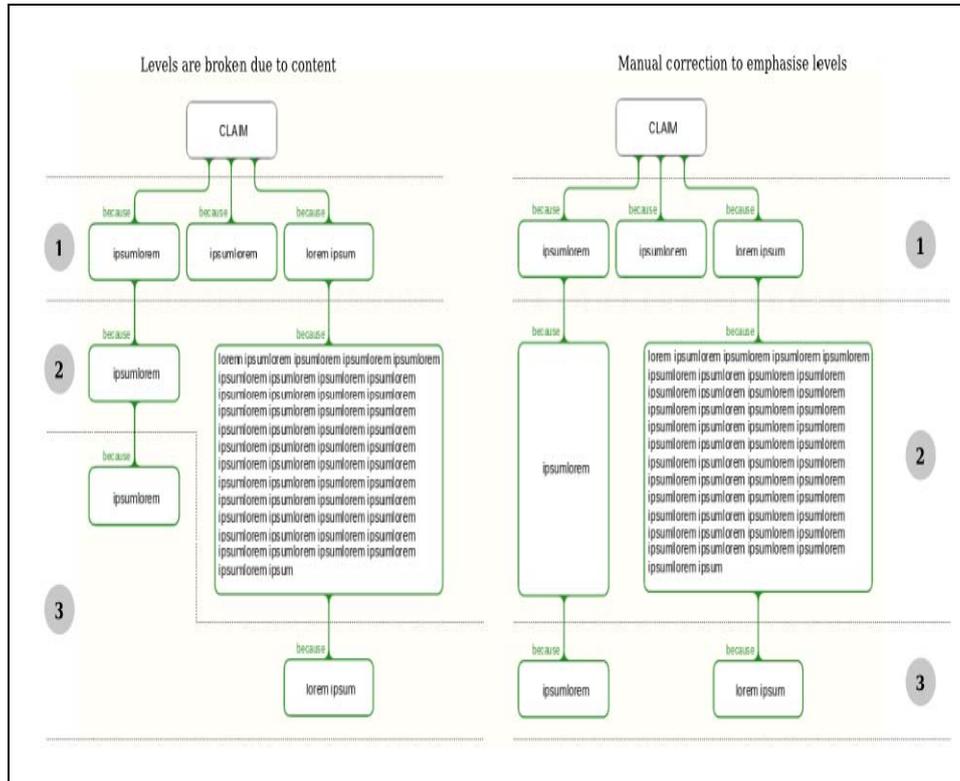
**Figure 2. Argument preparation**

The basic tools and methods for map creation are pretty straight-forward. Even though the major terms used (“contention”, “reason” and “objection”) are different from what we would find in argumentation theory, they are quite clear and practical.

Both the *reasoning mode* and the *advanced readosoning mode* allow boxes to be placed either downward, either side-by-side, with connections being constructed automatically as needed. The lack of manual connections between boxes may be seen as a trade-off between complexity and clarity: while in some cases a manual connection would have been useful, it is clear that such an option would influence other features of the software, such as the automatic structuring of boxes.

Rationale maintains a structured map by automatically pushing existing boxes apart to make room for new boxes. The only options available to map creators are *resizing* of boxes and *placing* or moving them (to connect them to some other boxes, or disconnect them). This limitation might frustrate some users used to more flexibility,

but it ensures maps will be consistent and organized. One noticeable feature in this sense is the organization on levels – adding boxes on the vertical axes tends to place them on the same level (connections are fixed and cannot be resized). This is unfortunately hindered by boxes with a large amount of text, since parallel connection



**Figure 3. Structuring arguments with levels**

will not be resized and the levels will not be visible anymore and it has to be manually corrected by vertically resizing boxes (see Figure 3).

Another downside of automatic positioning of boxes is that complex argument maps get very large really quickly. The complete map of the chosen text got to a width of 6 pages A4 (landscape) and needed three such rows in height. This would be hard to display in printed form and even poses difficulties for viewing as is, in digital format. For reasoning maps this issue may be solved by rotating the map by 90 degrees, making it spread vertically instead of horizontally. This is unfortunately not possible for the advanced maps, that are necessary since they offer the essential functionality of co-premises (which in turn allows both undercutting and rebutting, as described in section 3.1).

Regarding the *evaluation* features, these only offer some extra visualization tools, allowing the emphasis or de-emphasis of boxes, in correlation with the developer's opinion on the strength of a reason or objection. Map creators may thus mark reason or objection boxes as *strong*, *weak*, or *nill*, while the main claim (as well

as the co-premises from the advanced maps) may be marked *Accepted*, *Hmmm* (which means “take no stand”) or *Rejected*. This is a useful tool for visualization, yet some automation might be useful as well. For example, if all the reasons supporting a claim are marked strong, the claim should automatically be marked *accepted*. Likewise, if all the co-premises of a reason (in the advanced maps) are marked *rejected*, the reason may be automatically marked as *nil*. This could also be propagated from lower levels to higher levels, making map analysis easier and the evaluation more correct.

The last missing feature is the possibility to number the reasons, objection and premises. This feature is needed in the creation of the large maps mainly for two reasons: first, discussing over such a large map needs a way to point out to an exact reason or premise; second, in a complex debate such as this, some reasons may be repeated to support different claims and some numbering and referring system may make the map more clear.

#### 4. CONCLUSIONS

The current paper presents some findings of a process to visually represent a complex argument, ie. to create an argument map using Austhink Rationale.

The findings include positive aspects such as the clarity of the process and the possibility to represent both undercutting and rebutting arguments. Some negative aspects are also presented. The objects are not numbered, the software does little to aid the user in evaluating maps and the maps get really large really fast, making visualization harder.

Future work would aim to automatize the process of turning an argumentative text into an argument map. These findings will prove useful to bypass some caveats of mapping a large quantity of information.

#### REFERENCES:

- [1]. **Andriessen, J.** (2006) *Arguing to Learn*, in: K. Sawyer (Ed.) *Handbook of the Learning Sciences* (pp.443-459). Cambridge: CambridgeUniversity press
- [2]. **Besnard, P.; Hunter, A.** (2008) *Elements of Argumentation*. The MIT Press Cambridge, Massachusetts, London, England
- [3]. **Lau, J.; Chan, J.** (2004) *Argument Analysis*, <http://philosophy.hku.hk/think/arg/complex.php>
- [4]. **Nonnon, E.** (1996) *Activités argumentatives et élaboration de connaissances nouvelles: Le dialogue comme espace d'exploration*, *Langue Francaise*, 112, pp.67-87
- [5]. **Scheuer, O.; Loll, F.; Pinkwart, N.; McLaren, B.M.** (2010) *Computer-Supported Argumentation: A Review of the State of the Art*, *International Journal of Computer-Supported Collaborative Learning*, 5(1)
- [6]. **Toulmin, S.** (2003) *The uses of argument*, Cambridge, U.K. New York: Cambridge University Press
- [7]. *The Cambridge Dictionary of Philosophy*, 2<sup>nd</sup> Edition (Cambridge University Press), editor Robert Audi, 43
- [8]. <http://hitchensdebates.blogspot.ro/2010/11/hitchens-vs-blair-roy-thomson-hall.html>
- [9]. <http://rationale.austhink.com/>

## **A STUDY REGARDING THE USE OF THE FUNCTIONAL MAINTENANCE MODEL USING A SYSTEMIC APPROACH**

**IOAN CUCU \***

**ABSTRACT:** *The management strategy of industrial enterprises should consider implementing a certain type of maintenance that would ensure not only the rapid completion of maintenance tasks but also the prevention of losses caused by potential shutdown of equipment involved in the main operations. The concept of functional maintenance is based on the elements that ensure a correlation between the technical and the economical aspects of equipment maintenance. In this context, the main objective of the maintenance department consists in ensuring the correct functioning of technological equipment.*

**KEY WORDS:** *functional maintenance, systemic approach, operational safety.*

**JEL CLASSIFICATION:** *M11, D2.*

### **1. INTRODUCTION**

The functional maintenance model considers that the maintenance of technological equipment is an integrated function of an enterprise's production activity. Thus, to accomplish the tasks of a production unit with focus on quality, cost and deadlines implies an analysis of the following factors (Pavel, 1980):

- **Personnel training**, both for employees working directly on the equipments as well as for those that assure maintenance and reparations. In the system, coordination, organization and monitoring of activities is tightly connected to professional competence (Pc), due to the following demands:
  - knowledge of the specifics of the activity, of imposed norms and solving problems for equipments, all these being part of the elements that describe personnel professionalism (P);
  - aptitudes regarding the correct fulfillment of tasks and the capacity to integrate the complete set of duties, that are part of *personnel aptitudes* (Ap);

---

\* *Assoc. Prof., Ph.D, University of Petroșani, Romania, cucuioan2002@yahoo.fr*

- aptitudes regarding the technical and economic liability for the current activities (At).

Thus the functional model of the professional training level can be represented as  $P_c = f(P, A_p, A_t)$ .

- **The technology being used**; technological analysis targets two major groups:

- product manufacturing technology;
- maintenance and repair technologies associated with each equipment.

Inconsistency between the two groups of technologies may lead to disorders such as losses in production quantities of quality, increased expenditure, reduction of economic efficiency. Through this model, a correlation between the two groups is established so that any upgrade of manufacturing technologies is immediately followed by a similar upgrade for maintenance and repair technologies.

- **Production organization**, in relation to maintenance and repair implies the design, development and implementation of methods and techniques that would ensure the realization of the enterprise's fundamental objective (Ceașu, 1990). Such methods may be:

- performing statistical tests related to the functioning quality of technological equipments;
- using new equipment monitoring techniques such as vibration measurement, temperature recording, oil analysis.

- Design and development of the **informational sub-system**. This represents the synthesis tool that offers the possibility to monitor the main activities and assess the potential risk of a situation and thus allow decision-making that would ensure maximum efficiency. This sub-system must keep the maintenance coordinator's dashboard updated as follows:

- groups all significant informations regarding scheduled activities;
- presents in a systematic manner the information need for technical – economic analysis;
- contains the information that present phenomena through their evolution over time;
- presents warnings in regard to the possibilities of undesired phenomena;
- provides necessary information for presented situations to decision makers.

## 2. SYSTEMIC APPROACH FOR THE MANAGEMENT OF THE FUNCTIONAL MAINTENANCE MODEL

The functioning of technological equipment, especially base ones, in conditions of safety implies: a technological preparation of repairs based on the correct and complete knowledge of their wear, the scheduled monitoring of the evolution of safety through periodic technical inspections, economic analysis of maintenance costs, equipment upgrade, personnel training etc.

The desire to implement advanced techniques and methods in the management of the maintenance and repair activities may be left to the stage of intent, if it is not followed by the financial, material and human effort needed to develop the technological and informational base. In this context, the functional maintenance

model represents a new approach of maintenance and repair management, based on the interdependence between the elements of the system and on the critical analysis of these elements.

The fundamental components of the functional maintenance model include:

- ✘ management of the maintenance and repair activities;
- ✘ the technological process of maintenance and repair, reunited with the terotechnic system of activities;
- ✘ the existence of an informational subsystem, based on a database, that ensures the connection between the company's management and the maintenance department, by ensuring a feedback connection needed to adjust decisions and finding the most efficient decisions;
- ✘ economic analysis of maintenance costs and ways to recover such expenses.

The adjustment of the functioning of the new model should be based on cause-system-effect elements. In the case of phenomena outside the scope of technological equipment operations, adjustment in regard to the cause of the phenomena implies adopting a positive reaction, ie monitoring the parameters' evolution considering the limits in which they should operate (Hamelin, 1980).

The system's evolution in a specific direction under the influence of positive restrictions can be adjusted based on control actions such as:

- ✘ periodic systemic technical inspections that should aim to uncover weaknesses in the monitored equipment;
- ✘ operative monitoring of repair activities for which a network-graph based on a critical route has been designed;
- ✘ operative monitoring of loading capacities used in manufacturing spare components for equipments in use;
- ✘ monitoring the evolution of spare components consumption;
- ✘ economic analysis of maintenance and repair costs for each technological equipment.

Adjustment of phenomena evolution compared to the registered output of the system is based on information regarding system output, that may adjust the equipment's functioning as mentioned, based on a feed-back connection. Thus, any disturbance, ie. deviation of output values from predefined parameters' values, should be used in the correction of the system's evolution.

The systemic approach to maintenance and repair management emphasizes the existence of successive levels of objectives, in accordance with management levels. Thus, each level sets its objectives and resources needs and the monitoring of accomplishing objectives is performed in reverse through the feed-back connection, starting from the final results towards the management of the operations department.

The purpose of the informational system in enterprise management consists in allowing a permanent overview of resources and objectives, of the model of operations and of all factors that may influence in any manner the maintenance and repair activities (Aramă, 1976).

The functional maintenance model should also adapt to the structures of other functional sub-systems of the enterprise such as supply or personnel training.

By further approaching the terotechnic system of specific maintenance and repair activities, it should be mentioned that terotechnics is in charge of *looking after*, ie. terotechnics is much more extensive than maintenance engineering since it includes the whole process of assembly, maintenance, repair, replacement, organization, technological norms for personnel training, information processing model, various analysis (Maxer, 1988) as well as the increase in equipment reliability.

The economic concept of functional maintenance proceeds from the fact that making decisions regarding operations should be based on the following criteria:

- \* safety in functioning, a criteria for which there are no restrictions regarding implementation time or costs;
- \* predefined budget for maintenance expenditures as well as the operational costs must fit in the budget approved by the management;
- \* the duration of maintenance and repair activities varies; there may be tasks that have to be performed as emergencies while ensuring work safety. In such cases, the volume of funds are not predefined. Optimization requests are dependent on the criteria of duration for the needed operations.

The model implies in most cases decision making in maintenance and repair of technological equipment, that implies a correlation of the three criteria mentioned above. From an economic point of view, maintenance costs ( $M_c$ ) depend functionally on: the duration of the equipment's functioning in conditions of safety ( $T_s$ ); the moment of replacement for an used equipment ( $M$ ); evaluation of the necessary funds for equipment maintenance for its complete period of use ( $F_e$ ). Thus the functional relation for maintenance costs is:  $M_c = f(T_s, M, F_e)$ .

### 3. CONCLUSIONS

The theoretical and practical base for the necessity of this system is given by the following aspects:

- \* functional maintenance of technological equipment represents a component of the production function, but with independent tasks and responsibilities;
- \* the necessity of a correspondence between manufacturing technologies and maintenance of the equipments that correspond to these technologies, economic efficiency of maintenance and repair correlated with the real productivity of each equipment as well as with products quality;
- \* the development of a model using the experience of specialists in industrial enterprises, research institutions and so on.

### REFERENCES:

- [1]. **Aramă, C.** (1976) *Terotehnica*, Editura Tehnică, București
- [2]. **Ceașu, I.** (1990) *Organizarea și conducerea activității de întreținere și reparații*, Editura Tehnică
- [3]. **Hamelin, B.** (1980) *Entretien et maintenance*, Editura Eyrolles, Paris
- [4]. **Maxer, P.** (1988) *La charte de la Maintenance Industrielle*, Paris AFNOR
- [5]. **Pavel, N.** (1980) *Conducerea activității de întreținere funcțională*, Revista Economică, București, nr. 19

## NEW TRENDS REGARDING OFDI FROM RUSSIA

IMOLA DRIGĂ, CODRUȚA DURA \*

**ABSTRACT:** *Among emerging economies, the Russian Federation is the second largest outward investor, surpassed only by China, but ahead of Brazil, India and South Africa. Alongside other multinationals from BRICS countries, TNCs from Russia started to emerge in the international rankings of global companies. The propose of the paper is to present the importance of developing and transition economies as investors, to provide background information and new trends of OFDI from BRICS countries, pointing out the outward expansion of Russian multinational corporations in recent years. The paper basically investigates the main patterns of Russian outward foreign direct investment (OFDI), including its dynamics and geographical destinations.*

**KEY WORDS:** *FDI, outward FDI, BRICS countries, Russian TNCs.*

**JEL CLASSIFICATIONS:** *F20, F21, F23.*

### 1. INTRODUCTION

Foreign direct investments (FDIs) are an essential part of international economic integration representing significant funding alternatives for investment and valuable tools for company development. Inward FDI and outward FDI depend on the direction of money flow. Inward FDI occurs when foreign capital is invested in local resources (investment by foreigners in enterprises resident in the reporting economy), while outward FDI represents direct investment abroad (investment by entities resident in the reporting economy in an affiliated enterprise abroad). 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).

Inflows of FDI are the flows of FDI into a country, while outflows of FDI are the flows of FDI out of a country. According to the World Bank, FDI net inflows are the value of inward direct investment made by non-resident investors in the reporting

---

\* *Assoc.Prof., Ph.D., University of Petroșani, Romania, [imola.driga@gmail.com](mailto:imola.driga@gmail.com)  
Assoc.Prof., Ph.D., University of Petroșani, Romania, [codrutadura@yahoo.com](mailto:codrutadura@yahoo.com)*

economy and FDI net outflows are the value of outward direct investment made by the residents of the reporting economy to external economies.

Nowadays, FDI gains increasing importance as an indicator of the international economic climate because provides significant benefits for both investor and host countries.

**Table 1. Indicators of FDI, 1990-2012 (value at current prices - Billions USD)**

Indicator	1990	2005-2007*	2010	2011	2012
FDI inflows	207	1491	1409	1652	1351
FDI outflows	241	1534	1505	1678	1391
FDI inward stock	2078	14706	20380	20873	22813
FDI outward stock	2091	15895	21130	21442	23593

Source: UNCTAD, *World Investment Report, 2013*, Note: \* pre-crisis average

However, the overwhelming part of literature is still focused on the impact of outward FDI from developed countries into recipient developing countries, in recent years there are more and more studies and a growing academic interest on outward investment from emerging and developing economies. The literature of the last years is very rich in statistical data regarding the climbing up of BRICS<sup>1</sup> (Brazil, the Russian Federation, India, China and South Africa) on the international business stage.

## 2. OUTWARD FOREIGN DIRECT INVESTMENT FROM BRIC COUNTRIES

Technological capabilities accumulation and firm specific advantages sufficient to expand their operations to other countries allow many transnational corporations (TNCs) from emerging and developing economies to increase significantly their flows of outward investment, in quantitative terms (Gammeltoft, 2008).

Although developed countries remain the leading source of outward foreign direct investment, developing and transition economies have emerged as an important source of outward FDI and among them the BRICS countries have meaningful international role in the world economy being important outward investors.

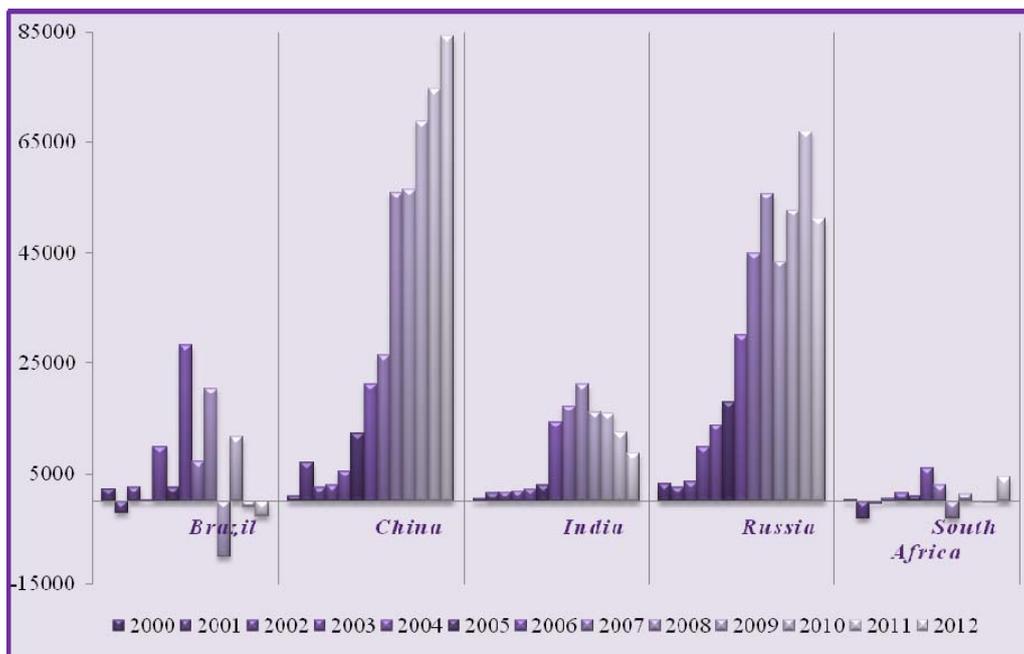
Available evidence suggests that in recent years BRICS countries are increasingly important outward investors. FDI outflows from these economies show certain key features, such as (UNCTAD, 2013b):

- the rise in FDI outflows started a bit later than that of inflows;
- in 2009 outflows from BRICS decreased by only 26%, compared to 41% for the world as a whole, due to BRICS investors resilience to the crisis;
- BRICS countries are significant investors in Africa, in 2010 their share of outward FDI flows and stock to this continent reaching 14% and 25% in total;

<sup>1</sup> BRICS are the acronyms used to refer jointly to Brazil, Russia, India, China and South Africa.

- the bilateral FDI stock among BRICS countries is rather low, although there was a fast growth over the last years; BRICS outward stock in other BRICS countries increased from 0.1% in 2003 to 2.5% in 2011;
- the role of BRICS as investors grew substantially, accounting for 10% of world outflows in 2012 whereas ten years before that share was only 1%;
- from the group, China and the Russian Federation score for the most part of flows, with 54% and 40% respectively.

Statistical updates (figure 1, 2) show that the sharp increase in FDI by BRICS in the last decade was driven by Russia and China. The two countries contributed to more than 70% of the BRICS countries' FDI growth between 2005 and 2008. However, in the following years the rise of outward FDI flows from these economies came to a temporary halt when the financial crisis and recession had a strongly negative impact on them. In 2012, in case of Brazil and India the value of FDI outflows continued to fall for the second and third consecutive year, but for China, Russia and South Africa we can detect a certain revival.

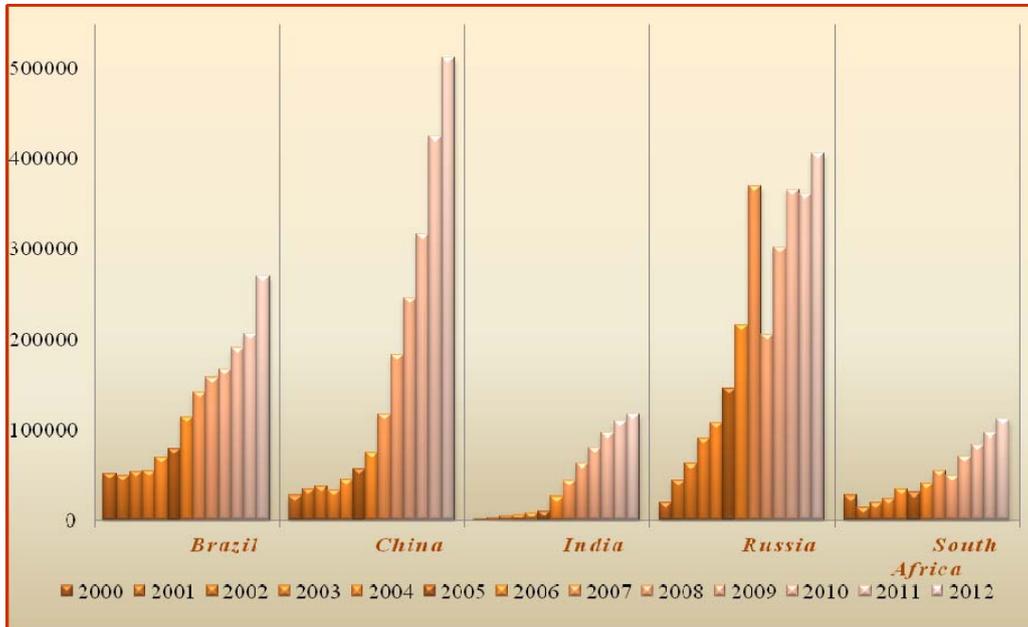


Source: based on data from UNCTAD's FDI database

**Figure 1. Outward foreign direct investment flows from BRICS countries, 2000-2012 (Millions of USD)**

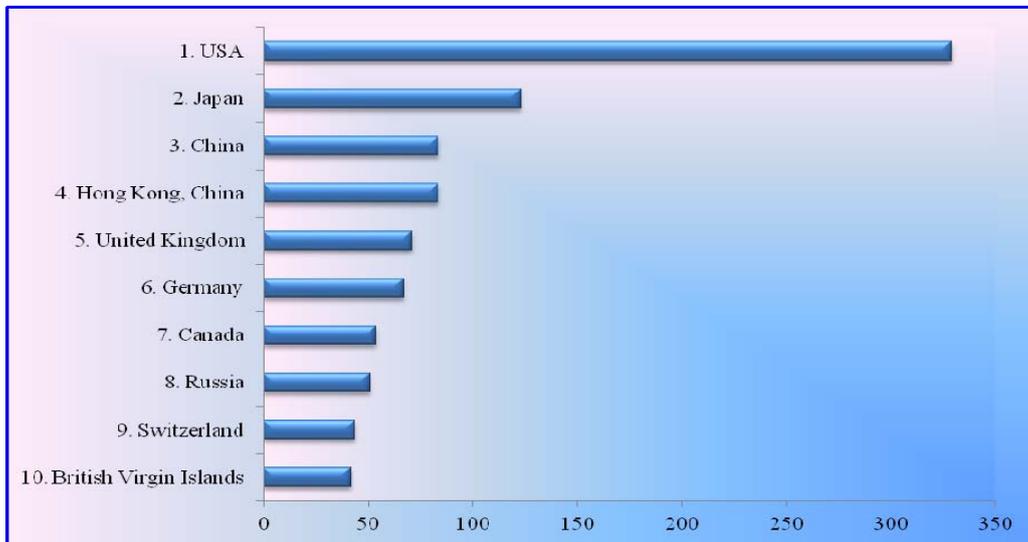
According to UNCTAD's 2013 World Investment Report, the BRICS countries (especially China and Russia) continued to be in 2012 the leading sources of FDI among emerging investor countries, flows from these five economies accounting for 10% of the world total. In the ranks of top investors, China moved up from sixth to

the third largest investor in 2012, while Russia moved down one place to the eighth largest investor in 2012 (figure 3).



Source: based on data from UNCTAD's FDI database

**Figure 2. Outward foreign direct investment stock from BRICS countries, 2000-2012 (Millions of USD)**



Source: based on data from UNCTAD, World Investment Report, 2013

**Figure 3. Top 10 investor economies, 2012 (Billions of USD)**

FDI flows from developing economies rose slightly in 2012 (reaching 31% in total), while outward FDI flows from transition economies declined in 2012, owing to a fall in FDI outflows by Russian investors. Nevertheless, Russia continued to dominate outward FDI from the region, accounting for 92% of the total. Although TNCs based in natural-resource economies continued their expansion abroad, the largest acquisitions in 2012 were in the financial industry (UNCTAD, 2013a).

In the near future, although Investment Promotion Agencies (IPAs) anticipate developed-country TNCs as the most promising sources of FDI in 2013-2015, developing and transition economies, especially BRICS countries, are becoming important outward investors. Thus, 60% of IPA respondents (UNCTAD, 2013) ranked China as the most promising source of FDI due to fast increase of outward FDI from this country in late years, but India and the Russian Federation are also seen as major sources of FDI, ranked 7<sup>th</sup> and 10<sup>th</sup>, respectively.

Though the five BRICS countries are not among the most developed countries of the world yet, their potential of geographical area and population, economic growth rate, military force and political influence give them the status of future great powers of the world (Drigă & Dura, 2013).

### **3. TRENDS OF OFDI FROM RUSSIA**

The importance of transition economies as investors has significantly increased over the last decade. Russia, one of the emerging economies with rapid growth, is rich in natural resources, raw materials, minerals and energy having the ability to use these resources to develop industrially and expand trade. Thus, the Russian Federation is considered by many one of the best to invest in the long term.

The Russian economy undergoes a process of modernization from a natural-resource based country to a modern service and innovation oriented economy. Being developed as a resource-based economy, Russia had always held a vital role within the global energy supply system. In fact, the economic rise of Russia at the beginning of the 21<sup>st</sup> century was considered to be triggered by the oil prices increasing trend as well as by the reinforcement of the Russian state and its domination over the massive amount of natural resources within the boundaries of this country. In the early 2000s, the Russian companies began to undertake internationalisation strategies (Drigă & Dura, 2013).

Russia has stood out among transition economies as the country with the highest outward/inward FDI ratio and as a net capital exporting country from the beginning of the economic transition. The Russian OFDI flows increased considerably in 2000s after a relatively slow start and a modest average annual growth in the 1990s, (Vahtra, 2009). From 2000 outward FDI flows from Russia increased more or less steadily until 2008 reaching 55.66 billion USD from 3.18 billion USD in 2000. With the outbreak of the financial crisis in the second half of 2008 that affected the Russian economy deeply, outward investments from the country have dropped in 2009 to 43.28 billion USD regaining though a positive trend not long after. Thus, in 2010 FDI flows from Russia got back to 52.62 billion USD, jumping again in 2011 to 66.85 billion USD (table 2). According to UNCTAD's 2013 World Investment Report, outward FDI

flows from transition economies declined in 2012 (by 24%), due to a fall in FDI outflows by Russian investors. However, Russia continued to dominate outward FDI from the region (accounting for 92% of the total) as natural-resource based TNCs continued their expansion abroad.

**Table 2. Russian OFDI flows (Billions of USD)**

Partner country	2007	2008	2009	2010	2011	2012
World	44.80	55.66	43.28	52.62	66.85	51.06

Source: Bank of Russia database, <http://www.cbr.ru/eng/statistics>

Among Russian TNCs, Mergers and Acquisitions are more popular than Greenfield projects (table 3) Europe being by far the main target zone for Russian overseas M&As. Thus, with 476 M&As acquired by Russian firms in Europe between 2000-2011, the Russian Federation is considered an outstanding country among BRICs and developing economies. On the other hand, in 2013, a total of 142 cross-border Greenfield FDI projects sourcing from the Russian Federation were recorded, compared with 162 FDI projects in 2011 (-12.3%) and 22 FDI projects in 2007 (+6%) (Milan Chamber of Commerce, 2013).

**Table 3. Russia's outward FDI flows and stock, 2012**

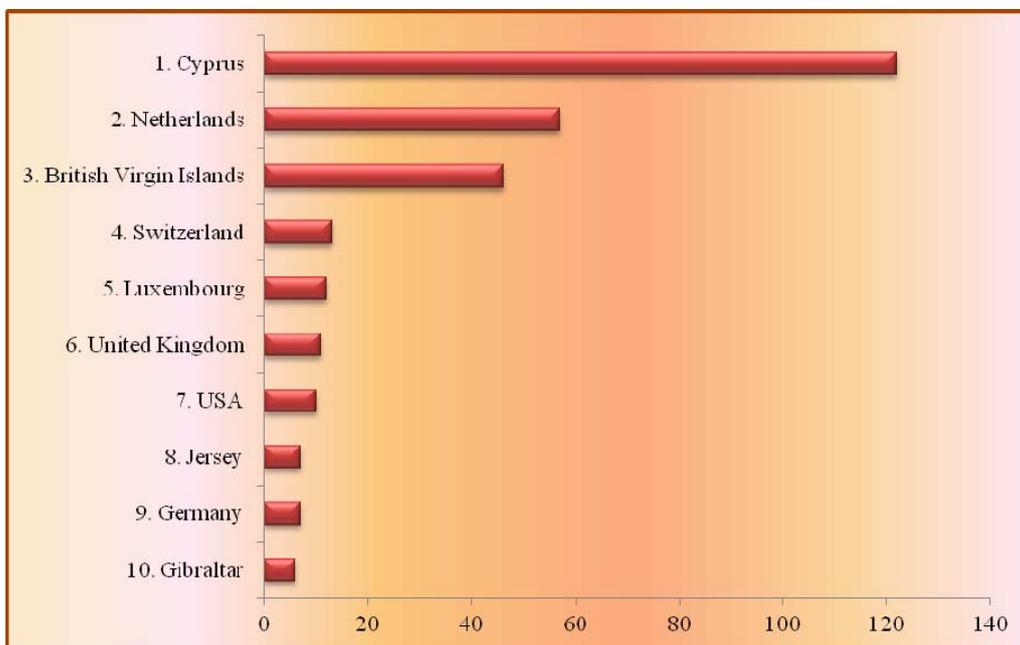
	2012	Var% _ 2011-12	Var% _ 2007-12
<b>FDI outflows (million USD)</b>	<b>51.058</b>	<b>-23,6 %</b>	<b>11,3 %</b>
% on World total	3,7 %		
<b>Value of greenfield outward FDI projects (million USD)</b>	<b>4.899,8</b>	<b>-68,4 %</b>	<b>-68,1 %</b>
% on World total	0,8 %		
<b>Value of outward cross-border M&amp;As (million USD)</b>	<b>7.807</b>	<b>139,5 %</b>	<b>-58 %</b>
% on World total	2,5 %		
<b>FDI outward stock (million USD)</b>	<b>413.159</b>	<b>14,1 %</b>	<b>11,6 %</b>
% on World total	1,8 %		

Source: Milan Chamber of Commerce, *OFDI Country Profiles 2012: where the FDI demand is coming from*, July 2013

Russian firms have mainly engaged in resource-seeking FDI projects in pursuit of raw materials and access to strategic commodities. Although, Russian MNCs belong to a great variety of industries, the boom of Russian OFDI was mostly supported by oil, gas and metal companies, especially in the European Union and the CIS countries, as well as in the United States. There are several main manufacturing industries of the Russian OFDI expansion: petrochemicals (especially LUKOIL), agrochemicals (Eurochem and Acron), steel (about 10 significant investors), non-ferrous metals (first

of all RUSAL and Norilsk Nickel) and machinery. On the one hand, few years ago banking and other services became a field of the mass Russian investment expansion abroad (Kuznetsov, 2010).

From 2007, the Bank of Russia began to publish detailed statistics on the geographical distribution of Russian outward FDI flows in order to underline the priorities of Russian investors during the global crisis. Cyprus, together with the Netherlands and the British Virgin Islands, has become one of the most important host countries, being in the same time the largest investor in and recipient of FDI from Russia. Some small countries of the Commonwealth of Independent States (CIS) and Central and South-East Europe are also among main recipients of Russian outward FDI (Drigă & Dura, 2013).



Source: UNCTAD, *World Investment Report, 2013*

**Figure 4. Top 10 recipients of FDI stock from the Russian Federation, 2011 (Billions of USD)**

According to statistics released by the Federal State Statistics Service of Russia the key recipient of Russian capital are advanced markets of Europe and the USA. In recent years, large Russian companies have shown an impressive performance in their expansion abroad, in an effort to diversify their distribution markets and gain access to the latest technologies (Filipov, 2012).

But in the last couple of years there were certain interesting changes in geographical priorities of Russian multinationals underlining the maturity of some Russian companies (the emerge of non-European countries among the most important destinations, as Gibraltar or India). Furthermore, available evidence (UNCTAD, 2013b) suggests that the expansion of MNCs from the Russian Federation in BRICS

countries is fairly recent but rapid, being motivated by a desire to expand their control over the value chains of their own natural-resources and to strengthen their market positions in key developing countries (table 4).

**Table 4. Outward FDI stock from BRICS countries to other BRICS countries, 2011  
(Millions of dollars)**

Home country	Host country					
	BRICS	Brazil	China	India	Russia	South Africa
BRICS	28599.5	1222.4	13570.8	1795.6	7671.5	4339.1
Brazil	514.1	-	447.5	15.8	0.1	50.7
China	9552.5	1071.8	-	657.4	3763.6	4059.7
India	1987.1	73.9	228.7	-	1490.4	194.1
Russia	1139.9	-	123.1	982.3	-	34.5
South Africa	15405.8	76.8	12771.5	140.1	2417.4	-

Source: UNCTAD, *The Rise of BRICS FDI and Africa, Global Investment Trends Monitor*, 25 March 2013

Recently, Russian TNCs have found their way to Africa too. The expansion of Russian transnational corporations in the world's second-largest continent has been fast, reaching 1 billion USD in 2011. The main aim of Russian TNCs is to enhance raw-material supplies and to access local markets. Thus, Rusal, the world's largest aluminium producer, has operations in South Africa, Nigeria, Angola and Guinea. Russian banks are also moving into Africa. For example, Vneshtorgbank (now VTB Bank) opened the first foreign majority-owned bank in Angola, and then moved into Namibia and Côte d'Ivoire (UNCTAD, 2013b).

#### 4. CONCLUSIONS

The global environment for outward FDI is changing rapidly. Technological and logistical progress and competition among firms from all over of the world influence and support global direct investment flows from both developed and emerging markets. Under these circumstances, MNCs from emerging economies have not only become investors in many other developing countries, but they also increasingly invest in developed countries.

The BRICS – Brazil, Russian Federation, India, China and South Africa – are not just strong performers in attracting FDI, but also increasingly important outward investors, according to the United Nations Conference on Trade and Development. Over the past decade BRICS countries have also become important investors, their

outward FDI has risen from 7 billion USD in 2000 to 126 billion USD in 2012, representing 9% of the world flows.

Looking at the development of OFDI flows from the BRICS countries since 2000, it is noticeable that Russian MNCs increased their OFDI greatly. Russian multinationals are by far the key players of the Eastern European region in the natural resources field. Therefore, from among the BRICS, the paper gives insights into the Russian economy and outward FDI from Russia, pointing out the outward expansion of Russian MNCs in recent years.

The rise of Russian multinationals has become a part of the present-day economic reality as Russian OFDI flows increased considerably during the 2000s. According to UNCTAD, Russia had risen to 15th rank in the world in terms of OFDI stock by the end of 2006. On the whole, the key recipients of Russian capital are advanced Western markets, Cyprus, the Netherlands, the British Virgin Islands, Switzerland, Luxembourg, United Kingdom and the United States being the largest recipients of FDI from the Russian Federation.

As relative and absolute economic importance of emerging economies is expected to continue to rise for the foreseeable future, Russian OFDI activities will continue to increase in next years.

## 5. ACKNOWLEDGEMENT

The paper represents an output of the research activity carried out by authors during the international project: COST 281/ 2009 Brussels, Action IS0905 - *The Emergence of Southern Multinationals and their Impact on Europe*.

## REFERENCES:

- [1]. Al-Sadig, A. (2013) *Outward Foreign Direct Investment and Domestic Investment: the Case of Developing Countries*, International Monetary Fund, Working paper, February
- [2]. Drigă, I.; Dura, C. (2013) *Restoring the Economic Power of Russia through OFDI Expansion*, *Economia. Seria Management*, 16(2), pp.227-241
- [3]. Dura, C.; Drigă, I. (2012) *Emerging Multinational Companies from Russia and Their Impact on Host European Countries*. Working Paper presented at Conference EPI 2012, June 18-19, University of Parma, Italy
- [4]. Filippov, S. (2012) *Emerging Russian Multinational Companies: Managerial and Corporate Challenges*, *European J. International Management*, 6(3), pp.323-341
- [5]. Gammeltoft, P. (2008) *Emerging Multinationals: Outward FDI from the BRICS Countries*, *International Journal of Technology and Globalisation*, 4(1), pp.5-22
- [6]. Hill, C. (2011) *Global Business Today*, 7<sup>th</sup> Edition, McGraw-Hill Companies Inc.
- [7]. Hunya, G. (2012) *The Role of Multinational Companies in International Business Integration*, *Research Reports*, 384, November
- [8]. Kalotay, K.; Sulstarova, A. (2010) *Modelling Russian Outward FDI*, *Journal of International Management*, 16, pp.131-142
- [9]. Kuznetsov, A. (2010) *Industrial and Geographical Diversification of Russian Foreign Direct Investments*, *Electronic Publications of Pan-European Institute*, 7
- [10]. Kuznetsov, A. (2011) *Outward FDI from Russia and Its Policy Context, Update 2011*, *Vale Columbia Center on Sustainable International Investment*, August

- [11]. **Milelli, C.; Le Goff, J.** (2012) *European Inroads by BRICs' Firms: The M&A Avenue*, MPRA Paper No. 39865, July
- [12]. **Vahtra, P.** (2009) *Expansion or exodus? Russian TNCs amidst the global economic crisis*, Electronic Publications of Pan-European Institute, 20
- [13]. **Vargas-Hernández, J.G.; Iqbal, B.A.** (2013) *Analysis of Strategies That Promote the Development of BRICS*, International Journal of Business and Management, 1(1)
- [14]. **Bank of Russia database**, <http://www.cbr.ru/eng/statistics>
- [15]. **Milan Chamber of Commerce** (2013) *OFDI Country Profiles 2012: where the FDI demand is coming from*, July
- [16]. **OECD**, <http://www.oecd.org>
- [17]. **Skolkovo Research** (2011) *The New Geography of Capital Flows*, March
- [18]. **UNCTAD** (2013a) *World Investment Report*
- [19]. **UNCTAD** (2013b) *The Rise of BRICS FDI and Africa*, Global Investment Trends Monitor, 25 March

## THE AMAZING UNIVERSE OF RUSSIAN MULTINATIONALS: NEW INSIGHTS

CODRUȚA DURA, IMOLA DRIGĂ \*

**ABSTRACT:** *Over the past few years, large multinational companies originating from Russia have shown outstanding performances alongside their road from regional dominance to global leaders. Taking stock of recent approaches in the literature and statistical data released by well-known international organizations, our papers aims to provide some new insights from the amazing universe of Russian multinationals, following the 2008-2009 global economic crisis. The list of the largest multinationals from Russia shows that corporations from oil & gas and metallurgical sector are prevailing, as a consequence of the resource – based character of the Russian economy. Although Russian giants represents a quite heterogeneous class of companies, they do share several common features such as their propel mechanism of expansion on the global business stage (leveraged by the resource-based nature of their home economy), their tendency to invest in the neighboring countries (like Commonwealth of Independent States or East European countries), their modes of entry (through brownfield projects) etc.*

**KEY WORDS:** *Russian multinational companies (MNCs), outward foreign direct investment (OFDI), internationalization strategy, oil & gas companies, CIS countries.*

**JEL CLASSIFICATION:** *F20, F23, F63.*

### 1. INTRODUCTION

Throughout a historically short period, the Russian Federation developed into a leading outward investing country on the global economy scene. This dynamics is strongly correlated to the phenomenon of the emergence of Russian multinationals in various business areas. Regardless of the significance, novelty and even challenging nature of the issue of emerging multinationals, a great deal of attention has been paid initially to Chinese, Indian and Brazilian multinationals, neglecting their Russian rivals. While few researches were released in the beginning of 2000s (Bulatov, 2001;

---

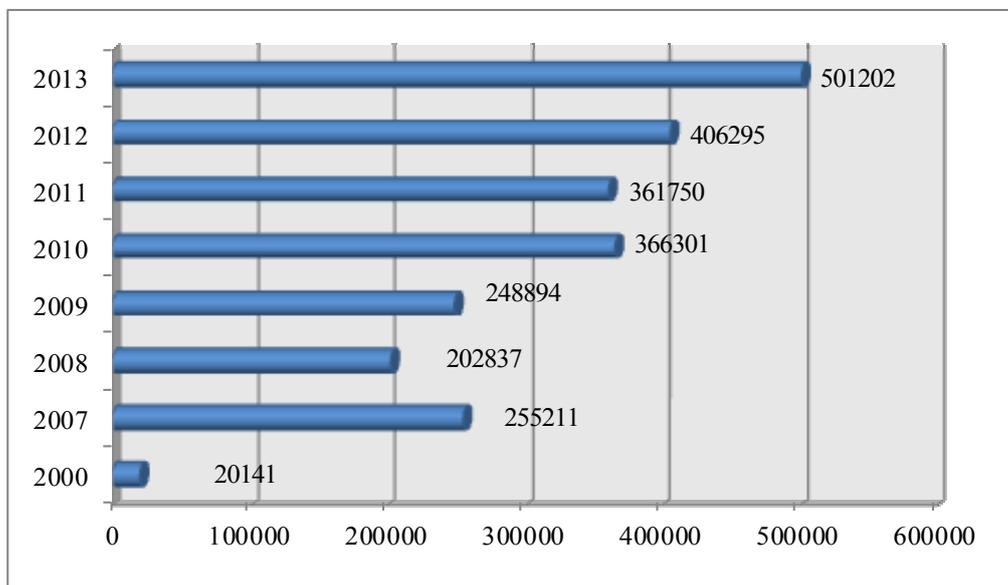
\* *Assoc.Prof., Ph.D., University of Petroșani, Romania, [codrutadura@yahoo.com](mailto:codrutadura@yahoo.com)  
Assoc.Prof., Ph.D., University of Petroșani, Romania, [imola.driga@gmail.com](mailto:imola.driga@gmail.com)*

Kalotay, 2004, 2005; Crane, et al., 2005; Filatotchev, et al., 2007a), the number of studies published by the scholars from the field followed a spectacular increase in recent years (Andreff, 2013; Ardichvili, et al. 2012; Filippov, 2010, 2011a, 2011b, 2012; Kuznetsov, 2010a, 2010b, 2011a, 2011b, 2013; Panibratov, 2010, 2012; Kalotay, 2007, 2008, 2010a, 2010b).

Most scholars were likely to tackle the phenomenon of Russian multinationals from the angle of international business theory, i.e. investigating their profile, their drivers, their entry modes or their internationalization strategies. Yet, a group of researchers focused lately on managerial peculiarities of Russian corporations and their impact upon the process of internationalization (Andreff, 2013; Filippov, 2012; Kuznetsov, 2013). Taking stock of these recent approaches in the literature, our papers aims to provide some new insights from the amazing universe of Russian multinationals, following the 2008-2009 global economic crisis.

## 2. INTERNATIONALIZATION STRATEGIES OF RUSSIAN MULTINATIONAL COMPANIES

Outward foreign investments originating from Russia faced an accelerated growth during the 2000s (Kuznetsov, A., 2011b). According to UNCTAD (who collects its figures regarding the Russian dynamics from the Bank of Russia), the country was *the world's fourth larger investor in 2013*. The OFDI stock in 2013 amounted approximately 25 times as compared to the figures registered in 2000 (see figure 1).



Source: UNCTAD 2013 and previous years

**Figure 1. Outward FDI from Russia**

These data are tightly related to the successful expansion of Russian multinationals in the recent years. Thus, according to the *World Investment Report*

released by UNCTAD in 2013, 95% of the outward stock from South-East Europe and CIS states is brought about by the phenomenon of Russian multinational's expansion overseas. Seeking assets and seeking markets are the main drivers that guide the Russian investors' decision to extend abroad, while seeking efficiency is quite rarely met (Panibratov, 2010). Russian MNCs are attracted by the perspective of getting strategic assets in EU markets (including downstream activities in the energy industry and value added production activities in metallurgy) in order to be able to set up global and regional value chains through vertical integration. At the same time, oil and gas Russian giants gained new markets in 2013 by purchasing distribution networks or storage and transportation facilities across Europe. For instance, Gazprom successfully transacted the acquisition of 50% of OMV's bigger Central European gas distribution terminal and storage facility, while Lukoil acquired a 49% stake in the Priolo oil refinery of ISAB from Italy (UNCTAD, 2013b).

Modern Russian multinationals are re-tracing the steps of former Soviet "red multinationals", from former Soviet republics to Africa, Asia and Latin America. In accordance with Uppsala Model and Investment Development Path, Russian multinationals started their internationalization process from the neighboring CIS countries. The process is facilitated by linkages established in the Soviet times, common business practices and relatively low interest to these economies from the part of well-established multinationals and Western investors. Russian energy companies are particularly interested in these markets. For instance, Russian electricity giant RAO UES has acquired power station and energy-distribution in Armenia, Georgia, Moldova and Ukraine. The prospects of economic growth in CIS countries offer even more investment opportunities in the future. This is why not only companies working in resource-intensive sectors, but also those in retail and consumer-oriented sectors enter CIS economies.

In the Eastern European markets, Russian multinationals enjoy familiarity with the local conditions, yet it often sparks political sensitivities given the uneasy common past. The situation is somewhat paradoxical. It is quite logical that Russian companies started internationalization with the expansion to the nearest regions, such as CIS and Central and Eastern Europe. Yet, the very same countries are wary of Russian economic presence regarding it through the prism of the economic dependency. Besides, new EU member states seek to deliver this message to the entire Union.

As for Western Europe, although the political sentiments are not as strong as in Eastern Europe, in the West Russian companies face with different managerial practices. They are requested to reveal their shareholders' structure and introduce more transparency in their operations. For many Russian companies born in the period of "cowboy capitalism" and extensively using the scheme of acquisition through offshore companies, these requirements are quite demanding and challenging.

Our interest to analyze the expansion process of Russian MNCs raises the problem of the inadequacy of existing FDI theory (Kuznetsov, 2010). While some authors state that John Dunning's eclectic paradigm can be adapted in order to suit the foreign expansion of Russian corporations (Kalotay, 2010), there are voices (Filippov, 2012) which consider Russian MNCs to be in line with the Uppsala model. This approach postulates that multinational companies tend to initiate their foreign

operations in countries which are culturally and/or geographically in their neighbourhood, in an attempt to overcome the “psychological distance” which entails a lot of barriers such as discrepancies in languages, social and political environment, traditions, business practice etc. In fact, we consider that this model perfectly fits the expansion of resource-based Russian multinationals. The next paragraph will reveal that oil & gas and metallurgy companies remain the leading Russian MNCs, in spite of the emergence of companies in transport, electricity or agrochemicals in the top 20 of Russian non-financial MNCs.

### **3. THE CORPORATE PLAYERS**

The biggest Russian multinationals are concentrated in two industrial sectors related to the exploitation and processing of natural resources, a traditional source of competitive advantage for this country (Deloitte CIS, 2008).

In the Boston Consulting Group (BCG) 2013 ranking of 100 companies from rapidly developing economies, some 31 Chinese, 20 Indian, 13 Brazilian and only 6 Russian companies were identified. These are United Company Rusal (which activates in metallurgy sector), Evraz Group (metallurgy), Gazprom (oil & gas), Lukoil (oil & gas), Severstal (metallurgy) and Vimpelcom (telecommunication services) ([www.bcgperspectives.com](http://www.bcgperspectives.com)).

The oil & gas sector is represented by Lukoil, Gazprom, Rosneft Oil etc., while the metallurgical sector includes companies like Severstal, UC Rusal, Norilsk Nickel or Evraz Group. Three oil & gas firms, namely Lukoil, Gazprom and TNK-BP and nine metals and mining firms, led by Norilsk Nickel accounted together for 80% of the total assets of the top 25 (Skolkovo Research, 2008). Nevertheless, new multinationals are developing in industrial sectors as diverse as food production and retail, IT and Internet, banking, hospitality, telecommunications, electronics etc.

On the other hand, the geography of multinationals expansion reflects that Europe is the by far the destination of choice for Russian foreign direct investments. Moreover, CIS countries and Eastern Europe are preferred by the giant corporations from Russia when they conceive their strategies of expanding abroad (Dura & Drigă, 2012). Russian multinational companies are becoming important players in the global economy, in particular in the national economies of Russia’s neighbors – former Soviet republics and current member states of the Commonwealth of Independent States (CIS), as well as the European Union (EU) (Crane, et al., 2008).

Oil & gas and steel companies with considerable exports are among the leading Russian MNEs. Only six MNEs of the top 20 list (see annex table 1) are under state control. Moreover, three of them are listed on stock exchanges, although the state remains the majority owner. Many companies remained “regional” MNEs. As a result, more than 66% of the ranked companies’ foreign assets were in Europe and Central Asia, with 28% in former republics of the Soviet Union (Kuznetsov, 2013).

Oil & gas companies have strengthened their presence among Russian MNEs because this industry was affected by the global crisis less profoundly than, for instance, metal industries. However, steel and non-ferrous metals sectors are still important sources of Russian foreign assets. These industrial domains assume the role

of the most active fields of Russian specialization in the world economy. Nevertheless, other Russian industries also have representatives among large MNEs. The top 20 MNEs as a group showed steady growth in foreign assets. Some of those MNEs significantly expanded their activities abroad. Most of the top 20 are large exporters. In the postcrisis period, their foreign sales have begun to grow again, although their sales still concentrate in the domestic market. Annex table 1, synthesizes the key variables of Russian top multinationals, ranked by foreign assets, sales and employees.

It is also noticeable that most Russian companies tend to prefer to merge with established companies or to acquire relatively inexpensive old plants. For example, acquisitions of refineries in Europe by Rosneft and LUKOIL, and mergers of mines or steel plants by Mechel and NLMK all fall into this category. In general, Russian multinationals prefer Europe and Central Asia. The most popular countries in the Commonwealth of Independent States (CIS) are Ukraine, Kazakhstan and Belarus. Germany, Italy, Bulgaria and Romania are among the most popular host countries in the EU. The United States is the most important recipient outside the neighboring regions of Russia.

In 2013, Rosneft completed the \$55 Billion TNK-BP (Tyumenskaya Neftyanaya Kompaniya, Tyumen Oil Company) acquisition. Known as the biggest takeover in Russian history, the deal between the two multinationals reinforces the state's control over oil and gas production. In order to highlight the relevance of this acquisition, we must emphasize that statistics reveal that oil and gas production in Russia generates about a half of government's revenue. Headquartered in Moscow, the new Rosneft, will have a huge economic power, by pumping more than 4 million barrels of crude a day, exceeding the output of Canada or Iraq ([www.bloomberg.com/news/2013-03-21](http://www.bloomberg.com/news/2013-03-21)).

The largest Russian multinational, LUKOIL, demonstrates the most diversified geography. It has affiliates in more than 40 countries. Its oil & gas projects are situated in 14 countries abroad. LUKOIL also has refineries and petrochemical plants in seven foreign countries and widespread retail and service networks. Presently, LUKOIL, the largest privately owned oil & gas company in the world by proved oil reserves, detains 2.1% of the global production of crude oil. As the second largest privately owned oil & gas company in the world by oil production, it has a share of 16.6% of Russian crude oil production and 16.5% of Russian crude oil refining, being the biggest Russian privately owned oil company with \$141 billion revenue and net income in excess of \$7 billion.

Gazprom is in second place both in terms of foreign assets and geographical diversification. Its FDI activities cover more than 30 countries. Gazprom is a global energy company whose major business lines are geological exploration, production, transportation, storage, processing and sales of gas, gas condensate and oil, sales of gas as a vehicle fuel, as well as generation and marketing of heat and electric power. The company holds the world's largest natural gas reserves. The Company's share in the global and Russian gas reserves makes up 18 and 72 per cent respectively. Gazprom accounts for 14 and 74 per cent of the global and Russian gas output accordingly. Nowadays, it actively implements large-scale projects aimed at exploiting gas resources in Yamal Peninsula, Arctic Shelf, Eastern Siberia and the Far East, as well

as hydrocarbons exploration and production projects abroad. The Company owns the world's largest gas transmission network, with the total length of over 168 thousand kilometers. Gazprom sells more than half of overall produced gas to Russian consumers and exports gas to more than 30 countries.

Worldwide employer of about 100,000 workers, EVRAZ is a vertically integrated steel, mining and vanadium business with operations in the Russian Federation, Ukraine, USA, Canada, Czech Republic, Italy, Kazakhstan and South Africa. EVRAZ is among the top 20 steel producers in the world based on crude steel production of 16.1 million tons in 2013. A significant portion of the company's internal consumption of iron ore and coking coal is covered by its mining operations. The Group is listed on the London Stock Exchange and is a constituent of the FTSE 250. The company's consolidated revenues for the year ended 31 December 2013 were US\$14,411 million, and consolidated EBITDA amounted to US\$1,821 million. The company's consolidated revenues for the six months ended 30 June 2014 were US\$ 6,805 million, and consolidated EBITDA amounted to US\$ 1,080 million.

As another major corporate player, Rosneft is the leader of Russia's petroleum industry and the world's largest publicly traded petroleum company. Rosneft conducts its exploration and production activities in all key hydrocarbon provinces of Russia including West Siberia, Southern and Central Russia, Timan-Pechora, East Siberia, Far East, and Russian continental shelf including the Arctic region. The Company is also embarking on and implementing a number of projects in Venezuela, Brazil, USA, Canada, UAE, Algeria, Norway, Kazakhstan, Vietnam and Abkhazia. Rosneft owns 11 refineries throughout Russia, from the Black Sea to the Far East, and 7 more of its refineries are located abroad. The Company continued its work to improve performance efficiency and reduce lifting costs which in 2013 amounted to USD 4.8/bbl thereby achieving the best unit lifting cost performance in the world among publicly traded oil companies.

Oil and gas producer Surgutneftegas is one of the largest companies in the Russian oil sector. It accounts for almost 13% of the country's crude output and 25% of gas produced by domestic oil companies. Key lines of the company's business are hydrocarbon exploration and production, gas processing and power generation, output and marketing of oil products, sales gas, and gas products and petrochemical production. Over the past three years, 13 new filling stations were put into operation and 36 were remodeled. At the end of 2013, the Company's sales sector includes 293 filling stations, 10 of which deliver liquefied gas.

In the steel industry, metallurgy industry, one of the most important multinational of Russia is the holding company MECHHEL. Mechel's business lies in four distinct segments: mining, steel, ferroalloys and power. The corporation holds production establishments in 13 of Russia's regions as well as the United States, Kazakhstan, Romania, Lithuania, Bulgaria, United Kingdom and Ukraine. According to its' official website, Mechel is the first and still the only coal mining and metals company from the region of Eastern and central Europe and Russia having its shares placed on the New York Stock Exchange. The company has about 93,000 employees worldwide.

MMC Norilsk Nickel is a Russian nickel and palladium mining and smelting company. Its largest operations are located in the Norilsk–Talnakh area, in northern Russia. MMC stands for "Mining and Metallurgical Company". The company is listed on MICEX-RTS and the NASDAQ ([www.mining-journal.com](http://www.mining-journal.com)).

Another important corporate player is TMK, operating in the same field. TMK is Russia's largest manufacturer and exporter of steel pipes which ranks among the global top three pipe producers. TMK is a public company which is listed on London Stock Exchange and Moscow Stock Exchange. These products are used in the oil & gas sector, chemical and petrochemical industry, energy, engineering and ship building machinery, aircraft, space and rocket engineering, as well as in construction industry, utilities and agriculture.

Vimetco holding is another Russian multinational operating as a globally integrated aluminum Group, with bauxite mines in Sierra Leone, coal mines, aluminum production facilities and electricity plants in located in China and an alumina refinery and aluminum smelter in Romania. With 17,122 employees worldwide, Vimetco's sales amounted to \$ 2,717 million in 2011 while the gross profit reached the level of \$ 358 million.

The shattering economic force of these top companies allows them even to shape the growth pattern of their home country. The list of the largest multinationals from Russia shows that corporations from oil & gas and metallurgical sector are prevailing, as a consequence of the resource – based character of the Russian economy.

#### 4. CONCLUSIONS

In recent years, large multinational companies originating from Russia have shown both huge potential and outstanding performances alongside their road from regional dominance to global leaders. The significance range of their operations, the employment of wide-spread multinational personnel, masses of costumers around the Globe or even their double-digit increase in profits represent some of the most self-evident points that support the multinational status of emerging Russian companies.

Although Russian giants represents a quite heterogeneous class of companies, they do share several common features such as *their propel mechanism of expansion on the global business stage* (leveraged by the resource-based nature of their home economy), *their tendency to invest in the neighboring countries* (like Commonwealth of Independent States or East European countries), *their modes of entry* or *their managerial style* (which appears to be strongly connected with the Russian culture and the soviet institutional environment) etc. On the other hand, we must stress that Russia has developed a unique and unfamiliar paradigm of economic growth in the twentieth century because of its particular path of evolution from a planned economy system towards a market oriented one. That's why we consider that the settling of some managerial characteristics of the emerging Russian multinationals, together with their causal factors would represent, in the years to come, an interesting avenue of research for anybody interested in the international business field.

## 6. ACKNOWLEDGEMENT

The paper represents an output of the research activity carried out by authors during the international project: COST 281/ 2009 Brussels, Action IS0905 - *The Emergence of Southern Multinationals and their Impact on Europe*.

## REFERENCES:

- [1]. **Andreff, A.** (2013) *Maturing Strategies of Russian Multinational Companies: Comparison with Chinese Multinationals* in David Dyker, ed., *Foreign Investment, The World Scientific Reference on Globalisation in Eurasia and the Pacific Rim*, Imperial College Press/World Scientific, London
- [2]. **Ardichvili, A.; Jondle, D.; Kowske, B.; Cornachione, E.; Li, J.; Thakadipuram, T.** (2012) *Ethical Cultures in Large Business Organizations in Brazil, Russia, India and China*, *Journal of Business Ethics*, vol. 105, pp. 415-428
- [3]. **Bulatov, A.** (2001) *Russian Direct Investment Abroad: History, Motives, Finance, Control and Planning*, *Economics of Planning*, vol. 34(3), pp. 179-194
- [4]. **Crane, K.; Peterson, D.J.; Oliker, O.** (2005) *Russian Investment in the Commonwealth of Independent States*, *Eurasian Geography and Economics*, vol. 46(6), pp. 405-444
- [5]. **Crane, A.; McWilliams, A.; Matten, D.; Moon, J.; Siegel, D.S.** (2008) *The Oxford Handbook of Corporate Social Responsibility*, Oxford University Press, Oxford
- [6]. **Dura, C.; Drigă, I.** (2012) *Emerging Multinational Companies from Russia and Their Impact on Host European Countries*. Working Paper presented at Conference EPI 2012, June 18-19, University of Parma, Italy
- [7]. **Filatotchev, I.; Buck, T.; Wright, M.** (2007a) *Soviet All-union Enterprises as New Multinationals of the CIS*, *The International Executive*, vol. 35(6), pp. 525-538
- [8]. **Filatotchev, I.; Strange, R.; Piesse, J.; Lien, Y.Ch.** (2007b) *FDI by Firms from Newly Industrialised Economies in Emerging markets: Corporate Governance, Entry Mode and Location*, *Journal of International Business Studies*, vol. 38(4), pp. 556-573
- [9]. **Filippov, S.** (2012) *Emerging Russian Multinational Companies: Managerial and Corporate Challenges*, *European Journal of International Management*, vol. 6 (3), pp. 323-341
- [10]. **Filippov, S.** (2011) *Russia's Emerging Multinational Companies amidst the Global Economic Crisis*, Maastricht Economic and Social Research and Training Centre on Innovation and Technology, UNU-MERIT Working Papers Series, 2011-003
- [11]. **Filippov, S.; Settles, A.** (2011) *Innovation Strategies of Emerging Russian Multinational Companies*, Paper prepared for the international conference "Re-Assessing Emerging Market Multinationals' Evolving Competitive Advantage", Cambridge, UK, 25-27 March
- [12]. **Filippov, S.** (2010) *Russian MNCs Companies: the Rise of New Multinationals*, *International Journal of Emerging Markets*, Vol. 5, No. 3/4, pp. 307-332
- [13]. **Kalotay, K.; Sulstarova, A.** (2010) *Modelling Russian Outward FDI*, *Journal of International Management*, vol. 16, pp. 131-142
- [14]. **Kalotay, K.** (2010) *The future of Russian outward foreign direct investment and the eclectic paradigm: What changes after the crisis of 2008–2009?*, *Competitio* (University of Debrecen), vol. 9(1), pp. 31-54
- [15]. **Kalotay, K.** (2008) *Russian Transnationals and International Investment Paradigms*, *Research in International Business and Finance*, vol. 22, pp.85-107
- [16]. **Kalotay, K.** (2007) *The rise of Russian Transnational Corporations*, *The Journal of World Investment & Trade*, vol. 8(1), pp. 125-148

- [17]. **Kalotay, K.** (2005) *Outward Foreign Direct Investment from Russia in a Global Context*, Journal of East-West Business, vol. 11 (3/4), pp. 9-22
- [18]. **Kalotay, K.** (2004) *Will foreign direct investment take off in the Russian Federation?*, Journal of World Investment & Trade, vol. 5(1), pp. 119-138
- [19]. **Kuznetsov, A.** (2013) *Global Expansion of Russian Multinationals after the Crisis: Results of 2011*, Vale Columbia Center on Sustainable International Investment & Institute of World Economy and International Relations of Russian Academy of Sciences
- [20]. **Kuznetsov, A.** (2011a) *Investment from Russia stabilizes after the Global Crisis*, Vale Columbia Center on Sustainable International Investment & Institute of World Economy and International Relations of Russian Academy of Sciences, June 23
- [21]. **Kuznetsov, A.** (2011b) *Outward FDI from Russia and its policy context, update 2011*, Vale Columbia Center on Sustainable International Investment & Institute of World Economy and International Relations of Russian Academy of Sciences, August 2
- [22]. **Kuznetsov, A.** (2010a) *Industrial and Geographical Diversification of Russian Foreign Direct Investments*, Electronic Publications of Pan-European Institute, No. 7, Turku School of Economics
- [23]. **Kuznetsov, A.** (2010b) *Urgent Tasks for Research on Russian TNCs*, Transnational Corporations, UNCTAD, Vol. 19(3)
- [24]. **Panibratov, A.** (2012), *Russian multinationals. From Regional Supremacy to Global Lead*, Routledge, Taylor & Francis Group
- [25]. **Panibratov, A.** (2010), *Russian multinationals: Entry Strategies and Post-entry Operations*, Electronic Publications of Pan-European Institute, No. 15, Turku School of Economics
- [26]. **Sauvant, K.; Mallampally, P.; Mc Allister, G.** (2013), *Inward and Outward FDI Country Profiles*, Vale Columbia Center on Sustainable International Investment
- [27]. **UNCTAD** (2013a) *World Investment Report, Country Fact Sheet: Russian Federation*
- [28]. **UNCTAD** (2013b) *World Investment Report*
- [29]. **Deloitte CIS** (2008) *Russian Multinationals: New Players in the Global Economy*, Moscow
- [30]. **Skolkovo Research** (2008) *Emerging Russian Multinationals: Achievements and Challenges*, November
- [31]. [https://www.bcgperspectives.com/content/articles/globalization\\_growth\\_introducing\\_the\\_2013\\_bcg\\_global\\_challengers/](https://www.bcgperspectives.com/content/articles/globalization_growth_introducing_the_2013_bcg_global_challengers/), [Accessed 16 December 2013]
- [32]. <http://rt.com/business/rosneft-finalize-tnk-bp-deal-largest-oil-producer-583/>, [Accessed 16 December 2013]
- [33]. <http://www.mining-journal.com/finance/norilsk-selling-stillwater>, [Accessed 16 December 2013]
- [34]. <http://www.bloomberg.com/news/2013-03-21/rosneft-completes-55-billion-acquisition-of-oil-producer-tnk-bp.html>, [Accessed 16 December 2013]

Annex 1. Russia: The top multinationals: Key variables, 2011  
**(USD million, thousands of employees and %) (Ranked by foreign assets)**

Rank	Name	One or two main industries	Asset		Sales		Employment		TNI <sup>a</sup>
			Foreign	Total	Foreign	Total	Foreign	Total	
1	LUKOIL	Oil & gas extraction / refineries	29,159	91,192	108,976	133,650	26	120	45
2	Gazprom	Oil & gas extraction / gas distribution	21,767	338,531	95,317	144,009	26	404	26
3	Evraz	Iron & steel / mining of metal ores and coals	8,210	16,975	9,768	16,400	86	112	62
4	Mechel	Iron & steel / mining of metal ores and coals	6,365	19,306	6,819	12,546	12	97	33
5	Sovecomflot	Sea transport	5,838	6,739	1,247	1,439	3	5	79
6	Sistema	Conglomerate	5,207	43,902	2,512	32,452	16	143	10
7	Severstal	Iron & steel / mining of metal ores and coals	5,194	15,230	8,336	15,812	3	70	30
8	UC RUSAL	Non-ferrous metals / mining of metal ores	4,611	25,345	9,706	12,291	7	72	36
9	NLMK	Iron & steel / mining of metal ores	4,226	17,257	7,266	11,729	9	60	34
10	Atomredmetzoloto	Mining of uranium ores	3,731	6,982	407	1,382	2	13	33
11	TNK-BT	Oil & gas extraction / refineries	2,940	37,072	43,828	60,199	6	50	31
12	TMK	Metal tubes	2,394	7,132	2,683	6,754	5	46	28
13	MMK	Iron & steel / mining of metal ores and coals	2,101	16,295	1,950	9,306	2	59	12
14	Norilsk Nickel	Non-ferrous metals / mining of metal ores	1,968	18,917	11,997	14,122	2	81	33
15	Zarubezhneft	Oil extraction / refineries	1,834	3,464	573	1,078	10	13	62
16	NordGold	Mining of gold ores	1,695	2,648	639	1,182	4	10	53
17	INTER RAO UES	Electricity production and supply	1,433	16,519	2,029	16,654	4	47	10
18	Rosneft	Oil & gas extraction / refineries	1,045	104,876	66,988	83,913	3	168	28
19	FESCO	Sea and railway transportation	747	2,333	50	1,029	1	2	29
20	Acron	Agrochemicals	721	3,643	1,713	2,032	3	14	42
	Total (average for TNI)		111,186	794,358	382,804	577,979	229	1587	36

Source: IMEMO-VCC survey of Russian multinationals, 2013

<sup>a</sup> The Transnationality Index ( TNI ) is calculated as the average of the following three ratios: foreign assets to total assets, foreign sales (including exports) to total employment. TNI is expressed as a percentage.

## **PROVIDING AFFORDABLE HIGHER EDUCATION TO RURAL GIRLS IN INDIAN PUNJAB: A CASE STUDY OF BABA AYA SINGH RIARKI COLLEGE**

**RANJIT SINGH GHUMAN, INDERVIR SINGH \***

**ABSTRACT:** *The paper highlights a case study of a rural girls college located in a remote village of Gurdaspur district in Indian Punjab. The idea of this unique college was conceptualised by one Baba Aya Singh, a social and religious activist, from a village near the college way back in 1925. It was really a revolutionary idea because female education in India, particularly higher education, was a distant dream at that time. The college was, however, started with only 14 rural girls after about half-a-century when the great visionary Baba Aya Singh had a dream to educate the rural girls. Access to and affordability of higher education is the uniqueness of this college. The student has to pay only Rs. 5800 (about US \$ 65) per annum, which includes both the tuition fee and boarding and lodging. It is equally significant to note that the entire expenses of the college are met by this and the produce of agricultural land of the college. The college does not take any outside help. The meritorious senior class students teach the junior class students. The college in its own humble, but significant, way made a revolutionary contribution to the education of poor rural girls who, otherwise, would not have dreamt of college education. Apart from, class-room teaching and bookish knowledge, the students are taught social, ethical and management skills in a most natural manner. The product of the college has proved to be the agents of change and rural transformation.*

**KEY WORDS:** *Affordable higher education, rural female education, rural transformation, management by students, each one teaches one.*

**JEL CLASSIFICATION:** *I23; O15.*

---

\* *Dr., Nehru SAIL Chair Professor, Centre for Research in Rural & Industrial Development, Chandigarh, India*

*Assistant Professor, Department of Economics and Public Policy, Central University of Himachal Pradesh, Dharamshala, India*

## 1. INTRODUCTION

The skill and knowledge of humans have the capacity to produce increasing returns contrary to the nature's production system which is subject to diminishing returns (see, Marshall, 1920; Romer, 1990; Lucas, 1993). It is in this context that the real wealth of a nation is its people (UNDP, 1990). Tomorrow's world would demand highly qualified specialists and increasingly flexible generalists (World Bank, 2000). The much discussed growth and sustainable development cannot be imagined without good quality human resources.

The modern growth theories, too, have established that economic growth and development cannot attain an optimum and self-sustenance path without the development of human resources (Romer, 1990; Lucas, 1993; Benhabib and Spiegel, 1994; Barro and Sala-i-Martin, 1995; Barro, 2001; Krueger and Lindahl, 2001). All those countries, who had focused on human capital formation in the past, have achieved high growth trajectory in their national and per capita income (OECD/UNESCO, 2002).

The seminal work of Schultz (1961) and Becker (1964) have virtually revolutionized the main contours of development economics as well as led to the resurgence of economics of education as an important discipline of research in the knowledge economy. Many empirical studies have shown that a country would remain underdeveloped so long as her people are deprived of education (The World Bank, 2002; Tilak, 2004a and 2004b).

The development is eventually about expanding human potentialities and enlarging human freedom. It is about developing and enhancing the capabilities of the people. This, in turn, empowers the people to make choices and lead the lives they have reason to value (Sen, 2000).

As a matter of fact, human development is closely connected with the GDP growth rate, and vice-versa. However, if growth is not reflected in raising the level of educational attainment and health standards (which is the substrate of human development) then the very growth and development process needs a serious review. The low level of human development is a drag on the growth and development.

The human development, thus, goes beyond 'growth' and development. Human development is an umbrella which encompasses both economic growth and development. The growth and development could be sustainable only on the substrate of human development and vice-versa. The unsustainable growth would eat up everything, which nature has bestowed upon mankind on which future generations have the legitimate right.

Haq (1998) gave credit of development waves in Japan during 1940s and 1950s, in East Asian countries during 1960s and 1970s and in China during 1980s and 1990s to human development model of which education is in the core. Sen (2000) made a similar argument. The study considered that the economic growth in Japan and East Asia as a pioneering example of development through investment in social opportunities, especially in basic education.

One may have to understand the rationale of rural transformation in the context of the forgoing discussion. A sizeable proportion of the world population is going to

inhabit in the villages for a fairly long period. At present nearly 50 per cent of the world population is living in rural areas. It is estimated that by 2050, the proportion of rural population is going to be around 30 per cent (approximately 3 billion in absolute sense). About 40 per cent of the global rural population would be residing in India and China even in 2050. In the absence of matching infrastructure, a sizeable proportion of these migrants (from rural to urban) may have to live in slums or slum – like conditions. It is, thus, imperative to provide urban amenities in rural areas and transform the rural India and save the towns and cities from being turning into slums.

Majority of the rural people are marginalized and are at a disadvantage in comparison to their urban counterparts in terms of education, health and other amenities. Lack of information and a host of other constraints have pushed them to the margin and eventually out of the development process. Many of them have not experienced upward socio-economic mobility over the generations.

Half the people engaged in agriculture in the world are still illiterate and only 5 per cent have completed higher secondary education. In Indian Punjab, a prosperous state, 69 per cent of rural households, across the board and 90 per cent of the labour households do not have even one member with 10<sup>th</sup> level of school education (Ghuman, et. al, 2007). The presence of rural students in the universities of Punjab is 4.07 per cent (Ghuman, et. al, 2006). The proportion of rural students in professional higher education in Punjab is just 3.71 per cent (Ghuman, et. al, 2009).

The above scenario is a pointer towards the exclusion of rural students from higher education in Punjab. Such a situation would eventually sharpen the rural-urban divide. Educational deprivation results in missing opportunities in acquiring skills and knowledge. This, in turn, becomes a serious constraint to develop capability and expand choices.

Presently, majority of the rural people are suffering from multipronged poverty. Most of them are education-poor, skill-poor and resource-poor and hence, are not employable outside agriculture. They are also trapped into low-productivity and low-earnings. They are beleaguered in the vicious circle of poverty, which is a perpetual constraint on rural transformation.

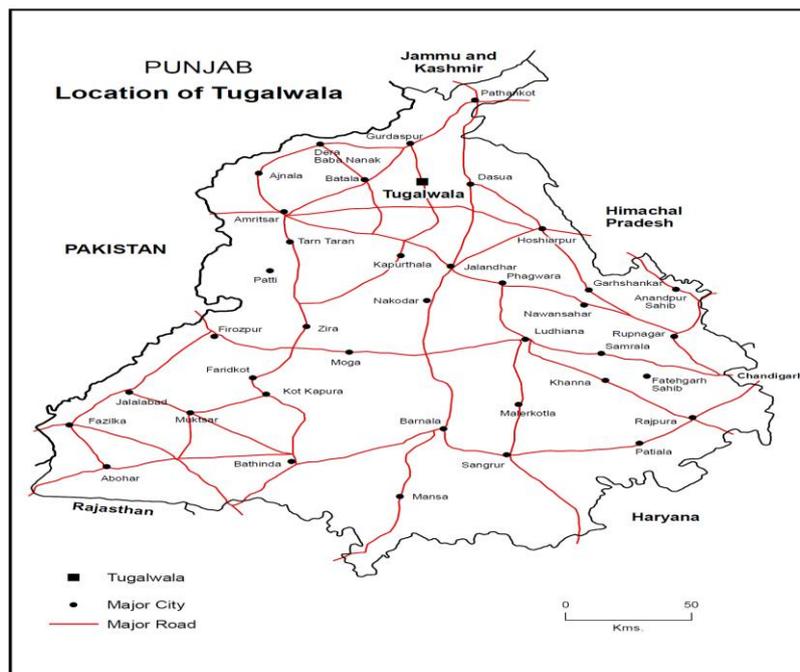
The rural transformation, sine qua non for rural development, cannot be imagined without education and skill. The female education, often neglected in rural areas, is rather more important for rural transformation. The rural people have limited access and affordability to costly education. Though, the government colleges have contributed in providing low cost education, their number is not enough to provide education to all the deserving students. Further, the boarding and food cost in the government colleges hostels is often comparable to any private institute (the point is discussed in details in the next section), which put severe financial burden on student especially on those from rural areas (as most of the government colleges/institutions are in urban areas). Ghuman, et. al, (2005) found that nearly 40 per cent rural households cannot afford the cost of graduation level education.

There is a need to provide them affordable (in terms of cost) education. Baba Aya Singh Riarki College is one such experiment. The college is located in a remote village of Gurdaspur district (see map) of Punjab, bordering international border with Pakistan. The college is catering to the higher education needs of rural girls who

otherwise might not have dreamt of attaining higher education. The uniqueness of this college, inter alia, lies in (i) access to reasonable level of quality education at an affordable cost; (ii) no donation or outside financial help; (iii) teaching by senior class students to junior class students; (iv) management by students, including hostel; and (v) absence of copying in examination.

The documentation and dissemination of such experiments is need of the hour. This paper is a moderate attempt to document and discuss one of the unique experiments of rural transformation through female education by Baba Aya Singh Riarki College. The study has used the data gathered from college records and answers of 75 random selected college students to the survey questionnaire.

The paper is organized into five sections. After introduction in section 1, the next section provides a brief introduction to history and organization of college. Section 3 discusses the details of management of academic and non-academic activities in the college. The academic performance of the college since its inception is examined in section 4. The study is concluded in last section.



## 2. HISTORY, ORGANIZATION AND PHILOSOPHY OF THE COLLEGE

Baba Aya Singh Riarki College is located in one of the interior villages of Gurdaspur District of Punjab province on the bank of distributary of Upper Doab Bari canal. It has beautiful surroundings developed by an individual led community effort. It serves the need of higher education of rural girls who otherwise might not have afforded to attend the colleges located at far away urban areas. Though Baba Aya Singh Riarki College, Tugalwala was started in 1976 yet its origin goes back to the

pre-independent India. One of the local Sikh leader and social activist, namely, Baba Aya Singh, took the mission to educate rural girls. With this mission in mind, he started a small school for girls known as “Putri Pathshala” under a banyan tree in Tugalwala in 1925, which runs as aided school till today. Baba Aya Singh had dream of starting a girls’ college which, however, could not become a reality in his lifetime. After Baba Aya Singh’s demise in 1968, Mr. Swaran Singh Virk with the support of other like-minded people, namely, Mr. Charan Singh and Mr. Sampuran Singh started Baba Aya Singh Riarki College in 1976 with just 14 girls to realize the dream of Baba Aya Singh.

The task of providing education to girl students at low cost was not an easy one. The founder of the institute realized that the college must sustain by itself if it has to survive in the long run, that is, it must cover its cost and make reasonable profits without depending on outside resources. The founding members of the college knew that no institute can survive for a long time if the sources of funding are uncertain. One of the options was to seek government aid, however it was not an easy task. The government support might have provided necessary funding, nonetheless, it would also have increased the cost. The government regulation requires the college to fulfill certain conditions and follow certain rules. Since, the government aid still requires college to cover a part of the cost, its effect on overall cost of imparting education may have been negative. Further, the cost of accommodation and food in hostel might still be high with government support. The fear was in fact true, if one compares fees of this college with other aided colleges (the comparison of fee structure is provided later). The private funding, on the other hand, is often uncertain and poses threat to independent working of the college.

Solving all these problems required a non-conventional approach and institutional setup within the present system, which lowers the operational cost without confronting the present system of education. Considering these aspects, the founders of the college worked out the plan to cut down the expenditure from two sides. The expenditure of any educational institute can be divided into two categories, academic expenditure and non-academic expenditure. The main academic expenditure includes salaries of the teaching and non-teaching staff and fees paid to university (including university affiliation charges), whereas non-academic expenditure comprises of salaries of administration and maintenance staff. The cost of employing cooks for the hostel mess may also be included in the non-academic expenditure. The physical infrastructure and its maintenance are other areas of non-academic cost.

To lower academic expenditure, the college exploited one of the programme of the university, which aims to expand its reach to people who wish to gain higher education but cannot enroll in a formal educational institute due to its high cost or other responsibilities including own work. The universities even in their earlier years of expansion have recognized that there are number of people, who may like to attain higher study, cannot enroll in a formal education institute. Their inability to attend a college is often associated with their timing of work and high college fees. Many children from poor and lower middle class families had to work hard to support their families. As a result, a number of children remain deprived of higher studies. To cover this gap, universities started offering admission in some of the degrees (where lack of

regular classes do not seriously affect a normal student's understanding of the subject and self study is possible with a little guidance) as correspondence courses (often referred as non-formal education), where a student just has to attend lectures only for a few days in the whole academic session, which are organized by the university.

In addition, universities also offer some of the courses which do not even need to attend the lectures and a student can directly appear in the examination as a private student after paying required examination fee. The above programmes of the universities have benefited large number of students over the time, however the major drawback of these programmes is that students often cannot grasp the subject properly and many of minute details are not fully understood without the help of an expert.

Baba Aya Singh Riarki College made unique innovation to cut down the academic expenditure significantly. The college instead of getting affiliation from the university started the degree classes where the students appear in the examination as private student. Nonetheless, they are better off than the other private student as they receive regular guidance from the teachers. In this way, the college used the existing programme in its advantage and covered the gap between formal and non-formal education.

The above arrangement made the college free from all the obligation and rules to be followed by all affiliated colleges, thus, put it in an advantageous position to devise some more cost cutting strategies. Using this advantage, the college further cut the expenditure on academic activities by involving the students in teaching activities. The college system included the students in teaching activities, where bright and motivated students help others in study. Including students in teaching activities lowered the teaching load of employed teachers, and the college could successfully teach the subjects with just one faculty per subject.

The non-formal arrangement for academic activities also facilitated the use of similar cost cutting approaches for non-academic expenditure. The founding members of the college realized that the annual fees of a student should cover both academic and non-academic activities, nonetheless they have option to pay either in money or in the form of work. In other words, the college can save money if the students perform non-academic duties, which will ultimately be deducted from the fees of the students. For example, if the students perform all non-academic activities themselves, their fees will require covering only academic expenditure. Using this philosophy, the college organizes its activities in a way that most of the non-academic work is performed by students. Though, it is not possible to completely cover the cost of non-academic work, it considerably lowers the cost to make the education much more affordable. A similar method is adopted for hostel mess, where students themselves cook as well as cultivate (with the help of hired labour) vegetables on college land. The college also rear cows and buffaloes for milk with help of hired labour under the supervision of a student committee.

The self management and self sufficiency of the college for most of its needs made the adopted model an example of low cost education. The success of this model is clear from the fact that it charges just an annual tuition fee of Rs. 800 (about US \$ 15) and Rs. 5,500 (US \$ 100) for hostel room and food charges for the whole academic year from each student. The above cost is much less than the fee of similar courses in

other formal government and aided educational institutes. Ghuman et al. (2005) found that annual fee for general education in a government college was about Rs. 2,700 (US \$ 50), whereas the same fee exceeded Rs. 8,200 (US \$ 150) in aided colleges during 2003-04. During 2012-13, the annual fee (without examination fee of the university) in a government college for BA course is about Rs. 2,900 (US \$ 55), whereas the aided colleges charge more than Rs. 10,000 (US \$ 200) annual fee for the same course. The difference in the hostel expenses is even more, where the minimum annual hostel expenditure in any institute exceeds Rs. 20,000 (US \$ 400) (with the annual rent for a hostel room often crossing Rs. 5,000). The information about other types of institutes is collected from the students of some of the colleges in Mansa and Bathinda districts. Since, the fee is not same in all colleges and hostel expenditure also differs from one student to other, the study has used the lowest figure for comparison.

Though, the above estimates are not based on a proper survey, findings of Ghuman et al. (2005) and the sizeable difference in the cost of government and aided institutes from the studied college reveal that the cost of studying at Baba Aya Singh Riarki College is considerably less. Here, we should caution readers not to consider the higher cost in other institutes as wastage or not serving any purpose. The high cost in other institutes may also be justifiable given the large number of courses available, better infrastructure, more time for students for studies and larger number of qualified teachers. However, the higher cost does put the college education out of the reach of poor student, especially in the rural area. Thus, the aim of the comparison is to show that Baba Aya Singh Riarki College presents a model which bridges the gap between self-study and college education by adopting a non-conventional method. Further, the college is aiming to educate the rural girls in rural areas, which remained a matter of concern despite many government initiatives.

The institute is also running higher secondary schools in the campus to provide basic education to girls in rural area. The schools are also run at low cost, however, the management of school is different from that of college. Required number of teachers are recruited for the school (unlike college where only 7 teachers are employed), and the school students are not involved in management of the school or hostel. Therefore, the present study mainly focuses only on the management of the college, which is unique in its own way and has helped in providing low cost education in the campus. Nonetheless, the academic performance school is also analyzed with that of college in the succeeding sections to examine the contribution of the whole institute.

## **2.1. Philosophy of the College**

The founder and Principal of the college, Mr. Swarn Singh Virk, was inspired from the philosophy from Mahatma Gandhi, Tolstoy and Plato. To produce thinking human beings and lead meaningful lives is the spirit behind this college. The principal shared with us that they teach the girls what is right and what is wrong. It is only through such a medium that one can bring progress.

The college is a rich blend of tradition and modernity. The day starts at 8:00 am with the Morning Prayer and kirtan session. Thereafter begins the class room teaching. The students are dressed up in white *salwar - kameez* - the traditional dress of

Punjab - with heads covered. Besides the prescribed syllabus by the university, the students are also imparted instructions in moral, spiritual, ethical and environmental education. Besides teaching them about Sikh religion (as the area is Sikh dominated and the majority of the students are from Sikh families) they are also taught about other religions. Major festivals of all the religions are celebrated in the school. The college, thus, teaches respect for all the religions.

Considering the unique contribution of the college towards education of the rural girls, along with high level of ethics, morality and integrity, the university has established its examination centre on the college premises. Establishing examination centre at a non-affiliated college (in other words, academy) is, perhaps, a rarest of the rare examples. Certainly, it goes to the credit of this college as well as the university.

Even in the absence of invigilators the students do not indulge in unfair means in examination. The college has announced a cash prize of Rs. 21000 (US \$ 400) for anyone who could find copying and cheating in the examination. So far no one has taken the bait. In fact the college has launched a crusade against four 'Ns' – *nakal* (copying in the examination); *nasha* (drugs and intoxication); *nangez* (obscenity); and *nikhamanpan* (idleness) and yes to four 'Hs' – hand, head, heart and health. The much needed moral and ethical value are learnt by the students of this college in a natural course.

The philosophical foundation of the college not only helps building right attitude in students towards life and society, but also facilitates efficient management of the college by ensuring supportive and caring atmosphere in the college. Given the above introduction to the college and its system, the following section will deal with the organization of the academic and non-academic activities in detail.

### 3. MANAGEMENT OF ACADEMIC AND NON-ACADEMIC ACTIVITIES

It is not easy to distinguish between academic and non-academic activities of the college, as the college considers all activities as part of personality development. Moreover, both types of activities are managed in similar way. However, we shall use the words academic and non-academic activities for teaching and non-teaching activities, respectively. The management of academic and non-academic activities is done with the help of a student management committee.

The college and schools are managed by 16 members of the student management committee. The committee has one general secretary and four executive members. Under the student management committee, there are other committees which look after and manage various activities, such as, teaching, cooking, cleaning, electricity and discipline. The main committees of the college are *Langar* (food) committee, Hostel Committee, *Sanjam* (Frugality) Committee, Teaching Committee, Sports Committee, Discipline Committee and *Dharmik* (religious) Committee.

The students are made members of the committees by rotation, so that each one gets the chance to participate and learn. The rotation system also ensures that a few students do not have high work load than others. The involvement of students in various committees and in different routine activities helps in lot of savings as well as inculcates a sense of participation and achievement among them. On an average, each

student is expected to devote about one hour each day to any of the duties in the college, assigned by the respective committee members.

Since, the present study is looking at the working of the college based on academic and non-academic work, the following sub-section will discuss the management based on that division.

### **3.1. Management of Academic Activities**

All the academic activities are managed by teaching committee. The committee prepares the timetable for the classes and oversees the teaching work. Though the college has employed seven teachers, yet, they are not adequate to meet the entire stipulated teaching load. To meet the gap and make up the deficiency the senior class students are deputed to teach the junior class students, the college works with the adage "*Each One Teach One*".

The teaching by students are not organized in the form of conventional class room teaching, rather it is a multi-layer arrangement of teaching activities. At first layer, the teacher, who is expert on the subject, gives lecture to all students in the class. At second layer, a few students (based on subject-wise academic performance) are assigned a group of a few students (about 20 students) to teach. Then the best few students are chosen from that group, and each of them is assigned about four to six students to guide. At fourth layer, the students are put in groups of two, where one with better hold on the subject takes the responsibility to teach. The performance of the teachers as well as students is evaluated at each layer to ensure the effectiveness of the system. The evaluation is often based on inter group competitions and other academic activities like debate, essay writing and lecture, etc., which are organized on regular basis.

The teaching duties are assigned to the students by the teaching committee. It was found during interaction with the students and the Principal of the college that all senior students wish to undertake teaching duty but out of them only the more motivated and meritorious ones were given the teaching duties. It is important to mention that the teaching by students is only on voluntary basis. In other words, the students are neither compelled to undertake teaching nor are they paid any honorarium for this purpose. This helps the college to save a lot of money under teaching head. Besides, the teaching work benefits students by increasing their hold on the subject and boosting their confidence.

Table 1, presents the picture of teaching duties by the students. Out of the sampled students, approximately 47 percent students were engaged in teaching the various subjects to the junior class students. It is because each student is expected to teach one student at fourth layer. According to social caste, 82 percent SC students undertook the teaching duty. The corresponding proportion among the general category students was 42 percent whereas only 33 percent OBC students were undertaking the teaching work. The high percentage of student-teachers among SC students is a little surprising. One of the reasons could be that it may be better performing SC students who are coming for higher study. Also, SC group has the highest number of students with postgraduate parents, which may have resulted in better performance of the

students. However, the present study does not provide a proper answer for the higher percentage of student-teachers among SC students, and the phenomena required a detailed separate study for better understanding of the issue.

**Table 1. Distribution of Sampled students according to Caste and Teaching Duties (in Percentage)**

Caste Category	If Teaching Duty is Performed		
	Yes	No	Total
General	41.8	58.2	100
OBC	33.3	66.7	100
SC	81.8	18.2	100
Total	46.7	53.3	100

Source: Primary Survey

### 3.2. Management of Non-Academic Activities

Though, the college has a principal and teachers for smooth functioning of college, the involvement of students can be seen in practically all types of administrative and other non-academic work. The students handle publication of college prospectus, admissions and examinations. The college security, waste management, cleaning, cooking, supervision of cultivation and management of college resources is the responsibility of students. All these duties are performed by the students under various committees and sub-committees of the students instituted for those particular tasks. The involvement of students in administrative activities reduces the financial burden of the college substantially, at the same time providing students a valuable experience in management.

One of the most important parts of non-academic work, which lowers the cost of food for the hostel students, is management of mess. In addition to management of non-academic work of the college, the low cost of food in hostel played an important role in overall provision of low cost education and the sustainability of this model. The arrangement of administrative work in the college is simple and easy to understand where the college, instead of hiring people to do a particular job, assigns duties to students (under a committee) to perform the task. However, the management of mess and providing healthy food at low cost involved management and co-ordination of various activities, which make the system a little complex. Therefore, the management of food under *langar* committee will be discussed in detail.

The cutting of cost of providing food to students required the steps to be taken at two levels. First, the expenditure on procurement of food items needs to be cut down. Second, the cost of preparing food required to be managed. The cooking by students under *langar* committee takes care of the latter part, where students perform cooking and cleaning duties on rotation basis. Each month a committee of 12 students takes the responsibility of cooking and catering.

The management of expenditure on food items necessitates that the college take part in production of agricultural products, which in fact was possible given that a large piece of college land was available for agriculture. Out of the 15 acres of land,

owned by the institute, 9 acres are being used for agricultural purposes, where grains (mainly wheat and paddy), pulses and seasonal vegetables are grown. The grains produced on this farm meet almost 90 per cent demand of the hostel residents. The college also has 15 cattle heads, biogas plants and solar energy panels, which meet the hostel students' requirement for milk, gas and electricity, to a large extent. However, the agricultural activities are not entirely carried out by the students like other activities, as that would have put lot of burden on them and may have encroached upon their time for studies. Therefore, majority of these activities are performed with the help of hired labour, where involvement of students under different committees is relatively limited. Nonetheless, some of the activities, such as, growing vegetables in small gardens and milking cattle, are mainly done by students. The daily diet of a student consists of pulses, flour, rice, vegetables, tea and milk. The quality and quantity of agricultural products provided to the students is quite good. The food served in the hostel mess is largely organic in nature. This is a rare example of providing nutritious food to the students, especially to the girls, at a remarkably low cost. The quality of food is far better than the food provided under the mid-day meal programme of the government.

The success of this arrangement can be observed from the fact that there are about 800 students staying in the hostel, who have to pay just Rs. 5500 per annum for accommodation as well as food. As discussed earlier, this cost is much lower than any other government, aided or private institute. Even if one goes by poverty line (Rs. 28 per capita per day in rural area, criterion laid down by the government of India's Planning Commission), the per capita per day hostel expenses come out to be a little more than half of the official poverty line, taking 300 working days of the hostel mess.

The self-management of the college not only ensures low cost education but also coincide with the philosophy of the college of imparting the lessons of hard work, dignity of labour, integrity, honesty, morality, nobility, and humanism among the students, thus making them responsible citizens. Some of the committees like *Sanjam* (Frugality) Committee is less of a cost saving device and mainly aims at making students responsible citizens. This Committee manages waste and scrap of the college and raises money to meet the expenses of the needy students by selling the scrap. It also minimizes the wastage of different resources and ensures their responsible use. Even the used water is recycled for irrigation.

To know the pattern of activities and hours devoted to those activities, the information on the work pattern of the interviewed students was collected. For the purpose of classification, the non-teaching work has been categorized under four main heads, viz; cleaning, mess duty, gardening and administration. Each student, under various committees, devotes nearly 3 hours and 20 minutes per week to the non-teaching activities (Table 2). During the week under survey, the administrative duties took 3 hours of each student selected by the administrative committee. It is a coincidence that during that week, the entire administrative work was done by OBC and SC students. Gardening took nearly 1 hour and 52 minutes, in a week under survey, of each student under that committee. The students from the general, OBC and SC category devoted about 2 hours, 2 hours 24 minutes and 50 minutes to gardening, respectively.

**Table 2. Average number of hours devoted to Non-teaching work during the preceding week of survey by each student in the respective committee**

Caste	Cleaning	Mess Duty	Gardening	Administrative or Other Work	Total
General	1.95	2.41	2.03	.	3.41
OBC	1.71	2.50	2.40	3.00	3.56
SC	1.95	1.00	0.87	3.00	2.77
Total	1.93	2.34	1.87	3.00	3.33

Source: Primary Survey

The students engaged in mess duty (cooking, catering and washing utensils) on an average devoted 2 hours and 20 minutes during the week. In this activity, the general category students devoted 2 hours and 24 minutes, while the OBC and SC students devoted 2 hours and 30 minutes, and one hour, respectively. The cleaning and washing work took around two hours of each student (under this committee) during the week under survey. On an average, all categories of students devoted almost the same amount of time for cleaning during that week.

The time given by students to assigned duties show that they need to spend a small portion of their time for non-teaching activities. It may have been possible due to the presence of a large number of students, which makes it possible to benefits from division of labor and also perform the task on the rotation basis.

#### **4. PERFORMANCE OF THE COLLEGE**

The performance of a college is often estimated from the achievements of its students, however, Baba Aya Singh College has a social mission and its performance cannot be merely judged from the achievements of its students. Therefore, the paper looks at the performance from two aspects, contribution of the college to education of girls in rural areas as well as academic achievements of the students. For the former aspect, the study examines the socio-economic background of the students, whereas academic results of the college are analyzed since 1977 (when first batch of graduation took university examination).

##### **4.1. Socio-Economic Background of Students**

The present section examines two important indicators of the socio-economic status, principal source of income and educational qualification of their parents. Both these indicators points towards the socio-economic status of the people who are benefiting from the institute.

##### **4.1.1. Principal Source of Household Income**

The most of surveyed college students belonged to general category. Out of 75 sampled students, 73 percent belong to general category (Table 3). Another 12 percent belong to the OBC category and nearly 15 percent come from the SC category. The

share of SCs in the total rural population of Punjab is around 33 percent (Govt. of Punjab, 2011). This means, the SC parents are either not aware about the importance of educating their daughters or not in position to afford even the meager cost of this low cost educational institute. There may be other reasons also. A similar trend is observed by Ghuman et al. (2006). The study finds that among the rural students in the universities of Punjab about 75 per cent belong to general category, nearly 15 per cent are SCs and about 10 per cent are OBCs. The percentage of SC female students was even lesser. Among the females, 85 percent were from general category whereas only 8 percent were from the SCs. The same trend can be found for females in professional degrees (see, Ghuman et. al, 2009). After comparing the percentage of students belonging to various caste groups in this college with other institutes, Baba Aya Singh Riarki College does not show any different trend. In other words, the lower percentage of SC students in the college is a part of more general trend rather than specific to this college.

**Table 3. Distribution of Sampled Students according to the Principal Source of Household Income (in Percentage)**

<b>Primary Source of Household Income</b>	<b>General</b>	<b>OBC</b>	<b>SC</b>	<b>Total</b>
Cultivator	83.6	55.6	18.2	70.7
Government Employee	7.3	11.1	27.3	10.7
Small time Businessman	3.6	11.1	9.1	5.3
Agriculture Labour	1.8	0.0	27.3	5.3
Private Firm Employee	3.6	0.0	0.0	2.7
Non- Farm Labour	0.0	0.0	18.2	2.7
Mason/ Carpenter	0.0	11.1	0.0	1.3
Mechanic	0.0	11.1	0.0	1.3
Total	100 (55)	100 (9)	100 (11)	100 (75)

*Note: The figures in parenthesis are actual number of students*

*Source: Primary Survey*

Information on 75 interviewed students reveals the principal source of income of their parents across the social castes (Table 3). The survey recorded the information on occupation of both father and mother. However, the present study uses the principal source of household income to have an idea about type of household. Therefore, the occupation of the parents is also discussed in the sense of principal source of household income. Also, most of the household did not have any important secondary source of income.

Nearly 71 per cent of the students come from the peasant (cultivators) households. Another significant group of families who are sending their daughters to this college are the government employees, who have about 11 percent share. The percentage share (in the total sampled students) families in small time business and the agricultural labour is 5.3 per cent, each. Again the share of wards of private employee's families and non-agricultural labourer is exactly the same, viz., 2.7 per cent, in the total sampled students. Another category of parents is that of skilled and

semi-skilled workers, comprising masons, carpenters and mechanics. They together constitute of 2.6 per cent of the total parents who send their daughters to this college.

The pattern of principal source of household income is not same for all social groups. A disaggregated analysis shows that among the general category sampled students 83.6 per cent belong to peasants/cultivator families. Nearly 7 per cent belong to parents who are in government service. The small time business families and employees in a private firm comprised 3.6 per cent each. The share of agricultural labour as main source of family income in the category of general parents is only 1.8 per cent. There are no students from the non-agricultural labourer and skilled workers among the general caste students. The high share of cultivator parents in sample of general category students is expected as the majority of general category people in rural area are engaged in agricultural activities.

The cultivation is also the primary source of income of a major component of OBC families (55.6 per cent), whereas the share of small time business families, skilled workers and government employees is around 11 per cent each. Among the OBCs, there is no family with agricultural labour, non-farm labourer and employees in the private firms as the principal source of income.

About 18 per cent SC students are also from the cultivator households. However, majority of them are from households that drive their income from agricultural labour (about 27 percent) and non-agricultural labour (about 18 percent). In this category of students, nearly 27 percent come from parents in the government service. There are no students from parents in the category of skilled workers and in the private service.

Table 3, thus, comes up with significant revelations that in the category of general caste parents and OBC families, the majority belong to the cultivators. However, in the case of SCs, agricultural labour and government employees, together account for nearly 55 per cent of the parents who have sent their daughters to this college. Cultivators and non-farm labour (mainly unskilled labour) constitute nearly 36 per cent of the SC parents. A recent study (Ghuman, et. al, 2006) of rural students in higher education reveals that 44 per cent of the rural students came from agricultural households while no student came from the labourer household.

Though the students did not have exact information on the income of their families (and it was difficult to confirm it in short time span as most of them were staying in hostel). The interview revealed that almost all the students belong to low income families. Most of them belong to families of marginal or small farmers (cultivation is also the main source of family income for the majority). The labour in agricultural and non-agricultural sector is another major source of their income. Some of the families have government jobs, however most of them are of lower grade and their income is limited. In some cases, parents with relatively high income also send their daughters to this college. Though it is not a general phenomenon, it indicates the trust that parents in the rural area puts in the college.

#### **4.1.2. Educational Qualifications of the Parents**

The data on educational qualification of parents includes information of both mother and father. Table 4 provides information on educational qualifications of parents of the college students. The data shows that 78 per cent of the total parents have passed matriculation or +2 (i.e. 12 years of schooling) examination. Another 18 per cent parents are just literate and 2 per cent are illiterate. The percentages of graduate and post-graduate parents are less than one percent parents and 1.3 percent of the total parents, respectively. No parents have professional education. In the case of rural students in the universities of Punjab, nearly 38 per cent fathers are studied up to matriculation examination (Ghuman et. al, 2006).

**Table- 4. Caste-wise Educational Qualifications of Parents of the sampled Students (in Percentage)**

Caste	Relation	Illiterate	Literate or Primary	Matriculation or +2	Graduation	Post Graduation	Professional Degree	Total
General	Father	1.8	7.3	90.9	0	0	0	100
	Mother	1.8	23.6	74.5	0	0	0	100
	Total	1.8	15.5	82.7	0	0	0	100
OBC	Father	0	11.1	77.8	11.1	0	0	100
	Mother	0	44.4	55.6	0	0	0	100
	Total	0	27.8	66.7	5.6	0	0	100
SC	Father	9.1	0	81.8	0	9.1	0	100
	Mother	0	45.5	45.5	0	9.1	0	100
	Total	4.5	22.7	63.6	0	9.1	0	100
Grand Total		2	18	78	0.7	1.3	0	100

Source: Primary Survey

Among the illiterates, 1.8 per cent parents belong to general category and 4.5 per cent to SCs. Interestingly, among the OBCs, there are no illiterate parents. In the category of just literate or having primary school, 15.5 percent parents are from general castes, nearly 28 percent belong to OBCs and 23 percent come from SCs.

About 83 percent of the general caste parents have passed matriculation or +2 degree. The corresponding proportion among the OBCs and SCs is 67 percent and 64 percent, respectively. Clearly, a significant majority of the parents are educated, thus, aware of the importance of education.

Surprisingly, none of the parents of the general category students has graduate or post-graduate degree. Whereas, 5.6 percent of OBC category parents are graduate and 9.1 percent of SC category parents have post-graduate degree. It may be because less educated SC and OBC are not aware of importance of educating girl child or they cannot afford even the small fee charged by the college.

The data also shows that both the parents (mother and father) are educated across social categories. In the case of general category, 75 percent mothers have education up to matriculation or +2 level. This percentage is 56 percent and 46 percent among OBC and SC mothers. Though the proportion of mothers having education up to matriculation or +2 level is less than the proportion of fathers with similar education level, the difference is the highest in the case of SC parents. Nonetheless, SC is the only category where 9.1 percent of the mothers are post-graduate.

The significant feature emerging out of this analysis is that only a small percentage of parents have received college education. The percentage is even less for the mothers, where barring SC category no mother has received college education. Thus, the girls in this college are most likely to be the first to receive college education in their families.

## **4.2. Academic Performance of the College**

The analysis of the academic performance of a college is the most important indicator of success of any college. As the studied college aims at educating the rural girls, its performance on this front in fact is very crucial in evaluation of the model adopted by the college. The present study evaluates the academic performance from two sides. First, the study examines the trends in number of students, who passed the college over the years (or one can say number of students benefited from the presence of the college). It indicates the importance of college in providing higher education in the region. Second, the academic performance of students has been analyzed to know the standing of the studied college in comparison to other colleges. Though, it has been already mentioned that the study does not intend to compare the performance of studied college with other colleges and is not arguing for superiority of present model over the other, nonetheless, the discussion on its academic performance is required to evaluate its real contribution in imparting quality education.

### **4.2.1. The Performance in terms of Number of Students**

Table 5 reveals class wise number of students for the last 35 years, i.e. since the inception of the college in 1977. It may be useful to mention that up to the year 1987, the starting class in the college used to be called pre-university (11<sup>th</sup>) class and with effect from 1988, the school system was changed to 10+2 system, i.e., after matriculation (10<sup>th</sup> grade), two years were devoted to the study before entering into college (this switch is mentioned as a note to the table 5). After 12 years of schooling, the students were admitted in the first year of graduation (referred as BA 1<sup>st</sup> year in nomenclature of arts faculty). The +2 classes (11<sup>th</sup> and 12<sup>th</sup> class) are a part of school system these days, however, the studied college, being unaided and unaffiliated, continues to run these classes in the college itself.

The college had started with only 14 girls in pre-university class in 1977. During the two subsequent years the number of students in the pre-university class was 13 and 15, respectively. However, it started rising since 1979 and increased to 29 in 1980. Thereafter, it remained below 50, for the two subsequent years. During 1984 and 1985 the number increased to 82 and 73. In 1986, the number of students jumped to 148 which decreased to 115 in the subsequent year.

In all, 632 girls were admitted in pre-university class during 1977-1987. Though the number was not very high yet persuading the rural parents to send their daughters to the college was not an easy task during that period. It should be noted that the decade of 1980's was a turbulent period because of the militancy in the state of Punjab. Thus, the performance of the college needs to be commended given that a good

number of rural parents came forward to send their daughters for higher education in this rural 'academy'.

**Table 5. Class and year-wise number of students in the college: 1977-2011**

Year	Class				Total
	Pre-uni (11 <sup>th</sup> Class)/ 10+2*	BA I	BA II	BA III	
1977	14	-	-	-	14
1978	13	12	-	-	25
1979	15	11	12	-	38
1980	29	24	08	10	71
1981	54	29	21	08	112
1982	41	33	27	25	126
1983	48	37	25	24	134
1984	82	43	28	22	175
1985	73	77	35	28	213
1986	148	78	40	19	285
1987	115	80	42	30	267
<b>Sub-Total</b>	<b>632</b>	<b>424</b>	<b>238</b>	<b>166</b>	<b>1460</b>
1988	36	-	63	24	123
1989	47	18	28	-	93
1990	40	41	NA	NA	81
1991	25	22	29	NA	76
1992	47	19	16	18	100
1993	74	53	12	09	148
1994	104	81	34	14	233
1995	124	153	71	26	374
1996	172	138	117	56	483
1997	187	159	105	96	547
1998	207	156	134	90	587
1999	270	120	121	98	609
2000	202	254	101	101	658
2001	284	233	197	93	807
2002	281	281	171	181	914
2003	260	194	197	142	793
2004	250	225	138	173	786
2005	241	234	161	120	756
2006	206	164	118	134	622
2007	189	111	120	96	516
2008	161	83	82	100	426
2009	169	88	63	66	386
2010	132	116	61	54	363
2011	171	98	89	48	406
<b>Sub-Total</b>	<b>3879</b>	<b>3041</b>	<b>2228</b>	<b>1739</b>	<b>10887</b>
<b>Grand- Total</b>	<b>4511</b>	<b>3465</b>	<b>2466</b>	<b>1905</b>	<b>12347</b>

Note: \*Prior to 1988, the entry level school degree for college was pre-university, which is equivalent to present day 10+2 degree.

Source: Office Record of the College

The number of girls in the +2 classes kept oscillating between 25 and 47 during 1988 and 1992. It, however, started looking up since 1993. The number of

students in +2 classes remained between 74 and 270 between 1993 and 1999. This is the period when the state of Punjab started limping back to a normalcy after the end of insurgency in 1992, which also coincided with the installation of the elected government in the state.

During the first half of 2000s, the number of girls in +2 class was reasonably good. It, however, started shrinking during the subsequent years. The total number of girls admitted in +2 classes during 1988-2011, came out to be 3839, which numerically may not be very high, but by no stretch of imagination this was a small number given the level of awareness and attitude towards female education, particularly higher education, of the parents in rural area. The infrastructure of the college was another constraint. Nevertheless, 1905 rural girls became graduates over the period of 35 years, only and only because of this unique rural institution of higher learning. In the absence of this college perhaps a sizeable majority of those girls would not have got education beyond basic schooling.

However, not all those students who joined the pre-university class or +2 classes have taken admission in BA 1<sup>st</sup> year class. Out of total 4511 students who passed pre-university of +2 class since 1977, only 3465 students took admission in BA 1<sup>st</sup> year whereas just 1905 students passed BA final examination. If one ignores the recent passout students of +2 (i.e. after deducting last 3 years passouts) and BA 1<sup>st</sup> class (i.e. after deducting last 2 years passouts) as they still have not reached the final year, the number of students who passed +2 (4039 students) and BA 1<sup>st</sup> year (3251 students) is quite high compared to figure of 1905 for BA final year.

The main reason, in addition to failing of students, for this declining admission in next class is that some of those who passed the lower class examination did not take admission in BA 1<sup>st</sup> year or they dropped out the education before completing the degree, and some of them also shifted to other colleges or institutes. The shift to other institutes, which has led to lower enrolment in BA course, is especially high in the recent years. Among many reasons, the trend to join courses other than BA is also the reason for this trend. Though the latter is a good sign, the former reason is matter of concern and needs to be addressed.

The college recognizing the importance of other courses is also trying to enlarge its base while keeping its basic model intact. The college has recently started BCA (Bachelor of Computer Applications) course, and is planning to add some more courses, too. It is also establishing science labs to start science classes for +1 and +2. These new initiatives are also being taken under the dynamic and dedicated leadership of Principal Mr. Swaran Singh Virk. His son, Mr. Gagandeep Singh Virk, who is also a teacher in the college, is working hard to bring new courses in the college and making them self-sustainable at low cost. Surely, the cost of these new courses may be higher than BA courses, however, the college is determined to cut the cost and provide quality education at low cost.

In order to know about the long term trend of students in the college we have calculated the annual trend growth rate between 1980 and 1987 and between 1992 and 2011 (Table 6). The gap of four years is due to non-availability of comparable data for 1988-92. The students in the pre-university class registered very high trend growth rate (20.2 per cent) during 1980-87. Almost similar is the case for B.A. 1<sup>st</sup> and B.A. 2<sup>nd</sup>

classes. The trend growth rate of B.A. 3<sup>rd</sup> year, however, is lower (14.6 per cent) than the other classes. Nevertheless, it is still high. It indicates that the parents got encouraged to send their daughters for higher education. Secondly, the college seems to have earned a good reputation in the surrounding area.

**Table 6. Class – Wise Annual Trend Growth Rate of Students in the College (in Percentage)**

<b>Trend Growth Rate</b>	<b>1980-87<sup>@</sup></b>	<b>1992-2011</b>
Pre – University/ 10+2 <sup>@@</sup>	20.2***	3.6**
B.A. 1 <sup>st</sup> Year	19.1***	3.1
B.A. 2 <sup>nd</sup> Year	18.7***	5.8**
B.A. 3 <sup>rd</sup> Year	14.6**	7.9**
<b>Total</b>	<b>18.8***</b>	<b>4.3*</b>

Note: \*\*\* significant at 1 percent level; \*\* significant at 5 percent level; \*significant at 10 percent level  
 @The Continuous data for the years 1988 to 1991 was not available. @@Prior to 1988, the entry level school degree was pre-university, which was equivalent to present day 10+2 degree  
 Source: Computed from the data in table 5.

During 1992-2011, the trend growth rate in the +2 class was not very high but seems to be a reasonable one. The students registered an increase of 3.6 per cent per annum during this period. The trend growth rate of B.A. 1<sup>st</sup> year was 3.1 per cent per annum. The students in classes B.A. 2<sup>nd</sup> year and B.A. 3<sup>rd</sup> year, however, registered a relatively higher trend growth rate than the lower classes. It is, thus clear, that there has been a constant increase in the number of students in all the classes, during both the periods (tables 5 & 6).

During 1980-87, the period of militancy, the annual trend growth rate of students was much higher as compared to the latter period of 1992-2011. There may be three possible reasons for this trend. One, that during militancy period parents were not willing to send their young daughters to the far off colleges situated in urban area. They were apprehensive of the safety and security of their daughters while travelling in buses to the colleges. Two, after the militancy period the parents also started looking for new options and vocations for their daughter. Three, after 1991 many new institutions offering vocational courses came up in Punjab. The parents started sending their daughters to such institutions. Infrastructural constraints were also there to keep the number of students up to a manageable limit.

The total number of students during the entire period under study, in any given year, did register an increase except for a couple of years. It is because of this that the total number of students registered a growth rate of 18.8 per cent per annum during 1980-87 and 4.3 per cent per annum during 1992-2011. The absolute number of students and the positive trend growth rate support the fact that the college enjoyed a good reputation.

The above discussion shows that despite some important concerns, the college has performed fairly well as per as student’s number is concerned, which has increased over the years. Looking at academic achievements of its student, the college has again achieved a respectable place among other colleges.

The importance of the institute in the lives of benefited families of the area can be noticed from the fact that most of the students also have their siblings studying in the same college or associated schools. Table 7 shows that the average number of siblings, studying in this college, is highest among the general category students. It is 1.72 persons per family. In the case of OBCs families it is around 0.61 per cent while in the case of SC parents, it is 0.66 persons per family. (Table 7)

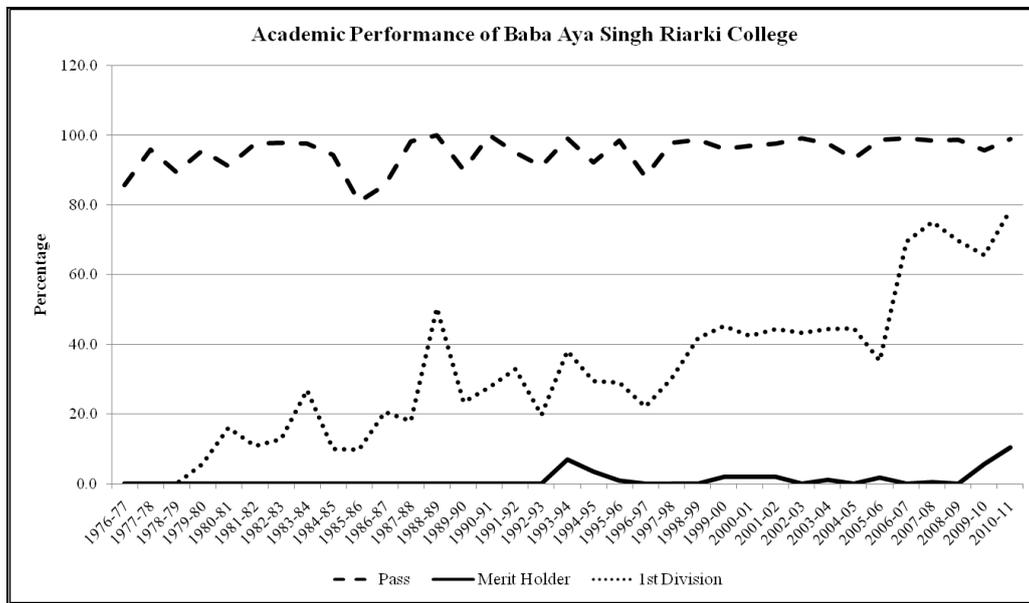
**Table 7. Average Number of siblings studying in the college**

Caste Category	Average Number of siblings
General	1.72
OBC	0.61
SC	0.66

Source: Primary Survey

#### 4.2.2. Performance in terms of Marks

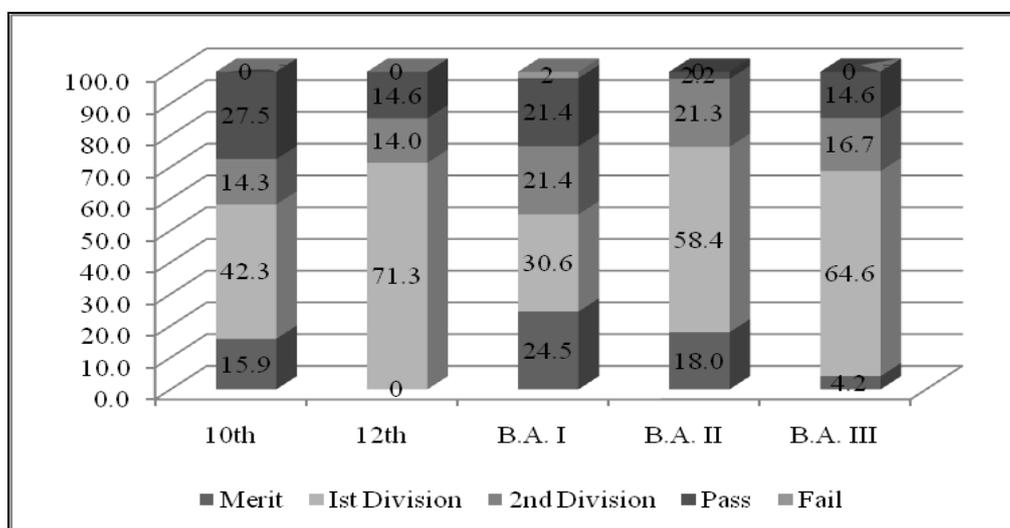
The longitudinal academic performance of students is given in figure 1. This covers the period of 35 years, ever since the beginning of this college. The figure highlights that the pass percentage varied between 80 to 100 per cent during the entire period. The graph of first division holders displayed an ever rising trend since 1978-79. Between 20 per cent and 40 per cent of the students got first division during 1987-88 and 2004-05. From 2005-06, the percentage of first division holders displayed the exponential growth. The proportion of university merit holder students, however, oscillated between 2 to 5 per cent of the total students.



Source: Office Record of the College

**Figure 1. Academic Record of Baba Aya Singh Riarki College (in percentage)**

Figure 2 highlights the academic performance of the students during the 2010-11. The results of matriculation, +2 and BA final year were 100 percent in 2010-11, whereas just about 2 percent students in BA 1<sup>st</sup> year and BA 2<sup>nd</sup> year failed in examination. There are also sizeable share of students who made to merit list of university or school board or passed the examination in first division. The percentage of students who made to merit list in matriculation, BA 1<sup>st</sup> year, BA 2<sup>nd</sup> year and BA 3<sup>rd</sup> year in 2010-11 were 15.9 percent, 24.5 percent, 18 percent and 4.2 percent, respectively. Further, the share of students, who at least passed the examination in first division including merit holders, were 58.2 percent, 71.3 percent, 55.1 percent, 76.4 percent and 68.8 percent, respectively. If one looks at the recent results (Figure 2) as well as increasing percentage of first division holders over the years (Figure 1), it can be concluded that the college has performed much better, given the availability of resources, and has been improving its performance every year.



Source: Office Record of the College

**Figure 2. Class-wise Distribution of Students according to Performance in Baba Aya Singh Riarki College (in Percentage)**

The analysis based on college records provided a picture of college’s achievement over the years. Nonetheless, the lack of caste-wise data in the records does not allow us to examine the caste-wise difference among students. Therefore, the present study has used the data of surveyed students to compare the three caste groups (the results of BA final year could not be compared, as students who have passed BA final year have already left the college and could not be contacted).

Table 8 shows that the general category students, on an average, did better than other groups in 10+2 class. On the other hand, percentage of OBC students was better in matriculation and relatively lower in BA 2<sup>nd</sup> year. The performance of SC group was a little lower in matriculation and +2 classes, however, there seems to be no significant difference for BA course.

Students of this college have also made achievements in other fields. A number of students of this college take the religious studies examination being conducted by the Shiromani Gurudwara Parbandhak Committee (SGPC) every year. About 70 per cent of Rs. 10 lakh SGPC scholarships are bagged by them. This amount helps in partial financing of their education.

**Table 8. Class – Wise Average Percentage of Marks obtained by Sampled Students**

Class	General	OBC	SC
Matriculation	61.2	71.0	58.1
12 <sup>th</sup>	87.1	73.1	71.2
B.A. I	63.9	62.6	62.6
B.A. II	63.3	56.3	62.1

*Source: Primary Survey*

During the last 36 years, about 2000 rural girls have graduated from this college. Many of them later went for Bachelor of Education and post-graduation, and are working in education and other sectors. Not only have they entered into employment but also making valuable contribution to their families, especially to their children. The product of this college has turned out to be a motivating force for other rural girls in the area.

The overall performance of the college on many aspects (for example, teaching large number of optional subjects, sports, cultural activities and even deep understanding of some of the subjects) may not be very high if compared with other affiliated colleges in Punjab. However, there is no level playing between the students of this college and other colleges. Most of the teachers in the other colleges are better qualified (as for UGC eligibility conditions are concerned), getting much higher salaries (as compared to the salary of the teachers in Riarki College). In Riarki College, it is the senior class students who teach their junior class students. Certainly there has to be a significant difference in quality of teaching. In addition, the students in Riarki College have to perform many additional duties whereas their counterparts in other colleges do not do such extra duties. Nonetheless, the college has performed remarkably well under these constraints. This is the reason that all vice-chancellors of Guru Nanak Dev Universities have described it as first-rate educational institute engaged in the cause of rural transformation. In addition, the college has received many awards from Punjab government and other reputed agencies for its unique contribution to the education of rural girls over the years, which in itself speaks of success of the institute.

It is often said that educating a girl tantamounts to educating the next generation. This college is translating this adage into reality by educating those rural girls whose parents, perhaps, never sent their daughters for college education. In a way this college is not confined to the class room based curriculum but teaches the lessons of life. The product of this college (the pass outs) are the agents of rural change and transformation.

Besides education, the learning of social skills inbuilt in the day to day activity of the students in this college. Rising above the caste and class consciousness is taught

in a most natural manner. Inter-personal equality is deeply embedded in the overall functioning of the college.

## **6. SUMMING UP**

This is an institution by the rural people, of the rural people and for the rural people. It is a unique experiment with a mission to provide higher education to girls at an affordable cost rather at a very low cost. The origin of the college can be traced back to pre-independence time when Baba Aya Singh with the aim of educating girls in rural area started a school. He also had a desire to start a college for rural girls, which he could not fulfill during his lifetime. It was a visionary and revolutionary idea since female education in general and higher education in particular in India was a distant dream at that time. The present Principal of the college, Mr. Swaran Singh Virk, set up the girls college in 1976 with just 14 students to fulfill the dream of Baba Aya Singh.

The college aims at providing low cost education to the rural girls. It charges just Rs. 800 (about US \$ 15) as the annual tuition fee and Rs. 5,500 (about US \$ 100) as the annual payment for hostel and food. Despite this low fee structure, the college could not only sustain, but also expand, for more than 35 years without any help or aid from government or any private individual or organization. It was made possible by the unique management style of the college.

The founders of the college have recognized that the major portion of cost of providing education includes salaries to academic or non-academic staff. If the students themselves can manage or perform those activities, the cost can be reduced significantly. Using this philosophy, the college employs just one teacher for each subject (total 7 teachers), and better performing students take part in teaching activities. The non-academic work, like, office work, cleaning, management of hostel, cooking, catering, security, etc., is also performed by students. To facilitate this model, the college has decided to keep the college unaffiliated, and all the students appear as private students in the examination. All these activities are managed by students with the help of different student committees, where each one has to contribute through her work. This model helped the college not only in cutting the cost substantially but also in improving the skills of the students.

The college has significantly contributed to the society by providing low cost education to girls in rural area. Over the past 35 years, about 2000 girls have graduated from this college. The success of the college is clear from the fact that the academic performance of the students of this college has been quite good over the years, and its pass percentage remained above 90 percent for most of the years. The number of merit and first division holders has also increased over the years. Due to the commendable performance of this college, all vice-chancellors of Guru Nanak Dev University have admired the college and described it as a first-rate institute. The product of this college (the pass out students) is the real agent of change and rural transformation.

Overall, the college is successful in providing low cost education to a large number of girls in rural areas, and there is a need to learn from its experience. The added emphasis on higher education in recent plans of state and central government (for example, establishment of 19 central universities in 11<sup>th</sup> five year plan, and

opening of large number of colleges in rural areas) may fall short to address the problems of low-income households, especially in rural area unless similar types of non-government efforts are also encouraged and supported as part of those plans. Therefore, there is need for the government to devise various strategies to help these types of initiatives.

#### REFERENCES:

- [1]. Barro, R.J. (2001) *Human Capital and Growth*, American Economic Review, Vol. 91 (2), pp. 12-17, papers and proceedings
- [2]. Barro, R.J.; Sala-i-Martin, X. (1995) *Economic Growth*, McGraw-Hill, New York.
- [3]. Becker, G.S. (1964) *Human Capital: A Theoretical and Empirical Analysis, With Reference to Education*, Chicago, University of Chicago Press
- [4]. Benhabib, J.; Spiegel, M. (1994) *The Role of Human Capital in Economic Development: Evidence from Aggregate Cross Country Data*, Journal of Monetary Economics, Vol. 34, pp. 143-51 and 158-61
- [5]. Ghuman, R.S.; Singh, S.; Brar, J.S. (2005) *Unit Cost of Higher Education in Punjab: A Study of Universities and their Affiliated Colleges*, A Report Submitted to Association of Indian Universities (AIU), New Delhi
- [6]. Ghuman, R.S.; Singh, S.; Brar, J.S. (2006) *Rural Students in Universities of Punjab*, Punjabi University, Patiala
- [7]. Ghuman, R.S.; Singh, I.; Singh, L. (2007) *Status of Local Agricultural Labour in Punjab*, The Punjab State Farmers Commission, Mohali
- [8]. Ghuman, R.S.; Singh, S.; Brar, J.S. (2009) *Professional Education in Punjab: Exclusion of Rural Students*, Punjabi University, Patiala
- [9]. Haq, M. (1998) *Dawn*, 27 April 1998; (quoted in *Human Development in South Asia 2007: A Ten Year Review*) Oxford University Press, Karachi
- [10]. Krueger, A.B.; Lindahl, M. (2001) *Education for Growth: Why and For Whom?*, Journal of Economic Literature, Vol. 39 (4), pp. 1101-1136
- [11]. Lucas, R.E. Jr. (1993) *Making a Miracle*, Econometrica, Vol. 61 (2), March, pp. 251-272
- [12]. Marshall, A. (1920) *Principles of Economics*, Eighth edition, Macmillan Publishers, London
- [13]. Romer, P.M. (1990) *Endogenous Technological Change*, Journal of Political Economy, Vol. 94 (5), pp. 1002-36
- [14]. Tilak, J.B.G. (2004b) *Education in the UPA Government Common Minimum Programme*, Economic and Political Weekly, Vol. 39 (43), October 23, pp. 4717-4721
- [15]. Tilak, J.B.G. (2004a) *Public Subsidies in Education in India*, Economic and Political Weekly, Vol. 39 (4), January 24, pp. 343-359
- [16]. Govt. of Punjab (2011) *Statistical Abstract*
- [17]. OECD/UNESCO (2002): *Financing Education – investment and Returns: An Analysis of the World Education Indicators*, www.oecd.org and www.unesco.org/publications
- [18]. UNDP (1990) *Human Development Report*
- [19]. The World Bank (2000) *Higher Education in Developing Countries, Peril and Promise*, Washington, D.C.
- [20]. The World Bank (2002) *Constructing Knowledge Societies: New Challenges for Tertiary Education*, Washington, D.C.
- [21]. (2000) *Development as Freedom*, London, Oxford University, Press

## **COMPARATIVE ANALYSIS OF PUBLIC MANAGEMENT IN ROMANIA AND EU COUNTRIES**

**ANCA JARMILA GUȚĂ \***

**ABSTRACT:** *The paper presents the essential co-ordinates of public management with the view of realization of comparative analysis of manner of carrying on of activities in the field of public management in E.U. countries and in our country. Also the main changes are presented which have marked this field of science and practice at world-wide level and the manner how these changes have conducted to effectiveness of public services of administrative system of our country.*

**KEY WORDS:** *public management, public institutions, public administration, public services, legislative provisions, competitive environment, public managers, public servants.*

**JEL CLASSIFICATION:** *M.*

### **1. INTRODUCTION**

The sciences of *public management* studies the management processes and relations existing between the components of administrative system but also among them in order to discover principles and laws, methods and techniques to improve forecasting, organization and coordination, administration of resources of control-valuation of activities with a view to raising satisfying degree of public interest.

Through there are important similarities of content with general management science, otherwise absolutely normal fact, the public management has content coordinates clearly defined by which are significantly distinguishes from this and other areas of economic and social sciences. It is also important to note that a close examination may identify important interdependencies between public management and other areas of economic and social sciences such as general management, public marketing, administrative law, public administration, administrative computing, social psychology etc.

---

\* Lecturer, Ph. D., University of Petroșani, Romania, [gancajarmila@yahoo.com](mailto:gancajarmila@yahoo.com)

For correct delimitation of the contents of public management a few *essential coordinates* are presented afterwards.

The public management studies management processes and relations identifying in the public sector four levels:

- *outside* the *administrative system* of a country in international relations: interstate and interinstitutional;
- *between* the components-existing institutions in the structure of the administrative system of a country grouped by the three branches of the authority: legislative, executive, judicial;
- *as part of administrative authorities* as distinct entities of administrative system structure;
- *as part of public organizations* operating activities of public interest and which are not part of administrative system structure.

*The science of public management seeks to identify general and specific principles and legalities for the public sector in general and especially for public institutions, which by their content should ensure the necessary fundamentals to satisfy the public interest.*

## 2. GENERAL CHARACTERISTICS OF PUBLIC MANAGEMENT IN THE EUROPEAN UNION COUNTRIES

In most EU countries, the local and regional administration is substantiated by constitutional norms dispositions. The exception is the United Kingdom of Great Britain and Northern Ireland, which has no written constitution and therefore there are not fundamental rules relating to local government. According to the fundamental rules both in federal states and in the Unitarian ones, the *principles of local autonomy and decentralization are found as the basic principles of organization and operation of local and regional systems of EU states.*

Regarding federal states, Austria and Germany, according to their constitution, these principles are taken from by location constitutions. In this meaning there are the disposition of Article 116 of the Austrian federal constitutional law which sets that every land is divided in districts. The district is a territorial community endowed with administrative autonomy and thus they are qualified to decide the organization of districts and to adopt regulations on local communities.

In the same meaning are the provisions of Article 28 / of. 1 and 2 of fundamental law of Germany, which sanctions the principle of local autonomy, emphasizing that in lands, districts and municipalities, the citizens must have representatives elected by general suffrage, direct, equal and secret sanctioning the rule that municipality shall have the guarantee of right exercise to solve all local problems according law. Municipal associations also have the right to autonomy within their legal competencies and in accordance with legislative provisions.

Among the fundamental rules of other EU states can be include:

- Belgian Constitution, which contains a large number of rules by which are created and disposed by law the local and regional administration authorities. Through its basic law in Belgium is sanctioned the

existence of four linguistic regions, namely the region of French, Dutch, Brussels Capital Region and the Region of German, represented by a Council and Regional executive. Under the same provision, Belgium comprises three communities: French, Flemish and German, represented by a regional council and an executive. In this context is mentioned that every Belgian commune must be part of a linguistic region, emphasizing that the interests exclusively communal are regulated by the municipal councils, recognizing competencies of community interest as well as the in decentralization of powers to the local institutions.

- French Constitution contains provisions under which "territorial collectivities of the Republic are municipalities, departments, territories overseas". Any other territorial collectivity is established by law. These communities are administrated freely by elected councils and in the conditions provided by law. By the law the fundamental principles of free administration of local communities are determined also competencies and resources.
- Italian Constitution contains relevant information for local authorities in article 5 of chapter 5. The region has a special status that is governed by constitutional laws.
- The Spanish Constitution OF 1978 contains special provisions for both the regional and the local level.

Also in the other community member state: Sweden, the Netherlands, Denmark, Greece, Ireland and Luxembourg by their fundamental rules are determined the regime of local administration and principles that are the basis of it, communes being those that form the autonomous communities with legal personality, that endorse by their organs, patrimony and their own interests under the control of the central government. In all EU countries there are laws governing local and regional public administration.

The principal legislative dispositions concerning the organization of local communities in England and Wales are contained in local communities laws - Local Government, for Scotland local Scottish communities laws- Local Government in 1973 and 1975. Traditionally, the British system of local Government was recognized by law since nineteenth century; later, local authorities have established the structure, defined legal authorities have established the structure, defined legal authorities and the degree of decentralization of management.

In Austria a federal legislative text was elaborated which served as model laws voted in the nine lands, for organization of local communities on the principles of self management.

In Germany each land has established local constitution under the form of a statute of municipality or a rural district.

In France the legislation on municipalities are encoded into a code, bringing together emerging laws since 1884.

In Italy, the main legislative texts you are the regions nr.62/1953 Act, which refers to the establishment and operation of regional, nr.108/1968 Act concerning the

election of regional councils and No.1-Presidential Decree 11/1972 and 1977 transferring the administrative functions of the State to the region. For provinces and municipalities Law 142/1990 on the legal regime of local, Law nr.81/1993 on rules for direct election of the mayor, President of province, municipal and provincial councils.

In Spain for regional administration there are nr.8/1980 Organic Law on the financing of the autonomous communities and organic laws from 1979 to 1983 adopted for each of the 17 autonomous communities by whom approving the autonomy statute. Regarding Romania, local government is regulated by Law no. 69/1991.

The content of the law states that local public administration from the territorial administrative units is based on the principle of local autonomy and decentralization of public services. It also contained information on public administration authorities by which local autonomy in communes and towns is realized. The local elected council and mayors work as autonomous administrative authorities and participate in satisfying public needs of communes and cities.

The county authority is defined by the County Council, public authority for coordinating the activity of commune and town councils for realization of public services of county interest. By these fundamental rules, local administration is not incorporated into the central administration of the state and it represents an autonomous administrative STRUCTURE bone by which the local communities solve their local problems through their elected authorities, but under the control of legality by state authorities. By the law no.27/1994 on local taxes – the sources of revenue for local and county budgets were created.

### **3. SIGNIFICANT CHANGES IN PUBLIC MANAGEMENT WORLDWIDE AND IN ROMANIA**

From the period 1980-1990 in the public management have outlined some important changes which significantly mark this field of science and practice.

The changes originate in political ideology and socio-economic environment changes that cause mutations in public management. These mutations strongly put their mark upon administrative system strategies and policies and public institution in general.

One of the important issues that public managers intend to solve is the cost and quality of services. Therefore there concerns are focused on knowing their customers' needs, citizens and their transformation into effective and dynamic organization restructured to the model of the private sector. Although the changes generally were initiated by ministries aimed by business people and management consultants, the responsibility for implementation belongs to managers, responsible for each service.

How is normally the main source of change in developed democratic countries was government policy. Successively, the various governments have adopted different economic and social policies different from those substantiated in prior periods. It is relevant in this regard the experience of public managers of Great Britain. At the beginning of change, the objects at macro level included the combat of relative economic decline of Great Britain, improving economic efficiency, reaffirming the role of Britain in world politics. On average, the government should revitalize the private sector, improve competitiveness and reform the right to manage. At the micro

lower level, the government has in view to optimize the possibilities of consumer choice, to establish the consumer sovereignty on the market and to release the individuals from culture of dependency on the state.

The Government also wanted to motivate civil servants to assume their responsibility for their initiatives in this context the formation of an entrepreneurial culture. It is obvious that for making efficient public services and administrative system, generally it is necessary primarily a public management based on performance. We consider that the process of change is complex, lengthy and it includes several important changes:

1. Privatization of public services. In this respect also in Romania it is possible to develop a partnership, respectively between public and private organizations which carry on the activities of social interest. The market of public services will form attracting competition and rivalry, between services. It is necessary in this regard the flexibility of legislation to stimulate the formation of a competitive environment for public services. In this context we can add several forms of partnership:

- Subcontracting public works;
- Leasing of land and infrastructure for the implementation of public services;
- Development of franchising;
- Joint ventures.

Subcontracting consists in appealing to the services provided by specialized institutions and required to achieve at products lower costs and high quality based on a range of infrastructure. This form can be used in specialized services.

Franchising can be used within public providing services to households and sanitation, urban transport. This form supposes the renunciation of control by local authorities, whose decision-making powers should be reduced to technical specifications and quality standards. Obviously, such a form involves the elimination of existing monopoly at local level for concerned public services.

Concession of public services involves a typical regime of contractual execution. Its duration requires clear and stable regulations concerning an action in public domain, performances evaluation, payment arrangements, supervision and control.

Mixed organizations can be formed on the basis of existing public organizations or new institutions. As possible ways of action there are:

- Sale of part of the capital of public organization or individual private institutional investors. The procedure is similar to total privatization and put into practice by public offer of buying, fixed price sale, transfer to employees and public managers etc.
- Joint ventures, by which the private organization provides development capital and specialized qualifications.
- Establishment of new joint organizations is a much more frequently practiced variant even in public services. This is because the conditions of participation in capital are clearer than in the previous case, the remaining clauses can be easily negotiated by the partners.

Of course another form of production is the total privatization of public services, which in fact creates foundations for efficient allocation of resources and a high quality of products and services.

2. Transformation of staff functions in a component of the strategy of the public institution in general and not in meeting of specific administrative activities. In this context, it is necessary to make flexible employment practices of staff in administrative structures.

3. Changing management style of public managers this becoming more rationalistic, focused to targets and not paternalistic.

4. Changing the role of public officials from the traditional classic type to the new one mechanic the emphasis is on the creative capacity of the civil servant, on the flexibility of thought and action.

5. Orientation of public organizations led by public managers to customers.

6. Emphasizing the concern of civil servants for a public management of rationalist type oriented to continuous change, not to maintain a temporary stability of a system.

7. Development in public institutions of a new approach of learning organization.

8. Transforming public services in public business targeted exclusively to the market of services where all economic factors act; therefore public servant changes from state employee in businessman permanently preoccupied of customer needs, of quality of offered services and organizational effectiveness.

9. The introduction of professional managers in state institutions, this is the best way to ensure efficiency and effectiveness, and not least the quality of public services.

10. Computerization of public institutions allows streamlining the communication process and decreasing the degree of bureaucratization of a public institution and / or public management in a country.

11. Flexibility of public institutions structures. The public shall have separate compartments for which defined tasks clearly determined by the system of social needs.

12. Functioning to the administrative institutions is made on the principle of self-co-ordination, which supposes a decentralization, of respective system delegation of tasks, competences and responsibilities to lower levels of the system structure.

13. Emphasizing the creative side of public management. Adapting public institutions to a market economy requires profound changes in public management. Urgent need to innovate, to create "new" in management requires at the level of each public institution the adoption of innovative strategies aimed at promoting new for achieving efficiency in the system. One of the main objectives of public officials, especially those at the managerial positions in the system should be the discovery and assimilation of new elements in all fields, and an open-minded approach to proposals for change. This means undoubtedly high professionalism of the so-called public managers to identify, understand and recognize the need for change, on the one hand, and on the other hand to act for implementation. The public managers servants must think in terms of future management structures.

14. Guidance of the system to attract general public managers, based on the idea expressed repeatedly by Peter Drucker as a logical definition of a general manager is the specialist that can link its small field with others.

15. The transformation of public servants in collaborators, namely assistants for public officials makers, especially those in positions of leadership, political representatives. It is necessary that the relationship between public managers and employees relies on trust, generating a climate of collaboration, focused on stimulating initiative on free expression opinions. Frequently, the public manager diminishes by thirst for power, excessive ambition. We recommend regular consultation of civil servants employees to get an answer about the work of managers.

For example, the staff of civil servants may be asked to answer the following questions:

- How do I accomplish the work in relation to the requirements of team officials?
- What can I do to help the team to work more efficiently?
- What can I do to help improve your business?
- What you should know to better exploit the resources of the group which I manage?
- I defend my position too frequently?
- How do I use my authority?
- How can I contribute to increase the effectiveness of the group? Etc.

Thus, the leader can inform not only the demands that lie ahead, but also on how the business can improve his activity. The analysis results are significant because the opinions belong to members of the group whose work can be improved.

16. Enhancing the efficiency of the public sector. Through the principle of efficiency and optimization is achieved finality of the management as it is conceived in public management: the carrying out of social objectives during shortest time possible with minimal effort. At this level, the criterion for assessing any leadership is to increase efficiency.

The deficiencies found in public institutions do not always have objective causes, but subjective causes respectively a small concern of public servants to solve the problems existing organization. It outlines more the tendency that the costs element constitutes a crucial factor for assessing effectiveness. So what counts in modern management is to optimize economic and social efficiency to which must pay attention public managers. Achieving social efficiency becomes the main criterion of activity valuation of public managers. As a matter of fact there is a close conditioning link between the efficiency of conditioning in public institutions and the results obtained in the whole society.

These trends in public management globally describe fundamentally profound changes needed in public institutions in Romania. The reality demonstrates that a continuation of the development of management processes and execution in public institutions into old patterns, traditional approaches, do not make than agglomeration of the system and delay the new objectives of public management in Romania.

**REFERENCES:**

- [1]. **Androniceanu, A.** (2011) *Management public*, Editura Economică, București
- [2]. **D'Orta, C.** (2003) *Quel avenir pour l'espace administrative Européen?*, Institut européen d'administration publique, Working Paper No. 2003/W/6, <http://www.eipa.nl>
- [3]. **Ferreira, M.P.; Diniz, F.**, *Total Quality Management and PublicAdministration - The case of Vila Real town hall*, <http://www.ersa.org/ersaconfs/ersa04/PDF/347.pdf>
- [4]. **Grabbe, H.** (2003) *Europeanization Goes East: Power and Uncertainty in the EU Accession Process*, in *The Politics of Europeanization*, edited by Featherstone, K. & Radaelli, C.M., Oxford University Press Inc., New York
- [5]. **Marinescu, P.** (2003) *Managementul instituțiilor publice*, Editura Universității, București

## **THE MODELS OF PRESENTATION OF ENSEMBLE CIRCULAR FLOW OF THE NATIONAL ECONOMY FROM THE PROVISIONAL SCIENCE**

**ANCA JARMILA GUȚĂ \***

**ABSTRACT:** *The paper presents the main presentation models of the national economy circuit from the provisional science as following: the circuit presentation as an equation and matrix forms presents the state place and of the “foreign” in the economic circuit. The main model used in the provisional science represents by the National system Account that link together the national economy into six institutional sectors/levels that include the main add of the aggregate results.*

**KEY WORDS:** *prevision, economic circuit, National Accounts System, institutional sectors, gross domestic product, net domestic product, net national product, national income, personal income, disposable personal income of house-holds.*

**JEL CLASSIFICATION:** *M.*

Forecasting- in its various types and modalities of implementation – is a product of human thought and experience. It is an expression of rationality, manifestation of the capacity of man and society to encounter with scientific methods the faced social and economic problems. The science of forecasting arose and it is developing on the one hand under the impetus of social practice requirements as a reflection of it in theory, a knowledge act of economic reality and its orientation in the desired direction. On the other hand it was born (and mostly develops) of internal motion of the science that pushes the thought and human knowledge into new areas of investigation , gradually accumulating a number of pertinent observations and conclusions that are legitimized as autonomous, constituting it self as **a knowledge system of with independent research object .**

In this meaning, the forecasting science represents a systematic ensemble of knowledge and concepts having the purpose of studying the laws that generate the need for forecasting works , the principles for achieving them under the general and

---

\* *Lecturer, Ph. D., University of Petroșani, Romania, [gancajarmila@yahoo.com](mailto:gancajarmila@yahoo.com)*

particular conditions in which critical analysis of the way of making concret forecasts in terms of time and space .

The forecasting science grew gradually as a theoretical system in which the following components are distinguished:

- a) knowledge of factual material submitted to the observations (namely significant information the dynamics of economic and social phenomena and processes ) and the results of their study ;
- b) assumptions made on future development in economic and social life, and desired degree of probability , taking into account the objective conditions and function (functions) –end;
- c) conclusions resulted from the generalization of retrospective and prospective analyses undertaken , expressed by concepts, laws and theories , confirmed by practice;
- d) utilised methods.

An economic circuit flow is found in every society, because the life maintenance is tied with the obtaining of goods destined to the consumption or destined to the accumulation for the purpose of continuous and expanded renewal of the process with the help of which are obtained the goods and services necessary to life and accumulation. According to the manner of interpretation of the production, the economists are grouped in three big categories: One and the same circular flow can be presented, as a rule, in four modes: graphically, under the form of accounts, by an equations system and under the matrix form.

**The presentation of circular flow under the equations form.** Since in every closing circular flow the inputs of flows must be equal of value point of view with the output flows, the equations can be built which express the equality between the amount of inputs and the amount of outputs.

$$V = C + I$$

$$V = C + E$$

$$I = E$$

Although the equations are the favourite means of presentation in mathematics and economic theory, together with the increase of number of equations, the synthetic links are difficult to be interpret.

**The presentation of circular flow under the matrix form .** The matrix is presented under the form of a schedule where in the ends of columns and lines appear the sectors of economy (chess table).

**The place of the state in the economic circular flow.** The state (public sector, government), as the economy sector, collects taxes from households and companies and utilizes these sources for the work payment of the employees and for the purchase of goods from companies; there aren't included the goods for the investments necessary to the production of goods and services. In addition the state attends the transfers to the companies and to the households. The savings of the state represent the balance between the current incomings and the current expenses.

**The place of foreign countries in the economic circular flow.** As a rule the transactions are realized also with the foreign countries. Implying the foreign countries as a sector, it results of an open economy. The typical transactions with the foreign

countries comprise the exportation ( $E_X$ ) and the importation ( $I_M$ ) of goods. In the case of exportation are registered incomings for of goods sold to foreign countries and on the occasion of importation there are flows in opposite direction. If  $E_X = I_M$ , the composition of flows of goods will be influenced, but not their value. The modification of the macroeconomic patrimony of the country is presented in this way:  $E_M + E_F + E_{ST} + E_{STR} = I$ . If,  $E_{STR} > 0$  then the economies of foreign countries are placed at disposal for the financing of the internal material patrimony. In exchange, if  $E_{STR} < 0$ , of internal economies is utilized for financing of the material patrimony of the foreign countries or the consumption.

One of the presentation models of the national economy circuit used in the provisional science field represents the National System Account. The National Accounts System facilitates the description of the national economy by representation of links between the participants in the social and economic life of a nation. National Accounts System realizes the following functions:

- It allows the elaboration of national macroeconomic politics, on the basis of the resulted indicators as a result of drawing up the national accounts and the economic schedule as ensemble.
- It provides the data and norms system of more partners. The elaboration of national accounts permits the informing of the citizens of the march of national economy, it ensure providing of data for some units categories and provides the data for the international committees for effectuation of comparison.
- It ensures the harmonization of economy and state activity.
- It ensures the harmonization the establishment of structures of macroeconomic and even microeconomic informing systems.
- It describes systematically the macroeconomic interdependence. The National Accounts System has a proper research object and a method of realization of this object. The research object of macroeconomic accounting consists in value reflection of all transactions of economy as well as national patrimony at one time. The microeconomic accounting has as study object the economical entity belonging to a natural or juristical person, as well as the relations which are established between them and other legal juristical person.

The statistics object consists in the study of quantitative aspects of the qualitative determinations of mass phenomena, which are submitted to the actions of the statistical laws which appear in concrete conditions, variables in time, space and social and economic organization. Both macroeconomic accounting and microeconomic accounting study "richness", at the different levels of representation and transactions or relations which appear between the participants in the economic and social life. The microeconomic accounting studies the proper relations of the enterprises with other enterprises or natural persons with whom it enters in economic, financial or social relations, while macroeconomic accounting studies the transactions between the economic agents who belong to national and international systems.

In NAS there are two modes of approach of the grouping of economic agents in representative sectors, on the one hand, the grouping of institutional units, named institutional outlook and on the other hand the grouping of economic agents according

to the carrying on of activities and to the activity branch, named the outlook of economic activities.

In Romania, the national accounting utilizes for the grouping of institutional units the following institutional sectors: *non-financial companies and quasi-companies; financial institutions; insurance companies; public administration; private administration; house-holds of population.*

**Non-financial companies and quasi-companies.** This sector regroups the institutional units residents according to the principal function, the production of goods, works and services of non-financial market and according to the utilized resources, the acquirement of incomes for the renewal of production and acquirement of profit destined to the accumulation and remuneration of the participants factors. The institutional units controlled by state (public) are organized juridically under the form of autonomous corporations and are controlled by state or local administration. The private institutional units (private enterprises) are different from the public units by the fact that they aren't controlled by state or local administration.

**Financial institutions.** This sector regroups the institutional units which have the principal function the financing. They collect the financial resources available in society and they redistribute them to other institutional units under the form of credits. The principal resources of this sector consist in interest and commissions received for the effected services. The principal activities of the financial institutions of whom are acquired the resources of this sector refer to the management of sight and term deposits, of negotiable orders and of financial titles for long term.

**Insurance companies.** Insurance companies have as principal function the roll of transformation of individual risks in collective risks and of guarantee to grant an allowance in case of realization of the risk. The principal resource of them forms the contractual bonus or social voluntary fees. The insurance companies differ from companies providing services by the fact that they possess the financing function have which they realize as a result of fact that they form the compulsory insurance reserve.

**Public administration.** This sector regroups all the units with the principal function to realize unbusinesslike services destined to other institutional sectors in view of redistribution of income in the economy. The principal resources of this sector are the taxes and compulsory taxes from other institutional sectors. This sector comprised:

- Public central administration;
- Public local administration;
- The administration of social insurance.

**Private administration.** The institutional sector "Private administration" comprises the private organisms without lucrative aim which realize the unbusinesslike services destined especially to the sector "house-holds of population ". In this sector are comprised the associations, trade-unions, political parties, foundations. The resources of private administrations proceed from:

- voluntary contributions of the sector "house-holds of population";
- incomes from property;
- payments from the sector "Public administration" for foundations, politic parties;

- public subsidies gathered by different foundations and associations.

**House-holds of population** are comprised the institutional units whose principal function being the consumption (familial associations, individual entrepreneurs). The principal resources of the sector constitute the remuneration of production factors (wages, capital investments, income of land) and the transfers paid by other institutional sectors. Individual entrepreneurs and familial associations have as resources also the incomes obtained from the sale of goods and produced services.

The main aggregates that lay out from the National System Account are:

**1. Gross Domestic Product (GDP).** They represent the synthetical expression of economic activity results produced inside the economic territory during a period indifferently of contribution which the internal subjects have brought out the subjects of foreign countries. GDP measures the value of goods and final services produced inside during a period of time (as a rule during an year or a quarter), respectively it is the value of merchandises or services produced inside the country after the subtraction of the value of consumed goods during the production process (intermediary consumption) and it can be established by three methods: the method of production, the method of utilization of final production or expenses method and the method of incomes.

**2. Gross National Product (GNP).** It represents the value of goods produced during the period of calculation created by the production factors which belong to the subjects residents in the country indifferently if they were created in the country or in the rest of the world. GNP has in view the factors incomes which have reverted to the internal subjects confronted by GDP which considers the factors incomes created in the country. The incomes created in the country but ceded to the rest of the world (interest, dividends, etc.) are not comprised in GNP, but are included the factors incomes created in the rest of the world which revert to the internal subjects. GNP is firstly an indicator which measures the incomes and not the production afferent to some period. It serves particularly in the analyses which refer to the availability, repartition or utilization of incomes. It is also the indicator according to its volume is established the contribution of member countries of EU. The Gross National Product (GNP) is named also Gross National Income, if it is evaluated of factors or Gross National Expenses if it is evaluated in the market prices. It is also defined as current market value of all the goods and final services produced by the national agents during an year,  $GNP_{pp} = GIP_{pp} + SVAB_{pp}$ .

**3. Net Domestic Product (NDP).** It is defined as net total market value of final goods and services produced by internal agents during a determined period of time. If NDP is expressed in the factors prices, it renders evident the net value of final product of point of view of the producer, and the market prices reflect the same production of point of view of consumer. Net Domestic Product is estimated usually starting of GDP, of whose are subtracted the allocations for consumption of fixe capital (ACFC):

$$NDP_{pp} = GDP_{pp} - ACFC, \text{ respectively: } NDP_{pf} = NPP_{pp} - IIN$$

**4. Net National Product (NNP).** It expresses the net final goods and services produced by national economic agents in a determined period of time. It is calculated

starting of NDP which is corrected with the balance between the incomes of economic activity and of patrimony of economic national agents which carry on the activity in the foreign agencies countries and those of foreign agents on the territory of the country (SVAES).

$$NNP_{pf} = NDP_{pf} + SVAES$$

Evaluated in the price of factors NNP it is named also the national income.

5. **National Income (NI)**. It renders evident the received incomes by the owners of production factors in exchange of delivered resources to productive units of economy or work and property incomes, which result from the goods and services production as part of economy, it reflects the utilization of incomes from productive activity for buying of goods and services and for saving. The volume of national income is calculated starting of incomes flows and expenses flows or applying either the method of totalization of production factors incomes engaged in the producing of goods or services, or the method of totalization of expenses. In the national accounting, the national income is estimated the most frequently by totalization of production factors incomes.

6. **Personal Income (PI)**. The assessment of personal income and its grading in the analysis of economy flows are determined by the fact that the house-holds incomes represent the source of consumption of goods and services and of house-holds savings, thus it has implications upon the dimension of final demand of goods and services of consumption and goods of investments.

7. **Personal Available Income of House-Holds (PAI)**. It represents the aggregate which measures the volume of possible incomes utilized by the population to satisfy different needs. The indicator PAI is calculated by decreasing the personal income elements which don't belong directly to the population: taxes and taxes paid by the population to the government - TTPD. Indicator PAI characterizes better the availabilities for consumption of population and for savings.

#### REFERENCES:

- [1]. Caracota, D. (1996) *Previziune economică. Elemente de macroeconomie*, Editura Didactică și Pedagogică, S.A., București
- [2]. Nicolae, V. (1995) *Prévision macroéconomique*, Editura A.S.E. București
- [3]. Nicolae, V.; Constantin, L.D.; Gradinaru, I. (1998) *Previziune și orientare economică*, Editura Economică, București
- [4]. Salomon, M.; Nahon, G. (1997) *L'élaboration des prévisions de marché. Méthodes et pratique de la prévision*, Editura Dunod, Paris

## CAUSE AND EFFECT IN PROMOTING A PROJECT

SEVERIAN-VLĂDUȚ IACOB \*

**ABSTRACT:** *For a project to be considered successful it is necessary, besides a proper coordination, to be also done a good and wide promotion. In view of communication, promotion and maintenance ensures the organization's image. Disturbances occurring in any type of project, as a result of poor promotion, affect the image of the team and highlight the weaknesses in its management. Therefore, the promotion should be permanently monitored and evaluated. Cause-effect analysis is one of the ways we can identify some of nonconformities of the promotion process within a project.*

**KEY WORDS:** *project promotion, cause-effect analysis, image of organization, project analysis, project management.*

**JEL CLASIFICATION:** *O22.*

### 1. INTRODUCTION

Affairs of the world are becoming ever more flexible, because they are generated by companies that have reduced their organizational structure and the knowledge is generally held by people with specialized training. Their interaction in the economic environment is more and more precise and very well defined. In other words, we can talk about specific punctual business project.

The general trend of doing business is also reflected in Romania, but at this moment the notion of the project, not appropriately levied (Bulat, 2011), and is taken in everyday language of an increasing number of people, thereby creating confusion.

Object of this study is to bring a number of clarifications concerning projects and their management on the one hand, and to demonstrate the usefulness of simple tools to make a cause-effect analysis, in our case: inadequate promotion of a project.

---

\* Assoc. Lect., Ph.D., "Ștefan cel Mare" University, Suceava, Romania, [severianvi@seap.usv.ro](mailto:severianvi@seap.usv.ro)

## 2. THE PROJECT

The market is constantly changing and organizations are forced to adapt. The environmental dynamics leads to adaptive changes; this generates the need for projects (Opran, et al., 2012). Therefore, it is necessary the configuration and product development required by consumers, rebuilding relationships through new alliances, attracting knowledge-trained professionals who will manage the affairs of the project.

### 2.1. Defining the project

To materialize the idea, for example arranging the garden organizing a party, taking a hiking trip or a holiday, even designing a dessert or manufacturing a product or performing a service, can be brought into question the notion of project.

Common to project is the unique and well defined in time purpose, for which fulfillment are put at stake material, financial, human and time resources. Their assignment is not continuous, and in terms of development time should be set a start time and a deadline. Some projects may be continued or converted into other projects.

Term "project" have been given various definitions (Rutman & Mowbray, 1983 Conrad & Hedin, 1987; Valade & Bamberger, 1991; Mățăuan, 1999). The definitions were taken over and improved by other authors (Munns & Bjeirmi 1996 Ciobanu, 2002 Turner & Simister, 2004; Borgăoanu, 2005; Bulat, 2011; Opran, et al., 2012). Typically, these definitions refers to "specific elements: objective data specifically allocated resources, planned activities, dedicated team and fixed term" (Pascu, 2005).

Thus the project means "capital investment for a fixed period, in order to create productive assets" (FIMAN, 1993), but for this material it will be considered that the project represent "a group of activities to be undertaken in a logical sequence to achieve a set of predetermined objectives formulated by the client" (European Commission).

In the economic or administrative entity, a project represents a way of putting into practice various programs that are also components of some sort of policy (Figure 1).

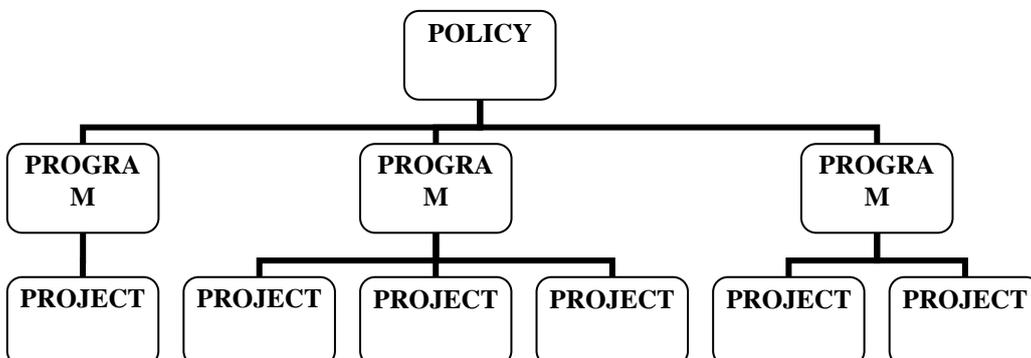


Figure 1. Project place within policy

It should be noted that within a program may exist one or more projects. The projects policy can be carried out simultaneously or in succession. For a clear distinction between projects and programs it can be done an analysis of their main features.

On the differentiations that occur between programs and project various authors have expressed (Măţăuan, 1999 Turner & Simister, 2004). According to these views, it could be materialized a brief analysis of their main characteristics (James, 2013) as stated below.

**Table 1. Comparative analysis between program and project**

Features	Program	Project
Scala/location level	Great (national/international)	Punctual/Local
Positioning in the whole investment	Placement Strategy Tools	Components of programs/Initiative
Budget	Global and adjustable	Fixed
Term	Undefinite, years	Months, years
Role of the team	Planning, coordination, monitoring	Direct implementation

*Source: Radu V. Pascu – Project Management*

## 2.2. Necessity of elaborating

Aside from being a fashion of transition, especially in the context of accessing different types of funds, preparation of a project is a necessity, and companies that comply with have to prepare specialists for this (Farcas 2010).

But the need to develop projects stands in more real and more pressing reasons: low functionality after completion, poor communication within and outside the teams, their budget and time overruns, inadequate employment (or further advance), insufficient documentation and so on.

## 2.3. Project Management

Being a space where all sorts of resources are managed, it is required that the project to be done on clear principles of management. In this respect project management is done by a team led by a project manager. The success of the project is given firstly by vision, the existence of realistic objectives, customer satisfaction, competition, profitability of the project.

According to some authors (Kerzner, 2003) the favorable outcome of a project is related to the available market and third-party involved. Also it might be questioned and executive commitment, organizational resilience, selection criteria and the project manager's leadership style, as well as providing planning and control (Javed, 2009).

Given these specifications, it can be argued that project management involves planning and observation of a systematic sequence of activities required to successfully

complete a project, including obtaining feed-back. In doing so the project team aims to meet a defined objective view of the constraints of time, resources and cost.

From these specifications easily detach the main stages of a project: the construction of project plan, the management and monitoring the implementation of activities and completion of the project.

### **3. PROJECT PROMOTING**

Promotion is necessary to continuously maintain, in the attention of stakeholders, a strong and positive image of the activities within a project or organization. Representing a complex process in the context of the market economy, the promotion can be considered as the secret of success in business.

Promoting the project involves the installation of short term actions through techniques so that the users have immediate economic and materials benefits. Therefore, promoting the project includes all the activities used by the management team to keep the project to the attention recipients (Iacob, 2013).

As stakeholders and other individuals have the desire to be informed about the project in which they are partners or beneficiaries, promotional activity must be a permanent task of the project team. For this, the promotion campaigns must bear clear, concise, convincing and appropriate messages. The message design should take into account that the target audience is to be presented issues to ensure the adoption of new ideas and new attitudes, to amend behavior towards involvement in various activities etc. Thus, any person who is not only the client of an organization can analyze and evaluate the activities received and the submitted tender.

In any project, the promotion should be supported by other components. Any mismatch between the message and reality leads to weakening confidence of receptor and thus the promotion has no echo. Moreover, promotional activity must ensure that the project and its benefits are sufficiently known to the public that is more and more demanding in terms of an offer increasingly complex and varied.

#### **3.1. Particularities of promoting European projects in Romania**

Visibility of projects and programs financed by the European Union should be maximum. In this respect, organizations or persons who initiate such projects must comply with the EU requirement to draw up a Communication Plan. This plan will have a standard format and will be presented in the press releases, (models [www.comunicatedepresa.ro](http://www.comunicatedepresa.ro)) throughout the project implementation.

Enunciation of EU partnership in financing the project will be mandatory at the beginning or end stages of the project. Also, it will be taken into account that in these communications to be given specific phrases about the source of funding or program of which the project belongs, being also displayed graphics requirements, eg EU logo (top left), the Romanian Government logo (middle, high), Structural Instruments in Romania logo (upper right corner), Figure 2.



**Figure 2. The presentation of graphics required**

### 3.2. Communication Plan

To form an overall picture of the communication plan it should consider the outline of a general framework in which goals are usually scored, target audience, expectations and evaluation criteria. Making the plan is based on a communication strategy which establishes operational priorities and approaches. In implementing this strategy, project management will take account of resource management in the context of communication established.

Designing the Communication Plan shall be started after a preliminary analysis of the current situation awareness of the projects / programs by consulting the various types of information.

The project visibility increases through the use of logos and slogans. The visual identity development as part of the branding process, makes the project easier to remember and will allow better connectivity on multiple coming sources of information. Personality and brand effectiveness is stronger as eliminates frequent use of its specific symbols is higher.

### 4. RISK MANAGEMENT

The progress of any project can be hampered by the occurrence of risk situations. Some of these can be resolved by the project manager, some not. The situation where there is a problem "defined as normal" that cannot be managed by the project manager enters the difficult situations or risk category (Tenstep.ro). This is the time that requires rapid inventory processes to find a solution to that problem as urgent as possible. Every project, whether small, medium or large, is facing problems. Therefore management of risk situations can be considered as a fundamental component of project management.

Typically, for small projects risks may occur, but also diminishing their effects can be easier. Risk management is important as the size of the project is higher. If this activity is not given proper importance may cause financial, material and human loss, without question the problem of time.

Solving a risk situation supposes a sequence of actions: identifying the problem, determining the existence of the difficult situation, determining membership

development committee of the solution, determining the solution of the problem and solution record set, adding the project plan and reporting in the communications.

## **5. ANALYSIS OF PROJECT PROMOTION**

To identify a viable solution in case of a risky situations are used different techniques: analysis of cause - effect by using Fishbone Diagram (Ishikawa), Pareto analysis based on classical rule of 80/20 (20% of the problems causing 80% of the symptoms), other.

### **5.1. The project promoter of Mountain Valley Local Action Group**

Rural development policy is an important component of the Common Agricultural Policy (CAP). Starting in the 90, EU rural development takes on a new dimension with a new approach, aiming to encourage local development players, or project leaders to acquire the skills necessary to turn into agents and architects future of their field.

Wanting it to be public - private partnerships, local action groups (LAGs) are entities that are made up of representatives of public, private and civil. They are designed to ensure the fulfillment of requirements coverage in accordance with the National Rural Development Plan (RDP), which will implement an integrated strategy for territorial development.

LAG emergence is closely linked Leader-projects in support of sustainable rural development and the implementation of the Common Agricultural Policy (CAP) in the European Union (pndr.ro). For rural areas, the Leader has opened new opportunities for development thus proving an ideal tool in initiating projects. General strategic objective of Leader axis aims to ensure local capacity for employment and diversification. This approach seeks to integrate different types of local stakeholders (farmers, foresters, etc.), making it known that can improve the local natural and cultural heritage while developing economic activities taking into account environmental protection.

GAL Mountain Valley has developed Local Development Plan, a comprehensive document, which was based on the National Rural Development Plan 2007 - 2013 ([www.galvalemuntelui.ro](http://www.galvalemuntelui.ro)). In this paper were presented local priorities and measures for which funding for projects may be submitted by interested parties.

The project started under measure 1.2 Sensitization, awareness and training. The project objective was to achieve a seminar on "Trends in the restructuring and modernization of agriculture in the area of the Mountain Valley GAL".

### **5.2. Cause-effect analysis in project promotion**

As a way of analysis for this study was used cause-effect diagram. Typically, the method seeks solutions to the complex problems that seem to have common cause.

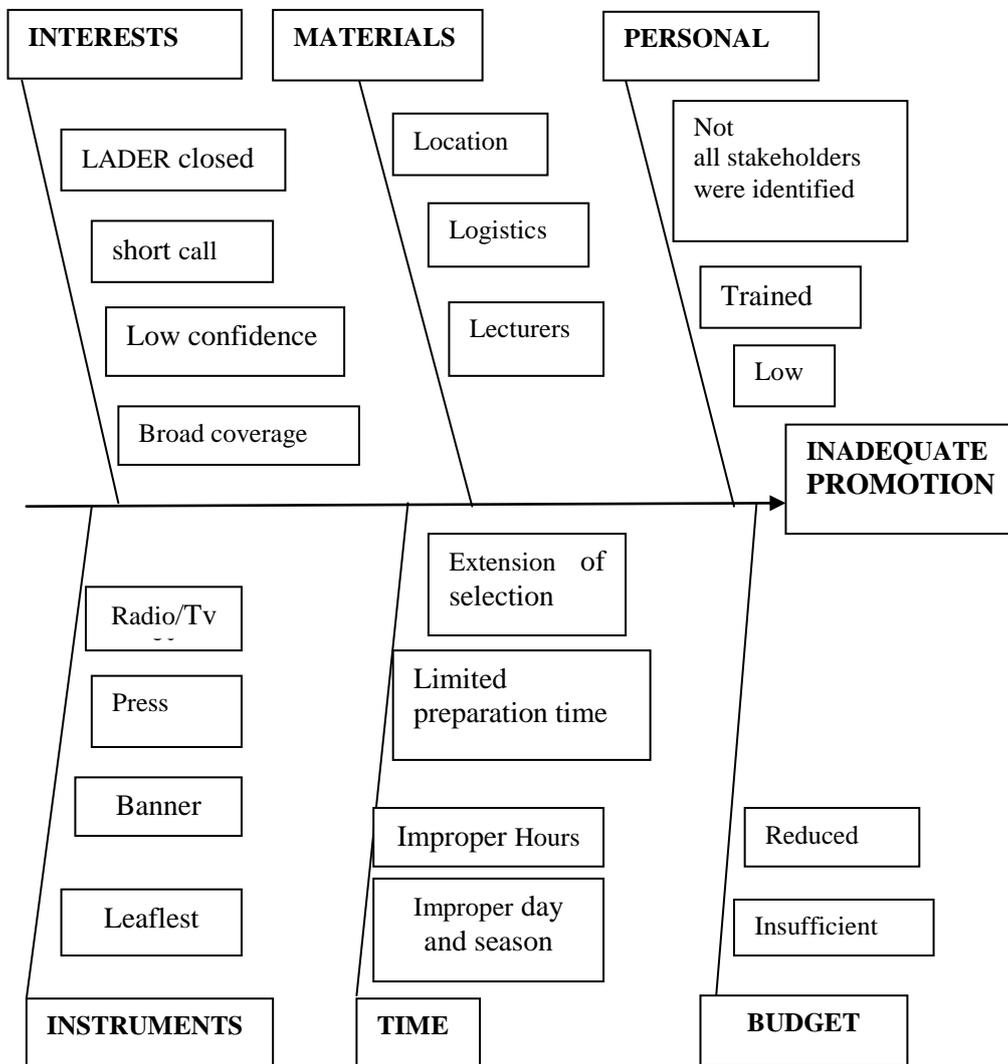
The reason for the analysis started from the low participation of potential beneficiaries to the seminar. The organizers of the seminar together with lecturers

identified as the main problem "inappropriate promoting" that will lead to the "backbone" of Fishbone diagram, shown in Figure 3, which will connect and categorize the main causes of its major and minor.

As the main cause were set the staffing budget, material support, time, interests and tools used in promotion.

Cause-effect diagram can reveal key relationships between different variables and possible causes provide additional insight into the process.

Causes can be obtained after a brainstorming session. These groups can then be labeled as types of fish bones. They are usually traditional categories, but may be unique to the application in a particular case.



**Figure 3. Fishbone Diagram (Ishikawa)**

## 6. CONCLUSIONS

Speaking generally, the project is in this stage of development of society a simple and effective way to achieve various goals by combining resources in a short time.

The Project Seminar: "Trends in the restructuring and modernization of agriculture in the area of the LAG Mountain Valley" was recorded by organizers as being made without deviating in exact scheduled time.

Prior to seminar support was identified the diminished participation to expectations and to confirmations received. This was an aspect of risk in the project, for which it was thought the analysis.

Following the evaluation of the project by interviewing participants and discussions between lecturers and organizers it was concluded that the main cause to low participation of the possible beneficiaries of the project was weak promotion.

Delimitation of major and minor causes was made using Fishbone Diagram.

The focus fell on cause Time. According to the statements of the organizers, the period of materials preparation has been very limited from the notice of financing acceptance until completion of the project, especially that the initial selection period was extended by one week. Regarding the time, was also the determination of when and hours for presenting the seminar. It was established on Sunday. A related question about sufficiently high was the month in which it was scheduled the presentation respectively mid-August, a holiday month.

Another finding is that the impact of leaflets and flyers is not as strong as that of the audio visual field for which there was not sufficient budget. They made only 2 days of announcements on radio and local cable TV network. Promotion agents surprised that people required to attend the event and who were distributing leaflets had no patience to read all the text printed, although the message satisfy the conditions of effective communication and attractive.

Request for the participation of an official of a commercial bank in the area, which has informed those present about banking products offered to rural entrepreneurs and their facilities showed that the interested persons list has been drawn in the most thorough manner.

The Interests Section was surprised a number of causes related to Leader who was financing instrument for Development Plan 2007-2013, for very short periods that do calls. Here it was raised and very wide area coverage and local action group that Project budget did not allow general information to people. Low confidence refers to both persons who were presented the seminar theme and have not shown just enthusiastic and to the organizers, who knew how to work with projects failed every time presentations by persons to inspire others that trusts to give impulse creator.

Regarding the Materials section was raised in the debate the location. It may also be a cause that leads to poor promotion.

## REFERENCES:

- [1]. **Borgăoanu, A.** (2005) *Managementul Proiectelor*, Ed. Economica, București, pp.19-84
- [2]. **Bulat, V.** (2011) *Cum scriu un proiect? Ghid de reguli de bază de scriere a unui proiect*, Chișinău, [Online], Available at: [www.serviciilocale.md/download.php?file](http://www.serviciilocale.md/download.php?file), [Accessed 15 September 2013]
- [3]. **Ciobanu, R.M.** (2002) *Managementul proiectelor*, Ed. Gh. Asachi, Iași,
- [4]. **Conrad, D.; Hedîn, D.** (1987) *Youth Service: A Guidebook for Developing and Operating Effective Programs*. Washington, DC: Independent Sector
- [5]. **Farcaș, E.** (2010) *Orice firma are nevoie de un manager de proiect*, [Online], Available at: <http://www.romanalibera.ro/bani-afaceri/angajari/orice-firma-are-nevoie-de-un-manager-de-proiect-206780.html>, [Accessed 15 September 2013]
- [6]. **Iacob, V.S.** (2013) *Strategii de promovare a proiectelor europene*, Note de curs USV,
- [7]. **Javid, A.S.** (2009) *Project manager skills necessary for Project success*, [Online], <http://faculty.kfupm.edu.sa/CEM/soliman/CEM520/CEM520-SamplePresentationsofStudentspapers/CEM520TermpaperPresentattionJavid.pdf> [Accessed 20 September 2013]
- [8]. **Kerzner, H.** (2003) *Project Management: A Systems Approach to Planning, Scheduling, and Controlling*, [Online]. Available at: <http://bookos.org/g/Harold%20Kerzner>, [Accessed 20 September 2013]
- [9]. **Munns, A. K.; Bjeirmi, B.F.** (1996) *The role of project management in achieving project success* International Journal of Project Management, Elsevier Science, Vol. 14, No. 2, 0263-7863/96, pp. 81-87, [Online]. Available at: [https://notendur.hi.is/vio1/The\\_role\\_of\\_project\\_management\\_in\\_achieving\\_project\\_success.pdf](https://notendur.hi.is/vio1/The_role_of_project_management_in_achieving_project_success.pdf), [Accessed 20 September 2013]
- [10]. **Mățăuan, G.**, *Evaluarea programelor sociale*, Editura Expert, sub egida FIMAN, 1999, p. 40-44
- [11]. **Pascu, R.V.** (2005) *Introducere în managementul proiectelor*. Sibiu, [Online]. Available at: [ccimn.ulbsibiu.ro/.../carti/introducere\\_in\\_managementul\\_proiectelor.pdf](http://ccimn.ulbsibiu.ro/.../carti/introducere_in_managementul_proiectelor.pdf), [Accessed 20 September 2013]
- [12]. **Opran, C.; Stan, S.; Spănu, P.** (2012) *Managementul riscului în proiectele europene*, București, [Online]. Available at: [comunicare.ro/cursuri/u3/Managementul Proiectelor.pdf](http://comunicare.ro/cursuri/u3/Managementul_Proiectelor.pdf), [Accessed 10 September 2013]
- [13]. **Rutman, L.; Mowbray, G.** (1983) *Understanding Program Evaluation*, Beverly Hiss/London/New Delhi: Sage Publications,. ISBN: 0-8039-2093-8.
- [14]. **Turner, J.R.; Simister, S.J.** (2004) *Manual Gower de management de proiect*, Editura Codecs,
- [15]. **Valadez, J.J.; Bamberger, M.** (1994) *Monitoring and Evaluating Social Programs in Developing Countries*, Washington, D.C., EDI of the World Bank, [http://www.pol.ulaval.ca/perfeval/upload/publication\\_192.pdf](http://www.pol.ulaval.ca/perfeval/upload/publication_192.pdf) [Accessed 20 September 2013]
- [16]. **FIMAN** (1993) *Managementul proiectelor în țările în curs de dezvoltare*, Editura ALL, București

- [17]. <http://www.tenstep.ro/MetodologiileTenStep/ProjectManagementProcess/4ManagementulSituatiilorDificile/41Procesul.aspx> [Accessed 24 September 2013]
- [18]. <http://www.pndr.ro/> [Accessed 24 September 2013]
- [19]. <http://www.galvalemuntelui.ro/ro/prezentare-gal/planul-de-dezvoltare-locala-gal.html> [Accessed 24 September 2013]
- [20]. [www.comunicatedepresa.ro](http://www.comunicatedepresa.ro) [Accessed 23 September 2013]

## USE OF MOBILE TECHNOLOGY IN BANKING SERVICES

ALIN ISAC \*

**ABSTRACT:** *Technology and applications of mobile phones offer many opportunities for businesses, they also presenting a continuous development and new challenges. Although this service is currently viewed with reluctance by customers, banks need to overcome this drawback and understand how this service can be combined with other alternative channels such as social media, to create value for customers. In this paper I presented information about present and perspectives in mobile applications industry, what can a mobile application do in banking, banking mobile applications in Romania, mobile banking applications worldwide.*

**KEY WORDS:** *Mobile Application Banking, Banking Mobile, Electronic Device, banking services.*

**JEL CLASSIFICATION:** *G 21, M 15.*

### 1. INTRODUCTION

Electronic devices are becoming smaller and smarter because of this rapid technological development of applications has grown very large. Develop the trainees' mobile boom has revolutionized these applications so that more than 3 billion mobile phone users, mobile applications are a necessity and a normal extension. Mobile applications are the biggest innovation in software development. These, by their size and the need to achieve the application man-oriented are a category distinct from the usual applications for computers or laptops or web applications. Mobile applications are currently an opportunity in IT due to the variety of areas that can be applied from the banking, financial, guidance etc. and to the commercial, promotional strategies and even entertainment activities.

In a further development, these want to provide us facilities, a number of advantages to ease our way of life. I enumerate the most common advantages: ease of download and use, assist use; quick use.

---

\* Lecturer., Ph D, University of Petroșani, Romania, [isacalin@gmail.com](mailto:isacalin@gmail.com)

## 2. PRESENT AND PERSPECTIVES IN MOBILE APPLICATIONS INDUSTRY

IT professionals often use the term Internet industry applications, for which I took the term of mobile applications industry. The complexity of this field is then recognized also the spectacular development in recent years.

Mobile market has undergone a significant revolution when the smartphones have appeared. These, in addition to the touch screen and internet access, contain a large number of applications designed specifically for different types of phones.

**Table 1. Influencing factors on mobile applications quality**

<b>Factor</b>	<b>Level of influence (low/high)</b>
The involvement of the developer level	
Users expectations	
The distribution way	
Battery life	
RAM memory of the mobile device	
CPU processing power	
Memory on hard disk of the mobile device	
The source code	
Used technologies	
Commands rapidity	
The information volume provided	
Testing level	

Source: <http://revistaie.ase.ro/content/69/12%20-%20Zamfiroiu.pdf>, Alin Zamfiroiu Factors Influencing the Quality of Mobile Applications, vol.18, no.1-2014, pp 131 138

These mobile applications (Mobile App) are aimed to make life easier for those who use them, thus saving time and effort. The trend in their development is clearly one of accelerated development and some of the landmarks present and future would be:

- By 2018 the development of mobile phone applications could contribute 63 billion euros to the EU economy and create jobs for 4.8 million people according to a survey by GigaOM and NUI Galway for the European Commission. Currently, in the mobile apps industry is working a million developers and 800,000 people in marketing and support, and the number could grow to 2.7 million developers, respectively over 2.1 million employees by 2018;

- Globally developers from the European Union and North America share the equally specialized markets in the EU and the U.S. - 42% each and 28 of the companies in Europe have created 40% of the most used mobile applications in the EU and U.S., and three of the top five companies are game developers in the Nordic countries - King, Supercell and Rovio;
- Number of applications grows very rapidly, eg July 2013 Google Play store have about one million applications. Also there are 0.9 million Apple Apps, only 100.000 less than Google Play apps. We can count nearly 2 millions of mobile apps available for Android or iOS;
- 16% of U.S. households have paid bills using cell phone in 2013 from 6% in 2011. Trend was more pronounced among users of smartphones: the percentage of smartphone owners was 30 %, from 12% in 2012, according to data obtained by Bankinnovation and Business Insider.

### **3. CLASSIFICATION OF MOBILE APPLICATIONS**

The popularity of mobile devices and development tools provided by the manufacturers of mobile operating systems or development environments professional producers allowed the creation of smart phones apps able to send and receive information to / from a data server resulting in portable solutions for a wide range of applications such as portable test systems, the monitoring and/or control, or portable data acquisition systems.

Mobile applications can be structured according to several criteria, such as where the fields that can be used:

- General Information Applications that are used by users for information in various fields and can be for example weather applications;
- Network communication applications are applications that users communicate with other users through social networks or similar applications, such as Skype, Viber etc.;
- Entertainment applications that users access different games or read newspapers;
- Economic applications where users can make payments online, using e-commerce;
- Applications with personal accounts that can be used only by logging.

Depending on the objectives of the application developer, they can be:

- Native mobile applications are written in a programming language specific for the developing platform and are available through the online store of the chosen operating system. Such applications are frequently downloaded and used for facilities related to shorter response time for some operations; greater visibility and the user experience;
- Hybrid mobile applications are made using web technologies (JavaScript, HTML, CSS) and the main advantage of using refers to the fact that applications have a

higher visibility on the platform is launched as markets distributed applications used by most mobile users .

Another classification criterion is related to the operating systems that cover iOS, Android, Windows and according to them in the following table there is a structure type used programming languages and specific platforms that develop.

**Table 2. Structure type used programming languages and specific platforms that develops**

Operating System	Programming Language	Platform	IDE
Android	Java, C++	Android SDK/NDK	Android Studio
iOS	Objective C	Cocoa Touch	Xcode
Windows Phone	C#, Visual Basic .NET (Windows Phone 8), C++	.NET, Windows Phone Runtime API	Windows Phone Software Development Kit
BlackBerry OS	Java	BlackBerry Java SDK	BlackBerry JDE/Eclipse plug-in
Firefox OS	JavaScript	WebAPI	Any HTML IDE, JavaScript and CSS (NetBean, Eclipse etc.)
Symbian	C++	Qt	Qt Creator

Source: [http://www.todaysoftmag.ro/article/ro/15/Dezvoltarea\\_aplicatiilor\\_mobile:\\_%C3%8En tre\\_nativ\\_si\\_hibrid\\_542](http://www.todaysoftmag.ro/article/ro/15/Dezvoltarea_aplicatiilor_mobile:_%C3%8En tre_nativ_si_hibrid_542)

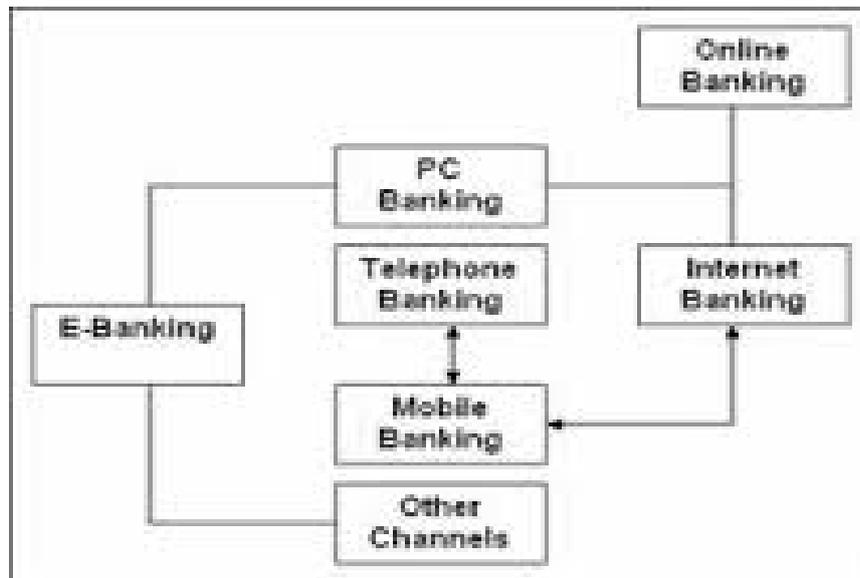
#### 4. WHAT CAN A MOBILE APPLICATION DO IN BANKING

E-banking is the wave of the future. It provides enormous benefits to consumers in terms of ease and cost of transactions, either through Internet, telephone or other electronic delivery channels (Nsouli and Schaechter, 2002).

The first online banking service in the United States was introduced in October 1994. Was developed by a financial institution called the Stanford Federal Credit Union. In 20 years online banking have developed amazing and are a category of mandatory services for any type of bank. Although there are still arguments against electronic technology, it has made a revolution that led to the consolidation of the banking sector. The pros are many and they are determined by the user that now you don't need to go to branch banking for each operation and you can do from your computer or even your mobile phone. Even if these services have developed in 20 years, some distinct phases can be identified on the use of mobile telephony in dealing with banks:

- Stage use SMS for various services, like the example of using the framework announcement, receiving input password in internet banking service;
- Stage using SMS and mobile applications, although the number of SMS users in the relationship with the bank is increasing, it is identifying a clear and increasingly large segment of users of mobile applications;

- Phase development of mobile applications used on smartphones with advanced technology. Digital banking market explodes. Worldwide more than half a billion people use mobile phones for personal banking, that number will double in the next four years.



Source: Chai Lee Goi, Curtin University of Technology, Sarawak Campus, *Factors Influence Development of E-Banking in Malaysia*, *Journal of Internet Banking and Commerce*, August 2006, vol. 11, no.2

**Figure 1. Structure of e-Banking**

In Internet banking, the last three years have brought a new technology, the mobile banking applications. Among the services offered by these applications there are: Making money transfers; Paying bills; The establishment and withdrawal of bank deposits; Consultation of the bank account records and transactions history; Consultation of the BNR exchange rates or other banks; Making exchanges.

## 5. BANKING MOBILE APPLICATIONS IN ROMANIA

In Romania there are over 235 000 banking mobile apps users - both individuals and businesses - and their numbers are expected to grow by 50% by 2015. Such predictions are correlated with the launch of mobile banking applications to all several banks and increase the number of smartphone upper class users. Even though in 2013 there were seven banks offering such services - BCR, BRD, Transilvania Bank, Raifeissen Bank, ING, Unicredit, AlphaBank - their rapid evolution will cause the other to implement such services.

For example, application launch 2013 Mobile MyBRD latest and comprehensive mobile banking solution on the Romanian market made within 10 months the number of visitors to 30,000 who made 17,000 transactions worth more

than 5.5 M EUR and the total number of users in Romania increased by 15% within two months of launch. Unlike applications from the other banks, stands out the most innovative ways to transfer and barcode scanning invoices, transfers to the QR codes and phone numbers. Click 24 Banking BCR is an application that provides a range of services such as: view transactions that are carried out immediately; current account balance check and debit or credit cards in real time; viewing domestic and foreign currency transfers to BCR beneficiaries customers, lei transfers to other beneficiaries, use personal templates stored on the web, check balances of deposits, loans and fund units, amounts reimbursed by credit card, check amounts blocked from credit card transactions to view messages sent by the bank etc..

Trends in the use of mobile banking applications are spectacular, such as ING is implementing a testing program of mobile banking applications that allow customers to log and perform transactions through "voice recognition" that is coming into your bank account and the actual payment is made by conducting voice commands. BT Bank launches social service banking through which the user can access their bank account via Facebook or can borrow some money from friends' network.

## **6. MOBILE BANKING APPLICATIONS WORLDWIDE**

A survey conducted by the Federal Reserve, in 2013, showed that nearly 50% of America smartphone users accessing mobile banking applications.

### **MobilLender**

One of the most popular applications in mobile banking application is MobilLender, world's first service lending small value in a very short time only by phone in Mexico. The application provides loans in less than 30 minutes directly on mobile phone applications available through a non-stop, 24/7, without any written documentation, without warranty and without checking the credit history of the customer. Crediting mobile phone is in five steps. The loan amount can vary between 50 and 500 dollars, for periods between 5 and 30 days, the interest rate is 1% per day.



**Figure 2. Steps for MobilLender**

Advantages of application MobilLender are obvious:

- offers a lending solution exclusively on mobile phones. Why mobile phone? Because "the mobile phone is the future credit card";
- strong integration in social networks - social networks based algorithm. The application was developed in Mexico as 9 out of 10 Mexicans internet users are in a social network;
- extensive understanding of specific local market. In Mexico there are 45.1 million internet users of which 40% are between 18 and 34 years who own and use bank cards and spend an average of 5 hours per day on the internet.

### Picture Pay

Picture Pay is another frequently used application with which you can pay bills using smartphone or tablet by photographing and saving the document. The next stage is complete all required fields of the payment, scanning directly your personal data from the photo.



New electronic channels are replacing the more traditional ones. Mobile devices represent the recent development in electronic service distribution. According to Forbes, "Every business should think about creating an application today. It's not a fad or a trend of the moment." Technology and applications of mobile phones offer many opportunities for businesses, they also presenting a continuous development and new challenges. Although this service is currently viewed with reluctance by customers, banks need to overcome this drawback and understand how this service can be combined with other alternative channels such as social media, to create value for customers. The low costs

of computer and communication devices will encourage customers to move in to E-banking much faster than they did in the case of ATMs. If banks can't meet these customer demands quickly, they will lose a substantial part of their business in the next 5 to 10 years.

**REFERENCES:**

- [1]. **Dura, C.; Isac, C.** (2007) *Economia întreprinderii*, Editura Universitas, Petrosani
- [2]. **Drigă, I.** (2012) *Produse și servicii bancare*, Editura Sitech, Craiova
- [3]. **Goi, C.L.** (2006) *Factors Influence Development of E-Banking in Malaysia*, Journal of Internet Banking and Commerce, 11(2), August
- [4]. **Laukkanen, T.; Lauronen, J.** (2005) *Consumer value creation in mobile banking services*, International Journal of Mobile Communications, 3(4)
- [5]. **Mallat, N.; Rossi, M.; Tuunainen, V.K.** (2004) *New architectures for financial services*, Communications of the ACM Magazine, 47(5), May, New York, USA
- [6]. **Nsouli, S.M.; Schaechter, A.** (2002) *Challenges of the "E-Banking Revolution"*, Finance & Development, 39(3), September
- [7]. *Statistics on the Growth of Mobile*: <http://blog.ginocosme.com/tag/mobile-statistics-2011/>
- [8]. <http://www.zf.ro/business-hi-tech/industria-aplicatiilor-mobile-ar-putea-contribui-cu-63-mld-euro-la-economia-ue-pana-in-2018-12079830>
- [9]. <http://www.pentalog.ro/mobilitate/business-line-mobilitate.htm>
- [10]. [http://www.todaysoftmag.ro/article/ro/15/Dezvoltarea\\_aplicatiilor\\_mobile:\\_%C3%82Entre\\_nativ\\_si\\_hibrid\\_542](http://www.todaysoftmag.ro/article/ro/15/Dezvoltarea_aplicatiilor_mobile:_%C3%82Entre_nativ_si_hibrid_542)
- [11]. <http://www.bankingtech.com/category/format/features/>

## **INTERDEPENDENCE OF ENTREPRENEURSHIP – ECONOMIC DEVELOPMENT**

**CLAUDIA ISAC** \*

**ABSTRACT:** *The purpose of this paper, namely to inform about the entrepreneur's importance in the economic development of a country, is based upon the idea of occurrence and development of the entrepreneurial phenomenon and its implications regarding the person who makes the decision to become an entrepreneur and also on the scale and effects that this phenomenon may have on the development of a country and society in general. Thus, after a brief presentation of the qualities an entrepreneur must have we showed that these qualities are not restrictive and implicit for the development of a business, especially in this current dynamic economic environment and training is continuous and flexible. I also pointed out the importance entrepreneurial training has not only on the current or future entrepreneur but also upon the financial environment and on the education of future generations towards a pro-entrepreneurial attitude and even the formation of an entrepreneurial culture that has proved to be extremely beneficial for the development of the private economic activities within developing countries.*

**KEY WORDS:** *Entrepreneurship, Entrepreneur, Economic environment, Pro-entrepreneurial attitude.*

**JEL CLASSIFICATION:** *L21, L26.*

### **1. HISTORICAL LANDMARKS**

From historical point of view, an early form of entrepreneurship has been developed in conjunction with human evolution, so if at first there were problems of subsistence, later on the developments within the society linked entrepreneurial qualities to some specialized professional categories either in the agricultural sector, that of processing resources, or even in the field of construction.

Entrepreneurship started to be recognized during the reign of the French monarch Louis XIV who used to assert that "*the bourgeoisie and the handicraftsmen will become the source/generator of wealth*". Focusing on the relationship between

---

\* *Assoc.Prof., Ph.D., University of Petroșani, Romania, [isacclaudia@gmail.com](mailto:isacclaudia@gmail.com)*

work and capital, we can observe a significant change toward the end of the European Middle Ages, a historic moment for modern entrepreneurship being the year 1775 when in Europe, James Watt formed a partnership with Matthew Boulton for using the steam engine and in North America, during the American Revolution, the first American joint-stock corporation was hereby established.

The historic landmarks of entrepreneurship after this year are multiple and they point out outstanding entrepreneurs who generally are successful inventors who had a significant impact on the development of the company, Henry Ford, Thomas Edison or Bill Gates, being only three successful names of the inventor-entrepreneur correlation.

## **2. THE CONCEPT OF ENTREPRENEUR**

In Romania, during the centralized economy the entrepreneur was perceived as a person who, on the basis of contractual clauses and conditions, commits oneself to carry out various services in favour of another organization (industrial, construction, etc.) in exchange for a payment established in advance.

The term was used mainly in the construction field and the main contractor in this context had to contract with one or more sub-contractors part of the work for which the signed the agreement with the beneficiary.

Thus, due to the work contracted out, the contractual responsibility for the whole project falls with the main contractor who has the obligation towards the beneficiary to complete the task.

Even in the dictionary of the Romanian language the definition of “entrepreneur” shows that the word comes from French, meaning a person who undertakes a contract as opposed to a general vision presented in Romania by the entrepreneurial events and by the specialized literature of the past 5 years, whereby a contractor is a person who takes on tasks and is self motivated to carry them out.

The specialized literature presents several definitions of the concept, among which the most comprehensive is the one according to which the entrepreneur is the one who takes risks, innovates depending on the opportunities cropped up, gets and makes use of resources in order to produce and sell products and/or services required on the market (Burdus, et al., 2010).

Assimilated with this notion, the entrepreneur is a natural person or a legal entity who, individually or in cooperation with other authorized individuals or legal entities, sets up a company in order to carry out some tasks and trade activities which turn out profits from the provision of goods or services, from selling them on the market in terms of competition. (Law No. 133/1999 on stimulating private entrepreneurs to set up and develop small and medium-sized enterprises).

## **3. THE ROLE OF THE QUALITIES OF THE ENTREPRENEUR**

*The role of the entrepreneur* is to organize and coordinate the activities of a company in order to achieve a personal gain. He pays suppliers of materials, the rent for land, the salaries of employees; he manages all the capital required. What is more

important, the entrepreneur is the one who elaborates business development strategies, defines strategic objectives, supervises and evaluates their implementation. As Professor Howard Stevenson from Harvard University says, the entrepreneur pursues any business opportunity, beyond the resources in his possession or control. In addition, he 'involves' his personal initiative, talent and ability into planning, organizing and managing the company.

At macroeconomic level, the role of entrepreneurship is important as well and considering its size, in Kent writes in the Encyclopedia of Entrepreneurship that "turning out new products and technologies that best meet the consumer's demands and increasing productivity has been the most important force during the long and thorny history of human rising from an underdeveloped condition to prosperity".

Thus, in a world marked by changes, the globalization of businesses, the acceleration of the life cycle of businesses and products, the decentralization of production processes within small units, the development of the information society, the role of entrepreneurs is a particular one and the development of entrepreneurial skills is a must.

According to a synthesis made by Professor Vaduva S. (2004) both the quality and the quantity of entrepreneurial activities can be stimulated by a consistent investment in developing entrepreneurial qualities. Regardless of the field of activity or the level of professional training, the psychological profile of the contractor includes qualities such as:

1. **independence**, very much desired by entrepreneurs, perhaps the most valuable feature. Entrepreneurs like to be independent and to control situations. Many of those who decide to be entrepreneurs considers this management position one of the most important benefits of entrepreneurship (Crețu, & Daniliuc, 2012);
2. **self confidence** helps entrepreneurs to overcome inevitable problems, they are always positive and confident about the future of the business;
3. **perseverance and ambition**, two qualities that account for the success of entrepreneurs. They must make sustainable effort to reach the targeted goals knowing that success does not always come right away;
4. **discipline** is a requirement and a quality of the entrepreneur so that everything goes according to plan. Self-discipline helps entrepreneurs be professionals with effective solutions and results.

There are other important personality requirements that an entrepreneur must meet:

- **the entrepreneur is a good manager.** He must be able to bring together resources and to organize them in order to achieve the targeted goals. A good entrepreneur must make the correct decisions quickly and to keep him permanently updated with management issues and specifically human resource management issues. He is a successful leader and he always has a plan, a vision about a specific thing or situation;
- **the entrepreneur is an opportunist and an innovator** who can discern business opportunities, developing a new product, producing it or just placing it on the market. A good entrepreneur must know to develop

creative ideas. Creativity is present in every successful business and is a must. He is looking for opportunities or novelties, so as to better meet the demands or open new markets;

- **the entrepreneur is a 'player'** who loves and even creates challenges. Setting up a business or marketing innovations present a higher risk. Therefore, innovation means in fact uncertainty and this fact is proven by the difficulty of finding financial resources to start a business. The entrepreneur, as any player, has the idea that what he does will be a success and that the profit on the invested capital will be reasonable;
- **the entrepreneur is self-motivated**, the challenge is in fact one of his goals, and the success determined by the profit is the evidence of his good decisions/choices. The entrepreneur's motivation is the result of his ambition and perseverance, of his self confidence. The fact that he is willing to learn and to experiment at all times induces a positive attitude and thus he can encourage the people around him;
- **the entrepreneur is able to communicate**. On the one hand, his message must create a clear vision on the information submitted and on the other hand it is necessary to encourage communication within the company, both on the managerial level and in terms of communication between managers and employees. What is important, a really good leader avoids ambiguities and generalities, because these can lead to misunderstanding, to poor performance or even conflicts ([www.entrepreneur.com/article/227776](http://www.entrepreneur.com/article/227776)).

In a developed economy, the number of entrepreneurs is becoming bigger, a fact also revealed by both economic and social levers coordinated by the state and implemented for the stimulation of the business environment and by entrepreneurial capacities and the attitude of these people.

#### 4. THE INTERDEPENDENCE OF ENTREPRENEURSHIP AND THE LEVEL OF DEVELOPMENT OF A COUNTRY

From the entrepreneur's point of view, *the decision to set up his own company is influenced mostly by the following factors* (Vaduva, 2004):

- the existence of a valuable business idea and the size of the outlet market;
- the entrepreneur's culture;
- the extent to which the entrepreneur is willing to risk;
- the extent to which he capitalizes the business opportunities that arise;
- the support he can count on from his family, friends, business community;
- the example of teachers and successful entrepreneurs.

Thus, the entrepreneur's intention should be encouraged so that a growing number of people with different professional training would feel able to plan, set up and run their own business.

Entrepreneurial attitudes and perceptions influence the level of development of national economies. These attitudes must be educated and stimulated. In a country such as Romania, where the attitude towards entrepreneurs is a wrong one, the development

of the private sector development is not yet done according to the general principles and rules applicable in a capitalist country.

Business in Romania is still regarded as an illicit activity and the examples within the mass media come to reinforce these perceptions, to the detriment of so many examples of businesses and entrepreneurs who obviously represent the Romanian entrepreneurship not only in number but also in the volume of activity, number of employees etc.

The ruling out of some erroneous perceptions regarding the entrepreneurship must be made primarily by educating citizens and the younger generations. However, the paradox is that precisely those who should have an entrepreneurial education are the ones who distort the reality or create a negative image of it. Hereby we speak of entrepreneurial education in schools, colleges and even some universities of Economics within Romania. From this point forward up to the graduates' reluctance to start a business or to get involved in a political or social entrepreneurship there is just one step. The quantification of this phenomenon starts to have an impact upon macroeconomic indicators, as well.

According to Davidsson (1991) an important engine of national entrepreneurial capacity is how people perceive entrepreneurship. Initiatives to encourage entrepreneurship and the setting up and development of SMEs can be found within the economic development strategies in both developed countries and developing ones. The strategies for the development of small businesses and for stimulating entrepreneurship represent a "magic bullet" in trying to promote economic development and dynamism in a competitive global economy ([www.eoficial.ro](http://www.eoficial.ro)).

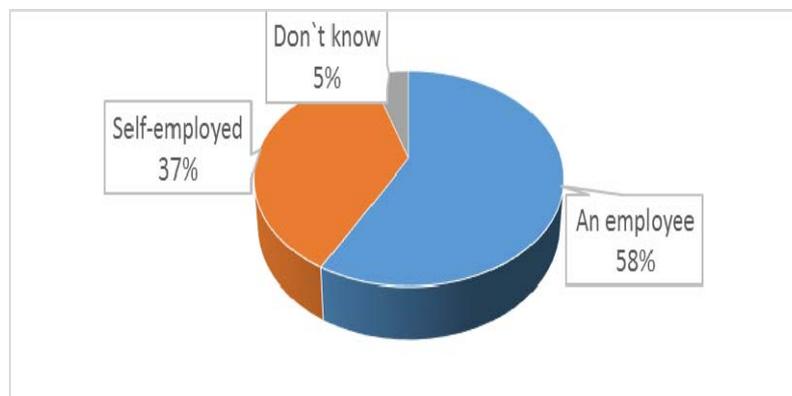
In this context, it is necessary that the entrepreneurial policies would be included in public policies and strategies, would be established based on a holistic approach with the effect of increasing the entrepreneurial capacity of the economy. On condition the biggest source of income for the State budget comes from private properties and in particular from private owned companies such an approach is necessary, and the tools used must be diversified and complex, they should start with the financial and entrepreneurial education of youngsters and clerks and continue with the stimulation of private operators by significant fiscal facilities.

Thus, there is no "magic bullet" the state could use, there are several policy instruments that can be used to promote entrepreneurship and economic development. Economies stimulated towards innovation and entrepreneurship require various types of entrepreneurial policies as compared to those stimulated by legal factors relating to the rule of law and property.

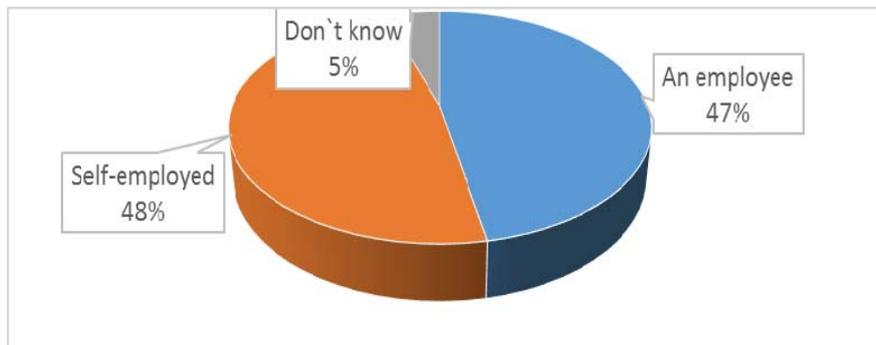
In addition to the essential role of the State in the development and implementation of tax strategies, or in starting programmes that support entrepreneurial activities, another important role is attributed to entrepreneurial education in schools. In conclusion, teaching pupils and students basic notions regarding the entrepreneurial activity is the teachers' duty and interest. At the same time, it is necessary to present a realistic picture of how private companies influence, through financial instruments the creation and implementation of the national budget and the labour market equilibrium. The importance of the entrepreneurial phenomenon in a country is huge and it stems from the effects it has on the economy of the country and on the welfare of its citizens.

## 5. STATISTICAL ABOUT SMES EVOLUTION

The European Commission aims to promote successful entrepreneurship and improve the business environment for SMEs, to allow them to realise their full potential in today's global economy. In Romania, nearly half (48%) people say that if they could choose between different kinds of jobs, they would prefer to be self-employed rather than be employed by a company. This compares with just 37% who express a preference for self-employment at EU level. About the same number of respondents (47%) in Romania say that they would prefer to be an employee – a result that is somewhat lower than the 58% of people who give this answer at EU level (European Commission, 2012).



**Figure 1. Preferences for entrepreneur in UE**



**Figure 2. Preferences for entrepreneur in Romania**

Employment in the private sector is mainly provided by small and medium sized enterprises (SMEs) in both industrialized and emerging economies.

The more than 20 million SMEs in the EU represent 99% of businesses, and are a key driver for economic growth, innovation, employment and social integration.

The statistics presented in Table 1 provides an overview of key indicators to SME sector in Romania in 2011.

**Table 1. SMEs in Romania**

	Number of enterprises			Employment		
	Romania		UE 27	Romania		UE 27
	Number	%	%	Number	%	%
Micro	464.659	88,5%	92,1%	1.075.822	24,4%	29,8%
Small	49.173	9,4%	6,6%	961.952	21,8%	20,4%
Medium	9.669	1,8%	1,1%	964.607	21,9%	16,8%
<b>SME</b>	<b>523.501</b>	<b>99,7%</b>	<b>99,8%</b>	<b>3.002.381</b>	<b>68,1%</b>	<b>66,9%</b>
Big	1.741	0,3%	0,2%	1.403.223	31,9%	33,1%
<b>Total</b>	<b>525.242</b>	<b>100%</b>	<b>100%</b>	<b>4.405.604</b>	<b>100%</b>	<b>100%</b>

Source: European Commission, Romania – SBA Fact Sheet, 2010/11

In terms of numbers, 99.7% of Romanian enterprises operating in the SME sector, and this percentage is almost identical to the average for the European Union - 99.8%. Regarding distribution by size class, most SMEs in Romania fall into the category of micro, which lies a percentage of 88.5% of the total, compared to an average of 92.1% of the Union.

**Table 2. Active economic and social operators of national economy, by size class in Romania in 2011**

Economic and social operators type (CANE Rev.2 sections)	of which: by size class, according to employees number				Total
	0-9	10-49	50-249	250 -	
Enterprises	394091	47790	8640	1650	452171
Agricultural holdings	12853	2066	205	28	15152
Enterprises from industry, construction, trade and other services	375479	45221	8335	1573	430608
Financial and insurance companies	5759	503	100	49	6411
Public administration	2675	6534	3716	475	13400
Private administration	81143	1793	261	25	83222
Private entrepreneurs	280377	-	-	-	280377
Total	758286	56117	12617	2150	829170

Source: Annual Statistical, Romania, 2011, [www.insse.ro](http://www.insse.ro)

The total number of SME's in Romania is 464.659. In the map presented above it can be seen that Bucharest alone represents approximately 20% of the total of companies listed with a number of 76.355 companies followed by Cluj with 4.3% with a number of 17.409 companies and Constanta with 4.1 % with 16.637 companies.

## 6. CONCLUSIONS

The SMEs have an essential role in the Romanian economy. They represent a source of entrepreneurial activities, innovation and have a job generator role. Some

solutions to sustain the activity of the SME sector, which is without a doubt the most important sector in the Romanian economy, but is never considered as such are: defrosting crediting for financing SME's; a large number of fiscal facilities meant to ease up the financial situation of SME's; decreasing social contribution percent age; facilitating crediting, guaranteed by the state etc.

#### REFERENCES:

- [1]. **Burdus, E.** (coord.) (2010) *Întreprinzătorul*, Editura Prouniversitaria, București
- [2]. **Crețu, D.; Daniliuc, F.** (2012) *Ghid practic pentru antreprenori*, Editura Universul Juridic, București
- [3]. **Dura, C.** (2007) *Management strategic*, Editura Universitas, Petrosani, 2007
- [4]. **Vaduva, S.** (2004) *Entrepreneurship: Applied Practices in Romania and Other Transitional Nations*, Editura Economica, București
- [5]. **European Comission** (2012) *Entrepreneurship*, Country Report Romania, June
- [6]. Law No. 133/1999 on stimulating private entrepreneurs to set up and develop small and medium-sized enterprises
- [7]. <http://www.entrepreneur.com/article/227776>, february 2013
- [8]. <http://www.eoficial.ro/2013/10/30/finantarea-antreprenoriatului-la-nivel-global-a-avut-rezultate-mixte/>
- [9]. [http://ec.europa.eu/enterprise/policies/sme/index\\_en.htm](http://ec.europa.eu/enterprise/policies/sme/index_en.htm)
- [10]. [www.insse.ro](http://www.insse.ro)

## **BANKRUPTCY – EFFECTS ON BUSINESS ENVIRONMENT**

**CLAUDIA ISAC \***

**ABSTRACT:** *Assuming that insolvency is an economic reality that cannot be ignored especially in the current context, and the concerns in the regulation of a flexible and efficient procedures are numerous both nationally and in the European Union, we have structured the work in two parts, respectively the first part, in which are presented the theoretical aspects of the implementation of the insolvency, more precisely the reorganization and bankruptcy proceedings and the second part, where we made a brief analysis of insolvent companies between 2010-2012. The paper ends with a brief presentation of the insolvency process in Eastern and Central European countries compared to Romania.*

**KEY WORDS:** *insolvency, bankruptcy, reorganization.*

**JEL CLASSIFICATION:** *G01, M10.*

### **1. INTRODUCTION**

In the Middle Ages, bankruptcy regulations have evolved in two distinct ways, respectively the Anglo-Saxon origin laws aimed to discharge the debt of the creditor from the debtor and granted the creditor a certain delay in order to lead to the survival and recovery of business and the Latin origin laws which pursued in a manner to prioritize the creditor protection. Initially, commercial insolvency were proceedings were narrowed to the bankruptcy procedure and it represented a special way of enforcement by liquidating the debtor's assets and settling the liabilities by the payment of debt. Over time, this procedure was subject to changes and now, the law gives the creditors a special tool to cover the debtor's claims who is unable to pay the debts, the commercial bankruptcy procedure.

According to the Law no. 85/2006 concerning bankruptcy, the insolvency is the state of the debtor's assets which is characterized by the shortage of funds available for the payment of liquid and certain debts. Insolvency is presumed to be manifest when the debtor, after 30 days from the due date has not paid his debt to one or more

---

\* *Assoc.Prof., Ph.D., University of Petroșani, Romania, [isacclaudia@gmail.com](mailto:isacclaudia@gmail.com)*

creditors and is imminent when it turns out that the debtor will not be able to pay by the due by the debts with funds available on the due date.

This procedure opens, at the request of the debtor or the creditor and may include the procedure of reorganization and/or the procedure of bankruptcy. Therefore, the two sub-procedures - bankruptcy and reorganization - are both part of insolvency.

The judicial reorganization procedure is the insolvency procedure that apply to the debtor in order to pay his debts, according to a plan of debt payment rescheduling. It involves the preparation, approval, implementation and compliance of a plan, called reorganization plan, which may include, together or separately: the operational and/or financial reorganization of the debtor; the corporate reorganization by changing the social capital structure; the cessation of certain activities by the liquidation of certain assets from the debtor assets. If following the application of reorganization procedure, the company subject to the procedure, respectively the debtor fails to pay the debts in the period established in the procedure, it proceeds to the next step, the implementation of bankruptcy proceedings.

The bankruptcy procedure is part of insolvency procedure which is applied to the debtor in order to liquid the assets to cover his liabilities, followed by removal of the debtor from the registry in which he is registered. Accordingly, when a company is in bankruptcy, it can be said that it is insolvent. Conversely, if a company is in insolvency proceedings does not mean that, by default, it is in bankruptcy, it may be the stage of reorganization and by following the steps of this stage to recover financially.

## **2. THE MAIN STEPS IN THE IMPLEMENTATION OF THE INSOLVENCY PROCEDURE**

*The opening of insolvency procedure* is based on an application brought to court by the debtor or by creditors as well as any other persons or institutions established by law. This application must be accompanied by the following documents: annual financial statements; trial balance for the month preceding the date of filing of initiation; the situation of the debtor's assets, including all the accounts and banks through which the debtor is running liquid assets.

The complete list of creditors and the value of the debts to them as well as their form, certain or under condition, liquid or illiquid, due or not yet due, uncontested or contested, indicating the amount, the cause and the preferential rights; the list of payments and property transfers made by the debtor during the 120 days preceding the filing of the application.

The list of current activities that he intends to conduct during the observation period; the associations or shareholders situation, as applicable; the debtor's declaration which indicates his intention to enter the reorganization procedure, according to a plan, by restructuring the activity or liquidating, partially or totally, the assets, in order to pay his debts; an affidavit, notarized or certified by a lawyer, or a certificate from the register of agricultural societies or, where appropriate, the Trade Registry Office in whose territorial jurisdiction is the place of business / registered office, showing if it has been subject to proceedings under this law within 5 years prior to the application

stage; certificate of admission to trading on a regulated market of securities or other financial instruments issued. During the observation period the trustee examines the legal and patrimonial situation of the society to assess whether there are real perspectives for the financial recovery go it, and in this case it will continue with the judicial reorganization procedure under a reorganization plan, or if after the review, it finds that the company must be liquidated, the procedure of bankruptcy.

*The implementation of the reorganization procedure.* In principle, the legal regulations discourage the debtor to ask for reorganization, based on the argument that if an insolvent company has a chance to reorganize, it shall be the responsibility of another person than the one who brought the company insolvent, respectively the insolvency administrator or the creditors. According to the Law no.85/2006 on insolvency proceedings, the procedure involves the application of a reorganization plan that will indicate the prospects for recovery in relation to the possibilities and the specific activity of the debtor, with the available funds and with the market demand to the offer of the debtor, and it will include measures consistent with the public order, including the manner of selection, appointment and replacement of the administrators and directors.

*The reorganization plan* will include payment program of the claims and its application cannot be made for a period exceeding three years. This plan must be drawn both from the financial perspective and includes the claims situation, the compensation offered to the holders of claims and whether and to what extent the debtor, the economic interest group members, the holders of the collective companies associations and the general partners of limited partnership companies will be discharged of responsibility as well as from the methodological perspective by prioritizing appropriate measures for its implementation, such as: the retention by the debtor of the company's management; obtaining financial resources to support achieving the plan; the transmission of the debtor's assets; the merger of the debtor; the liquidation of all or of a part of the debtor's assets; the modification or termination of the real pledges; the extend of the due dates etc..

*The implementation of bankruptcy.* When a company recovery is no longer possible, bankruptcy is a last resort to pay the company's debts by liquidating the entire asset. In general, the payment of such debts is only partially made when the losses of the company exceed its equity, these losses being financed, basically, by loans from financial institutions or suppliers. Most debtors ask for the opening of the insolvency procedure too late, when it is imminent, and the chances of a reorganization are minimal, so they are in fact, simplified bankruptcy procedures. Bankruptcy, in general, follows the steps:

- a) *The initial stage* in which take place the seal and the inventory of the assets belonging to the debtor, the freeze of the bank deposits, the preparation of the creditors list and the checking procedure of the accounting documents of the company;
- b) *The stocktaking stage* which involves checking the amounts receivable from its customers, the inventory of the fixed and circulation assets, the recovery of these amounts from customers and cancelling transactions onerous. If it appears that there are no assets in the firm's patrimony, that there is no

demand for them or are insufficient to cover the administrative costs, the judge may give the verdict of terminating the proceeding, which give the opportunity to strike the debtor from the register where it has been registered;

- c) *The liquidation stage* which evaluates the assets that can be sold, the debtor's assets are sold at auction or directly and it collects the revenue from the assets liquidation. Every three months, the liquidator presents to the creditors' committee a report on the funds obtained from liquidation and collection of receivables and a plan of distribution between creditors.

The distribution of funds stage involves the establishment of the fund distribution rapport and plan by the liquidator and the notification the results to the creditors, the cover of the expenses related to the liquidation and payment of receivables, in the order established by the law and the preparation of the final report and the balance by the liquidator; the bankruptcy closure stage implies that all persons concerned debtors, creditors, security holders, shareholders or members are discharged of any duties or responsibilities that they had before bankruptcy; the delisting of the company implies deleting the firm from the authorities records, respectively from the Trade Register, the territorial branches of public finance etc. Insolvency is an economic reality that cannot be ignored especially in the current context, and the concerns in the regulation of a flexible and efficient procedure are numerous both nationally and at the European Union level.

Regardless of how they apply insolvency, respectively the procedure of reorganization or / and bankruptcy, the purpose of implementation of it is to ensure a viable financial recovery of economic entities. In terms of the effects that this legal-economic mechanism has, we consider it finds two opposite orientations, so if its main objective is to improve the business environment and reducing negative effects of insolvent debtors, the long period of implementation of all stages makes debtors incapability to pay to be passed on to creditors.

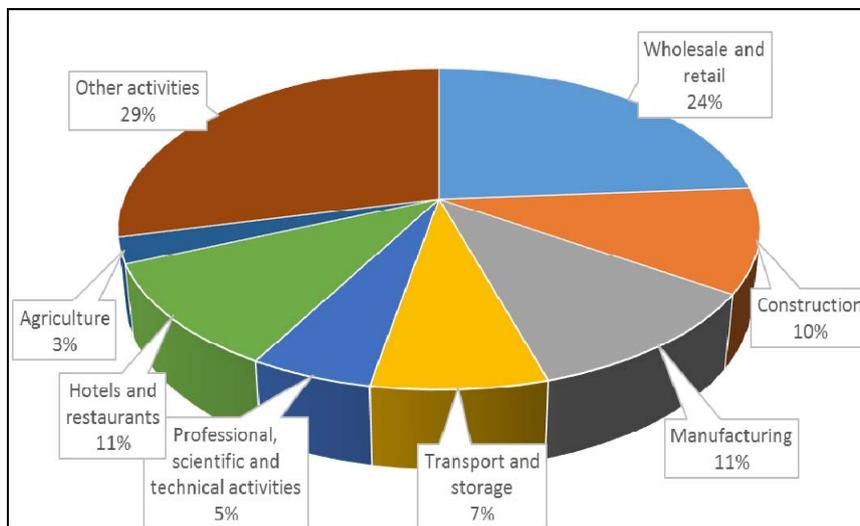
### 3. STATISTICAL ANALYSIS OF INSOLVENT COMPANIES

Even though there are opinions according to which a society which has reached insolvency go on a journey of no return, still we give some examples of companies in the Romanian business environment which shows that by a reorganization flexible managed to recover financially:

- a) *Flanco International SRL* succeeded after 21 months of decline, through an extensive reorganization process, to reach the break-even after eight months of the declaration of insolvency, to restructure loans and reorganize retail network so it becomes the main player in the retail market of IT and electronics;
- b) *Leonardo*, the market leader in the retail of footwear, became insolvent in 2009, in the midst of financial crisis, due to accumulated debts both to the state budget and to suppliers and banks. Reorganization procedure aimed to refresh inventory shift to a broader market segment, reduction and debt restructuring and a flexible trade policy by which to adjust the supply of

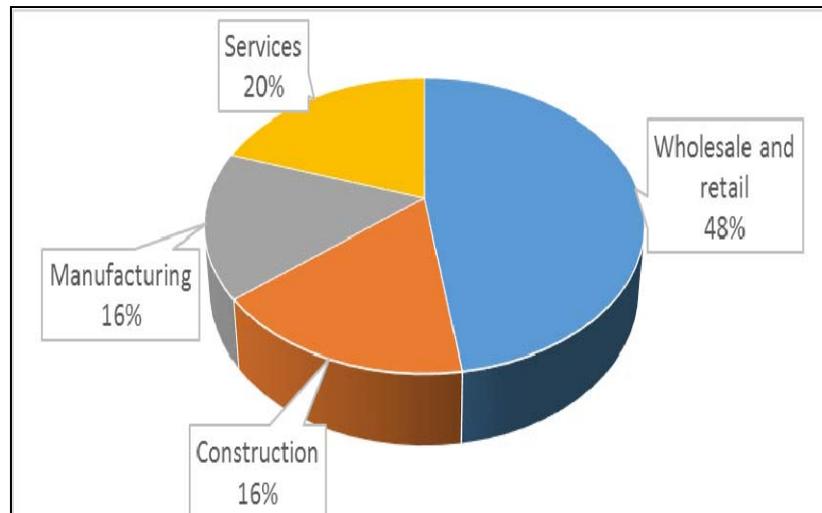
- goods of the 79 stores closer to the existing potential of the market in Romania;
- c) *Pro Express Retail SA*, the company which operates Diverta bookstores, began restructuring of society at both operational and financial corporate debt by converting a portion of the company debts into shares. Period of financial crisis and declining purchasing power of the population has led to a continuous decrease of turnover and hence an increase in operating expenses but the insolvency procedure was succeeded after two consecutive years of negative results for the year, ie 18,439,653 lei in 2009 and 23,768,468 lei in 2010, in 2011 to record a profit of 1,999,998 lei;
  - d) *National Society Plafar S. A.* is a famous example for insolvency, it succeeded a rebranding of the product portfolio and technological modernization of all lines and after 11 years of losses in 2011 registered a gross profit of over 80,000 lei.

As shown in the following figure and the previous examples, the largest share of firms that become insolvent belongs to the trade area with 23.85% in 2011. Equal relative weight between 10 to 11% is still three major areas of the economy, that construction, catering and tourism sector and manufacturing activity. A smaller number of companies entering insolvency record transport and storage of weights over 7% and agriculture 2.6% - where risk factors are addicts, mainly climate and favourable climatic environment can be decisive record of positive financial results.



**Figure 1. Situation on the domain structure of the insolvent firms in 2011**

According to a study on insolvency in EU countries in 2012 compiled by Economic Research Unit Creditreform is found that in the countries of Central and Eastern European states, it is observed that the highest share in the total returns of the companies became insolvent in trade and the hotels and restaurants, followed by manufacturing and construction.



Source: Creditreform Economic Research Unit, *Corporate insolvencies in Europe 2012*, [http://www.creditreform.com/fileadmin/user\\_upload/CR-International/local\\_documents/Analysen/Corporate\\_Insolvencies\\_12\\_13.pdf](http://www.creditreform.com/fileadmin/user_upload/CR-International/local_documents/Analysen/Corporate_Insolvencies_12_13.pdf)

**Figure 2. Contribution of the key economic sectors to overall insolvency in Central and Eastern Europe in 2012**

Compared with other countries, in 2012 Romania registered a record number of companies became insolvent so that over 26,800 companies exceed the combined number of companies became insolvent in Slovakia, Slovenia, Estonia, Lithuania, Latvia, Bulgaria and Croatia, despite that our country has a much smaller number of companies than the European average.

Regarding the evolution of the number of firms that became insolvent, is barely visible a sinuous their number and their geographical distribution. Thus, while in 2010 their number was 21692, which decreases by more than 10% by next year but the year 2012 is one with a substantial increase respectively by 36.4% compared to 2011 and by 23.5% compared to 2010. Their geographical distribution is heterogeneous but the largest concentration of firms toward insolvency is the most developed urban areas where the number of established companies is very high and a much smaller number of poorer, those southern and eastern Romanian regions.

Thus, besides Bucharest in the first period, ie 2010-2011 stands Timis, Constanta, Prahova, Brasov, Cluj, Bihor, Arges, Galați and in 2012 started to increase substantially the number of companies in insolvency counties ranking in the continuation of economic development and Iasi, Gorj, Hunedoara, Arad, Bacau, etc..

In terms of size structure of firms became insolvent, it is found that the highest number reached in this case were SMEs, which represent more than 96-97% at the expense of medium-sized companies, large and very high.

As shown in studies on insolvency and credit risk management made by Coface Romania - member of Coface Central Europe Holding - the impact of insolvencies medium sized companies, large and very large risks for the economy to be stronger than the impact of a much larger number small firms that become insolvent.

Table 1. Situation of insolvency firms

No.	County	Years		
		2010	2011	2012
1	Alba	300	10	307
2	Arad	611	76	1031
3	Argeş	562	137	1111
4	Bacău	517	1	547
5	Bihor	1188	49	1309
6	Bistriţa-Năsăud	291	54	652
7	Botoşani	412	11	205
8	Braşov	851	59	992
9	Brăila	417	79	528
10	Bucureşti	551	79	3565
11	Buzău	461	41	604
12	Caraş-Severin	157	7	310
13	Călăraşi	952	38	156
14	Cluj	990	122	851
15	Constanţa	112	35	1149
16	Covasna	273	59	194
17	Dâmboviţa	1105	29	694
18	Dolj	768	35	863
19	Galaţi	203	61	1275
20	Giurgiu	351	42	339
21	Gorj	321	17	649
22	Harghita	516	44	282
23	Hunedoara	188	20	530
24	Ialomiţa	717	19	336
25	Iaşi	368	111	539
26	Ilfov	418	-	690
27	Maramureş	104	12	582
28	Mehedinti	2256	10	165
29	Mureş	526	90	537
30	Neamţ	289	91	253
31	Olt	235	33	246
32	Prahova	677	55	847
33	Satu Mare	839	-	382
34	Sălaj	219	11	390
35	Sibiu	427	45	425
36	Suceava	232	13	517
37	Teleorman	170	24	240
38	Timiş	790	29	844
39	Tulcea	317	13	361
40	Vaslui	241	-	407
41	Vâlcea	261	-	422
42	Vrancea	509	-	481
<b>43</b>	<b>Total general</b>	<b>21692</b>	<b>19651</b>	<b>26807</b>

Although in 2012 the share of large firms in insolvency was only 3%, their share by turnover volume represents 49% of total insolvencies - up from 16% in 2011 - so for a company declared insolvent will be affected at least 10 SMEs. Of the 800 big companies became insolvent in 2012, 31 entries were registered companies managed by the General Administration of Large Taxpayers whose total debts amounted to 301.1 million lei.

#### 4. CONCLUSIONS

The economic situation in Western Europe – whether in the eurozone or elsewhere in the European Union – remains precarious. The governmental, sovereign debt and banking crisis, which is now in its fifth year, has certainly not been resolved. On the contrary, because of the slowness and half-heartedness with which agreements are reached and action is taken within the EU and the euro area, the crisis of budgets, banks and the currency is impacting more and more visibly on the real economy, manufacturing and service out-put, and the supply of public needs.

#### REFERENCES:

- [1]. **Birchal, A.** (2010) *Procedura insolvenței. Reorganizarea judiciară și procedura falimentului*, Ed. Universul Juridic, București
- [2]. **Monea, A.** (2007) *Teoria și practica insolvenței*, Editura Universitas, Petroșani
- [3]. [http://www.creditreform.com/fileadmin/user\\_upload/CR-International/local\\_documents/Analysen/Corporate\\_Insolvencies\\_12\\_13.pdf](http://www.creditreform.com/fileadmin/user_upload/CR-International/local_documents/Analysen/Corporate_Insolvencies_12_13.pdf) [Accessed 10 May 2012]
- [4]. <http://www.wall-street.ro/slideshow/Legal-Business/136916/insolventa-reorganizari-povesti-de-succes/8/asmita-gardens.html#anchor-of-navigator#ixzz3802mVThl> [Accessed 10 May 2012]
- [5]. [http://www.creditreform.com/fileadmin/user\\_upload/CR-International/local\\_documents/Analysen/Corporate\\_Insolvencies\\_12\\_13.pdf](http://www.creditreform.com/fileadmin/user_upload/CR-International/local_documents/Analysen/Corporate_Insolvencies_12_13.pdf) [Accessed 10 May 2012]

## **EXPANSION OF RUSSIAN MNCs CONTINUES: THE M&A ROAD**

**CLAUDIA ISAC, CODRUȚA DURA \***

**ABSTRACT:** *This paper focuses on the expansion of Russian MNCs in the world and especially in Europe. Thus, after an introduction about the role of MNCs in the context of economic globalization we have presented theoretically the expansion levers of MNCs through mergers and acquisitions. The largest part of the work aims at analyzing the way Russian MNCs were able to expand their activities in most countries in Europe and North America, the allocation of foreign investments in the economic sectors in which MNCs are prevailing and especially in the field of extraction and processing such natural resources as gas, oil, coal and steel. At the end of the paper we have outlined a structure of MNCs and we have pointed out the importance of these companies for the economic development and growth.*

**KEY WORDS:** *Russian MNCs, Expansion, Foreign Assets, Regional Distribution*

**JEL CLASSIFICATION:** *L 21, L 26*

### **1. INTRODUCTION**

Globalization is the process of strengthening market and worldwide businesses connections and it represent the most important economic process from the beginning of the third millennium. This process has accelerated over the past two decades in direct proportion with the progress registered in the field of communications and, in particular, in the development of the Internet, and the study of globalization and international economic exchanges is extremely complex.

Beyond extensive debates on the subject, there is the idea that globalization is nowadays an inevitable and irreversible process if we put the sign of equality between the process of globalization and the process of intensification and multiplication of

---

\* *Assoc. Prof., Ph D, University of Petrosani, Romania, [isacclaudia@gmail.com](mailto:isacclaudia@gmail.com)  
Assoc. Prof., Ph D, University of Petrosani, Romania, [codrutadura@yahoo.com](mailto:codrutadura@yahoo.com)*

economic, social and technological interactions which are established among the main actors in the world economy - nation States, multinational companies and international organizations. MNCs represent a company which operates through subsidiaries in several countries, consisting of the parent company and a number of branches located in different parts of the world. MNC is the most important force for determining and promoting global interdependencies and the main path of expansion on international markets is foreign direct investments (Drigă, 2010).

In this context, the role of MNCs as an accelerator of unprecedented transformations to which we are witnessing at a global level cannot be questioned today, when statistics show that these entities are able to propel the development of any state, and in particular the development of the countries in the process of growth and modernization of economic systems. Beyond the huge amount of resources that they control or the exceptional economic performance recorded at regional or global level, MNCs have achieved success after success by implementing classic strategies of exploiting competitive advantages and business opportunities identified on each market.

Some specialists, such as Reich R. amplifies the role of MNCs and argues that *the standard of living of people will finally depend on the performances of multinational companies and not on the success of each nation* (Reich, 2008).

## 2. MERGERS AND ACQUISITIONS

In contemporary economy characterized by business globalization, the merger of two or more companies is a natural process and it is fundamental for the setting up of multinational companies. **The merger** is a process of unification of economic activities of enterprises which materializes in the creation of a new legal entity or in maintaining the existing legal entity, but in new terms of dimensions and organizational structures. As a rule, mergers take place between companies of the same size, and they are considered "friendly" because the companies agree to the transaction, and also contributed to its completion.

The merger determines the unification of properties of the companies which undergo this process and the exploitation of some advantages related to the increase of market segments, the interdependence of products or the occurrence of economies of scale (Băcanu, 1997). The merger can be achieved by the absorption of a company by another entity or by the consolidation of two or more companies into a new entity (Milelli & Le Goff, 2012). *Merger by absorption* takes place when a company agrees to transfer its property to another company. The transfer of assets may be carried out **in whole** or **in part**. The absorbing company acquires the rights and is supported by the obligations of the absorbed company. *Merger by consolidation* refers to the combination of two or more companies, by transferring assets, into a new company. In this case, the rights and obligations of the company that ceases its existence pass over to the new created entity.

**Partnership** is a form of association of enterprises without creating a new legal entity, through which one of the companies takes part in the affairs of the other company, with the aim to facilitate the increase of profits. A distinct form of partnership is a joint venture that involves the process of creating, sometimes for a

finite time, a new organizational entity within which partners retain legal independence, in order to achieve a synergistic effect. From the practical point of view, the creation of a joint venture marks the emergence of a new economic entity, with its own mission and strategy that borrows valuable elements designed to provide a more solid position on the market from the companies included in the combination (Băcanu, 1997).

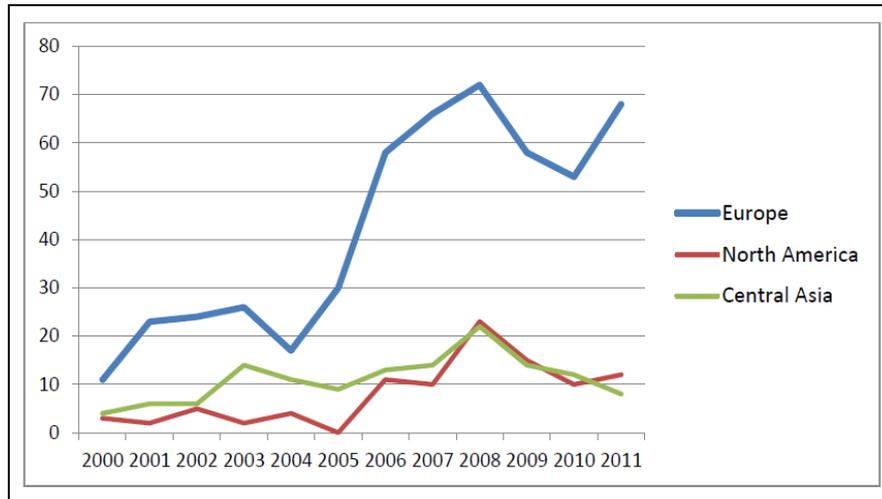
### **3. THE DEVELOPMENT OF RUSSIAN MNCS**

Over a historically brief period, Russia has become a major outward investing country on the global stage. The year 2005 is a critical year for Russian companies with much more deals for the following period than previously; further, the European sovereign-debt crisis has no visible effect on the behavior of Russian companies, but quite the contrary (Milelli & Le Goff, 2012). The most important 25 Russian multinational companies held in 2010 the equivalent of \$59 billion in assets outside Russia (especially in Europe), with an annual turnover of almost \$200 billion, according to a survey commonly carried out by the Skolkovo management school from din Moscow.

Russian companies in the oil & gas and metallurgy sectors control the majority of country's foreign assets. These industries represent the areas of Russian specialization in the world economy. However, many other Russian industries have also begun investing abroad. Companies in machinery, electricity supply, food, transport, telecommunication, electrical equipment are also to be found amongst the top Russian investors abroad (Panibratov, 2010).

The tendency of spreading and presence of Russian MNCs showed signs 'later than the direct competitors', owing to traditional management and strategic partnerships, in particular. However, after 2005 (figure 1) the most important Russian multinationals have quickly understood their role, which implied a development of the business and equilibrium in terms of opportunities and new requirements related to the process of globalization.

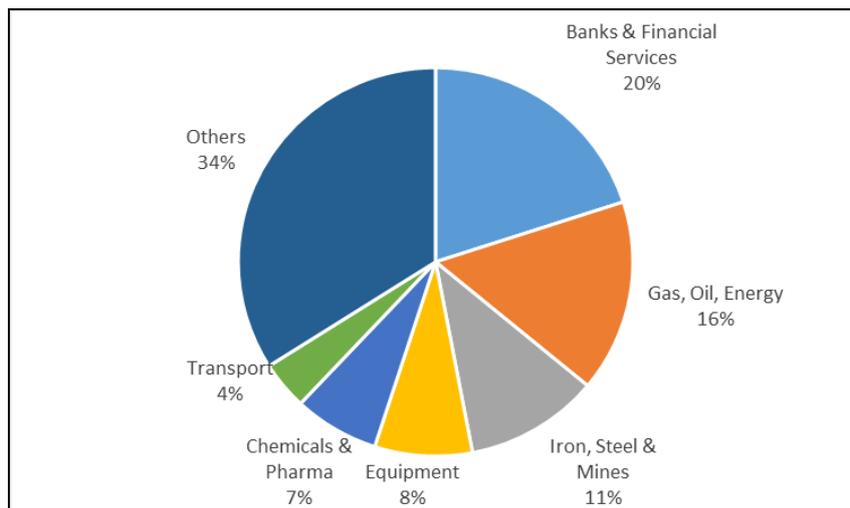
Therefore, the evolution of Russian companies is spreading, especially in Europe, where in 2008 there were more than 70 MNCs, registering a decrease during the crisis period 2009-2010 and a recovery to 69 MNCs in 2011. Other areas where these companies developed were central Asia and North America, but compared to Europe, their number is much smaller, with an average of 10 companies. The largest increase in the number of companies in these two areas was in 2008, just like in Europe, known as the boom of the world economy before the start of the financial crisis (figure 2).



Source: Thomson One, 2012

**Figure 1. Evolution of the number of Russian MNCs in Europe, North America and Central Asia between 2000-2011**

As we can see in the following figure, out of total of Russian MNCs, the most predominant ones are those who have activities in the field of natural resources - Natural Gas, Oil and Energy on the one hand, and Iron, Steel and Mines, on the other - and it is worth noting the growing number of multinationals in the field of Banks and Financial Services (20%).



Source: Thomson One, 2012

**Figure 2. Main sectors of European M&As by Russian companies**

Accordingly, the position of Russian MNCs is a strategic one due to the fact that through they manage and control a large part of the world's natural resources, especially the oil and gas resources. The period with the most significant expansions, either by merging with local companies, or by acquiring local companies, occurred during 2009-2011, when the value of investments reached over \$12,480 mil. According to statistics, Russian corporations with the most external assets are Lukoil (\$18,921 billion), Gazprom (\$10,572 billion), Severstal (\$4,55 billion) and Rusal (\$4,15 billion).

**Table 1. The top 10 external M&A transactions 2009-2011**

Rank	Year of acquisition	Acquirer name	Target name	Target industry	Target country	Value, USD million	% of shares
1	2009	Gazprom	Beltransgaz	Pipelines	Belarus	625	12.5
	2011					2,500	50.0
2	2011	Rosneft	Ruhr Oel	Refineries	Germany	1,600	51.0
3	2009	LUKOIL	Lukarco	Oil & gas fields	Netherlands (assets in Kazakhstan)	1,599	46.0
4	2009	Mechel	BCG	Coal mines	United States	1,447	100
5	2010-2011	TNK-BP	Several BP projects	Oil & gas fields	Venezuela	935	less than 40.0
6	2011	Atomred-metzoloto	Mantra Resources	Uranium mines	Australia (assets in Tanzania)	920	100
7	2010-2011	TNK-BP	Bloc 06.1	Oil & gas fields, pipelines	Vietnam	836	35.0
8	2009	LUKOIL	TRN	Refinery	Netherlands	725	45.0
9	2010	Atomred-metzoloto	Uranium One	Uranium mines	Canada (assets in Kazakhstan and Australia)	693	31.5
10	2011	NLMK	CIF	Steel plants	Luxembourg (assets in the EU and United States)	600	50.0
<b>Total</b>						<b>12,480</b>	

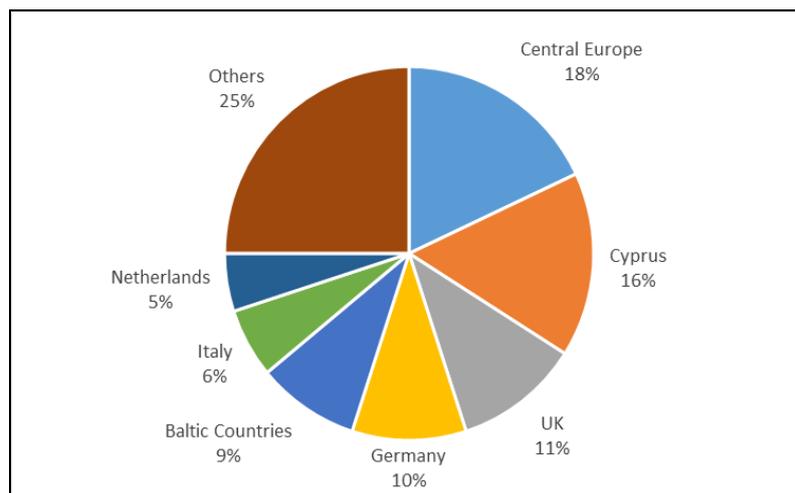
Source: IMEMO-VCC survey of Russian multinationals, 2013

The multinational company with the fastest development in the past 5 years, with investments of over \$29 million in 2011, is Lukoil, which has significantly invested in Central and Eastern Europe (50%), Eastern Europe and Central Asia (37%), with tendencies to expand activities to North America (7%), Middle East and North Africa (3%) and Sub-Saharan Africa (2%). Lukoil demonstrates the most diversified geography. It has subsidiaries in more than 40 countries. Its oil and projects are situated in 14 countries abroad and has refineries and petrochemical plants in seven foreign countries and widespread retail and service networks (Institutul European din Romania, 2012). Another Russian multinational that plays an important part on the European market is Gazprom which purchased in 2009 for example, 12.5% of the total shares of Beltransgas from Belarus; the process continued, so that in 2011, due to an investment of \$2,500 million Gazprom shareholding reached 50%. The expansion of

Gazprom occurred especially in Western and Central Europe (67%) and Eastern Europe and Central Asia (33%).

In 2011 Mechel invested almost \$1450 mil in Coal mines from the USA, target name BCG. Unlike Lukoil and Gazprom, which have major investments in Europe, Mechel registers an ascending expansion in the USA (52%) and in Eastern Europe and Central Asia (40%) with over 100 thousands employees.

Considering the distribution of multinational companies within Europe, the following figure outlines the fact that most of Russian MNCs targeted Cyprus 16%, United Kingdom 11%, Germany 10%, Central Europe 18 %, Baltic Countries 9%, Italy 6%, Netherlands 5% and others 25%.



Source: Thomson One, 2012

**Figure 3. Main European target countries for Russian acquisitions, 2000-2011**

In conclusion, a comparison of the development, of the investments in the developing areas leads to the following classification:

- Large companies with strong firm-specific advantages (FSAs) in terms of global brands and technology (LUKOIL, Mechel);
- Large companies with limited FSAs but strong traditional economic and supposed political ties (Gazprom);
- Large companies with few foreign subsidiaries (MMK, NLMK);
- Companies with limited but growing competitiveness, which are only beginning their investment expansion.

#### 4. CONCLUSIONS

The global crisis and uneven recovery of international trade have increased even more the structural changes in the world economy and international trade, the core of which represents the drifting of economic and commercial power from the West towards the East and from the North to the South, i.e., from developed countries

to a number of developing /emerging countries - especially Brazil, Russia, India and China (Institutul European din Romania, 2012). Over the next 15 years there will be 189 multinational companies with Romanian majority capital, according to a survey carried out by PricewaterhouseCoopers (PwC), which shows that Romania will be approximately at the same level with Ukraine (192 new multinational companies) and Hungary (221). Most new multinational companies from Central and Eastern Europe will come from Russia (930) and in Poland (287).

## ACKNOWLEDGEMENT

The paper represents an output of the research activity carried out by authors during the international project: COST 281/ 2009 Brussels, Action IS0905 - *The Emergence of Southern Multinationals and their Impact on Europe*.

## REFERENCES:

- [1]. **Băcanu, B.** (1997) *Management strategic*, Editura Teora, București
- [2]. **Drigă I.** (2010) *Relații financiar-monetare internaționale*, Manual universitar pentru învățământul la distanță, Petroșani
- [3]. **Herciu, M.; Ogorean, C.; Belașcu, L.** (2010) *Study regarding the Impact of the Growing Involvement of Multinationals from Emerging Economies on the Dynamics of Competitiveness*, Proceedings of the International Conference *Innovation in Global Manufacturing - New models for Sustainable Value Capture*, Cambridge
- [4]. **Kurečić, P.; Bandov, G.** (2011) *The Contemporary Role and Perspectives of the BRIC states in the World Order*, Electronic Journal of Political Science Studies, Vol. 2, No. 2, pp. 13-32
- [5]. **Milelli, C.; Le Goff, J.** (2012) *European inroads by BRICs' firms: The M&A avenue* *EconomiX* - UMR 7166 CNRS, Université de Paris 10, 7, June, MPRA, Munich Personal RePEc Archive
- [6]. **Ogorean C.; Herciu M.** (2010) *Globalization and the Dynamics of Competitiveness – a Multilevel Bibliographical Study*, in *Studies in Business and Economics*, no. 5 (1), pp. 126-138
- [7]. **O'Neill, J.** (2007) *BRICs and Beyond*, Goldman Sachs Economic Research Group, Goldman Sachs, New York
- [8]. **Panibratov, A.** (2010) *Russian multinationals: entry strategies and post-entry operations*, Turku School of Economics, Pan-European Institute, Electronic Publications of Pan-European Institute, 15, [http://www.utu.fi/fi/yksikot/tse/yksikot/PEI/raportit-jatietopaketit/Documents/Panibratov\\_netto\\_final.pdf](http://www.utu.fi/fi/yksikot/tse/yksikot/PEI/raportit-jatietopaketit/Documents/Panibratov_netto_final.pdf)
- [9]. **Reich, R.** (1996) *The Work of Nations*, în Mark Lewis, Robert Fitzgerald, Charles Harvey *The growth of nations. Culture, competitiveness and the problem of globalization*, Bristol Academic Press
- [10]. **Săcărin, M.** (2001) *Contabilitatea grupurilor multinaționale*, Ed. Economică, București
- [11]. **Voinea, L.** (2007) *Corporațiile transnaționale și capitalismul global*, Editura Polirom, Iași
- [12]. **International Monetary Fund** (2011), *New Growth Drivers for Low-Income Countries: The Role of BRICs*
- [13]. **Institut of World Economy and International Relations (MEMO) of Russian Academy of Sciences, Vale Columbia Center on Sustainable International**

- Investment** (2013) *Global expansion of Russian Multinationals after the Crisis: Results of 2011*, Reported 16 April
- [14]. **Institutul European din Romania** (2012) *Studii de strategie și politici (SPOS 2012), Perspective și provocări ale exporturilor românești în perioada 2010-2014, prin prisma relațiilor comerciale bilaterale și regionale ale Uniunii Europene*
- [15]. **UNCTAD** (2009), *World Investment Report – Transnational Corporations, Agricultural Production and Development*
- [16]. **UNCTAD** (2011) *World Investment Report 2011. Global Investment Trends*, New York and Geneva

## **PERFORMANCES OF THE ROMANIAN INSURANCE MARKET**

**MIRELA MONEA\***

**ABSTRACT:** *Global crisis affected the worldwide insurance market differently from one country to another, so Romanian insurance market in the period between 2008 and 2012 was also affected by global crisis. Effectiveness and performance of the insurance market from Romania is discussed in the paper based on the statistical data published by the Insurance Supervisory Commission in the annual reports, in the period between 2008 and 2012. Discussions are started from indicators such as gross written premiums and indemnity payments, which have influence on dimension of the market, efficiency indicators and on financial results*

**KEY WORDS:** *insurance, premiums, indemnity payments, financial and technical results*

**JEL CLASSIFICATION:** *G01, G21, G22, G29*

### **1. INTRODUCTION**

The concept of insurance is very simple. In exchange for the insured's payment of a relatively small sum of money—the *premium*—the insurer assumes the risk of financial consequences for the loss of the insured's property or the risk of the loss presented by the costs of defending a liability lawsuit (and where appropriate, paying a resulting settlement or judgment). This can provide financial security for the average consumer (Zevnik, 2004).

Efficiency of the insurance activity is assessed by comparing mainly the efforts with effects in connection with this activity. Efficiency indicators help us to understand the effectiveness of insurance activity.

In assessing performance of insurance activity, we should consider the financial results, the ratio between the effect and effort for obtaining profit, and measuring the insurer success in coverage the customer needs (Preda, 2012).

---

*Assoc. Prof., Ph.D., University of Petroșani, Romania, [moneamirela@gmail.com](mailto:moneamirela@gmail.com)*

In the insurance industry the insurance premiums are equivalent with total sales, and represent the most important income for an insurance company. Every company has the main goal of obtaining profit, including insurance companies which must to cover their expenses from incomes and achieve profit.

Insurance premiums are an important item because is the start point in determining the key performance indicators in insurance industry. Insurance companies operate on a competitive system, so their products and services must to be attractive and effective for the insured, and they are dependent on the insurance premiums.

Net income ratio reflect how profitable insurance activity is, being calculated dividing net income by premiums earned, and also reflecting the quality of management and the viability of the insurance activity.

Damage ratio reflect the proportion of compensation paid (compensation, sum insured, indemnity) and earned premiums and is used to assess the financial performances of an insurer. This ratio is expressed as a percentage and ratio level could be lower, equal or higher than 100%.

The insurance market is based on a complex and dynamic activity of the insurance companies having an important role in the economic development of a country. In the last period we take into consideration (2008-2012) insurance market from Romania was influenced by the global economic crisis.

## 2. CONSIDERATIONS, TRENDS AND PERFORMANCES OF THE ROMANIAN INSURANCE MARKET

Overview, performance and trends of the insurance activity it has to be based on data from the insurance company's information system. Our discussions in the present paper are based on the statistical data published by the Insurance Supervisory Commission in the annual reports, in the period between 2008 and 2012.

### 2.1. The evolution of the number of insurance undertakings between 2008-2012

Based on the statistical data provided by the Insurance Supervisory Commission in their annual reports on Romanian insurance market the evolution of the number of insurance undertakings in the period between 2008 and 2012 is presented in Table 1, through the main type of insurance (life, non-life, or both type).

**Table 1. Evolution of the number of insurance undertakings (2008-2012)**

Year	2008	2009	2010	2011	2012
Number of insurance undertakings – total market	44	45	43	43	41
- undertakings conducted non-life insurance activity	21	21	20	20	22
- undertakings conducted life insurance activity	11	13	12	12	11
- undertakings conducted both type of insurance	12	11	11	11	8

Source: based on data from Annual Reports of CSA 2008, 2009, 2010, 2011, 2012

According to the annual reports of the Insurance Supervisory Commission, insurance/reinsurance activity in 2008 was conducted by 44 insurance undertakings

and in 2012 the number of those decreased at 41, and by the main type of insurance (life, non-life, or both type), the number of the insurance undertakings changed as follows: 21 undertakings conducted non-life insurance activity in 2008 and the number increased at 22 in 2012; 11 undertakings conducted life insurance activity in 2008 and 2012; 12 undertakings conducted both type of insurance (life and non-life) in 2008 and the number increased at 8 in 2012.

## 2.2. Considerations and trends of the gross written premiums and indemnity payments

Insurance premiums help to assess the insurance market size and development. In order to present trends of the Romanian insurance market the started point is the evolution of the gross written premiums earned and also the evolution of the indemnity payments of the insurance undertakings which conduct insurance activity on Romanian market. The dynamics of the Romanian insurance market through the gross written premiums and indemnity payments between 2008 and 2012 is presented in table 2 (gross written premiums from total business insurance), table 3 (gross written premiums from non-life insurance), and table 4 (gross written premiums from life insurance).

**Table 2. Gross written premiums – life and non-life insurance (2008-2012)**

Year	Gross written premiums from total business insurance (lei)	Increase/Decrease (in absolute terms)	Increase/Decrease (%)
2008	8.936.286.505	-	-
2009	8.869.746.957	- 66.539.548	- 0,75
2010	8.305.402.152	- 564.344.805	- 6,36
2011	7.822.309.952	- 483.092.200	- 5,83
2012	8.256.914.950	+ 434.604.998	+ 5,55

Source: based on data from Annual Reports of CSA 2008, 2009, 2010, 2011, 2012

**Table 3. Non-life gross written premiums (2008-2012)**

Year	Gross written premiums from non-life insurance (lei)	Increase/Decrease (in absolute terms)	Increase/Decrease (%)	Share in total gross written premiums (%)
2008	7.068.173.520	-	-	79,10
2009	7.241.584.322	+ 173.410.802	+ 2,45	81,64
2010	6.639.733.598	- 601.850.724	- 8,32	79,94
2011	6.083.943.098	- 555.790.500	- 8,37	77,78
2012	6.454.395.818	+ 370.452.720	+ 6,08	78,17

Source: based on data from Annual Reports of CSA 2008, 2009, 2010, 2011, 2012

Gross written premiums from total business insurance registered a decrease in the period between 2008 and 2011 from 7.068.173.520 lei in 2008 to 7.822.309.952 lei in 2011, and in 2012, gross written premiums amounted to an aggregated total of 8.256.914.950 lei by about 5,5% more than in 2011, but the amount is still lower than the amount from 2008.

**Table 4. Life gross written premiums (2008-2012)**

Year	Gross written premiums from life insurance (lei)	Increase/Decrease (in absolute terms)	Increase/Decrease (%)	Share in total gross written premiums (%)
2008	1.868.112.985	-	-	20,90
2009	1.628.162.635	- 239.950.350	- 12,85	18,36
2010	1.665.668.554	+ 37.505.919	+ 2,30	20,06
2011	1.738.366.854	+ 72.698.300	+ 4,36	22,22
2012	1.802.519.132	+ 64.152.278	+ 3,70	21,83

Source: based on data from Annual Reports of CSA 2008, 2009, 2010, 2011, 2012

We can see a downward trend since 2008 of the insurance sector. The same trend is registered in the case of non-life insurance, non-life gross written premiums decreased from 7.068.173.520 lei in 2008 to 6.454.395.818 lei in 2012, even if it is registered an increase by about 6,8% in 2012 compared with the amount from 2011. Life sector registered a decrease by about 12,85% in 2009 compared with 2008, and after 2009 gross written premiums from life insurance grew yearly. At the end of 2012 gross written premiums from life insurance is in amount of 1.802.519.132 lei representing an increase by about 3,70% in nominal terms face to 2011.

The structure of gross written premiums by insurance category shows that 78,17% from total gross written premiums are from non-life insurance and 21,83% from total gross written premiums are from life insurance at the end of 2012.

At the same time is important to present not only the gross written premiums but also the gross indemnity payments in the period considered between 2008 and 2012. The trends registered on Romanian insurance market through the indemnity payments between 2008 and 2012 is presented in table 5 (gross indemnity payments from total business insurance), table 6 (indemnity payments from non-life insurance), and table 7 (indemnity payments from life insurance).

**Table 5. Gross indemnity payments – life and non-life insurance (2008-2012)**

Year	Gross indemnity payments from total business insurance (lei)	Increase/Decrease (in absolute terms)	Increase/Decrease (%)
2008	4.363.559.718	-	-
2009	5.435.503.756	+ 1.071.944.038	+ 24,56
2010	5.069.483.669	- 366.020.087	- 6,73
2011	4.483.069.265	- 586.414.404	- 11,56
2012	4.753.573.042	+ 270.503.777	+ 6,03

Source: based on data from Annual Reports of CSA 2008, 2009, 2010, 2011, 2012

Gross indemnity payments from total business insurance registered an increase in 2009 with 24,56% than 2008, followed by 2 years of decreasing trend, and in the last year 2012 gross indemnity payments amounted to a total value of 4.753.573.042 lei by about 6,31% more than in 2011. This trend is similar in the period analysed in case of non-life indemnity payments. Only in case of life gross indemnity payments it is an increasing trend registered yearly. At the end of 2012 gross indemnity payments from

life insurance is in amount of 299.855.424 lei representing an increase by about 3,97% in nominal terms face to 2011.

**Table 6. Non-life gross indemnity payments (2008-2012)**

Year	Gross indemnity payments from non-life insurance (lei)	Increase/Decrease (in absolute terms)	Increase/Decrease (%)	Share in total gross indemnity payments (%)
2008	4.143.703.694	-	-	94,96
2009	5.187.480.620	+ 1.043.776.926	+ 25,18	95,44
2010	4.797.561.000	- 389.919.620	- 7,52	94,64
2011	4.194.672.389	- 602. 888.611	- 12,57	93,57
2012	4.453.717.618	+ 259.045.229	+ 6,17	93,69

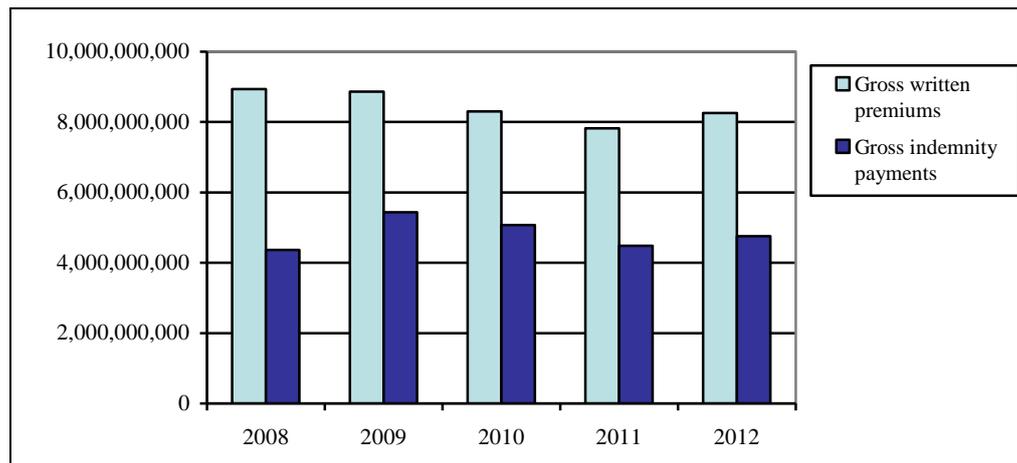
Source: based on data from Annual Reports of CSA 2008, 2009, 2010, 2011, 2012

**Table 7. Life gross indemnity payments (2008-2012)**

Year	Gross indemnity payments from life insurance (lei)	Increase/Decrease (in absolute terms)	Increase/Decrease (%)	Share in total gross indemnity payments (%)
2008	219.856.024	-	-	5,04
2009	248.023.136	+ 28.167.112	+ 12,81	4,56
2010	271.922.669	+ 23.899.533	+ 9,63	5,36
2011	288.396.876	+ 16.474.207	+ 6,05	6,43
2012	299.855.424	+ 11.458.638	+ 3,97	6,31

Source: based on data from Annual Reports of CSA 2008, 2009, 2010, 2011, 2012

The structure of gross indemnity payments by insurance category shows that 93,69% from total gross indemnity payments are paid for non-life insurance and 6,31% from total gross indemnity payments are paid for life insurance at the end of 2012. That structure is similar in the previous years.



**Figure 1. The evolution of the gross written premiums and gross indemnity payments**

In the figure above is presented a comparative evolution of the gross written premiums and gross indemnity payments in the period between 2008 and 2012.

### 2.3. Aspects regarding the evolution of assets, investments and results

Other aspects regarding the Romanian insurance market refers to the evolution of assets and financial investments of insurance undertakings between 2008 and 2012, which are presented in Table no. 8, and also the share of investments presented in table no. 9 in the same period.

**Table 8. Assets and financial investments of insurance undertakings (2008-2012)**

Year	Total assets	Investments			
		Total investments	Bonds and other fixed-income securities	Unit-linked investments	Other Investments
2008	14.982.824.581	7.967.986.255	2.432.467.448	1.040.151.751	4.495.367.056
2009	16.398.487.279	9.174.286.671	3.557.692.096	1.501.947.164	4.114.647.411
2010	16.805.591.185	9.857.781.064	4.515.307.549	1.880.392.260	3.462.081.255
2011	17.293.960.385	10.390.101.581	5.113.381.422	2.122.748.569	3.153.971.590
2012	18.960.424.182	10.525.710.723	4.925.977.303	2.629.080.446	2.970.652.974

Source: based on data from Annual Reports of CSA 2008, 2009, 2010, 2011, 2012

Assets reported by insurance undertakings in their financial statements registered an increasing trend in the period between 2008 and 2012, from an amount of 14.982.824.581 lei in 2008 to 18.960.424.182 lei in 2012. In the last 2 years assets reported increased by about 9,64%. Also financial investments registered the same increasing trend between 2008 and 2012. In the last year investments registered 10.525.710.723 lei with 1,31% more than in 2011.

**Table 9. Structure of investment (2008-2012)**

Year	Total assets	Structure of investments				Share of investments in total assets (%)
		Total investments	Bonds and other fixed-income securities (%)	Unit-linked investments (%)	Other Investments (%)	
2008	14.982.824.581	7.967.986.255	30,53	13,05	56,42	53,18
2009	16.398.487.279	9.174.286.671	38,78	16,37	44,85	55,94
2010	16.805.591.185	9.857.781.064	45,80	19,08	35,12	58,65
2011	17.293.960.385	10.390.101.581	49,21	20,44	30,35	60,07
2012	18.960.424.182	10.525.710.723	46,80	24,98	28,22	55,51

Source: based on data from Annual Reports of CSA 2008, 2009, 2010, 2011, 2012

Share of investments in total assets increased yearly from 53,18% in 2008 at 60,07% in 2011 (the largest share in the period under review), and in 2012 investments amounted to 10.525.710.723 lei (the total amount of investments increased yearly) but accounted for 55,51% of total assets.

In the period between 2008 and 2012 there are changes in the structure of investments: in 2008 the share of bonds and other fixed income securities was 30,56%, and this percentage has increased yearly reaching 46,80% in 2012. The same trend is found in the case of the share of unit-linked investments which increased from 13,05% in 2008 to 24,98% in 2012. The share of other investments has decreased from 56,42% in 2008 to 28,22% in 2012.

Based on data from financial statement reported by the insurance undertakings was registered a net financial result at the level of Romanian insurance market in the period under review. In 2012 the profit registered on the Romanian market decreased by 21,7%, and the loss decreased by 56,2% compared to 2011, leading to a negative net results at about - 321.586.576. There are insurance undertakings which registered profit and others registered loss. In table 10 are presented the total technical results from life and non-life insurance and also in table 11 is presented the evolution of financial results in the period between 2008 and 2012.

**Table 10. Technical results from non-life and life insurance (2008-2012)**

Year	Technical results for non-life insurance		Technical results for life insurance	
	Profit	Loss	Profit	Loss
2008	202.485.080	868.933.428	139.194.724	53.152.847
2009	111.273.144	432.143.703	248.736.055	92.078.859
2010	92.969.443	288.052.643	184.849.007	79.565.673
2011	102.973.139	591.573.238	167.437.329	81.622.444
2012	106.914.091	569.594.999	177.302.111	100.622.888

Source: based on data from Annual Reports of CSA 2008, 2009, 2010, 2011, 2012

**Table 11. Financial results (2008-2012)**

Year	Net profit/loss for total business insurance (life and non-life)		Net financial results	Increase/Decrease (in absolute terms)
	Profit	Loss		
2008	266.580.284	849.037.715	- 582.457.431	-
2009	315.048.975	418.264.729	- 103.215.754	479.241.677
2010	235.268.398	276.637.639	- 41.369.241	61.846.513
2011	257.054.506	582.921.060	- 325.866.554	- 284.497.313
2012	201.320.819	522.907.395	- 321.586.576	4.279.978

Source: based on data from Annual Reports of CSA 2008, 2009, 2010, 2011, 2012

The number of insurance undertakings registering profit increased in 2012 compared to 2008 from 15 to 22, and decreased the number of insurance undertakings registering loss from 28 to 19 in the same period, taking into account total insurance activity. In table 12 was presented the evolution of the number of insurance undertakings registering profit and loss from total insurance activity, from non-life insurance and life insurance segments.

In 2012 from non-life segment 11 insurance undertakings reported profit and 18 insurance undertakings reported loss, and from life segments 12 insurance undertakings reported profit and 6 insurance undertakings reported loss.

**Table 12. Number of insurance undertakings registering profit or loss from total insurance, non-life insurance and life insurance (2008-2012)**

Year	Profit			Loss		
	Total insurance	Non-life insurance	Life insurance	Total insurance	Non-life insurance	Life insurance
2008	15	9	8	28	23	14
2009	20	10	11	25	21	13
2010	20	10	13	23	22	10
2011	22	12	11	21	18	11
2012	22	11	12	19	18	6

Source: based on data from Annual Reports of CSA 2008, 2009, 2010, 2011, 2012

### 3. CONCLUSIONS

Global economic crisis affected Romanian economy and was felt also at the level of the insurance market. In the period under review we observed a decrease of gross written premiums from total insurance business in the period until 2011 and a slight recovery in 2012. Also, the Romanian insurance market is a dynamic one showing opposite trends on the life and non-life insurance business in the period under review. Performances of the insurance market will be influenced in the future by the consolidation of international groups with presence on the Romanian insurance market.

### REFERENCES:

- [1]. Badea, D. (2003) *Insurance & Reinsurance*, Editura Economică, București
- [2]. Benet, C. (2002) *Dictionar de asigurări*, Editura Trei, Bucuresti
- [3]. Ciurel, V. (2011) *Asigurări și reasigurări. O perspectivă globală*, Editra RENTROP & STRATON, București
- [4]. Ionescu, O.C. (2012) *Life Insurance - Their Characteristics Importance and Actuality On The Romanian Market*, Journal of Knowledge Management, Economics and Information Technology, Scientific Papers, Issue 4
- [5]. Negru, T. (2010) *Economia asigurărilor. Metode, tehnici, soluții*, Editura Wolters Kluwer, România
- [6]. Person, R. (2010) *The development of international insurance*, Pickering&Chatto, London
- [7]. Preda, A. (2013) *Efficiency of the Insurance Activity: Insurer VS Insured*, Annals of the University of Craiova, Economic Sciences Serie, Nr. 41, pp. 20-25, Editura Universitaria, Craiova
- [8]. Șulean, V.; Barna, F.; Chiș, C. (2007) *Asigurări comerciale*, Editura Mirton, Timișoara
- [9]. Tănăsescu, P.; Șerbănescu, C.; Ionescu, R.; Popa, M.; Novac, L. (2007) *Asigurări comerciale moderne*, Editura C.H.Beck, București
- [10]. Zevnik, R. (2004) *The complete book of insurance*, Sphinx Publishing, USA
- [11]. Insurance Supervisory Commission, *Annual Reports, 2008, 2009, 2010, 2011, 2012*

## **INFORMATION SYSTEM OF THE FINANCIAL ANALYSIS**

**MIRELA MONEA \***

**ABSTRACT:** *Financial analysis provides the information necessary for decision making, and also helps both the external and internal users of these. The results of the financial analysis work are dependent on the quality, accuracy, relevance and effectiveness of the information collected, and processed. Essential sources of information for financial analysis are financial statements, which are considered the raw material of financial analysis. One of the financial statements -the balance sheet - provides information about assets, liabilities, equity, liquidity, solvency, risk, financial flexibility. The profit and loss account is a synthesis accounting document, part of the financial statement reporting enterprise financial performances during of a specified accounting period and summarizes all revenues earned and expenses of an accounting period and reports the results.*

**KEY WORDS:** *financial information, economical information, usefulness, accuracy, financial statement.*

**JEL CLASSIFICATION:** *M21, M41.*

### **1. INTRODUCTION**

Information system for financial analysis is essential because financial analysis is based mainly on information and in turn financial analysis provides the information necessary for decision making. Financial analysis requires the use of an information system to allowing knowledge of all phenomena and processes occurring within and outside the entity.

By its content financial analysis provide financial information which helps both the external and internal users, and the knowledge of these is necessary in order to reflect the entity functioning. Knowledge means understanding the information at the level when decisions can be taken (Popescu, 2009).

For information to be exploited effectively in the management process it must meet the following requirements:

- to be useful in the process of knowledge;

- to be accurate and to reflect accurately and objectively analyzed phenomenon;
- to reflect causal relationships of economic phenomena.

Financial statement analysis is an exceptionally powerful tool for a variety of users of financial statements, each having different objectives in learning about the financial circumstances of the entity.

## **2. INFORMATION TYPOLOGY AND THE MAIN FEATURES OF INFORMATION**

Information system is essential to the financial analysis and it is formed of two categories of sources: external sources and internal sources generated by the internal process. External sources generate the information necessary for the orientation of the entity activity into the complex context of economy in order to achieving its specific objectives and internal sources reflect the proper functioning of the entity.

In the literature there is different classification of the information using different criteria.

Depending on their nature information can be: economical, financial, technically, technologically, political, legal, social and ecological.

In the financial analysis essential are economical and financial information in order to reflect the performances of the entity, expressed by qualitative and quantitative indicators.

From the point of view of their origin information is:

- Internal information (endogenous) generated inside the entity included in the activity programs and plans, accounting documents (especially financial statement);
- External information (exogenous) which is formed outside the entity and reflected in various economic and financial publications, legislation, from the banking system, statistical reports.

From a functional point of view the following types of information can be distinguish:

- Plan information, which reflects the current objectives of the entity;
- Normative information, which regulates the different process under rules, norms or standards,
- Actual and effective information, which reflects the real status of the entity functioning, the results achieved in the previous and current periods;
- Estimative information, which estimates the future trends and consequences of the phenomena and processes which will take place in the future.

Depending on their periodicity information can be:

- Current information which reflects the status of the entity at short intervals;
- Periodical information which reflects the status of the entity at larger intervals.

Depending on their role and usefulness in managerial process, we can distinguish:

- Active information used by the decision centres which reflects current activity and can generate real measures during the activity ;
- Passive information which not generate measures or actions of the decision making process, but could be helpful for future decisions.

From the point of view of using the information (Popescu, 2009):

- Fixed information, which is used during a relatively long period (plan and normative information);
- Variable information, which reflects the dynamism of the processes and must be rapidly processed and distributed to the decision centres.

The economic and financial information must comply with the following request (Popescu, 2009):

- The usefulness of the information – the information must be reliable and reasonably understandable for it to be of value to users; reliability is found in information that is free from error.
- The accuracy of the information; all the data must be correctly collected and processed and must be objectively filtered by the receiver,
- The deepness of the information: assuming a complex and complete description of the cause-effect connections of the economic phenomena, such a request increases the effectiveness of the managerial actions.
- The relevance of information – an information is considered relevant if a user can better predict future consequences based on that (information about past events);
- The age of the information – the decision makers should have the information at hand anytime;
- The value of the information – the use of an information must conducted to take the right decision;
- The cost of the information – efficiency of the information depends also on the cost of obtaining it.

The results of the practical analysis activity work are dependent on the quality, quantity, accuracy, relevance and effectiveness of the information collected, and processed.

### **3. FINANCIAL STATEMENTS - INFORMATION SOURCE FOR FINANCIAL ANALYSIS**

Financial statements provide useful information regarding the financial position and performances of an entity, the success of its operations, the policies and strategies of management. Information is useful to a wide range of users, helping in the decision making process: owners, investors, managers, creditors, government regulators.

The qualitative features of information from financial statements are the most important attributes that reveal the usefulness of the information provided by financial statements (OMF 3055/2009):

- *Intelligibility* – the information offered by the financial statement must be easily understood by users; it is assumed that users have sufficient knowledge about business, economic activity, accounting discipline and have the desire to study with maximum attention all the presented information; also information about complex issues which should be included in financial statement due to their relevance in decision making process should be not excluded only because it may be not so understandable for some users.

- *Relevance* – the information must be relevant in order to satisfy informational user's needs; the relevance of information is influenced by its proper nature and significance. Information is considered significant if their omission could influence user's decisions.

- *Comparability* – measurement, quantification and presentation of the financial effect of the transactions and events should be carried out in a consistent manner within the entity and different businesses over the time. It is necessary to inform all the users about accounting policies used in preparing the financial statements, and about any change occurred in such policies, as well as about the effects of such changes. It allows the identification of trends in the financial position and performances of the entity or comparison with other entities.

- *Credibility* – the information is credible unless they contain significant errors, it is not biased, and users can trust that it represents aims accurately and what it is reasonably expected to present. In order to be credible any information from financial statement must be completed. Any omission could make the information to be false, misleading, and not to have a believable character or to become irrelevant.

Financial statements analysis and its tool and techniques provide messages that are not revealed simply by reading the financial statements (Griffin, 2009).

Financial statements are the output of an accounting period and in the same time became an input of the financial analysis and the decision-making process.

### **3.1. The balance sheet**

The balance sheet is called also, the statement of financial position, and it is a logical starting point to assessing an entity's financial position. The balance sheet provides a wealth of valuable information about a business, especially when examined over a period of time (several years) and evaluated in relation to the other financial statements.

Balance sheet, though it shows the size of global result, it doesn't explain his origin or causes that have generated him. The balance sheet shows the classes and amounts of assets, the entity's resource structure, major classes and amounts of liabilities and equity, the capital structure, and provides information about liquidity, solvency, risk, financial flexibility.

The statement is a summary of what the entity owns and what owes to outsiders and to internal owners. By definition a balance sheet must balance and the total assets must be equal with the liabilities and equity, expressed through the accounting equation:  $Assets = Liabilities + Equity$

The structure of balance sheet in Romania, according to OMFP.3055/2009, Accounting Regulations in Accordance with European Directives is the following:

- A. Fixed Assets
  - I. Intangible assets
  - II. Tangible assets
  - III. Financial assets
- B. Current assets
  - I. Inventories
  - II. Receivables
  - III. Short-term investments
  - IV. Cash and bank accounts
- C. Prepaid expenses
- D. Debts: amounts payable within one year
- G. Debts: amounts payable within more than one year
- H. Provisions
- I. Deferred income
- J. Capital and reserves
  - I. Subscribed capital (presenting separately the paid-up and unpaid capital)
  - II. Share premiums
  - III. Revaluation reserves
  - IV. Reserves
  - V. Profit/loss carried forward
  - VI. Profit/loss of the financial year

Balance sheet accounts are listed in a logical manner that is dictated by generally accepted accounting principle. The formats utilized of the balance sheet make it useful to all users (analysts, investors or managers).

### **3.2. The income statement**

The income statement is a synthesis accounting document, part of the financial statement reporting enterprise financial performances during of a specified accounting period. The income statement summarizes all revenues earned and expenses of an accounting period and reports the results. The income statement is useful to determine enterprise's net profit or loss (difference between revenue and expenses).

The profit represents the main component of company's wealth and it reflects both the performance and its capacity to reinvest or allow dividends (Popescu, 2009).

The expenses are decreases of the economic benefits recorded during the accounting period, and the revenues are increases of the economic benefits recorded during the accounting period. In income statement expenses and revenues are structured by the activity in 3 segments: operational, financial and extraordinary.

The form of profit and loss account is different from one country to another according to the informational content and ways of displaying the information (Vâlceanu et.al., 2005).

According to the informational content it can distinguish:

- The profit and loss account with the presentation of the revenues and expenses by their nature;
- The profit and loss account with the presentation by the destination of operating expenses.

According to the ways of displaying the information it can distinguish:

- The profit and loss account in the form of a list (vertically) that presents the results step by step;
- The profit and loss account in the form of account (like a bilateral table) where on the left side are presented expenses and profits and on the right side are presented the revenues and losses.

In Romania, according to OMFP.3055/2009, Accounting Regulations in Accordance with European Directives, the content of the Profit and Loss Account is the following:

1. Net turnover
2. Variation in inventory of finite goods and production in progress
3. Production realized by the entity for its own purposes and capitalized
4. Other operating revenue
5. a) Expenses on raw materials and consumable materials
- b) Other external expenses
6. Personnel expenses:
  - a) Salaries
  - b) Social protection expenses with a separate indication of those covering pensions
7. a) Adjusting value on fixed tangible and intangible assets
- b) Adjusting value on current assets, in case of those exceeding adjusting value which are normal in the entity
8. Other operating expenses
9. Revenues from participation interest with distinct indication of those obtained from affiliated entities
10. Revenues from other investments and credentials which are part of fixed assets with distinct indication of those obtained from affiliated entities
11. Other interest receivable and similar revenues with distinct indication of those obtained from affiliated entities
12. Adjusting value on financial assets and investments held as current assets
13. Interests payable and similar expenses with distinct indication of those obtained from affiliated entities
14. Profit or loss from ordinary activity
15. Extraordinary revenues
16. Extraordinary expenses
17. Profit or loss from extraordinary activity
18. Profit tax
19. Other taxes that do not appear above
20. Profit or loss of the financial exercise

In financial analysis it is used the structure of profit and loss account taking into consideration five levels corresponding to the activity types, economical, financial and extraordinary which allows the determination of the results flow as a return margins – (Petrescu, 2010).

#### 4. CONCLUSIONS

All users of information provided by financial analysis based their decisions on these in order to: assess the management operating decisions; take decisions on transactions such as purchasing, holding or selling an investment; assess the entity's ability to meet its payment obligations; to establish the profits and dividends distributed.

The results of the financial analysis are significant dependent by: the amount of information; quality of information, the accuracy of the information and efficiency of information.

Financial analysis field of study has extended by taking into consideration the integration of entity' environment study according to the sector trends and development and analysing all information in the context of a competitive field. Due to increasing complexity of the decision making process information provided by the financial analysis is more and more considered an input of strategic diagnosis.

#### REFERENCES:

- [1]. **Achim, M.V.** (2011) *Analiza financiară a entităţii economice*, Editura Risoprint, Cluj Napoca
- [2]. **Bătrâncea, M.** (2004) *Analiza financiară a întreprinderii*, Editura Risoprint, Cluj Napoca
- [3]. **Berheci, M.** (2010) *Valorificarea raportărilor financiare*, Editura CECCAR, Bucureşti
- [4]. **Brezeanu, P.** (2007) *Analiză financiară*, Editura Meteor Press, Bucureşti
- [5]. **Brezeanu, P.; Trandafil, C.M.; Huidumac, C.** (2010) *Company Financial Diagnosis in CEE Countries*, Annals of the University of Petroşani - Economics , vol X, part. III, pag. 13-25
- [6]. **Buglea, A.** (2005) *Analiza financiară. Concepte şi studiu de caz*, Editura Mirton, Timişoara
- [7]. **Buşe, L.; Siminica, M.; Simion, D.** (2010) *Analiza economico-financiară*, Editura Sitech, Craiova
- [8]. **Colasse, B.** (2009) *Analiza financiară a întreprinderii* (traducere Neculai Tabără), Editura Tipo Moldova, Iaşi
- [9]. **Griffin, M.P.** (2009) *MBA Fundamentals. Accounting and Finance*, Kaplan Publishing, New York
- [10]. **Helfert, E.** (2006) *Tehnici de analiză financiară*, BMT Publishing House, Bucureşti
- [11]. **Helfert, E.** (2001) *Financial Analysis Tools and Techniques. A guide for Managers*, The McGraw Hills Companies, ebook
- [12]. **Miculeac, M.E.** (2007) *Analiză economico – financiară. Concepte teoretice, aplicaţii şi teste grilă*, Editura Mirton, Timişoara;
- [13]. **Monea, M.** (2012) *Analiză financiară. Noţiuni teoretice şi studii de caz*, Editura Sitech, Craiova
- [14]. **Monea, M.** (2012) *The Analysis of Indicators Concerning Performances and Financial Competitiveness*, International Multidisciplinary Symposium “Universitaria SIMPRO 2012”, Field VIII - Economics, Law And Administration, Editura Universitas, Petroşani,

- [15]. **Needles, B.E.Jr.; Powers, M.; Crosson, S.V.** (2007) *Financial and Managerial Accounting*, Houghton Mifflin College, USA
- [16]. **Petrescu, S.** (2010) *Analiză și diagnostic financiar-contabil. Ghid teoretico-aplicativ*, Editura CECCAR, București
- [17]. **Popescu, D.D.** (2009) *Enterprise Analysis*, Editura ASE, București
- [18]. **Ștefea, P.** (2002) *Analiza rezultatelor întreprinderii*, Editura Mirton, Timișoara
- [19]. **Vâlceanu, Gh.; Robu, V.; Georgescu, N.** (2005) *Analiză economico-financiară*, Editura Economică, București
- [20]. **White, G.; Sondhi, A.; Fried, H.** (2001) *The Anaysis and Use of Financial Statements*, Second Edition, Wiley & Son, USA
- [21]. **OMF 3055/2009** pentru aprobarea *Reglementărilor Contabile conforme cu Directivele Europene*, publicat în Monitorul Oficial nr. 766 din 10 noiembrie 2009, cu completările și actualizările ulterioare

## ON THE CALCULATION OF THE SUCCESS RATE IN MINING

RAREȘ MUNTEANU \*

**Abstract:** *Mankind has always relied on resources. The mineral resources represent an important part of the resources required by the society. But mining has its own specificities, not only from technical point of view, but from economic point of view, too. Therefore, we consider that calculating the success rate is of special significance in the context of exploiting natural resources.*

**KEY WORDS:** *success rate, "bonitaet", raw materials, output efficiency, cost rate.*

**JEL CLASSIFICATION:** *Q30.*

### 1. GENERAL COMMENTS ON THE SPECIFICITY OF MINING

Mining concerns the primary sector of the economy, just like agriculture, silviculture and fishing. The mission of this domain is the primary production of raw materials and food, based on the factors of production nature, labour and capital; this feature is causing a slightly different approach compared to other production units.

The natural mineral deposits represent concentrations of mineral raw materials located in the Earth's crust, containing substances necessary for the society (usage value), possible to be exploited and successfully used from economic point of view (economically exploitable).

The most important criteria for the determination of the availability of certain located reserves are (Slaby & Wilke, 2005):

- geological conditions and substance contained
- technical and technological conditions
- economic conditions
- ecological conditions
- political and legal conditions

---

\* Lecturer, Ph.D., University of Petroșani, Romania, [rares73@yahoo.de](mailto:rares73@yahoo.de)

The economic conditions mean that the deposit must comply the conditions of profitability, i.e. the exploitation and the subsequent processing of the raw materials must be possible under economic conditions. The economic objectives of the company (e.g. maximum allowable costs, minimum allowable effectiveness etc) are accompanied by regional economic criteria (e.g. the influence of mining on the development of the region and, if applicable, requirements of land use that are in contradiction with mining) and by criteria of political economics (e.g. the assurance of supply, economic frame-conditions etc).

## 2. QUALITY, QUANTITY AND “BONITÄT”

When approaching the exploration of the solid raw materials, only quality and quantity of the deposits are usually assessed. But there are also other characteristics of the deposits, i.e. other factors that influence significantly the technologies employed and subsequently the costs. In the German written literature these factors are named by the general term “*bonität / bonitaet*“. In the German language this term has been in use in other branches of the primary production, such as agriculture and forestry, for characterizing the production factor “land” (Fettweis, et al., 1986).

*Bonitaet* refers to the whole of the geological conditions of the deposit, which influence the costs for each quantity unit of solid raw mineral, such as (Slaby & Wilke, 2005):

- depth, horizontal and vertical extension, thickness and inclination of the deposit
- tectonic conditions, rock mechanics, hydrologic and geothermal conditions, risk of occurrence for mine gas in the deposit and the surrounding rocks
- stability and exploitability of the raw material deposit
- geographical location and location of the deposit

*Bonitaet* influences mainly influences the work procedures, the works for geological prospection, exploration, opening, equipments to be used, extraction and valuation.

Starting out from a presentation of economic relationships, especially the effect of the factor “quality” of the production factors, we’ll try to discuss a mathematical expression valid for the mining of all minerals for describing the economic success of mines.

The factors that determine the “*bonitaet*” are presented in the following table:

**Table 1. Compilation of the factors of the *bonitaet* of the coal deposits**

No.	Compilation of the factors representing the <i>Bonitaet</i> of the coal deposits
1.	Geometrical conditions of the deposits, such as extent, number, depth, displacement, thickness, inclination and strike of the deposit; territorial place of the major structure elements; small scale tectonic, rock wall, crumbling risk, washout, intrusions, masking, erosion and other narrowing of the deposit; data about lithostratigraphy; regularity of the above described deposit conditions

2.	<p>Geomechanical conditions of the coal deposit and the relevant surroundings from the mining point of view (covering, roof and base of the deposit)</p> <p>a) data from monitoring of the exploration drilling such as drilling progress, mud loss, deterioration of the drilling tools, core recovery, value of RQD (rock quality designation)</p> <p>b) petrographical data, such as content of mineral, natural concentration, porosity, permeability of the rocks, inclusively the coal</p> <p>c) data regarding the mechanics of the soil and the mountain, consistency of the pressure, splitting strength, module of elasticity, creep properties, hardness, abrasiveness</p> <p>d) data about common content, such as bedding, cleavage, jointing, formation of irregularities, deformations, collapse behaviour</p> <p>e) mountain pressure</p> <p>f) regularity/irregularity of the mentioned factors</p>
3.	<p>Hydrological conditions regarding the deposit such as inlet horizon, subsidence and recovery, direction of water flow, dynamics of the groundwater, chemistry, gas direction and temperature of the horizon waters etc.</p>
4.	<p>Geothermal conditions of the deposit in a broader sense, regarding the gas conduct of the mountain, risk for autoignition of the coal, particles in the rock that present risk for causing pneumoconiosis, risk for weathering etc.</p>
5.	<p>Geothermal conditions regarding the deposit such as specific heat, coefficient of thermal conductivity, thermal expansion coefficient of the rocks, constant temperature of the mountain, geothermal gradient etc.</p>

### 3. SUCCESS RATE IN MINING INDUSTRY

The economic result of the production enterprise (profit or loss) is expressed in monetary unit per time unit [MU/TU] or in monetary unit per quantity unit [MU/QU] (Fettweis, et al., 1986):

$$SR = \frac{It}{P} - \frac{CC}{P} = Iq - CR \quad \left[ \frac{MU}{QU} \right] \quad (1)$$

in which:

CC – chapter costs [MU/TU]

P – production (quantity produced) [QU/TU]

SR – success rate [MU/QU]

CR – cost rate [MU/QU]

It – income [MU/TU]

Iq – income [MU/QU]

The success rate of a company (It, respectively Iq) represent either revenues – selling prices for marketable products – or internal prices.

The Iq also depends on the characteristics of the products, which means a correction factor must be used ( $q_{\text{AV}} \cdot 1$ ). The value 1 of the factor is meant for the products with standard quality.

We can accordingly write that:

$$Iq = q \cdot PR - CR_T \quad [MU/QU] \quad (2)$$

in which:

PR – market price [MU/QU]

CR<sub>T</sub> – cost rate for transport [MU/QU]

q – quality factor [-]

The costs of a production enterprise represent the price for the use of the production factors. The chapter costs CC are produced according to the following basic equation (Fettweis, et al., 1986):

$$CC = Q_1 \cdot p_1 + Q_2 \cdot p_2 + \dots + Q_n \cdot p_n = \sum_{i=1}^n Q_i \cdot p_i \quad [MU/TU] \quad (3)$$

in which:

Q<sub>i</sub> – quantity of necessary *n* production factor [FQU/TU], *i*=(1,2,...,n)

p<sub>i</sub> – price of the necessary production factor [MU/FQU], *i*=(1,2,...,n)

FU – quantity unit of the necessary factor

Accordingly, the costs represent a function of the quantity structure depending on the factor type and factor quantity as well as on the factor price. For further analysis it is important to estimate the costs level and their evolution caused by various influence factors.

The prices p<sub>i</sub> for the production factors depend on the supply sector. The size of the influence factors x<sub>ij</sub> in relation with the kind and quantity of the production factors are, besides the size of the enterprise and the use of the capacities, a great number of variables of importance which determine together the factor quality and play a decisive role in the context. The pattern of influences is very complex. It can be described by the following:

$$Q_{ij} = f(x_{ij}), \quad i=(1,2,\dots,n), \quad j=(1,2,\dots,m) \quad (4)$$

The influence factors are very important for cost calculation showing the impact of various production factors individually and on each other. For example, in a drifting, for the drilling it is necessary to use electric power Q<sub>1</sub>, cutting bits Q<sub>2</sub>, explosive substances Q<sub>3</sub>. Further we have the cross section x<sub>11</sub>, the type of the drilling tool x<sub>12</sub>, the rock solidity x<sub>13</sub>. In this case, Q<sub>1</sub>, Q<sub>2</sub>, Q<sub>3</sub> are influenced by x<sub>11</sub>, x<sub>12</sub>, x<sub>13</sub>. So, the system of equations (4) becomes:

$$\begin{aligned} Q_1 &= f(x_{11}, x_{12}, \dots, x_{1m}, Q_2, Q_3, \dots, Q_n) \\ Q_2 &= f(x_{21}, x_{22}, \dots, x_{2m}, Q_1, Q_3, \dots, Q_n) \\ &\vdots \\ &\vdots \\ Q_n &= f(x_{n1}, x_{n2}, \dots, x_{nm}, Q_1, Q_2, \dots, Q_{n-1}) \end{aligned} \quad (5)$$

According to Oberhofer (Oberhofer, 1984), the difficulty is due to the

necessity to identify the variables of influence, their values and estimate the right values for the coefficients. To solve that in practice it is necessary to use methods of statistics and logic analysis.

As a result, the equation (1) can be re-written as follows:

$$SR = q \cdot PR - CR_T - \frac{CC}{P} = q \cdot PR - CR_T - \frac{1}{P} \cdot \sum_{i=1}^n M_i \cdot p_i \quad [MU/(QU)] \quad (6)$$

Mining is about exploration and exploitation of the mineral deposits, but also processing of the content of the deposit in order to make it marketable. I.e. deposits and their contents represent the object of three processes (G.B. Fettweis&al, 1986).

The exploration corresponds to the land acquisition phase. The exploration costs will be included in the price for the production factor “deposit”.

The exploitation represents the primary production in mining. Fix materials in the nature become mobile goods.

The processing is necessary because with some exceptions (such as natural ballast used for road construction) the exploited material has no value on the market as such. It often requires an even further processing, such as in the case of ore mining, as the ore itself has market value only when transformed in metals.

The quantity and quality alone are not enough to calculate the exploitation costs. There are factors that cause variations of the operating costs, and even cause variations in investments.

It is necessary to describe the “quality of the factors”. This “quality of the factors” is described by the term “bonitaet”.

The context described is synthesized in the following equation:

$$ER = (g_p \cdot g \cdot PR - CR_V - CR_T) \cdot \left[ \frac{1}{P_H \cdot g_R \cdot (1-d)} \cdot \left( \sum_{i=1}^n F_{Ai} \cdot p_i \right) \cdot \frac{g_P}{m} \right] - \left\{ \frac{1}{v} \cdot \frac{Y}{R \cdot \left( \frac{1-l}{1-d} \right)} \cdot \sum_{i=1}^n F_{Gi} \cdot p_i \right\} \quad [MU/PU] \quad (7)$$

in which:

$$P_H = \frac{R \cdot \left( \frac{1-l}{1-d} \right)}{Y} \quad [QU/TU] \quad (7a)$$

$$g_p \cdot q \cdot PR - CR_V - CR_T = Iq \quad [MU/QU] \quad (7b)$$

$$(7c)$$

$$(7d)$$

The formula symbols are explained in the following (Table 2) (according to Fettweis, et al., 1986):

Table 2. Symbols used and their meaning

	Symbols	Meaning	Dimension	Context and comments
<b>Units</b>		Factor quantity unit	[FQU]	e.g. tons, pcs, kWh etc
		Monetary unit	[MU]	
		Quantity unit	[QU]	
		Product unit	[PU]	The quantity unit for the mining product (e.g. concentrate) is named [PU]
		Usefull material unit	[WU]	e.g.: tons of concentrate of metals, thermal power of the power plant coal [J]
		Time unit	[TU]	Period
<b>Rates</b>	SR	Success	[MU/PU]	Efficiency in monetary unit per product unit
	CR <sub>j</sub> Indexes j: A G T V	Cost rate  Processing Extraction Transport Manufacturing	[MU/PU]	Costs in monetary unit per product unit
	PR	Market price	[MU/WU]	Price for the standard quality raw materials
	p	Factor price	[MU/FQU]	
	Iq	Income	[MU/PU]	Income in monetary unit per product unit
	It		[MU/TU]	Income in monetary unit per time unit
<b>Factors related to time periods</b>	CC <sub>j</sub> Indexes j: A G	Chapter costs  Processing Exploitation	[MU/TU]	
	P <sub>j</sub> Indexes j: D H L P R	Production  Dilution Material Excavated material Loss Mining Product Upcomming reserve	[QU/TU] [QU/TU] [QU/TU] [PU/TU] [QU/TU]	$P_H = P_R - P_L + P_D$

	F <sub>j</sub> Indexes j: A G	Quantity of factors Processing Exploitation	[FQU/TU]	
	d	Dilution	[-]	$d = \frac{D}{R - L - D}$ respectively $d = \frac{P_D}{P_R - P_L - P_D} = \frac{P_D}{P_H}$
	g <sub>j</sub> Indexes j: H L P R	Excavated material Loss Mining Product Upcoming reserve	[WU/TU] [WU/TU] [WU/TU] [WU/TU]	$g_H = g_R (1 - d)$ $g_L = g_R$ $g_P = [g_R (1 - d) m] / v$
	l	Extraction loss	[-]	$l = L/R, \text{ respectively } l = P_L/P_R$
	m	Useful materials obtained after preparation	[WU/WU]	
	q	Factor	[-]	Correction factor for higher or lowe quality
	v	Mass obtained after preparation	[PU/QU]	
	D	Sterile dilution material	[QU]	Sum of sterile dilution material during the lifetime of the mine Y
	L	Production loss	[QU]	Sum of production losses during the lifetime of the mine Y
	R	Upcoming reserve	[QU]	Quantity
	Y	Lifetime of the mine	[TU]	

### 3. CONCLUSIONS

The correct and complete assessment of the costs in mining is a complex activity. There are a lot of factors and variables that influence the final costs and influence one another. This is why we did not use the simple term of variable costs, but we used the term of chapter costs instead. Estimating the correct values for the variables and for the coefficients represent the real challenge.

This cost calculation is appropriate not only for underground coal mining, as in Romania there is a tendency to associate it with the word „mining”. Mining refers to the exploitation of a wide range of mineral resources in various conditions and locations. But they all need a correct cost calculation as a condition to be profitable.

The term “bonitaet” comes to give a more accurate description of the deposits. But all the factors that give the bonitaet of the deposit must be carefully determined and valued in order to have a correct cost calculation. Furthermore, it is not a constant over the time, it changes together with the concrete conditions of exploitation.

**REFERENCES:**

- [1]. **Fettweis, G.B.; Brandstätter, W.A.; Hruschka, F.** (1986) *Was ist Lagerstättenbonität?* Institut für Bergbaukunde der Montanuniversität Leoben, Österreich
- [2]. **Munteanu R.**, (2008) *Untersuchung der Entwicklungsmöglichkeiten alternativer Wirtschaftstätigkeiten infolge der Bergbaurestrukturierung im Schiltal*, doctoral thesis, Technische Universität Bergakademie Freiberg, <http://nbn-resolving.de/urn:nbn:de:bsz:105-qucosa-27685>
- [3]. **Oberhofer A.F.**, (1984) *Plannung und Kosten. Wirtschaftspraxis für Ingenieure (Band 1)*, Düsseldorf, Verlag Stahleisen mbH
- [4]. **Slaby D., Wilke F.L.**, (2005) *Bergwirtschaftslehre Teil I. Wirtschaftslehre der mineralischen Rohstoffe und der Lagerstätten*, Verlag der Bergakademie Freiberg

## **ASSESSMENT OF ECONOMIC INCREASE AND SOCIAL DEVELOPMENT BY MEANS OF SOCIAL INDICATORS**

**ROXANA PLEȘA** \*

**ABSTRACT:** *Necessity of increasing management efficiency and extending concerns regarding social policy in contemporary societies required, as an instrumental necessity, a better evaluation of economic-social prosperity and quality of life by means of social indicators. The application of social indicators arose as a real scientific “movement”, instrumental as well, determined by the increasing lack of satisfaction towards overrating of the role of economic aspects in the assessment of prosperity defining a given nation, in relation to ignoring the assessments made by the very human factor of this prosperity. Such a movement determined going from strict estimates of economic performances to assessing, in the same degree, the economic and social factors, from measuring the objective components to subjective ones, concretized by peoples’ aspirations and satisfactions, from emphasis on quantitative to qualitative elements.*

**KEY WORDS:** *quality of life, economic increase, social development, prosperity, poverty, satisfaction, social indicators.*

**JEL CLASSIFICATION:** Z10.

Social indicators, both subjective and objective, play an important part in the assessment of social development process, which does not mean only economic increase. Economic increase is undoubtedly a priority, but in itself it does not automatically warrant social development and prosperity. The development process actually involves a concerted restructuring of all domains of economic, social and political life.

Measuring development process, by means of social indicators, allows pertinent strategies and adequate social programs to be chosen.

---

\* Lecturer, Ph.D., University of Petroșani, Romania, [rpmita@yahoo.com](mailto:rpmita@yahoo.com)

Within social indicators, both objective and subjective, a distinct role is played by “quality” development indicators, capable of adequately diagnosing the orientation of social and human development. Although the concept of “quality” seems to suggest dissimilarity to “quantity”, qualitative indicators are those indicators that assign population proportions that have a measurable quality. From this point of view, social quality indicators can also handle measurable indicators, such as, for example, quality of life.

Applied to the strict field of economy, the concept of development is used in an extremely general sense, to mean “an organic, harmonized growth, and thus a progress of economy, which is inscribed in a general progress of society. Economic progress is not only achieved by increase. It is also necessary for various sectors to harmoniously grow, so that a general economic network would exist, with suitable instruments, allowing continuous improvements” (Lucuț & Rădulescu, 2000, p.143).

The concept of development in itself has several dimensions, economic growth being undoubtedly very important, but it is not identified with the process of social development in its entirety.

As it was shown by Romanian experience in this regard, economic growth is not a self understood guaranty of development and social prosperity. Excluding political assessment, one can say that the government program in the years 1992-1996, for instance, put emphasis on economic growth, neglecting other economic indicators and various related aspects of social development process.

In their turn, government programs applied after 1996 were characterized by lack of coherence, and incapacity of coordinating various reform domains. Consequently, in spite of applying a “gradual” reform policy, serious economic and social imbalances were generated, as well as increase of inflation rate, instability of play balance, increase of budgetary deficiency, serious aggravation of poverty, increase of social inequality among various population categories; their effects are still being felt.

Overall economic activities should therefore contribute to the improvement of population’ conditions of life, since economic development should as a rule involve social development and progress as a “living whole”. To obtain such a result, equitable distribution of national income should be applied, as well as improvement of the population’s standard of living, flexible social, political and economic institutions should be put to place, mentalities should be changed, behavior should adapt to various roles in society, a concerted restructuring in all domains of social, economic and political life should be sought.

Various measurements of this development have been lately established, by means of social and social-economic indicators, due to becoming aware of the fact that the concept of “economic increase” is limited regarding revealing multiple and various dimensions of social-human development.

Such indicators view problems such as: employment and unemployment, work conditions and salaries, family income and expense, economies and debits, repartition of wealth, prices of consumption etc. As far as any economic aspect is indissolubly linked to social aspects, and all social phenomena have a series of economic effects, most of the social statistics are seen, most of the times, as social economic statistics.

Regarding economic statistics as such, they refer to production and repartition of goods and services or various financial transactions. Unlike purely economic statistics, social statistics refer to various problems viewing the population and their quality of life: for instance, education and educational services, health and sanitary services, leisure activities and cultural services, dwelling and ambient environment, social security and services in this field, public order and safety.

In this sense, social indicators refer to various aspects or sectors of social life, as well as various changes intervening in their content and activity. The information delivered by these social indicators can be both objective, viewing description of a social situation, and subjective, pointing out forms of this situation or its evolution within various groups of population.

Both categories of indicators, social and social-economic, can be used in planning development processes, viewing both economic objectives, and objectives with a larger social character. The increase of Brute Internal Product(BIP), for example, can represent a pre-condition to achieve other goals, among which quality of life, quality of ambient environment, social equity etc. If the economic accountancy methods are among the classical planning instruments, those of social accountancy, although less dominated by theoretical characters, began to be used more and more frequently of late.

Evolution of BIP is show in Table 1, according to the data delivered by the National Institute of Statistics:

**Table 1. Evolution of Brute Internal Product by term**

		1 <sup>st</sup> Term	2 <sup>nd</sup> Term	3 <sup>rd</sup> Term	4 <sup>th</sup> Term	Year
-in % compared to the equivalent period of the previous year						
<b>Brute series</b>	<b>2011</b>	101.5	101.2	104.1	101.6	102.2
	<b>2012</b>	100.4	101.9	99.5	101.1	100.7
	<b>2013</b>	102.2	--	--	--	--
<b>Series adjusted by season</b>	<b>2011</b>	101.6	100.8	103.5	101.8	--
	<b>2012</b>	100.4	101.8	99.5	101.2	--
	<b>2013</b>	102.2	--	--	--	--
-in % compared to the previous term						
<b>Series adjusted by season</b>	<b>2011</b>	101.1	99.6	101.8	99.4	--
	<b>2012</b>	99.7	100.9	99.6	101.0	--
	<b>2013</b>	100.7	--	--	--	--

Source: INSSE - Brute Internal Product in the 1<sup>st</sup> term of 2013(temporary data)

Brute Internal Product - data adjusted by season - estimated for the 1<sup>st</sup> term of 2013 raised - in real terms - by 0.7 % compared to the 4<sup>th</sup> term of 2012 and by 2.2 % compared to the 1<sup>st</sup> term of 2012.

**Table 2. Contribution of resource categories to forming and increase of BIP in the 1<sup>st</sup> trimester of 2013**

	Contribution to BIP forming -%	Contribution to BIP forming -%
	Temporary data	Temporary data
Agriculture, foresting, fishing	3.1	-0.3
Industry	28.8	0.7
Construction	4.5	0.1
Wholesale, retail sale; car and motorcycle repair; transportation and depositing; hotels and restaurants	12.7	0.4
Information and communication	3.9	0.3
Financial intermediation and insurance	3.2	0.1
Real estate	7.1	0.2
Professional, scientific and technical activities; activities related to administrative services and support services	5.3	0.4
Public administration and defense; social insurance in public system; education; health and social assistance	14.6	0
Entertainment, cultural and leisure activities; repair of household equipment and other services	3.3	0.1
<b>Brute added value - total</b>	<b>86.5</b>	<b>2.0</b>
<b>Net taxes per product</b>	<b>13.5</b>	<b>0.2</b>
<b>BIP</b>	<b>100.0</b>	<b>2.2</b>

Source: INSSE - BIP in 1<sup>st</sup> term 2013 (temporary data)

All industries contributed to BIP increase in the 1<sup>st</sup> trimester of 2013 compared to the 1<sup>st</sup> trimester of 2012, except agriculture, foresting and fishing, which had a negative influence (-0.3%) (Table 2).

The following branches were more significant:

- Industry (+0.7%), with a share of 28.8% in forming BIP; its volume of activity increased by 2.6%;
- Wholesale and retail sale; car and motorcycle repair; transportation and depositing; hotels and restaurants(+0.4%), with a share of 12.7% in BIP formation and its volume of activity increased by 3.2%;
- Professional, scientific and technical activities; activities related to administrative services and support services (+0.4%), with a lower share in BIP formation (5.3%), but with a significant increase of the volume of activities (6.8%)

**Tabel 3. Contribution of categories of use to BIP forming and increase, in the 1<sup>st</sup> term of 2013**

	Contribution to BIP forming -%	Contribution to BIP forming -%
	Temporary data	Temporary data
<b>Final effective total consumption</b>	<b>85.1</b>	<b>-0.2</b>
Final individual effective consumption of population's households	76.9	-0.2
Expense for final consumption of population's households	64.7	-0.2
Expense for final consumption of institutions with no lucrative aim in the service of population's households	0.8	0
Expense for final individual consumption of public administrations	11.4	0
Final collective effective consumption of public administrations	8.2	0
<b>Brute formation of fix capital</b>	<b>18.2</b>	<b>-0.1</b>
<b>Stock variations</b>	<b>-1.9</b>	<b>-0.5</b>
<b>Net export of goods and services</b>	<b>-1.4</b>	<b>3.0</b>
Export of goods and services	47.9	2.0
Import of goods and services	49.3	-1.0
<b>BIP</b>	<b>100.0</b>	<b>2.2</b>

Source: INSSE - BIP in 1<sup>st</sup> trimester 2013(temporary data)

From the point of view of the use of BIP, the increase was due to net export (with a contribution of +3.0%), subsequent to a 3.9% increase of export of goods and services correlated to reduction of import volumes of goods and services by 1.7% (Table 3).

Seen as an alternative to “sub-development”, the concept of “human development, played an important part in the building up and assessment of various strategies of development, by means of social indicators. Once these concepts had been developed, analysts embarked on diminishing the polarity dividing individual development from social development and offered a criterion through which development might be considered in a “multidimensional” way, from economic, cultural, social and political view.

A definition of development involves the use of systems of indicators, especially those allowing evolution of quality of life, characteristic to individuals of social groups. From this point of view, Graft-Johnson (apud Lucuț & Rădulescu, 2000, p.150) defined development as an “whole of quantitative modifications intervening within a certain population the converging effects of which are translated, on the long term, by increasing the standard of living and a favorable evolution of the way of living”.

According to this definition, various strategies of development drawn up by several international bodies, in the last decades, have in view more than insuring material progress, in order to consider human development, and the quality of life of the human factor implicitly, a “key” of social development processes.

Although concepts like “prosperity” and “quality of life” are appreciated, by experts, as being either too restrictive (prosperity due to the mainly economic nuance), or too comprehensive (quality of life expanding in several fields), they are useful, in order to highlight the main sense and content of the development processes.

A definition of prosperity is: “a whole of possibilities offered by society to a person so that he could live in optimum conditions, to make a use of its products and to use its services according to his own needs and wishes” (Mihăilescu A., 2000, p.102).

The present concept of quality of life has a complex and multidimensional character, based on acknowledging the fact that improving quality of life, both at social and personal level, involves progress in all domains. Components such as physical and economic (standard of living) environment are, undoubtedly, very important, but the aspects pertaining to social life, culture, politics, should also be taken into consideration.

Quality of life is a contemporary concept uniting individual preoccupation to reach happiness with political objectives of a society based on responsibility of the authorities towards the citizens, and becomes more and more an aim of social development.

Human development refers thus to the “development of human forces in all the stages of their lives and lies in a harmonious relationship among people, society and nature” (Lucuț & Rădulescu, 2000, p.151).

This definition centers social development in the direction of improving prosperity and quality of life of the members of any society, establishing four priority, complementary objectives (Miles apud Lucuț & Rădulescu, 2000, p.152):

- *Social equity* - human development is equally possible for all the members of society;
- *Interregional equity* - any society should promote human development of its members, alongside with respect of integrity of all societies, by eliminating economic exploitation, political domination and cultural oppression, which impede other members of society to achieve their own human development;
- *Attention given to the future* - human development of present generations should not be ensured by jeopardizing the existence and development of future generations. This objective views preservation of environment and cultural identity of populations;
- *Attention given to the present* - development of future generations should not mean deprivation of current generations. Building human future is a prerequisite for a process centered round human development, but oppression of the population in the name of a distant future cannot be justified.

The concept of human development can be evaluated in terms of satisfying the needs and aspirations of individuals, of their capacity to live freely and in a dignified way, of building the future they want, of understanding and influencing social relationships in which they are involved. All these objectives, assessed by means of social indicators, pass beyond the economic sphere, extending in various perimeters of social-human interest.

Nevertheless, the concept of human development is still an “ideal” not easily achieved in practice, rather than a state of things. As the concept of “democracy”, human development is a concept the practical essence of which being permanently perfectible, a priority aim, which requires continuous actions from the population itself.

Such an objective involves more than ensuring a material welfare, requiring plenary development of human beings and their capacity of intervening in a conscious way in the planning to change themselves and the world to which they belong.

#### **REFERENCES:**

- [1]. **Bădescu, C. Bădescu, I.** (2000) *Strategii anti-sărăcie și comunitățile. Către o nouă ipoteză*, in Zamfir E.(coord.) *Strategii anti-sărăcie și dezvoltare comunitară*, Editura Expert, București
- [2]. **Bonchiș, E.** (coord.) (2000) *Dezvoltarea umană - aspect psiho-sociale*, Editura Imprimeriei de Vest, Oradea
- [3]. **Lucuț, G.; Rădulescu, S.M.** (2000) *Calitatea vieții și indicatorii sociali*, Editura Lumina Lex, București

- [4]. **Mihăilescu, A.** (2000) *Aspecte ale standardului de viață în România ultimilor zece ani*, Revista Calitatea Vieții, XII, No.1-4, p.102
- [5]. **Zamfir, C.; Stănescu, S.** (coord.) (2007) *Enciclopedia dezvoltării sociale*, Editura Polirom, Iași
- [6]. **Zamfir, E.; Zamfir, C.** (coord.) (1995) *Politici sociale. România în context european*, Editura Alternative, București
- [7]. [www.insse.ro/cms/rw/pages/comunicate/pib.ro.do](http://www.insse.ro/cms/rw/pages/comunicate/pib.ro.do)

## **SOCIAL EXCLUSION AND VULNERABLE POPULATIONS**

**ROXANA PLEȘA**\*

**ABSTRACT:** *In the last half of the century, significant technological, economic, demographic, political, and ideological changes took place; advanced democracies went to a process of deep economic restructurings. While universal social policies still provide for protection against predictable risks of a life cycle, individual carrier models and welfare standardization can no longer be assumed. There are more and more people suffering from insecurity, or lacking protection of any kind. Excluded populations are therefore more affected than any other categories of social actors and their poverty is more obvious; in a certain sense, it is less “natural” than it has ever been.*

**KEY WORDS:** *social exclusion, welfare, poverty, anti-poverty strategy, social inclusion, quality of life.*

**JEL CLASSIFICATION:** *Z10.*

One of the central objectives of social development programs is fighting poverty and social exclusion. In the contemporary communication on social policies the terms social exclusion and inclusion are more and more frequently used, as an extension to the classical theme of poverty.

In its turn, the phrase “means of fighting poverty” tends to be gradually replaced by “promoting social inclusion”.

While the poverty theme referred strictly to the deficit of financial resources, the new theme of promoting social inclusion refers to a larger problem area. On the one hand, to an extremely varied range of social, cultural, moral, economic range, and on the other, to an active orientation towards social development by active intervention, by progressive construction of an inclusive society.

---

\* Lecturer, Ph.D., University of Petroșani, Romania, [rpmita@yahoo.com](mailto:rpmita@yahoo.com)

The concept of **social exclusion** is more recent and more comprehensive than the concept of poverty, since it includes not only the lack of material means, but also the impossibility of being included in various social, economic, political and cultural “networks”. Besides the deficit of income or consumption involved by poverty, social exclusion also involves a lack of normal participation in day-to-day life, and in social activities (Zamfir & Preda, 2004, p.3).

But as the authors Bocancea & Neamtu (1999, pp. 140-141) suggest, social exclusion has a large visibility and is easily noticed due to the increase of the people supporting it – homeless people, more and more accentuated pauperization of the unemployed, of those without resources or with minimal income, lack of access to jobs, etc. Social exclusion mainly refers to a situation of failure regarding the full attainment of citizen rights, both because of social-economical structural causes, and due to individual causes.

The same sources (Zamfir & Preda, 2004, pp.3-4) state that in Romania, as a country found in a transition process, the social exclusion and inclusion problem area shows certain specifics generated by the communist legacy, but also by the transition process itself. While here are similarities with the western countries regarding the manifestation of certain forms of social exclusion, the differences are mainly related to the exclusion sources, to its proportions and the intensity of its manifestation.

In the western countries, the exclusion sources are mainly marginal manifestations of a social system resulted following a development process that proved to be well-structured, coherent and functional, so far.

In the countries in transition, mainly those which encountered extremely difficult issues, such as Romania, the most important sources of social exclusion lie in the very difficult process of changing, as well as in the disaggregating processes going along with it: the explosion of poverty, processes of social disorganization, incongruence of legislative changes and of the systems of institutions, all taking place in a very short period of time, under various inside and outside influences.

The very **concept of poverty** has raised interpretation problems regarding its real significance. The definition of the concept has suffered modifications in time, in relation with what society defined and admitted as being “basic necessities”. From minimal needs regarding food and cloths, step by step, a minimum requirement of dwelling, education and health was considered, of which any individual should benefit, as member of a society.

A classical definition of poverty was developed by Rowntree, who considered that a person is poor when “his earnings are insufficient for obtaining a minimal necessity of keeping up his physical efficiency” (Lucuț & Rădulescu, 2000, p.125). As a result of this definition, appreciation of the population’s means of subsistence at hand has for a long time been an etalon to measure poverty. Subsequently, such components were appreciated as being too restrictive, thus other definitions and other forms of measuring poverty came up.

Thus, Townsend used for the first time in measuring poverty, the inquiry on family expenses, appreciating that the volume of total expenses of a family represents the most adequate measure of their resources, more suitable than the volume of their total resources.

Poverty is thus defined by the lowest level of resources of an individual or his family, because of which they are excluded from the habits and activities of life that are considered as being usual (Lucuț & Rădulescu, 2000, p.125).

Even if there are a great variety of attempts to define the concept of poverty, its unquestionable sense, present in all the definition used, is the following: poverty is a perpetual state of lack of resources required to provide a decent lifestyle, acceptable at the level of a given community (Zamfir & Zamfir, 1995, p.57).

In 2009, in the paper "*Dimensions of social inclusion in Romania*" produced by the National Institute of Statistics, based on Household Budget Survey shows that pensioners hold a significant percentage of the total population (23.3%) and poor pensioners, 16.4% among the poor persons of 16 years old and over.

Nationally, in 2009, of all pensioners, 3.2% had pension below the severe poverty threshold, 8.5% below the absolute poverty threshold, over a third (35.8%) had pension below the minimum basket of monthly consumption, 43.3% had pensions below the minimum subsistence threshold, while more than half (55.8%) had pension below the minimum of decent living. (table no.1).

**Table 1. Pensioners at national level whose pensions situate under the thresholds of monthly (%)**

Thresholds of monthly income	Maximum reference value (lei)	% of the total number of pensioners
Severe poverty	179	3.2
Absolute poverty	259	8.5
Minimum basket of monthly consumption	482	35.8
Minimum subsistence level	559	43.3
Minimum level of decent living	697	55.8

Source: National Council of Senior Citizens (2011), *Socio-economic situation of older people in Romania and EU countries - present and development perspectives*

In the Jiu Valley, in almost 15% of cases financial resources do not cover basic necessities, and for a third of families, the incomes barely can cover the minimum bare necessities. Just over a third of families manage to lead a decent life, and just over 10% can afford some expenses that are not related to the minimum bare necessities, but with big effort. Thus, we can say that almost 15% of the subjects / families live in absolute poverty, a double proportion is in relative poverty, one third can have a minimum decent life, while just less over 10% can enjoy a generally good living standard, the percentage of those who may say that benefits from resource abundance is insignificant (table no.2).

**Table 2. Pensioners living in the Jiu Valley under the threshold of monthly income (%)**

Answering options	Threshold of monthly income	% respondents
We cannot even cover basic necessities	Absolute poverty	14.7
We can cover basic necessities	Relative poverty	34.0
We can have a decent living standard, but we cannot afford other expenses.	Decent minimum living standard	34.7
We can afford other expenses but with big effort	Generally good standard of living	12.3
We can manage to have all we need, with no big effort.	Abundance of resources	4.3

Source: Research conducted by the author

As a member state of EU-27, Romania has applied the methodology to estimate poverty recommended by Eurostat (relative method), while developing a national system based on estimating absolute poverty method. The difficulties encountered in Europe and worldwide related to social protection in general and of the elderly persons, in particular, here we consider Romania situation, were added to extra problems of economic transition, the inadequacies of the legislative and institutional framework.

The segment poor population from amidst the elderly persons has emerged in the process of impoverishment of the majority population. According to social researches, families of pensioners have an intermediate rate of poverty, but lower than average (15.7% to 22.4% in 2009). Usually, the elderly persons (retirees) are not among the beneficiaries of economic growth. Current expenditure, especially for utilities, tends to cause slipping into poverty of more and more elderly persons.

The problem of measuring poverty raised several difficulties, and the methods applied were often criticized. The definitions of poverty involve almost always judgments of value, since, beyond the lack of comfort, prosperity and satisfaction, poverty implicitly includes the concept of incapacity of attaining certain conditions of existence.

As a result of the critics brought to the strategies of poverty assessment, the standards of living of the population tend to be defined, more and more, in terms of final outputs of which the population benefits, with direct reference to social indicators that assess health, education, nutrition etc.

Therefore, the majority of the analysts consider the necessity of directly correlating poverty and standards of living.

The last decades of the 20<sup>th</sup> century brought along, at least for the well developed societies, a new approach of poverty and standard of living. Alongside with the increase of the level of aspirations, of technological progress and material possibilities of societies, with the diversification of lifestyles, with the increasing interest for community problems in detriment of society in general, the attention of public opinion, of political world and of scientific community more and more focussed

on problems of general and individual wellbeing, on the problem of poverty and social inclusion, as objective of social protection systems.

An **antipoverty strategy** is a way of unitary planning a body of programmes, measures and actions systematically directed towards supporting poor persons and families, in view of providing a higher standard of living. The concept overlaps partly the body of social policies, run in the benefit of the poor, to which the component of their integrated planning is added. An antipoverty strategy aims at all sectors, promoting objectives including all plans: jobs, dwellings, health, education protection of family and children, social protection of underprivileged categories etc.

To be able to talk about antipoverty strategy, the public system should be involved at the level of its conception and progress, but non government actors could participate as well. In principle, a functional strategy should benefit from resources and should fix objectives in relation to those, it should be made operational in an action plan that would provide detailed measures and would identify how its progress towards reaching the objectives would be monitored. (Zamfir & Stănescu, 2007, p.553).

Poverty control policies represented one of the most important fields of articulation and development of social protection systems, of social policies in general. The first measures of social policy were developed to support this underprivileged category. Thus, the Poor Law Act in Great Britain in 1601 represents the first antipoverty strategy of a state. This regulation stipulates the obligation of each parish to take over the responsibility for their own poor, offering them assistance in exchange for work in the benefit of the community – as we would say today – from those who are apt to work, the similarity with the assistance for the poor in our day being remarkable. At the beginning of the 20<sup>th</sup> century, all developed countries ran support programmes for the poor.

Eradication of extreme poverty is a fundamental objective of the UNO global strategy of promoting Objectives of millennium development, which has set the objective of reducing by half the Dimensions of this phenomenon until 2015 (Zamfir & Stănescu, 2007, p.554).

At the level of the EU, poverty control takes place within the institutional framework of the strategy adopted by the European Council of Lisbon with its main objectives the promotion of jobs and economic growth. The concept promoted is not poverty, but social inclusion in other ways as well, not only due to economic reasons.

In the opinion of the same author (Zamfir & Stănescu, 2007, p.554), a considerable expertise has been accumulated in Romania, in the research of the phenomenon of poverty. In the first years after 1989, there was no specific program of controlling poverty, in spite of the increase of this phenomenon, and a widening gap between social strata.

In 1998 a first strategy was developed to fight poverty. Romania drew up its first Country Report on the Objectives of development of the Millennium in the year 2004, becoming one of the 191 participating countries in the global agenda of UNO for development. The Framework-Objective of this strategy is cutting back severe poverty, being complete with a series of more specific objectives, such as the increase of the rate of graduation in mandatory education or improvement of maternal health.

At conceptual level, the last years have marked the shift of the emphasis from poverty control, as lack of economic resources, to the fight against social exclusion, understood as a multidimensional phenomenon, of lack of access to various social services. This shift of accent involved a more comprehensive approach of social policies, where social transfers are completed with the reform of social services (education, health) and the construction of a national system of services of social assistance.

Social programmes help the poor, but do not eliminate poverty from society. The phenomenon of poverty is not strange to any society. Therefore, the aim of poverty control is in fact guiding the social efforts towards reducing risks for poverty becoming permanent or chronic and for social marginalization and exclusion.

Thinking in terms of human rights, poverty and social exclusion can be construed as infringement of people's fundamental social rights. Efficiency of national policies of providing access of the population to fundamental rights depends on the accuracy of identification and removal of mechanisms that hinder individuals to enjoy these social rights.

Taking into calculation these considerations, a strategy of fighting against social exclusion and of promoting social inclusion in Romania should inevitably be focused, not only on the institutional construction of an inclusive society, but also on the gradual absorption of massive accumulations of phenomena that lead to social disaggregation, results of a history loaded with multiple crises.

The concept of **social inclusion** is relatively new, being more and more frequently used together with the concept of social exclusion, in the process of formulating social policies, both at European and international level.

On the occasion of the European Council in Lisbon (March 2000), the mutual social goals of the member states were established and the strategic objective of the EU, that of becoming until the year 2010, "the most dynamic and competitive economy based on knowledge, capable of a durable economic growth, with more and better jobs and a higher social cohesion" (European Commission, 2001, apud Zamfir & Stanescu, 2007, p.300).

The measures of eradication of poverty and social exclusion were essential points of the Social Agenda adopted in Lisbon, the concept of social inclusion having been entered in this context (Stoica, 2007, p.300).

Promotion of social inclusion became a priority common to member states, the following directions of action having been established regarding fighting against poverty and social exclusion at community level:

- participation in the job market and everyone's access to resources, goods, rights and services;
- prevention social exclusion risk;
- concrete actions for vulnerable groups;
- mobilization of all involved.

These priority themes were included by the member states in the National Anti-Poverty and Promotion of Social Inclusion Plans, as an answer to social problem area.

In an international context one cannot speak of a consensus on what the term social inclusion means. The motive is both the differences between individuals, and between countries, a principal role being played by the economic and cultural situation specific to each country.

Social inclusion is reflected not only in material life conditions, but also as a subjective element: self-esteem and the feeling of belonging to a community are important elements of these subjective dimensions. Material welfare is thus a key dimension of social inclusion but it is correlated to terms such as social cohesion and social capital, the accent being mainly on the basic human necessities and in a smaller degree on income and wealth (Stoica & Stanescu, 2007, p.301).

The European principles on social inclusion, as well as the experience of the EU member states in social fields were reference points for developing a National Anti-poverty and Promotion of Social Inclusion Plan. This has been developed taking into consideration the social-economic characteristics of Romania as a country in transition, respecting in the same time the priorities and principles established by the European Council in Lisbon. The plan also establishes strategic objectives regarding poverty eradication and promotion of social inclusion, both on a short term, and on a medium and long term, with protection until the year 2012.

In the context of the Romanian society, social inclusion views a process of reinsertion in normal life forms, in a normal social functioning of persons found in a situation of social exclusion/marginalization, by developing capacities and construction of opportunities.

#### REFERENCES:

- [1]. Bădescu, C.; Bădescu, I. (2000), *Riscurile sociale și comunitățile. Către o nouă ipoteză*, in Zamfir, E. (coord). *Strategii anti-sărăcie și dezvoltare comunitară*, Editura Expert, București
- [2]. Bocancea, C.; Neamțu, G. (1999), *Elemente de asistență socială*, Editura Polirom, Iași
- [3]. Briciu, C. (2007), *Enciclopedia dezvoltării sociale*, Editura Polirom, Iași
- [4]. Lucuț, G. Rădulescu (2000), *Calitatea vieții și indicatorii sociali*, Editura Lumina Lex, București
- [5]. Pleșa, R. (2011), *Economical and Living Standard of Pensioners, at National Leve land in the Jiu Valley Area*, Annals of the University of Petroșani, Economics, vol. XI, pp.237-244
- [6]. Pleșa, R. (2012), *Economic Standard – Quantitative Components of Quality of Life*, Annals of the University of Petroșani, Economics, vol. XII, pp.187-196
- [7]. Stoica, L. (2007), *Incluziune socială*, Zamfir,C.; Stănescu,S. (coord.), Enciclopedia dezvoltării sociale, Editura Polirom, Iași
- [8]. Strobel, P. (1996), *De la sărăcie la excludere: societate salarială sau societate a drepturilor omului?*, Neculau, A.; Ferreol, G.(coord), Minoritari, marginali, excluși, Editura Polirom, Iași
- [9]. Zamfir, E. (1995), *Politici sociale. România în context European*, Editura Alternative, București

- [10]. **Zamfir, E.; Preda, M.; Dan, A.** (2004), *Surse ale excluziunii sociale în România*, Revista de asistență socială, No. 2-3, pp.3-4
- [11]. **Institutul Național De Statistică** (2009) *Anuarul Statistic al României*
- [12]. [http://www.insse.ro/cms/files/arhiva\\_buletine2009](http://www.insse.ro/cms/files/arhiva_buletine2009)

## **SOCIO-ECONOMIC AND DYNAMIC RELOCATIONS IN THE WORKPLACE**

**LAVINIA ELISABETA POPP, FELICIA ANDRIONI \***

**ABSTRACT:** *This paper presents the ways due to which public stakeshares, private or civil society must respond to contemporary social problems being forced to seek new ways to solve public problems. In this context, a growing interest in public institutions to achieve partnerships with the private sector, profit or non-profit begins to manifest, in order to support social development. Social economy sector is growing steadily, the best representation being the non-governmental organizations. These organizations have expanded their number and activities and have started offering a variety of services, thus constituting the key factors that determined their development and reforms of social services in Romania as well. Thus, the policy framework in which private providers of social services operate is evolving permanently, marking new relocations regarding the need for state intervention to regulate the market, the changing relationships and roles. The new reforms have allowed the private sector and the tertiary sector in the social field, to provide the helping and representation framework to vulnerable groups, people with disabilities and certain age groups (children, young and old) in a situation of social exclusion. Non-governmental Organizations in Romania have played in the last 20 years an active role in the social services market, supplying the missing services or complementing those provided by the state.*

**KEY WORDS:** *socio-economic relocation, labor market, development, flexibility.*

**JEL CLASIFICATION:** *I24, J15, J21, J71.*

### **1. INTRODUCTION**

The social economy is the most important area of the active policies development of social protection, of the cooperation development policy among local communities and official stakeholders of the state. It aims to involve the social forces and social capital to prevent the risk of exclusion by promoting an inclusive society (Cace, et al., 2010, p.15).

---

\* *Assoc. Prof., Ph.D., „Eftimie Murgu” University of Reșița, Romania, [lpopp@uem.ro](mailto:lpopp@uem.ro)  
Lecturer., Ph.D., University of Petroșani, Romania, [felicia\\_andrioni@yahoo.com](mailto:felicia_andrioni@yahoo.com)*

According to Clarke (2002) however, “*social protection is a mutual challenge for all European societies, even if it is supported in different ways*” (Clarke, 2002, p.18).

The main definition of the social policies in the context of the European Union is “*social inclusion*”, considered completely opposite to social exclusion, as it places the interventions aimed not only at income and its distribution, but also the removal of the terms and conditions of the social exclusion for specific groups of individuals in the center of the Union's policies. This approach considers social exclusion as a complex process that has its origins beyond the income across and that emphasizes the social relationships (Cace S., et al, 2010, p.19, cited in D. Byrne, 1997). The economist Joseph Stiglitz's new ideas (Nobel Prize winner) refers to the necessity of focusing on the actual contribution of state and institutions in the view of market failure to achieve this thing, in order to change the climate of a period dominated by neoliberal policies, (Cace, et al., 2010, p.47, cited Stiglitz, 2002).

Cace and collaborators stresses that one of the main measures chosen to escape from the economic crisis was the social protection lowering and the social responsibility transfer mainly to individuals and to terms of the people participation in the labor market. This change has also highlighted the increase of the budget for human resources in the economy, in order to strengthen the knowledge and training, focusing on functional link between education and labor market in order to meet every demand of the labor market with functional work force.

This choice aims at reducing the role of state participation in social policy systems, as it is considered a weak and inadequate factor of social equality. In this respect, it promotes the idea of a person who is required to take steps to resolve the future needs by strengthening private insurance schemes and at the same time strengthening the role of voluntary organizations and more increased activity of the companies and organizations active in the systems of social policy, and political choices underlying the promotion of individual responsibility that lead to the weakening of the state's role in social policy systems (2010, pp.47-48, cited in R. Mishra, 1990). The new reality along with major changes in society, led to the change of the social classes (Clark & Lipset, 1991, p.397). According to these researchers, social classes “*are modified in such a way that no longer plays a central role*” (Clark & Lipset, 1991, p.410). Some sociologists, including Esping Anderson (2002) considers it necessary to build a new social state to recognize that the social costs are not costs on consumers (or at least not only costs on consumers) of the state budget but are actually an investment.

It promoted the idea in the literature that education spending is an investment that produces benefits because it makes people more productive. This logic may be true in cases such as gender equality policy because it would contribute significantly to economic growth and social cohesion through the participation of a large number of mothers who work, and at the same time, the family and child poverty is prevented (Esping, et al, 2002, p.9).

Today, special attention is paid to the beneficiary's needs of service, emphasizing the social interest and service user's personal situation improvement. In the social and economic context there are also items such as employment and poorly

paid jobs that are not defined by individual action. It is emphasized the idea that responsibility for social policy systems should be not geared only towards user's physical preservation, but also to actively re-inclusion of those socially excluded, and the use of social capital requires coordinated and organized procedures so that both those socially excluded and those threatened with exclusion to be put in direct contact with the tools necessary for inclusion in the community life, in order to avoid becoming victims of poverty and social exclusion (Cace, et al., 2010, pp.52-54).

## 2. WORKFORCE DYNAMICS AND ADAPTATION

Mărgineanu concludes that "*the work is the one that determines the volume, structure and quality of material and spiritual services that the society disposes*" (Preoteasa AM, 2009, p.133, cited Mărginean I., 2002). Starting from the wage theory, it is promoted the assumption that modern labor markets where there is greater mobility of employees, looking for a job is not only stimulated by the prospect of a higher salary, but also by the satisfaction of the work itself (Hwang H ., et al, 1998, p.816). Some approach closer to the social domain considers the labor to be essential for human existence and does not identifies it through the production of material goods but also by the fact that the work defines the human being and it is increasingly a source of affirmation and human achievement, since as Balasa mentioned, man is made through labor "*and he is what he makes*" (Bălașa, 2002, p.147).

This intrinsic orientation of labor, according to neo-Marxist theories "*is considered an essential condition of human self-development*" (Gallie, 2007, p.280). In this respect, Beker said that "*individual skills and capabilities in human capital theory helps to diversify employment and productivity growth*" (Preoteasa AM, 2009, p.135, cited in S. Becker, 1964). In political vision, the concept of employment aims, in addition to the individual and structural approaches, at a regulatory component of public policy. It is included as the first dimension of employment policy in the EU social policy. European Social Model addresses the need of combining the sustainable economic growth with the continuous improvement of living and working conditions, by emphasizing certain values of full employment, quality jobs, equal opportunities, social protection for all, social inclusion and citizen involvement in the decisions affecting them. The concept of "*system of employment*" was created by approaching the employment concept from the sociological perspective, (Preoteasa, 2009, p.135, cited in Christiansen, 1999).

Unproductive work; the way the population and social structures stratifies the labor and labor market participation; production structures; welfare system, education and industrial relations system, social and legal status of persons employed economically; manner in which gender, changes in the family as institution and family policies that have affected the development of different forms and distribution of labor in society and household can be included in the employment system: (Preoteasa, 2009, pp.135-136). From a sociological perspective, in Koistien's opinion, employment was driven by several factors: structural, institutional and behavioral. Given Koistien theory and analyzing the particular situation of Romania, the explanatory theoretical model of employment was built. This model considers that three types of factors are involved in

the employment as follows: structural – represented by demographic structures, production structures, national economic and geographical conditions, the informal economy, the transition to a market economy; institutional – concerning protection system and social security, education and training, legislation on industrial relations and labor mobility and EU policy; cultural and behavioral – targeting individual and group values, expectations of the welfare state, cultural ideas regarding gender roles in family and society and the way people appreciate the importance of participation in the labor (Koistien, 2001, p.3).

### **3. FLEXIBILITY, SECURITY, INCLUSION AND ACCESS TO EMPLOYMENT**

The concept of flexibility and security are relatively new to the labor market area in Romania. The most important element linking flexibility to the security is the trust, because the people's trust in changing gives them the courage to work in a more flexible way (Eurofound, 2007). The concept of flexibility can be realized by changing the job in time, space, or even the profession, thus distancing from the traditional model of employment. These flexible forms of employment can provide solutions on various personal problems and solution to achieve the balance between the work and the spare time reserved to family. Among the security features provided by the labor market, there are included formal employment contracts is a safety feature for both the employer and the employee, and their share has increased in recent years especially after the adoption of the single tax law, a measure which reduced the informal employment percentage.

The concept associated with the process of social policy formulation is the social inclusion and is, together with the opposite concept of social exclusion, the complex dimensions of social area analysis. Social inclusion aims specifically not only at the chance that all those able and willing to enter the labor market, but also at the opportunity to stay in the labor market. Labor market integration of young graduates or people in long-term unemployment is one factor which gives the measure of the degree of inclusion of a country (Preoteasa, 2009, p.154-156). Operational definition which explains the term flexibility consider three dimensions: time, space and contractual conditions (Wallace, 2002).

Preoteasa shows that the flexibility focus on promoting employment and acceptance of atypical employment: part-time jobs, jobs with variable work schedule, work at home or work on your own. Flexibility in terms of policies relates to successful change that occurs throughout the life, from school to work, from one job to another, between unemployment and inactivity and work, from the workplace to retirement and even after retirement to a job (Preoteasa, 2009, p.174).

Flexibility requires better organization of work and time, in accordance with the requirements of productivity and increasing the quality of employment. In the post-modern age of globalization, employment policies must also take into account the interests of employers, by initiating flexibility measures beneficial to both parties involved in the work process. Romania has adopted legislative measures at the institutional, economic and financial level for labor market flexibility, for recent years,

among the first being related to the situation of collective dismissals and aimed at both employers and employees protection (Preoteasa, 2009, p.175).

In 2003 the Labor Code was amended, instituting various regulations covering labor relations and flexible instruments to reduce employment barriers, loosening restrictions on individual employment contract, both part time and those relating to work at home; simplifying procedures for recording the employees by introducing general register of employees; flexibility of individual and collective dismissals and the ensure of the employees' rights when those dismissals take place. The provisions of the Labour Code (Ordinance no.55/2006 published in the Official Gazette nr.788/18.06.2006) on the flexibility of procedures for collective dismissals have been completed so that economical operators should be able to effectively resize their activity as needed, ensuring protection of the workers to be made redundant. Supporting training and qualification obtaining is another component of labor market flexibility, which makes entrepreneurship a career option. This action provides also allocations from Structural Funds for 2007-2013. It aims to encourage corporate responsibilities by providing incentives for employees to develop companies and careers, but also to aware the employers and employees on the need to continue training. From this point of view, the Public Employment Service (PES) grants non-repayable funds for employers to organize certain training programs for employees (MMESF, 2007).

#### **4. APPLIED RESEARCH. PRO VITAM CHARITY ASSOCIATION ACTIVITY**

##### **4.1. Research methodology**

The applied research is outlined in a individual, longitudinal study case targeting at the Pro Vitam Charity Association activity in Resita particularly searching the contemporary phenomenon "*relocation*" regarding the significant development in the "*sphere of work*" of this association, from its establishment in 2003 up to the present. The research method used was to analyze documents using the criterion of written documents and statistical information, such as reports, notes, interviews conducted by some members of the association, the main source of them being largely the Charity Association Pro Vitam. The social research methodology currently focuses on the proper combination between quantitative and qualitative research, aiming to be a "*tempering*" of the quantity, coupled with the pursuit of rigor of the quality. In the social work practice, analysis of documents relates to the premise that the social documents, the written and the material ones are presented as true "*social texts*" that provide information on a particular case and on the social context in which it is framed (Neamțu, 2003, p.296).

The Day Center Pro Vitam was established in 2005 and provides counseling, recovery, rehabilitation for the elderly, disabled, young people who have left the institutionalized system as well as abused women, with a capacity of 100 persons / month and monthly average of 80-85 beneficiaries. The center was established under a project developed in partnership with the County Council Caras-Severin, in line with national priorities related to "*the development of social services, namely the*

*establishment of day centers for addiction counseling and prevention for disadvantaged people*” funded by Ministry of Labor, Social Solidarity and Family.

The partnership concluded with the County Council Caras-Severin was conducted over a period of four years, during which the County Council has funded approximately 50% of the center's activities. Association of Charity Pro Vitam Resita through the activity they perform in the community is a good example in terms of phenomena “*relocation*” and dynamics of social services. Thus, the center runs the following activities:

- **counseling, recovery and rehabilitation BFT (spa physiotherapy)**; until 2014 psychological counseling, health, legal, administrative and economic elderly, abused women and young people from public care institutions were awarded to a number of 7172 beneficiaries. There were also conducted activities of recovery and rehabilitation through physiotherapy, physiokinetotherapy and massage, activities addressed to all categories of population (Rotariu M., Information, 2008, 2009, 2011). Among the therapies provided by this center it is worthy to mention the stigmatism and logopedics therapy. In 2012 the Association Pro Vitam Resita opened two offices, one in Caransebeş and other one in Mehedinti County in Drobeta Turnu Severin, these centers having an average number of 50 beneficiaries per month. In the same year 2012, it was also established a new center in Resita, the Polyclinic Pro Vitam (Rotariu M., Information 2012).

**The occupational therapy and rehabilitation center Caransebeş** was founded in 2012 with the specific recovery-rehabilitation, social reintegration, based on certain therapies as the type of occupational and rehabilitation therapies, with integrated services of recovery and rehabilitation at both county and regional level. The center has a capacity of 100 people/month, with an average number of services per month for 80-85 beneficiaries/month. It provided services to a total of 251 beneficiaries.

**The center of occupational and rehabilitation therapy Drobeta Turnu Severin**, has been operating since 2012 with social recovery-rehabilitation-reintegration specific through occupational therapy and rehabilitation therapies, providing integrated recovery and rehabilitation both at county and regional level. The center has a capacity for 100 people/month, with an average monthly service to a number of 80-85 beneficiaries. The center provided services to a total of 283 beneficiaries.

The Polyclinic Pro Vitam was established in 2012, with social recovery-rehabilitation-reintegration specific through occupational and rehabilitation therapies provide integrated rehabilitation and recovery services both at county and regional level, having a capacity for 100 seats/month, with the monthly average number of 80-85 services to beneficiaries. It provided services to a total of 253 beneficiaries. (Rotariu M., Information 2008, 2009, 2011).

**The Center of Neurological recovery Pro Vitam** is a residential center which was established in 2007, having a capacity of 55 seats, and provides services of socio-medical support, care, recovery and rehabilitation for people with mobility and neuropsychomotor disabilities, in ranges of 12 days. One important thing to note is that the center is the only socio-medical residential institution in the county profiled on

infantile recovery and rehabilitation. Neurological recovery center in Resita has a total of 30 employees.

- **Neurological recovery activities carried out in the Neurological Recovery Center Pro Vitam**; from the beginning until 2014, the service center received a total of 2,882 beneficiaries, mainly those from Caras-Severin (Rotariu M., Information, 2008, 2009, 2011). This center is the only neuromotor recovery clinic in Caras-Severin, operates under private hospital regime, with double financing through patient co-payment.

**The "Pro Vitam House" - Shelter for victims of domestic violence** has been operating since 2008. The Centre can provide hosting for fixed temporary term, from a minimum of 7 days to a maximum of 60 days, to a number of 6 people as it has a capacity of maximum 6 seats; it grants hosting legal, psychological and medical care, guidance and accompaniment to the beneficiaries, in order to obtain documents and identity papers or marital status, medical certificates, facilitation of access to other types of benefits and social services, information on social rights and available services as well as socializing. The shelter was founded through the national program "*Specialized service system support through partnership project financing destined to develop and maintain facilities to prevent and combat domestic violence*", provided in Annex. 8 at the Government Decision no. 197/2006 regarding the approval of the national interest in protecting the rights of persons with disabilities and social assistance for the elderly, the homeless and victims of domestic violence. In order to carry out the housing activities were concluded partnerships with the Police Inspectorate of Caras-Severin, Resita City Council, the General Directorate of Social Assistance and Child Protection Caras-Severin and County Social Services Agency Caras-Severin. It provided housing, legal, psychological and medical care to a number of 9 beneficiaries (Rotariu, Information, 2008, 2009 and 2011).

**Respiro Center Pro Vitam** was established in 2008 in order to provide temporary housing, support and care to adults with disabilities, with a capacity of 12 seats. The center provided services to a number of 21 beneficiaries. The center aims to provide a few days of "*respire*" to the people caring for a disabled person.

The **Training Centre** runs training activity for adults. The association is authorized as a training provider in the professions "*personal assistant of the severely disabled person*" and "*caretaker for the elderly*". Association Pro Vitam, first authorized in 2004 under "*caretaker for the elderly at their residences*" in Caras-Severin. Since then, they have been trained over 308 people, of which a good portion was employed in the association. The association also conducted training to over 873 personal assistants for people with severe disabilities.

Irecson Institute conducted a study in Caras-Severin, from January to October 2011, analyzing the problems encountered by social service providers. In the field of qualitative research there were conducted 20 interviews, involving five DGASPC accredited social service coordinators; four SPAS accredited social service coordinators and 11 representatives and coordinators of social services of certain private providers. There were also made two focus groups with GDSACP accredited experts and specialists of the private organizations, including the president of the Association of Charity Pro Vitam, Marinela Rotariu. Analyzing the results of the study

there was found that the most common problems faced by most social service providers were the lack of funds, position blocking, and personnel migration due to poor financial motivations.

#### **4.2. Results and discussion**

The Charity Association Pro Vitam Resita through the activity that they perform in the community is a good example in terms of “*relocation*” and dynamics phenomena of social services. We emphasize relocations regarding the establishment of new centers of this association, both in Resita and in other places in the county and country and relocations aimed at diversifying the services offered. There is an intermingling of social and health services, and between the range of services provided to beneficiaries who are individuals with varying ages (children, youth, the elderly), answering thus in an effective and appropriate way to the community needs. The case study also succeeded to illustrate eloquent relocations regarding the funding sources, despite the fact that the funds provided from the local and national level have been insufficient, the association has found alternative methods, and showed great flexibility and adaptation to the crisis, through the development of national and international projects and programs, managing to maintain the number of served clients.

Analyzing the results of the study it can be concluded that the associations such as the Association of Charity Pro Vitam presents alternative solutions related to the diversified services and the high standards that they offer, given that the local public sector does not provide this type of service or can not fully cover them. We emphasize the relocations aimed at partnerships between the public domain and governmental services.

The Charity Association Pro Vitam Resita, by setting up new centers, also ensures the creation of jobs and through the training service; it offers real opportunities for qualification and then employment. We also reveal that a large number of people who attended the offered training courses were employed in this association

#### **5. CONCLUSIONS**

After 1990, when there was actually a revival of the social work in Romania, there were a lot of relocations due to the new political and socio-economic context, which required the definition and creation of social policies adapted to the new needs that have emerged, or those hitherto unrecognized of the Romanian society in transition. The overall objectives of the work aimed at the new social economy that it is mentioned in the Romanian Law as one of the principles that aims at the building an inclusive society through social services relating to social welfare, social protection and social work or social assurance. Analyzing this period, we can mention the relocations that were made on the labor market in our country by the phenomenon of labor force mass migration in the European countries, and the alarming increase of the number of unemployed.

In this respect, in order to support the unemployed in the labor market in Romania, active policies promoting has been focused on, through alternative services

for their reintroduction into the labor market. The new social economy also seeks all those relocations regarding the changes that occur at the level of individual in the contemporary society, which is forced to adapt himself/herself to the new conditions, to become more reflective by developing the knowledge or retraining.

Other relocations also occurred in the legislation, with the adoption of new laws, strategies, methods and intervention measures in order to respond effectively to the current socio-economic issues. The main objective of the new social economy refers to the poverty combating and social exclusion in order to achieve an inclusive society, but in the case of our country, if we introduce these variables into the equation, the solution is not represented by an inclusive society.

#### REFERENCES:

- [1]. **Bălașa, A.** (2002) *Calitatea vieții de muncă În Calitatea Vieții În România*, Editura Expert, p.147
- [2]. **Cace, S. (coord); Nicolăescu, V.; Scoican, A.N.** (2010) *Cele mai bune practici în sectorul economiei sociale în Grecia și în alte state ale Uniunii Europene*, Editura Expert, București, pp.15-54
- [3]. **Clark, T.N.; Lipset, S.M.** (1996) *Are Social Classes Dying?* *International Sociology*, nr. 6(4). p.397
- [4]. **Clarke, J.** (2002) *Changing Welfare, Changing States- New directions in social poicy*, Editura Sage, London, p.18
- [5]. **Cristiansen, J.; Koistinen, P.; Kovalainen A.** (1999) *Working Europe: reshaping European Employment sistems*, Aldershot Hants England: Ashgate
- [6]. **Esping, A.; Gallie, G.; Hemerrijk, D; Miles, J.** (2002) *Why we need welfare state*, Editura Oxford University Press, Oxford
- [7]. **Koistinen, P.** (2001) *A future european employment medel*, on line: [www.uta.fi/iss/monnetre/wordit/Future11.rtf](http://www.uta.fi/iss/monnetre/wordit/Future11.rtf)
- [8]. **Mărgineanu, I.; Bălașa, A.** (2002) *Calitatea vieții în România*, Editura Expert, București
- [9]. **Neamțu, G.**, (2003), *Tratat de Asistență socială*, Editura Polirom, Iași
- [10]. **Preoteasa, A.M.** (2009) *Cercetarea politicilor sociale*, Editura Lumen, Iași
- [11]. **Stiglitz, J.** (2002) *Globalization and Its Discontents*, W.W. Norto & Company, New York
- [12]. **Wallace, C.** (2002) *Households, work and flexibility Critical review of literature and discourses about flexibilitz*. Recarch Report
- [13]. **Popp. L.E.; Cojocaru, M.** (2008) *Șomerii-identitate și formare profesională. Cercetare, practică, ideologie*, Editura Eftimie Murgu, Reșița
- [14]. **Ministerul Muncii, Familiei și Egalității de Șanse** (2007) *Flexicuritate, Raport*, Direcția Programe și Strategii Forța de Muncă, Observatorul național al Ocupării și Formării profesionale a forței de muncă, [www.MMESF.ro/website/ro/rapoarte\\_studii/261007\\_rapsept.pdf](http://www.MMESF.ro/website/ro/rapoarte_studii/261007_rapsept.pdf)
- [15]. **Guvernul României** (2011) *Programul Național de Reformă 2011-2013*, București, p.4
- [16]. Informare Nr. 158/19.03.2008, privind acordarea serviciilor sociale și medicale la domiciliul persoanelor Vârstnice, Marinela Rotariu, președinte Asociația de Binefacere Pro Vitam, Reșița
- [17]. Informare Nr. 804/23.10.2008, privind activitatea Asociației de Binefacere Pro Vitam, Marinela Rotariu, președinte Asociația de Binefacere Pro Vitam, Reșița.
- [18]. Informare Nr. 304/20.05.2009, privind activitatea Asociației de Binefacere Pro Vitam, în domeniul asistenței sociale acordată persoanelor vârstnice, Marinela Rotariu, președinte Asociația de Binefacere Pro Vitam, Reșița

- [19]. Informare 2011, privind acordarea serviciilor socio-medicale, Marinela Rotariu, președinte Asociația de Binefacere Pro Vitam, Reșița
- [20]. Varieties of flexicurity: reflections on key elements of flexibility and security, Eurofond, [www.eurofound.europa.eu/pubdocs/2007/21/en/1/ef0721en.pdf](http://www.eurofound.europa.eu/pubdocs/2007/21/en/1/ef0721en.pdf)
- [21]. Law no. 76 of 16 January 2002 regarding the system of unemployment insurance fund and stimulation of employment, published in Romania's Official Gazette no.103 of 6.02. 2002
- [22]. [www.anofm.ro](http://www.anofm.ro)
- [23]. [www.provitam.info/despre-noi/istoric.html](http://www.provitam.info/despre-noi/istoric.html)
- [24]. [www.provitam.info/puncte-de-lucru/](http://www.provitam.info/puncte-de-lucru/)
- [25]. [www.seniorinet.ro/serviciile-de-ingrijire-la-domiciliu-o](http://www.seniorinet.ro/serviciile-de-ingrijire-la-domiciliu-o)

## **HOW AFFECTED WAS WORLD INSURANCE MARKET BY GLOBAL CRISIS?**

**ANA PREDA, MIRELA MONEA \***

**ABSTRACT:** *Global economic and financial crisis triggered in 2008 had a significant impact with effects in economical life worldwide. Insurance industry wasn't spared but was less affected than other sectors of the world economy. The aim of the present paper is to underline the main crisis effects on global insurance market through a comparative study between different regions from the world, taking into consideration the main indicators which give us an insurance market dimension, such as: gross premium volume, insurance density and insurance penetration.*

**KEY WORDS:** *insurance market, financial crisis, gross premium written, insurance density, insurance penetration rate.*

**JEL CLASSIFICATION:** *G01, G14, G22.*

### **1. INTRODUCTION**

Everybody sells today, there is a world where it takes more than communication and persuasion, and it is the world of insurance. In the world of insurance the employee is in the centre of attention, professionally trained in sales and management, selling intangible products based on the needs of the clients.

"To many the burst of the global crisis has come up as a surprise, wondering how this severe global credit crisis could happen, how seriously and long lasting it would be and what implications were to come in the future for the financial industry and the world economy" (Jungmann & Sagemann, 2011).

Crises may result from recessions rather than or in addition to causing them. In other words, the entire fall in output may not be properly attributable to the crisis. Similarly, crises may be more likely following periods of unsustainably rapid

---

\* *Ph.D. Student, University of Craiova, Romania, [ana\\_preda79@yahoo.com](mailto:ana_preda79@yahoo.com)  
Assoc. Prof., Ph.D., University of Petroșani, Romania, [moneamirela@gmail.com](mailto:moneamirela@gmail.com)*

economic growth; in this case, simply taking the difference between growth rates before and after the event will exaggerate its effects (Lomborg, 2004).

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.

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 private insurance market provides coverage that is not available from the government markets, and it is not bound by the diplomatic policy of any one nation (Cook, 2007).

We believe that only in conditions of developing complex strategies of knowing the clients, segmenting the basis of clients on various criteria, adapting the offered products to the needs of the clients, the companies might increase their sales. On a long term, insurances will be affected by the prolonged crisis that will affect the customer's attitude; financial education is still low in many countries, as well as the degree of understanding the new products, such as the unit-linked ones. The companies that will sell guaranteed life insurances, that is policies where the investment risk is assumed by the insurer, and the profit obtained is shared with the customer, will win in the future. In times of crisis, life insurance with significant protection components are required, or else they will not be bought.

In the following year consumers will be reoriented towards products with protection components, giving up, at least for a while, the products with high investment part. We also believe that insurers will have to focus on products with significant differences between them, since these differences will determine the client to choose more easily. Slightly different products are not of interest, analyzing small detail takes time. Therefore, from a strategic point of view, insurers should develop a limited range of products, but with significant differences between them.

One of the most important features characterizing the development of the world insurance system at present is globalization of world insurance market, which is manifest by a gradual liquidation of economic and legislative barriers separating the insurance markets of certain states. An other characteristic of the international insurance market is the existence of an important number of insurance companies operating in various organizational-legal forms, concentration of enormous capital and assets, an extremely large range of operations and insurance products offered, a developed legislation regarding the field of insurance and a viable state surveillance

system, diverse associations and unions of insurers and policyholders, a well developed system of intermediaries, consulting and rating firms.

The current global financial crisis is the worst the world has seen since the Great Depression during 1929-33. The severe worldwide recession - which in most countries began to show up in 2008 - was triggered by the housing bubble in the USA (Jungmann & Sagemann, 2011).

The effects are visible, enveloping and with major consequences in economic field and in economic politics, and has social and cultural dimension.

## 2. INSURANCE MARKET ANALYSIS THROUGH GROSS WRITTEN PREMIUM BEFORE AND AFTER FINANCIAL CRISIS TRIGGER

The situation of the main markets from the world, before the financial crisis through the first indicator taken into consideration - gross written premium is presented in Table 1 (total gross written premium), and Table 2 (gross written premium from life and non-life insurance).

**Table 1. Total gross written premium before the start of the financial crisis (Millions of USD)**

Region	Total gross written premium		
	2005	2006	2007
<b>AMERICA</b>	1246641	1329729	1417463
<b>EUROPE</b>	1335057	1484881	1680693
<b>ASIA</b>	765221	800819	840601
<b>AFRICA</b>	42718	49667	53294
<b>OCEANIA</b>	56190	58316	68818
<b>World</b>	<b>3445827</b>	<b>3723412</b>	<b>4060869</b>

Source: Annual Reports Swiss Re: Swiss Re, Sigma Nr. 5/2006, Swiss Re, Sigma Nr. 4/2007, Swiss Re, Sigma Nr. 3/2008

**Table 2. Gross written premium from life and non-life insurance before the start of the financial crisis (Millions of USD)**

Region	Gross written premium from life insurance			Gross written premium from non-life insurance		
	2005	2006	2007	2005	2006	2007
<b>AMERICA</b>	556121	601784	659759	690520	727945	757703
<b>EUROPE</b>	812226	940586	1035942	522830	544295	644751
<b>ASIA</b>	578567	602266	623469	186644	198553	217132
<b>AFRICA</b>	29676	35468	38111	13042	14200	15183
<b>OCEANIA</b>	26968	29214	35807	29222	29102	33011
<b>World</b>	<b>2003558</b>	<b>2209318</b>	<b>2393088</b>	<b>1442258</b>	<b>1514095</b>	<b>1667780</b>

Source: Annual Reports Swiss Re: Swiss Re, Sigma Nr. 5/2006, Swiss Re, Sigma Nr. 4/2007, Swiss Re, Sigma Nr. 3/2008

The authority of Europe is to be noticed over all the other areas, including America and Asia. The most significant increase is seen in life insurance that evolved faster than the others, they representing 59% in the total of premiums collected worldwide in the year 2007. In Africa and Oceania a low level of premiums are seen compared to other areas, as well as a slow rate of development in the analyzed period.

Trends in world insurance market by region under the influence of the financial crisis are presented in Table no. 3 (total gross written premium), and Table 4 (gross written premium from life and non-life insurance).

**Table 3. Gross written premium after the start of the financial crisis  
(Millions of USD)**

Region	Total gross written premium		
	2008	2009	2010
<b>AMERICA</b>	1450749	1349495	1409530
<b>EUROPE</b>	1753200	1610620	1620437
<b>ASIA</b>	933358	989451	1161118
<b>AFRICA</b>	54713	49287	66719
<b>OCEANIA</b>	77716	67241	81160
<b>World</b>	<b>4269736</b>	<b>4066094</b>	<b>4338964</b>

Source: Annual Reports Swiss Re: Swiss Re, Sigma Nr.3/2009, Swiss Re, Sigma Nr. 2/2010, Swiss Re, Sigma Nr. 2/2011,

**Table 4. Gross written premium from life and non-life insurance after the start of the financial crisis (Millions of USD)**

Region	Gross written premium from life insurance			Gross written premium from non-life insurance		
	2008	2009	2010	2008	2009	2010
<b>AMERICA</b>	666.954	579.626	612.349	783.795	769.869	797.181
<b>EUROPE</b>	1.050.815	953.515	965.661	702.385	657.105	654.776
<b>ASIA</b>	690.951	732.267	855.370	242.407	257.184	305.748
<b>AFRICA</b>	37.866	32.564	47.244	16.847	16.723	19.475
<b>OCEANIA</b>	43.835	33.594	39.448	33.881	33.647	41.712
<b>World</b>	<b>2.490.421</b>	<b>2.331.566</b>	<b>2.520.072</b>	<b>1.779.315</b>	<b>1.734.528</b>	<b>1.818.892</b>

Source: Annual Reports Swiss Re: Swiss Re, Sigma Nr.3/2009, Swiss Re, Sigma Nr. 2/2010, Swiss Re, Sigma Nr. 2/2011,

Europe remains the largest insurance market from the world that still dictates the world insurance trends, followed by America, Asia, Oceania and Africa.

Crisis has undermined the stability of the Euro zone and the overall EU and indeed marks the historical shock to which policy makers so far hardly find adequate responses – understanding the role of banks, financial market integration and the overall EU single market developments is required as is the understanding of global international financial markets (Welfens & Cillian, 2011).

Most affected by financial crisis was the year of 2009, when it is notice a decrease of gross premium written in all regions, with an exception in case of Asia, where in the entire period of analysis the premium increased continuously, both from life and non-life insurance. Worldwide the total premium volume decreased in the year of 2009 with 4.77% comparatively with the previous year, most in life insurance (almost a decrease of premiums with 6.38%). In 2010 it is notice a slightly recovering being recording an increase of total premium volume of 6.29% compared with 2009, and in life insurance with 7.48%. In Europe total premium volume decreased in 2009 with 8.13% compared with 2008, and in life insurance was a decrease of 9.26%. In 2010 European insurance market records an increase of premium volume of 0.6%, a little much from life insurance of 1.26%.

On America's insurance market gross premium volume decreased in 2009 with 6.98% compared with 2008, and the premium from life insurance decreased with 13.09%. The trends changed in 2010 when it is notice an increase with 4.25% of gross premium volume from total insurance activity, and with 5.34% from life insurance. In Africa and Oceania recorded decline in total premium volume in 2009 with 9.91% and 13.47%, and than in 2010 recorded an accelerated increase of 26.12% and 17.15%.

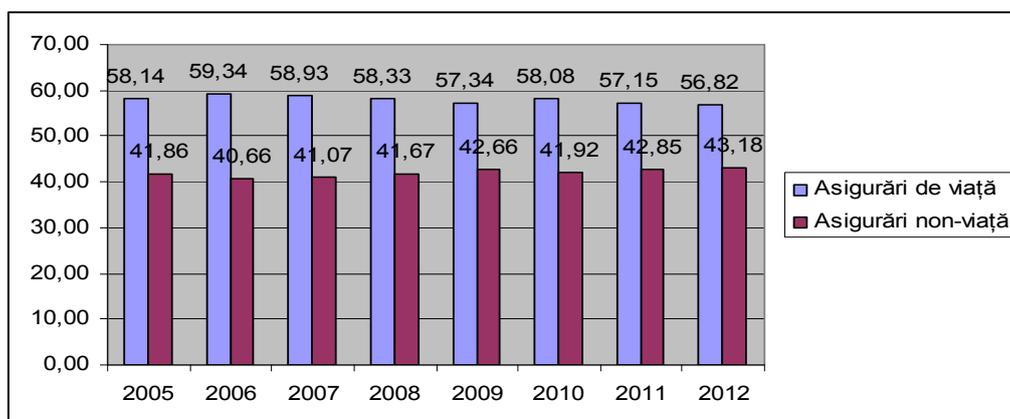
**Table 5. Gross written premium from life and non-life insurance post crisis  
(Millions of USD)**

Region	Total gross written premium		Gross written premium from life insurance		Gross written premium from non-life insurance	
	2011	2012	2011	2012	2011	2012
<b>AMERICA</b>	1480164	1562153	654935	691372	825230	870781
<b>EUROPA</b>	1650866	1535176	937168	876444	713699	658732
<b>ASIA</b>	1298139	1346223	941958	957712	356180	388511
<b>AFRICA</b>	68080	71891	46297	49888	21782	22002
<b>OCEANIA</b>	99438	97071	46810	45448	52628	51624
<b>World</b>	<b>4596687</b>	<b>4612514</b>	<b>2627168</b>	<b>2620864</b>	<b>1969519</b>	<b>1991650</b>

Source: Annual Reports Swiss Re: Swiss Re, Sigma Nr. 3/2012, Swiss Re, Sigma Nr 3/2013

We analyzed international insurance market before the start of the financial crisis, during the crisis and the period post crisis, until present time through the total gross written premium and gross written premium from life and non-life insurance, and the conclusion is that at the present time, the gross written premium from life insurance represent 56%-58% from total gross written premium worldwide.

The share of life and non-life insurance in total premiums written worldwide is presented in Figure 1.



**Figure 1. The share of life and non-life insurance in total premiums written worldwide (%)**

### 3. COMPARATIVE STUDY ON INSURANCE DENSITY

In addition to gross premium written for dimensioning insurance market it was used another indicator, insurance density. Insurance density is defined as the ratio of premium to total population (or insurance premiums in US\$ per capita).

It was analyzed insurance density on global level before the beginning of the financial crisis and after financial crisis trigger, on main world region.

**Table 6. Insurance density by regions before the beginning of the financial crisis (USD/inhabitant)**

Region	2005		2006		2007	
	Insurance density (from life insurance)	Insurance density (total business insurance)	Insurance density (from life insurance)	Insurance density (total business insurance)	Insurance density (from life insurance)	Insurance density (total business insurance)
<b>North America</b>	1686.3	3735.1	1731.8	3804.0	1869.3	3984.8
<b>Latin America and Caraibe</b>	42.0	105.7	51.3	126.7	63.1	154.1
<b>Europe</b>	911.8	1513.8	1119.6	1745.7	1222.6	1962.4
<b>Asia</b>	149.6	197.9	154.6	205.0	156.7	210.7
<b>Oceania</b>	885.0	1786.3	896.3	1787.3	1071.4	2059.5
<b>Africa</b>	30.7	44.2	38.3	53.6	39.6	55.3
<b>World</b>	<b>299.5</b>	<b>518.5</b>	<b>330.6</b>	<b>554.8</b>	<b>358.1</b>	<b>607.7</b>

Source: Annual Reports Swiss Re: Swiss Re, Sigma Nr. 5/2006, Swiss Re, Sigma Nr. 4/2007, Swiss Re, Sigma Nr. 3/2008

**Table 7. Insurance density by regions after the beginning of the financial crisis (USD/inhabitant)**

Region	2008		2009		2010	
	Insurance density (from life insurance)	Insurance density (total business insurance)	Insurance density (from life insurance)	Insurance density (total business insurance)	Insurance density (from life insurance)	Insurance density (total business insurance)
North America	18855.6	3988.8	1572.8	3634.5	1620.9	3724.4
Latin America and Caraibe	68.5	175.8	75.6	192.2	93.5	219.1
Europa	1244.1	2043.9	1111	1861.5	1110.6	1850.2
Asia	173.9	243.3	180.3	243.1	208.1	281.5
Oceania	1281.5	2271.9	930.7	1862.9	1109.7	2283.1
Africa	38.4	55.6	32.3	48.8	45.8	64.7
<b>World</b>	<b>369.7</b>	<b>633.9</b>	<b>341.2</b>	<b>595.1</b>	<b>364.3</b>	<b>627.3</b>

Source: Annual Reports Swiss Re: Swiss Re, Sigma Nr.3/2009, Swiss Re, Sigma Nr. 2/2010, Swiss Re, Sigma Nr. 2/2011

**Table 8. Insurance density by regions post crisis (USD/inhabitant)**

Region	2011		2012	
	Insurance density (from life insurance)	Insurance density (total business insurance)	Insurance density (from life insurance)	Insurance density (total business insurance)
North America	1697	3815	1776.8	3996.3
Latin America and Caraibe	110	261	120	281.9
Europa	1083	1886	996	1724.4
Asia	229	314	229.8	321.7
Oceania	1299	2759	1245.5	2645
Africa	44	65	46.7	67.5
<b>World</b>	<b>378</b>	<b>661</b>	<b>372.6</b>	<b>655.7</b>

Source: Annual Reports Swiss Re: Swiss Re, Sigma Nr. 3/2012, Swiss Re, Sigma Nr 3/2013

For life insurance, in the year of 2008, on world level to purchase a life insurance policy an inhabitant paid an average of 369.7 US dollars, and in 2009 and 2010 the average amount decrease at 341.2 US dollars and 364.3 US dollars. The trends registered were similarly in case of the insurance density from total business insurance. The largest amounts for a life insurance policy have been paid by inhabitants of North America, almost 18855.6 US dollars/inhabitant. The year of 2009 is a year in which it recorded a decrease of insurance density in all regions of the world, a worldwide an inhabitant pays for purchasing a life insurance on average of

341.2 US dollars, and in case of total business insurance (life + non-life) an average of 595.1 US dollars. During 2010, insurance density worldwide increased by 6.34% compared with the previous year, and in Europe it was registered the smallest increase by 0.03%.

It is also observed that this situation is different from the period before the economic and financial crisis began, so during 2005-2007 it was recorded a increasing worldwide insurance density, from 518.5 US dollars/inhabitant in 2005, to 554.8 US dollars/inhabitant in 2006 and 607.7 US dollars/inhabitant in 2007 (in case of total business insurance). For purchasing a life insurance in the period 2005-2007, an inhabitant worldwide paid an average of 299.5 US dollars in 2005, increasing at 341.2 US dollars in 2006 and 358.1 US dollars in 2007.

In 2011 insurance density increased of 661 US dollars in case of total business insurance and at 378 US dollars in case of life insurance, and in the last year of the analyzed period is registered an decreasing level, being of 655.7 US dollars from total business and of 372.6 US dollars from life insurance.

At the beginning of the financial crisis in countries with emerging economy the insurance density was over 40 times less than in developed countries.

#### 4. EFFECTS OF THE FINANCIAL CRISIS ON INSURANCE PENETRATION

Another indicator analysed in the comparative study is insurance penetration rate. Insurance penetration is measured as annual insurance premiums in US dollars as a percentage of gross written premiums in gross domestic product.

$$G = \frac{GWP}{GDP} \times 100 \quad (1)$$

where:

G – insurance penetration degree;

GWP – gross written premiums;

GDP – gross domestic product.

In Table 9 it is presented the evolution of the insurance penetration from the main regions worldwide before the beginning of the economic and financial crisis.

Also in Table 10 is presented the evolution of the insurance penetration from the main regions worldwide after the start and under economic and financial crisis effects.

In terms of insurance penetration rate the data from table 9 shows no changes in the period between 2005 and 2007, so the percentage of gross written premiums in gross domestic product being similar, about 7.5% in case of total business insurance and about 4.3%-4.5% in case of life insurance.

The data from table 10 shows the decrease trends worldwide from 7.52% in 2005 to 6.9% in 2010. The trend is similar in case of insurance penetration rate from life insurance; it was 4.34% in 2005 and decrease to 4.0% in 2010.

In 2010 the highest insurance penetration (from total business insurance) is registered in North America, equal to 7.8%, followed by Europe with 7.5% and Asia with a rate of 6.2%.

Analyzing the insurance penetration from life insurance in 2010 the highest insurance penetration is registered in Europe equal to 4.5%, followed by Asia and North America (3.4%).

**Table 9. Insurance penetration by regions before the beginning of the financial crisis (% in GDP)**

Region	2005		2006		2007	
	Insurance penetration (from life insurance)	Insurance penetration (total business insurance)	Insurance penetration (from life insurance)	Insurance penetration (total business insurance)	Insurance penetration (from life insurance)	Insurance penetration (total business insurance)
North America	4.05	8.97	3.9	8.7	4.1	8.7
Latin America / Caraibe	0.93	2.35	1.0	2.4	1.0	2.5
Europa	4.69	7.78	5.3	8.3	5.0	8.0
Asia	5.16	6.83	5.0	6.6	4.6	6.2
Oceania	3.16	6.38	3.4	6.7	3.4	6.6
Africa	3.33	4.80	3.4	4.8	3.1	4.3
World	4.34	7.52	4.5	7.5	4.41	7.49

Source: Annual Reports Swiss Re: Swiss Re, Sigma Nr. 5/2006, Swiss Re, Sigma Nr. 4/2007, Swiss Re, Sigma Nr. 3/2008

**Table 10. Insurance penetration by regions after the beginning of the financial crisis (% in GDP)**

Region	2008		2009		2010	
	Insurance penetration (from life insurance)	Insurance penetration (total business insurance)	Insurance penetration (from life insurance)	Insurance penetration (total business insurance)	Insurance penetration (from life insurance)	Insurance penetration (total business insurance)
North America	4.0	8.5	3.4	7.9	3.4	7.8
Latin America and Caraibe	1.0	2.5	1.1	2.8	1.1	2.7
Europa	4.5	7.5	4.5	7.6	4.5	7.5
Asia	4.4	6.0	4.5	6.1	4.5	6.2
Oceania	4.0	7.0	3.1	6.2	2.8	5.8
Africa	2.5	3.6	2.2	3.3	2.7	3.9
World	4.1	7.1	4.0	7.0	4.0	6.9

Source: Annual Reports Swiss Re: Swiss Re, Sigma Nr.3/2009, Swiss Re, Sigma Nr. 2/2010, Swiss Re, Sigma Nr. 2/2011

In the last 2 years 2011, 2012 the value of the insurance penetration degree registered a decrease at 3,8% in 2011 and 3,7% in 2012 (from life insurance), and at 6,6% - 6,5% (in case of total business insurance). The values registered in the major regions of the world are presented in table 11.

**Table 11. Insurance penetration by regions post crisis (% in GDP)**

Region	2011		2012	
	Insurance penetration (from life insurance)	Insurance penetration (total business insurance)	Insurance penetration (from life insurance)	Insurance penetration (total business insurance)
North America	3.5	7.9	3.6	8.0
Latin America and Caribe	1.2	2.8	1.3	3.0
Europa	4.1	7.1	3.9	6.7
Asia	4.3	5.8	4.1	5.7
Oceania	2.8	5.9	2.6	5.6
Africa	2.5	3.6	2.5	3.7
World	3.8	6.6	3.7	6.5

Source: Annual Reports Swiss Re: Swiss Re, Sigma Nr. 3/2012, Swiss Re, Sigma Nr 3/2013

## 5. CONCLUSIONS

Economic and financial crisis had direct and indirect effects on world insurance market. Among crisis direct effects the most significant was decrease of the populations incomes, and of course those available from insurance purposes, which leads to a significant insurance mitigation, most of unit-linked insurance contracts. In time of recession financial priorities changes, people use their financial resources for consume not for savings. The other effects consists in decrease of the stock price index, interest ratio variation, decrease of profits, earnings, and investments which affect more trends in life insurance than non-life one. These effects underline the relations between the financial system components and insurance activity. One of the first financial crisis impacts refers to reduction of the insurer undertakings solvability and assets value.

In the period of the study European continent was and still is the largest insurance market from the world through gross premium volume, being that market which dictate world insurance course, followed by America, Asia, Oceania and Africa. The year of 2009 was the most affected year by global crisis pointing out a decrease of gross premium volume with a single exception regarding trends from Asia. Global crisis effects were more visible on life insurance sector than non-life insurance.

For the economy of each country, the share of life insurance should be higher than that of other insurance forms, since it participates in the loan offer on the financial market by fructifying the reserves that are made in the form of investments in bank deposits, treasury bills, bonds, loans to the policyholders in the account of the sums insured for life insurance and other forms of investments. These reserves are invested depending on the possibilities of fructification, on the legal provisions regarding the

level of liquidities that should be ensured and the ratio of investments in various types of assets.

At international level, the crisis had an impact on the international market of insurances in a different way, from one region to other, from one country to other. Referring to life insurance, the developed countries were less affected than the countries with emergent economy. Reducing the spending capacity of the clients correlated with reduction of profit in investments resulted in the decline of sales for all types of insurance at international level in the year 2009. In the year 2010 the volume of sales for all types of products has a slightly increasing tendency, which I believe will stay like that in the years to come as well.

The analysts believe that such a global crisis has never been before, and the steps to counteract it, the diminution of its effects and prevention in the future of a reappearance is difficult process involving cooperation at international level between governments and surveillance authorities. The regional or global solutions require time, long negotiations, and are meant to counteract the accentuation of economic protectionism and nationalism, obvious in all countries in the period of the beginning of the crisis. At present, at international level, from the data collected results that there are great discrepancies in covering through insurance, this varying from one country to other, hundreds of thousands of under insured individuals needing the financial protection offered by these products. Confronted with an increasing life expectation and with decreasing national reserves due to social-political and economic causes, especially product covering longevity risks are those sustaining increase in the states with advanced technology.

Meanwhile, there is a great deficiency in underinsuring in the emergent countries, which will be fructified in the future years by the insurers. The segment of life insurance experienced significant increase on emergent markets in Asia, but also on great European markets. In the USA and in Great Britain, the businesses of life insurers went down, but not very rapidly. Looking back to the year 2010, most of the insurance companies came back to the level before the crisis of the analyzed indicators. This favourable evolution is valid both for the insurers in countries with well developed economies, and in countries with developing economies. There are a series of risks of which the insurance industry should be permanently aware: possibility of new disturbances on the financial markets is one of those.

#### **REFERENCES:**

- [1]. **Astor, B.** (1999) *CliffsNotes - Understanding life insurance*, IDG Books Worldwide, Inc., SUA
- [2]. **Bhuyan, V.** (2009) *Life Markets*, John Wiley & Sons, Canada
- [3]. **Ciurel, V.** (2011) *Asigurări și reasigurări. O perspectivă globală*, Editra Rentrop & Straton, București
- [4]. **Cook T.** (2007) *Global Sourcing Logistics How to Manage Risk and Gain Competitive Advantage in a Worldwide Marketplace*, American Management Association, SUA 2007
- [5]. **Lomborg, B.** (2004) *Global Crises, Global Solutions*, Cambridge University Press, New York

- [6]. **Jungmann, J.; Sagemann, B.** (2011) *Financial Crisis in Eastern Europe Road to Recovery*, Gabler Verlag, Germany
- [7]. **Matei, Gh.; Preda, A.** (2012) *Romanian insurance market- road to recovery after financial crisis*, Annals of the University of Petroșani, Economics, 12(3), pg. 147-158
- [8]. **Person, R.** (2010) *The developement of international insurance*, Pickering & Chatto, London
- [9]. **Preda, A.** (2012) Considerations regarding EU Life Insurance Market, Annals of University of Craiova, Economic Sciences Series, Vol.3, Issues 40, pg. 128-133
- [10]. **Zevnik, R.** (2004) *The complete book of insurance*, Sphinx Publishing, USA
- [11]. **Welfens, P.; Cillian, R.** (2011) *Financial Market Integration and Growth, Structural Change and Economic Dynamics in the European Union*, Springer, Berlin
- [12]. **Annual Reports Swiss Re** (2006) *World Insurance in 2005, Moderate Premium Growth, Attractive Profitability*, Sigma No 5/2006, Zurich, Switzerland
- [13]. **Annual Reports Swiss Re** (2007) *World Insurance in 2006, Premiums Came Back to Life*, Sigma No 4/2007, Zurich, Switzerland
- [14]. **Annual Reports Swiss Re** (2008) *World Insurance in 2007, Emerging Markets Leading the Way*, Sigma No 3/2008, Zurich, Switzerland
- [15]. **Annual Reports Swiss Re** (2009) *World Insurance in 2008, Life Premiums Fall in the Industrialised Countries, Strong Growth in the Emerging Economies*, Sigma No 3/2009, Zurich, Switzerland
- [16]. **Annual Reports Swiss Re** (2010) *World Insurance in 2009, Premiums Dipped, but Industry Capital Improved*, Sigma No 2/2010, Zurich, Switzerland
- [17]. **Annual Reports Swiss Re** (2011) *World Insurance in 2010, Premiums Back to Growth – Capital Increases*, Sigma No 2/2011, Zurich, Switzerland
- [18]. **Annual Reports Swiss Re** (2012) *World Insurance in 2011*, Sigma Nr. 3/2012, Zurich, Switzerland
- [19]. **Annual Reports Swiss Re** (2013) *World Insurance in 2012, Progressing on the Long and Winding Road to Recovery*, Sigma Nr 3/2013, Zurich, Switzerland

## **COMPARATIVE ANALYSIS AND THE PLACE OF ROMANIA ON INSURANCE GLOBAL MARKET**

**ANA PREDA, MIRELA MONEA \***

**ABSTRACT:** *The paper is centered on some aspects regarding a comparative analysis of the global insurance market taking into account few specific indicators such as: gross written premiums, insurance density and insurance penetration degree. We analyzed the world insurance market per principal regions, before the beginning of the financial crisis and up to the present, showing the place of the Romanian insurance market related to the global market.*

**KEY WORDS:** *insurance, global insurance market, comparative analysis.*

**JEL CLASSIFICATION:** *G01, G14, G22.*

### **1. INTRODUCTION**

International trade with insurance is “low compared to world expenses with insurance premiums and with international transactions in any other domain” (Ciurel, 2011). One might say however, that it increased lately, especially in countries with emergent economy, due to liberalization of trade in various regions of the world, penetration of foreign companies in national markets – as in the case of Central and Eastern Europe that became EU members, countries in Asia or Latin America, in parallel, fusions and acquisitions in the field made an impact on the insurance trade. The level of economic development of a country is the main factor of the size and dimension of an insurance market.

Life insurance determines a higher level of financial safety for the population, and even a possible reduction of expenditure with social protection and increase of sustainability of the social insurance system. The more rapid development of the life insurance market would lead to the development of the economy by a larger

---

\* *Ph.D. Student, University of Craiova, Romania, [ana\\_preda79@yahoo.com](mailto:ana_preda79@yahoo.com)  
Assoc. Prof., Ph.D., University of Petroșani, Romania, [moneamirela@gmail.com](mailto:moneamirela@gmail.com)*

investment volume, by a more efficient allocation of the capital, by stimulating long term savings, but also a more rapid development of financial markets.

The aim of this paper is the result of the desire to highlight the true valences of this highly specialized field of the national economy, insurance business, a key factor of economic increase, together with banking system, because "without a stable banking system there is a serious risk of another Great Depression" (Welfens & Cillian, 2011)

Others „financial crises which have happened during the last two decades, from the October 1987 stock market shock, through the American Savings and Loans debacle, the Japanese banking collapse, East Asia's meltdown, Russia's bankruptcy, and the Swedish banking crisis, to the equity bubble of 2000" (Chorafas, 2009).

We analyzed the world insurance market per principal regions, before the beginning of the financial crisis and up to the present. The following indicators were used for the dimensioning of the market: premium volume, insurance density and insurance penetration. We also showed the place of the Romanian insurance market related to the global market.

## 2. THE ANALYSIS OF THE GLOBAL INSURANCE MARKET BY GROSS WRITTEN PREMIUMS

In table 1 and table 2 is presented top 10 world countries through gross written premium from total insurance business, from the beginning of the crisis (2008-2010) and post crisis (2011, 2012).

**Table 1. Top 10 countries by gross premium written (total insurance business) between 2008 and 2010**

Ran king	2008		Ran king	2009		Ran king	2010	
	Country	Millions of USD		Country	Millions of USD		Country	Millions of USD
1.	USA	1240643	1.	USA	1139746	1.	USA	1166142
2.	Japan	473197	2.	Japan	505956	2.	Japan	557439
3.	UK	450152	3.	UK	309241	3.	UK	310022
4.	France	273007	4.	France	283070	4.	France	280082
5.	Germany	243085	5.	Germany	238366	5.	Germany	239817
6.	China	140818	6.	Italy	169360	6.	China	214626
7.	Italy	140689	7.	China	163047	7.	Italy	174347
8.	Netherlands	112611	8.	Netherlands	108144	8.	Canada	115521
9.	Canada	105174	9.	Canada	98840	9.	South Korea	114422
10.	South Korea	97023	10.	South Korea	91963	10.	Netherlands	174347
<b>49.</b>	<b>Romania</b>	<b>3523</b>	<b>49.</b>	<b>Romania</b>	<b>2898</b>	<b>50.</b>	<b>Romania</b>	<b>2632</b>

Source: Annual Reports Swiss Re: Swiss Re, Sigma Nr.3/2009, Swiss Re, Sigma Nr. 2/2010, Swiss Re, Sigma Nr. 2/2011

In this ranking by gross written premium from total insurance business, the firsts 10 ranks are identically in the period analyzed, and also it is point the rank of Romania situated on 49 rank by gross premium written and those ratio represent only 0.06% from world insurance business.

In the period considered post crisis, 2011-2012 in this top of first 10 countries, only USA, Japan and UK kept their rank of top 3, and we observed that Romania lost about 5 places in the rank.

**Table 2. Top 10 countries by gross premium written (total insurance business) in the period post crisis 2011-2012**

Ranking	2011		Ranking	2012	
	Country	Millions of USD		Country	Millions of USD
1	USA	1204677	1	USA	1270884
2	Japan	655408	2	Japan	654112
3	UK	319553	3	UK	311418
4	France	273112	4	China	245511
5	Germany	245162	5	France	242459
6	China	221858	6	Germany	231908
7	Italy	160514	7	Italy	144218
8	South Korea	130383	8	South Korea	139269
9	Canada	121213	9	Canada	122532
10	Netherlands	110931	10	Netherlands	100342
<b>55</b>	<b>Romania</b>	<b>2607</b>	<b>56</b>	<b>Romania</b>	<b>2287</b>

Source: Annual Reports Swiss Re: Swiss Re, Sigma Nr. 3/2012, Swiss Re, Sigma Nr 3/2013

In table 3 and table 4, is presented top 10 world countries through gross premium written from life insurance, from the beginning of the crisis (2008-2010) and also post crisis (2011, 2012).

**Table 3. Top 10 countries by gross premium written (from life insurance) between 2008 and 2010**

Ranking	2008		Ranking	2009		Ranking	2010	
	Country	Millions of USD		Country	Millions of USD		Country	Millions of USD
1.	USA	578211	1.	USA	492345	1.	USA	506228
2.	Japan	367112	2.	Japan	399100	2.	Japan	440950
3.	UK	286112	3.	UK	217681	3.	UK	213831
4.	France	181146	4.	France	194077	4.	France	192428
5.	Germany	111278	5.	Italy	115290	5.	China	142999
6.	China	95831	6.	Germany	111775	6.	Italy	122063
7.	Italy	82623	7.	China	109175	7.	Germany	114868
8.	South Korea	66417	8.	South Korea	57436	8.	South Korea	71131
9.	Taiwan	52748	9.	India	57114	9.	India	67810
10.	India	48860	10.	Taiwan	52204	10.	Taiwan	63920
<b>51.</b>	<b>Romania</b>	<b>699</b>	<b>56.</b>	<b>Romania</b>	<b>533</b>	<b>56.</b>	<b>Romania</b>	<b>515</b>

Source: Annual Reports: SwissRe, Sigma Nr.3/2009, SwissRe, Sigma Nr. 2/2010, SwissRe, Sigma Nr. 2/2011

In top 10 countries by gross premium written from life insurance the countries is maintained almost the same, firsts 4 ranks being identically, Germany down 2 ranks in top, Italy, China, India and Taiwan changing there places up an down in the period 2008-2010.

**Table 4. Top 10 countries by gross premium written (from life insurance) in the period post crisis 2011-2012**

Ranking	2011		Ranking	2012	
	Country	Millions of USD		Country	Millions of USD
1	USA	537570	1	USA	567756
2	Japan	524668	2	Japan	524372
3	UK	210067	3	UK	205918
4	France	174753	4	France	149346
5	China	134539	5	China	141208
6	Germany	113869	6	Germany	106411
7	Italy	105089	7	Italy	93273
8	South Korea	79161	8	South Korea	78920
9	Taiwan	64133	9	Taiwan	72522
10	India	60442	10	India	53300
<b>57</b>	<b>Romania</b>	<b>554</b>	<b>58</b>	<b>Romania</b>	<b>475</b>

Source: Annual Reports Swiss Re: Swiss Re, Sigma Nr. 3/2012, Swiss Re, Sigma Nr 3/2013

Romania is situated on 51 rank in 2008 and 56 rank in the years 2009, 2010, and down to 57 rank and 58 rank in 2011 and 2012, and the gross premium ratio from life insurance in the world life insurance premiums is almost 0.02%.

## 2. THE ANALYSIS OF THE GLOBAL INSURANCE MARKET THROUGH INSURANCE DENSITY AND INSURANCE PENETRATION DEGREE

In Table 5, table 6 and table 7, it is presented a top 10 countries from the world through insurance density during the years 2008-2010, after the financial crisis started, and in the period post-crisis (2011, 2012).

**Table 5. Top 10 countries worldwide by insurance density during 2008-2010 - total insurance business (dollars/inhabitant)**

2008			2009			2010		
Rank	Country	Insurance density	Rank	Country	Insurance density	Rank	Country	Insurance density
1.	UK	6857.8	1.	Netherlands	6554.6	1.	Switzerland	6633.7
2.	Netherlands	6849.5	2.	Switzerland	6257.6	2.	Netherlands	5845.3
3.	Switzerland	6379.4	3.	Denmark	5528.9	3.	Luxembourg	5653.2
4.	Denmark	5418.9	4.	Luxembourg	5226.9	4.	Denmark	5084.2
5.	Ireland	4914.5	5.	UK	4578.8	5.	UK	4496.6
6.	Finland	4393.2	6.	Ireland	4515.7	6.	Japan	43902
7.	Belgium	4298.8	7.	France	4269.1	7.	Ireland	4296.6
8.	France	4131.0	8.	Finland	4253.0	8.	France	4186.6
9.	USA	4078.0	9.	Japan	3979.0	9.	Finland	4181.5
10.	Sweden	3996.2	10.	USA	3710.0	1.	Sweden	4081.7
<b>59.</b>	<b>Romania</b>	<b>165</b>	<b>63.</b>	<b>Romania</b>	<b>136.2</b>	<b>65.</b>	<b>Romania</b>	<b>122.8</b>

Source: Annual Reports: SwissRe, Sigma Nr. 3/2009, SwissRe, Sigma Nr. 2/2010, SwissRe, Sigma Nr. 2/2011

**Table 6. Top 10 countries worldwide by insurance density during 2008-2010 –from life insurance (dollars/inhabitant)**

2008			2009			2010		
Rank	Country	Insurance density	Rank	Country	Insurance density	Rank	Country	Insurance density
1.	UK	5582.1	1.	Denmark	3816.0	1.	Switzerland	3666.8
2.	Denmark	3669.0	2.	UK	3527.6	2.	Japan	3472.8
3.	Ireland	3599.4	3.	Ireland	3437.1	3.	UK	3436.3
4.	Switzerland	3551.5	4.	Switzerland	3405.6	4.	Denmark	3429.2
5.	Finland	3488.9	5.	Finland	3379.4	5.	Finland	3323.9
6.	Belgium	3021.5	6.	Luxembourg	3229.4	6.	Ireland	3213.7
7.	Sweden	2841.2	7.	Japan	3138.7	7.	Sweden	3141.2
8.	France	2791.9	8.	France	2979.8	8.	France	2937.5
9.	Netherlands	2366.0	9.	Netherlands	2046.1	9.	Netherlands	1511.8
10.	USA	1900.6	10.	USA	1602.6	1.	Luxembourg	1511.8
<b>59.</b>	<b>Romania</b>	<b>32.7</b>	<b>63.</b>	<b>Romania</b>	<b>25.1</b>	<b>65.</b>	<b>Romania</b>	<b>24.0</b>

Source: Annual Reports: SwissRe, Sigma Nr. 3/2009, SwissRe, Sigma Nr. 2/2010, SwissRe, Sigma Nr. 2/2011

It is observed that throughout the analysis period the most countries from top 10 are from Europe, only USA is present in that top 10 countries worldwide by insurance density in 2008 and 2009, and also Japan was a new entry in 2009 with an increasing trend in 2010. Romania is on 59 ranks in this top in 2008 and on 65 ranks in the last 3 years (2010, 2011, and 2012).

**Table 7. Top 10 countries worldwide by insurance density (total insurance and life insurance) in the period post crisis 2011-2012 (dollars/inhabitant)**

Rank	2011			Rank	2012		
	Country	USD/loc			Country	USD/loc	
		Total insurance	From life insurance			Total insurance	From life insurance
1	Switzerland	8012	4421	1	Switzerland	7522.1	4121.1
2	Netherland	6647	1870	2	Netherland	5984.9	1749.8
3	Luxemburg	5974	3748	3	Denmark	5304.1	3718.0
4	Denmark	5619	3858	4	Japan	5167.5	4142.5
5	Japan	5169	4138	5	Luxemburg	5079.4	3067.4
6	Finland	4716	3788	6	Finland	4770.7	3860.3
7	UK	4535	3347	7	Hong Kong	4543.9	4024.7
8	Sweden	4455	3382	8	Norway	4487.8	2831.5
9	Ireland	4449	3367	9	UK	4350.2	3255.8
10	Norway	4251	2604	10	USA	4047.3	1808.1
<b>65</b>	<b>Romania</b>	<b>122</b>	<b>26</b>	<b>65</b>	<b>Romania</b>	<b>107.2</b>	<b>22.3</b>

Source: Annual Reports Swiss Re: Swiss Re, Sigma Nr. 3/2012, Swiss Re, Sigma Nr 3/2013

At the beginning of the financial crisis in countries with emerging economy the insurance density was over 40 times less than in developed countries.

Table 8, and table 9, shows the top ten countries from the world in terms of insurance penetration rate in the period 2008-2010, and post crisis 2011-2012.

**Table 8. Top 10 countries worldwide by insurance penetration during 2008-2010, total insurance business (% in GDP)**

2008			2009			2010		
Rank	Country	Insurance penetration	Rank	Country	Insurance penetration	Rank	Country	Insurance penetration
1.	Taiwan	16.2	1.	Taiwan	16.8	1.	Taiwan	18.4
2.	UK	15.7	2.	Netherlands	13.6	2.	South Africa	14.8
3.	South Africa	15.3	3.	UK	12.9	3.	UK	12.4
4.	Netherlands	12.9	4.	South Africa	12.9	4.	Netherlands	12.4
5.	South Korea	11.8	5.	Hong Kong	11.0	5.	Hong Kong	11.4
6.	Hong Kong	11.2	6.	South Korea	10.4	6.	South Korea	11.2
7.	Bahamas	10.2	7.	France	10.3	7.	France	10.5
8.	Switzerland	9.9	8.	Bahamas	10.2	8.	Japan	10.1
9.	Japan	9.8	9.	Japan	9.9	9.	Switzerland	9.9
10.	Portugal	9.2	10.	Denmark	9.9	1.	Bahamas	9.9
59.	Romania	<b>1.8</b>	63.	Romania	<b>1.8</b>	65.	Romania	<b>1.7</b>

Source: Annual Reports: SwissRe, Sigma Nr. 3/2009, SwissRe, Sigma Nr. 2/2010, SwissRe, Sigma Nr. 2/2011

According with these informations is notice that the highest insurance penetration is found in Taiwan, increasing from one year to another about 11,9% in 2010 comparative with the level from 2008. On second place are United Kingdom in the year 2008, Netherlands in 2009, and South Africa in 2010.

**Table 9. Top 10 countries worldwide by insurance penetration during 2011-2012, total insurance business (% in GDP)**

2011			2012		
Rank	Country	Insurance penetration	Rank	Country	Insurance penetration
1.	Taiwan	17.0	1.	Taiwan	18.2
2.	Netherlands	13.2	2.	South Africa	14.2
3.	South Africa	12.9	3.	Netherlands	13.0
4.	UK	11.8	4.	Hong Kong	12.4
5.	South Korea	11.6	5.	South Korea	12.1
6.	Hong Kong	11.4	6.	Japan	11.4
7.	Japan	11.0	7.	UK	11.3
8.	Switzerland	10.0	8.	Finland	10.4
9.	Finland	9.5	9.	Switzerland	9.6
10.	France	9.5	10.	Denmark	9.5
<b>59.</b>	<b>Romania</b>	<b>1.5</b>	<b>63.</b>	<b>Romania</b>	<b>1.4</b>

Source: Annual Reports Swiss Re: Swiss Re, Sigma Nr. 3/2012, Swiss Re, Sigma Nr 3/2013

The annual top 10 countries by insurance penetration in the last 2 years changed easily, there are almost the same countries in that top that only changed their places between them with few exception - Portugal and Bahamas left the top, and new

entry in place were Finland and Denmark-(Denmark was in top 10 only in 2009). Romania down 4 places in the last year (2012) compared with the previous.

### 3. THE PLACE AND TRENDS OF THE INSURANCE MARKET FROM ROMANIA

Before the financial crisis started the economic context was entirely different from the present. Economy was increasing, financial markets - including insurances were in expansion, while real estate market was in full swing. In present, Romania, as any other country of the world, faces an unprecedented financial-economic crisis.

One we became a member state of the EU, insurance activities can be run on the insurance market of our country, based on the principle of free circulation of services or based on the right of insurance companies to be set up within the European Union.

The evolution of the number of insurance undertakings from Romania and the share of foreign capital is presented in Table 10.

**Table 10. Insurer undertakings and the foreign investors share**

Year	Insurance undertakings	Share of foreign capital (%)
2008	43	87.93%
2009	45	88.65%
2010	43	90.40%
2011	43	91.22%
2012	41	78.08%

*Source: Insurance Supervisory Commission, Romania, Annual Reports: 2008, 2009, 2010, 2011, 2012*

Analyzing table no.10 in terms of the share of foreign capital over the past five years, foreign investors have made capital inflows in order to consolidate the financial capacity of the insurance undertakings, so that, the subscribed foreign capital went up by 87.93% (2008) to 91.22% at the end of 2011, and decreased in the last year to 78.08% (2012). We can say that insurance market from Romania is a good opportunity for a business.

In 2012, Romania has only 21.92% share of capital subscribed, but the ranking of capital home country according to the weight of share capital subscribed in total market at the end of the year is as follows: Austria (28.45%), France (14.72%), the Netherlands (9.42%), Czech Republic (5.09%), Bulgaria (3.68%), Germany (3.67%), Italy (3.42%), Greece (2.91%), USA (2.64%), Cyprus (1.41%), Luxembourg (1.11%), Switzerland (0.78%), Moldavia (0.33%), Great Britain (0.31%), Israel (0.14%) other countries (16.00%), according to the Annual Report of: Insurance Supervisory Commission, 2012.

The structure of total gross written premiums by insurance categories (non-life insurance and life insurance) showed as follows in table 11 and table 12:

**Table 11. Structure of gross written premiums by nonlife and life insurance between 2008 and 2010**

Gross written premiums	2008	2009	2010
Life insurance (lei)	1868112985	1628162635	1665668554
Non-life insurance (lei)	7068173520	7241584322	6639733598
Total (lei)	8936286505	8869746957	8305402152

Source: Insurance Supervisory Commission, Romania, Annual Reports: 2008, 2009, 2010

**Table 12. Structure of gross written premiums by nonlife and life insurance post crisis 2011-2012**

Gross written premiums	2011	2012
Life insurance (lei)	1738366854	1738366854
Non-life insurance (lei)	6083943098	6083943098
Total (lei)	7822309952	7822309952

Source: Insurance Supervisory Commission from Romania, Annual Reports: 2009, 2010

Unlike the insurance markets in other, more developed countries, the Romanian market still depends in a large degree, in the car insurance on the high contraction of car sales and car leasing. The general insurance market increased its annual decrease rate, compared to the previous one, with a decrease compared to the year 2009. On the other hand, life insurance segment recovered in the year 2010, after undergoing in 2009 a nominal annual decrease of 12.84%, and generated a volume of brute premiums in the nominal increase of 2.30% compared to the year 2009. However, the still low share of life insurance in the total volume of transaction at the level of market made the positive evolution in this segment of activity not to significantly influence the evolution of transacted brute premiums cumulated from general and life insurance. Transactions began to be affected together with the beginning of the economic crisis, until that moment having an increasing trend.

In table 13. are presented the others indicators of the insurance market from Romania in last five years.

**Table 13. Evolution of the insurance penetration rate and insurance density in Romania, between 2000-2010**

Indicator	2008	2009	2010	2011	2012
Insurance penetration rate in GDP (%)	1.77	1.8	1.62	1.40	1.41
Insurance density (lei/inhabitant)	415.62	413.27	386.85	388.25	410.87

Source: Insurance Supervisory Commission from Romania, Annual Reports: 2008, 2009, 2010, 2011, 2012

The insurance penetration rate reached the level 1.80% at the end of the year 2009, with a slight increase compared to the previous year, but decreased in 2010 with 10% in life insurance, the insurance penetration rate was 0.33% in 2009, and in the field of non-life insurance of 1.47% (Insurance Supervisory Commission Annual Report, 2010). Insurance density in Romania at the end of the year 2009 was 413.27 lei/inhabitant, with a 2.35 lei/inhabitant decrease compared to the previous year. After that Insurance penetration rate decreased early, to 1.41% in 2012, and the insurance

density registered decrease in 2010 and 2011, and an increasing level of 410.87 lei/inhabitant in 2012.

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.

Economic-financial crisis had many effect and created distortions on insurance markets, although “insurers witnessed sooner than participated in the crisis, since by the nature of this business, there are no seismic risks, they suffered sooner due to the fall of financial markets, reduction of economic increase rates, reduction of interest rates, credit quality, as well as due to dramatic fall of the price of the stocks or which were bankrupt” (Informative study, no. VI/1, March 2012, p.12).

#### 4. CONCLUSIONS

Romanian market is still very much underinsured, with a small volume of premiums and very low insurance penetration compared to European markets, and this will not change in the following years. The low degree of insurance penetration of less than 2%, compared to 8% average at European level can lead us to the conclusion that there is an uncovered potential and I believe it will still stay so in the following years. The same characteristic is true in the case of insurance density, which does still not reach 100 EURO/inhabitant, compared to the 2000 EURO average European level, but one has to consider the average income or Romania’s population, since the level and structure of incomes and expenses in the EU and I Romania are very different, and in the near future we cannot reach the level of revenues in developed countries in Europe, so that we could compared ourselves with them.

#### REFERENCES:

- [1]. **Astor, B.** (1999) *CliffsNotes - Understanding life insurance*, IDG Books Worldwide, Inc., SUA
- [2]. **Bhuyan, V.** (2009) *Life Markets*, John Wiley & Sons, Canada
- [3]. **Ciurel, V.** (2011) *Asigurări și reasigurări. O perspectivă globală*, Editra Rentrop & Straton, București
- [4]. **Cook, T.** (2007) *Global Sourcing Logistics How to Manage Risk and Gain Competitive Advantage in a Worldwide Marketplace*, American Management Association, SUA 2007
- [5]. **Chorafas, D.** (2009) *Financial Boom and Gloom, The Credit and Banking Crisis of 2007-2009 and Beyond*, Palgrave Macmillan, UK, 2009
- [6]. **Lomborg, B.** (2004) *Global Crises, Global Solutions*, Cambridge University Press, New York
- [7]. **Jungmann, J.; Sagemann, B.** (2011) *Financial Crisis in Eastern Europe Road to Recovery*, Gabler Verlag, Germany
- [8]. **Matei, Gh.; Preda, A.** (2012) *Romanian insurance market- road to recovery after financial crisis*, Annals of the University of Petroșani, Economics, 12(3), pg. 147-158
- [9]. **Person, R.** (2010) *The development of international insurance*, Pickering & Chatto, London

- [10]. **Preda, A.** (2012) Considerations regarding EU Life Insurance Market, *Annals of University of Craiova, Economic Sciences Series*, Vol.3, Issues 40, pg. 128-133
- [11]. **Zevnik, R.** (2004) *The complete book of insurance*, Sphinx Publishing, USA
- [12]. **Welfens, P.; Cillian, R.** (2011) *Financial Market Integration and Growth, Structural Change and Economic Dynamics in the European Union*, Springer, Berlin
- [13]. **Annual Reports, Swiss Re** (2006) *World Insurance in 2005, Moderate Premium Growth, Attractive Profitability*, Sigma No 5/2006, Zurich, Switzerland
- [14]. **Annual Reports Swiss Re** (2007) *World Insurance in 2006, Premiums Came Back to Life*, Sigma No 4/2007, Zurich, Switzerland
- [15]. **Annual Reports Swiss Re** (2008) *World Insurance in 2007, Emerging Markets Leading the Way*, Sigma No 3/2008, Zurich, Switzerland
- [16]. **Annual Reports Swiss Re** (2009) *World Insurance in 2008, Life Premiums Fall in the Industrialised Countries, Strong Growth in the Emerging Economies*, Sigma No 3/2009, Zurich, Switzerland
- [17]. **Annual Reports Swiss Re** (2010) *World Insurance in 2009, Premiums Dipped, but Industry Capital Improved*, Sigma No 2/2010, Zurich, Switzerland
- [18]. **Annual Reports Swiss Re** (2011) *World Insurance in 2010, Premiums Back to Growth – Capital Increases*, Sigma No 2/2011, Zurich, Switzerland
- [19]. **Annual Reports Swiss Re** (2012) *World Insurance in 2011*, Sigma Nr. 3/2012, Zurich, Switzerland
- [20]. **Annual Reports Swiss Re** (2013) *World Insurance in 2012, Progressing on the Long and Winding Road to Recovery*, Sigma Nr 3/2013, Zurich, Switzerland
- [21]. **Insurance Supervisory Commission**, *Annual Reports, 2008, 2009, 2010, 2011, 2012*

## **STUDY ON INTERNAL CONTROL OF SUPPLIERS AND CUSTOMERS IN A CONSTRUCTION COMPANY**

**BOGDAN RĂVAȘ \***

**ABSTRACT:** *Control covers debts and liabilities, outstanding liabilities and purchases and expenses in the profit and loss and long-term liabilities, provisions and funding costs. The validation tests applied to cover all, claims liabilities in the financial statements but with less emphasis on testing for registration. It can be done but circularize commercial debt is often not necessary because suppliers provide documentary evidence statements from third parties. Direct circularization of claims is a basic procedure, but it does not provide evidence for all relevant assertions. Other important procedures are: tests of independence; testing for the possibility of recovery.*

**KEY WORDS:** *control, suppliers, customers, debts, liabilities.*

**JEL CLASIFICATION:** *A10, M41.*

### **1. INTRODUCTION**

Based on case studies we identified in the company under discussion charge of internal control program suppliers and customers based on a variety of objective procedures.

This program involves the analysis control suppliers balances on the balance sheet. Control of accounts receivable in the balance sheet and turnover of the income statement assumes prior knowledge of the company's activity: what goods or services sold, who are the customers that are current payment terms, which are accounting principles applicable turnover industry, etc.

---

\* Lecturer, Ph.D., University of Petroșani, Romania, [ravasbogdan@yahoo.com](mailto:ravasbogdan@yahoo.com)

## 2. INTERNAL CONTROL OF SUPPLIERS

The objective is to verify the correct record on the balance sheet liabilities and claims vis-à-vis suppliers and ensure that the company complies with the accounting principle of separation and it is achieved by the following procedures:

- identification of assets and liabilities related to accounts payable on the asset and liability side;
- achieving a comparative table of the accounting balances from year to year;
- verifying that balances with the overall balance;
- ensuring that the presentation of the balance sheet balances of suppliers is not compensating balances receivable and payable;
- verification of the recording on separate operations that relate to regular suppliers, providers of property and any deductions on account of guarantees;
- greater attention is given to suppliers operating since any adjustments to those accounts have a direct impact on the result sheet, while those on accounts payable for property affects only the presentation in the balance sheet and financial accounting masses;
- assessing whether the accounting balances reflecting providers it has the indirect tax regime applicable;
- separate accounting of suppliers flows should facilitate control of VAT;
- confronting the balances of suppliers overall balance analytical balance of accounts payable, differences may occur because certain operations on the suppliers were recorded in the log of operations and have seen various reasons;
- from analytical balance providers, identify the debit balances of suppliers that may arise, as a rule, following the receipt of advances or payment of amounts greater than those due;
- selecting and analyzing major debit balance their origin by ensuring that they are due to accounting errors, payment of outstanding transactions;
- indication of whether the company has programs for purchases and payment of the suppliers;
- from analytical balance, identify suppliers accounts without movement during the year (no cost, no payment) by turnovers analysis or comparison with previous analytical balance finding that existing latent profits correspond to closing balance of debts old to suppliers whose payment was not made any complaint;
- check if the suppliers payment is not motivated by a dispute that can generate supply risks;
- studying the terms of suppliers payment (based on commercial contracts);
- assessing progress ratio (=) providers operating account balance / Total purchases (accounts payable balances include operating suppliers, the effects of paid invoices to be received and expenses incurred in advance; purchases accounts include accounts of class 3 and accounts 60, 61 and 62; accounts are restated suppliers VAT included); comparing the theoretical rational payment deadlines and analyze these disparities;

- selection of main suppliers on the closing balances and verify correct takeover the following year;
- verify that the account balance 'providers - Paid effects "is found only effects the maturity date of closing is back and taking in the following year was made correctly;
- checking first payments next year and ensure that they meet the debt reflected in the balance sheet;
- checking accounts purchases - payments, ensure that records explanation is given, the bills were booked on a purchases journal, that the payments were accounted for on a cash journal, the accounts have been properly called and balances properly identified;
- analysis of costs and benefits related to foreign purchases if necessary;
- identify the main stations operating expenses related to: purchases of raw materials, purchases of goods, external costs, subcontracting costs, rent, energy, etc.;
- identify costs "subscription" whose amount is predetermined and regular (rents, energy, certain fees, etc.) and identify accounts that were registered;
- verification of compliance with the principle of separation exercises so: for purchases in stock, check stock validation is done by the closing date;
- verification log purchases last month of the year and the first month of the following year, a select few spending bills accounted for and dealing with the other shipping documents (bills of work, bills of acceptance, delivery notes, contracts, etc.).

### **3. INTERNAL CONTROL OF CUSTOMERS**

In practice, customers control covers two aspects:

- validation of the net book value of the receivables included in assets (it is important to verify that the carrying amount of the receivables is in line to achieve value - recovery);
- verifying strict adherence to the principle of separation of the accounting (cut - off) in accounting for turnover.

Regarding internal control program itself is based on customer following procedures:

- ✓ the controller must ensure that the assets and liabilities in the balance sheet related to customer account are justified and properly assessed, the risk control is the most significant overstatement of claims in relation to the possibilities of recovery and, therefore, provisions for impairment are necessary;
- ✓ setting an array synthesis showing progress during the year, asset and liability accounts of customers: active receivables, advances received passive income accrued as a liability;
- ✓ reconciliation of balances with amounts in the balance sheet;
- ✓ ensuring that in the balance sheet have not been offs between debit and credit balances;

- 
- ✓ check if the company registers distinct customers, according to the VAT regime (which will facilitate control of VAT);
  - ✓ obtaining an analytical balance of customers at the end of the year and comparison with the amounts of the overall balance and the balance sheet;
  - ✓ Identify customers with credit balances, they represent advances received normal or above normal amounts paid;
  - ✓ calculate the following ratio: credit customers at year / turnover of the year; claims customers can thus be expressed in number of days of turnover;
  - ✓ comparing the result with the theoretical limits of receipt, provided by the delivery contracts and justify significant differences;
  - ✓ the practicability of accounts receivable control must relate to all categories of customers: customers, clients, bills drawn effects receivable remitted effect on revenue;
  - ✓ making a painting that highlight variations closing versus opening for impairment of receivables: receivables from opening facilities and reversals of provisions, amounts at closing;
  - ✓ studying the principles envisaged for the passage of a category of claims to be provisioned: calculating a provision resulting from legislation or a specific analysis of each client;
  - ✓ appreciation of the principles of prudence and Consistency;
  - ✓ obtain a detailed calculation of impairments and comparison with the previous year and to ensure that the claim was not subject to a double allowance account and the claims made in the calculation of the provision to VAT;
  - ✓ obtaining detailed statements of claims accounted for expense as unrecoverable; in principle, we recoverability may be determined by the legal office or court; to avoid fiscal risk, it is appropriate to show extreme caution in moving to stranded customers, changing and removing costs from the balance sheet; prefer to maintain the balance, even with a null value, via provision.
  - ✓ analyze accounting principles in turnover;
  - ✓ consideration of the transfer of ownership principles finding consistent with the accounting income;
  - ✓ check if the company complies with the principle of consistent accounting methods from one year to another in record turnover;
  - ✓ check if the turnover is accounted for in the net (without taxes recoverable) and independent of any discounts or discounts to customers that have accounted for separately;
  - ✓ obtaining an account balance breakdowns "Deferred income" and confronted them with the amount appearing in the balance sheet and control if it is related operations next year while checking that income accrued were accounted for VAT;
  - ✓ assessing the evolution of turnover in the last 2-3 months of the year compared to previous months and explain any irregular developments;
  - ✓ calculation of gross margins, resulting from the difference between turnover and major operating expenses: personnel expenses, cost of production or cost of the goods.

#### 4. CONCLUSION

Resulting from the study conducted I consider that the control program of settlement accounts with third parties mainly aims to achieve the following objectives:

- consistency in the balance of analytical with synthetic accounts;
- if debtors balances have been correctly determined and the amounts included in the balance sheet assets are in accordance with the accounting records;
- inventory of assets and liabilities existing at the end of the year;
- the balance sheet value of receivables from debtors are real;
- all transactions with customers, sales, securities and receipts were recorded in the proper period;
- all advance payments were properly calculated and recorded so that all costs are reflected in the same period the services received;
- accurate assessment adjustments for bad debts, discounts, and rebates remises were properly highlighted.

To control settlement accounts with third parties responsible for the internal control considered the possible occurrence of the following risks:

- tendency to overstate its claims administrator in an attempt to provide a better financial situation than in reality;
- the risk that borrowers to be unable to pay, which means that borrowers balance sheet balances to be reduced on the basis of its assessment;
- invoices relating to a financial year may be registered in another time, with the risk that they may not be outlined as income;
- risk of fraud should be considered permanent in terms of claims against third parties because the company can record fictitious sales,
- the risk of diversion of cash if the same employee receives bills from customers and sales journal updates etc..

The objectives of the control on short-term debt identified in the company covers the following aspects:

- all creditors have been included in the financial statements actually exists at the balance sheet
- debts were calculated so that expenses are recorded according to the services provided;
- appropriate adjustments were established in connection with debit balances of creditors and potential losses from purchase transactions;
- accrued liabilities and other creditors included in the balance sheet represents the future obligations or accounts payable.

At the end of the financial year 2012 the company concerned, total debt was RON 902 318, of which 873 331 RON trade and other receivables in the amount of 28 987 RON. Compared to the beginning of the receivables decreased by RON 155 833 representing a decrease of 15.14%.

For the control was considered as approximate estimated fair value accounting values. There have been adjustments to receivables in the amount of 113 916 RON for

uncollected trade receivables in terms of the contract and whose collection was considered doubtful by the management company. .

Test results on the age of trade receivables other than doubtful revealed that all receivables liquidity within the asset under 1 year. Trade receivables are carried at anticipated realizable value.

The financial statements ended on 31.12.2012 balance commercial debt was RON 220 418, which recorded an increase over the previous year with 62 863 RON. Total accounts payable balances fall in the category due to be paid within a period of up to one year. Short-term commercial debt (maturities less than 12 months) are recorded at nominal value which approximates fair value of amounts to be paid for goods or services purchased.

In reporting years ended 31.12.2012 other liabilities recorded were distributed as follows:

- short-term bank loans 0 RON;
- advance payments received on account of orders 15 463 RON;
- other liabilities including tax 263 044 RON;
- payment of debts within one year 13 128 RON

On 31.12.2012, the short-term credit limit granted by a commercial bank was repaid in full.

In the category "Other liabilities", is nominated sum of RON 263 044 which represents the Company's current obligations to budgets and other creditors.

Compared to the previous period reporting liabilities decreased by RON 3 076 515, which represents a substantial decrease from the same period last year.

During 2012, the general meeting of shareholders decided to increase capital to allocate necessary resources and outstanding extinguishing current obligations to the budget. After the period of first refusal, subscriptions made by major shareholders have been used to pay these debts, so the company has been paid to date all outstanding budgetary obligations.

All liabilities recorded in the balance sheet are Maturity less than one year, except for the amount of 13.128 RON, representing collateral received from another company. The procedures revealed no obligation resulting from past events, for which it was necessary outflow of resources embodying economic benefits.

Much of the internal control processes of the company covers bills received from suppliers and customer relationship.

In this regard I propose that the following measures and procedures to be priority control program accounts for suppliers and customers of this company:

- check the actual obligation to pay by a particular supplier;
- establish an internal system for approving bills: the manager responsible for the procurement of a certain type is within the jurisdiction approving invoices for approval (you can set limits amounts to a manager may approve bills concerning his department, which exceeding that amount will reach next manager approving the ladder;
- you can go even further with a system in 3 steps: placing an order, making reception, invoice matching with that order. This is a more complicated but

- more secure, especially if another operator at each step processes the transaction;
- verify the existence of contracts with suppliers and mail invoices to contracts;
  - eliminating the possibility of erroneous input data (double, mathematical errors, etc.);
  - eliminate payment error possibilities;
  - reconciliation of suppliers' statements and direct confirmation of payment amounts;
  - obtaining evidence relating to debt and outstanding liabilities and long term liabilities and records of profit and losses;
  - direct confirmation of debtors;
  - other evidence of the debtors and advances paid and associated records in profit and loss account;
  - a specific technique used to test the existence and duties / rights claim is direct circularization. This is carried out as follows:
    - a) obtaining records receivables at the date of confirmation;
    - b) checking the total nominal ledger;
    - c) check for each omission / misrepresentation evident by comparing the list this year with last year's list;
    - d) selecting sample confirmation hips.

The control covers debts and liabilities outstanding liabilities and purchases and expenses in the profit and loss and long-term liabilities, provisions and funding costs.

The validation tests applied to cover all claims liabilities in the financial statements but with less emphasis on testing for registration.

It can be done but circularize commercial debt is often not necessary because suppliers provide documentary evidence statements from third parties.

Direct circularization of claims is a basic procedure, but it does not provide evidence for all relevant assertions

Other important procedures are:

- tests of independence;
- testing for the possibility of recovery.

I believe that a review of control procedures to assess the risks arising from the analysis of settlement accounts with third parties require verification of internal control relating to authorizing payments to suppliers, creditors log rechecked by monitoring those providers that were actually made prepayments for that requires recalculation of gross profit and its reduction due to the increase in the purchases. Through proper implementation of procedures to eliminate the risk that the amounts were canceled journal suppliers, for no apparent reason, to be reconsidered. There is also the risk that purchase invoices are logged as being paid without the statement to be evidence of such payments. To improve the financial activity of the economic entity, the firm I suggest some recommendations in order to fasten collection of bills and reducing the risk of not collecting the bills by assessing the provision for impaired receivables.

**REFERENCES:**

- [1]. **Bătrâncea, I.; Dumbravă, P.** (2007) *Controlul si auditul financiar al entitatii economice*, Editura Risoprint, Cluj Napoca;
- [2]. **Brezeanu, P.; Brașoveanu, I.** (2008) *Audit financiar*, Editura Cavallioti, Bucuresti;
- [3]. **Dănescu, T.** (2007) *Proceduri si tehnici de audit financiar*, Editura Irecson, Bucuresti;
- [4]. **Matiș, D.; Pop, A.** (2010) *Contabilitate financiară*, Ediția a treia, Editura Casa Cărții de Știință, Cluj Napoca;
- [5]. **Popa, I.; Man, A.** (2009) *Auditul financiar de la teorie la practică*, Editura Risoprint, Cluj Napoca;
- [6]. **Răvaș, B.** (2010) *Audit financiar*, Editura Universitas, Petrosani.
- [7]. Legea contabilitatii nr. 82/1991 cu modificarile ulterioare
- [8]. Ordinul Ministrului Finantelor Publice nr. 3055/2009

## **HOMEWORKING CONTRACT AND TELEWORKING - IMPORTANCE AND ROLE IN THE ECONOMY**

**OANA-CARMEN RĂVAȘ \***

**ABSTRACT:** *Work at home leads to greater stability of the community, because changing jobs often lead to a change of life and inherent stress. Employers who choose to work at home do not have the problem of providing housing for service or cost they incurred directly or indirectly or through the gaining that lucrative acquire more space in the office or in premises whose owner is or the fact that there office rents. The individual contract of working at home is an individual employment contract named special character, with the main feature that "work place" is not located in the unit, the employer, but the employee's residence.*

**KEY WORDS:** *homeworking, teleworking, contract, organization, employee, regulation.*

**JEL CLASIFICATION:** *K31, K33.*

### **1. THE CONCEPT OF HOME WORKING**

After 70s of last century, new methods of work organization, imposed revolution impact technical - scientific the increasingly globalization of trade repercussions on the world of work, including more flexibility the need for them, and the need to respond - as appropriate - pressure and unemployment by imagining other ways to reduce its impact, have emerged as the International Labour Organization to pay attention increasingly higher labour issues, in all the forms in which it is performed, including those forms considered "work poor "as work at home, work independently, work part time etc.

### **2. THE IMPORTANCE OF HOMEWORKING**

Work at home is directly interconnected with economic and social development, as well as better coordination of work with the style of life.

---

\* *Assist. Prof., Ph.D., University of Petroșani, Romania, [oana\\_dumitrescu@yahoo.com](mailto:oana_dumitrescu@yahoo.com)*

Employees are more efficient because of the flexibility of working hours and the concentration result, teleworking may be achieved through the higher productivity due to several factors:

- Reducing distracting elements;
- Reduction of time spent in transit, meaning and that employees are on time "working days with more traffic than usual or the bad weather;
- Fewer days off due to illness.
- High flexibility - work from home, be scheduled.

By its nature, working from home is more favourable to a management with less hierarchical levels, which obviously reduces labour costs.

Work at home leads to greater stability of the community, because changing jobs often lead to a change of life and inherent stress. Employers who choose to work at home do not have the problem of providing housing for service or cost they incurred directly or indirectly or through the gaining that lucrative acquire more space in the office or in premises whose owner is or the fact that there office rents.

Considering these aspects, teleworking is seen as part of global human resources strategy aimed at:

- to give employees more responsibility in promoting their own careers in the work place and time;
- evaluating employee contribution based on the results;
- increase job satisfaction;
- ensure a better balance in the report work / private life.
- improving company image;
- productivity growth;
- saving space and infrastructure work at the employer.

Many employees will increasingly insist that the option to work at home to be considered a right for all those activities consistent with them.

In so far as it is considered that this relocation work will strengthen family life, there will be strong support from some influential people with political, religious and cultural.

- a) A very promising future and is where teleworkers work even in a holiday away from the problems of city life, starting from the premise that each can choose one style of life and work.
- b) Categories of individual employment contracts on work at home that can be completed in Romania are:
  - the individual home work according to common law;
  - convention work at home individual cooperative members;
  - the individual employment contract of a professional maternal assistant;
  - individual employment contract of professional personal assistant;
  - the individual contract on teleworking.

### **3. INTERNATIONAL REGULATION OF HOMEWORKING**

At international level teleworking only be subject to regulation no.177/1996 Convention on Home Work, adopted by the International Labour Organization, which in art. 3 invites all Member States to ratify, stating that they "must adopt, implement and periodically review a national policy on home work aimed at improving the situation of domestic workers by consulting the most representative organizations of employers and workers when there are organizations dealing homeworkers and those of employers who resorted to domestic workers".

Article 1 letter a) of the Convention stipulates that its meaning, the phrase "home work" means work that a person designated as a home worker performs his home or elsewhere choice, other than the employer, in exchange remuneration, in order to achieve a product or service that meet employer specifications, whatever the origin of the equipment, materials or other items used for this purpose, unless this person has the degree of autonomy and economic independence necessary to be considered an independent worker under national laws or court decisions. "

The International Labour Organization has developed the Convention of the above Recommendation no.184/1996 on work at home, which among other things, promotes the idea of development assistance programs for workers at home.

In this regard, point 29 paragraph 1 indicate that each Member State should, in collaboration with employers and workers to promote and support programs:

- Have to inform domestic workers about their rights and forms of assistance that can benefit them;
- sensitises employers and workers organizations, NGOs and public opinion on labour issues at home;
- facilitate the organization domestic workers organizations of their choice, including cooperatives;
- Provide training domestic workers to enable them to improve their skills, ability to lead and negotiate their productivity; employment opportunities, the ability to earn money;
- Provide training as close to their home and do not require qualifications;
- Improve health and safety at home, in particular by facilitating their access to equipment, tools, raw materials and other essential materials that are safe and of good quality;
- Facilitates the creation of centres and networks of homeworkers to provide information and services to reduce the risk of their isolation;
- Facilitating access to credit, improved living conditions and kindergarten children;
- Promotes consideration of labour at home as work experience recognized.

Work at home has not constitute the object to EU regulation, obviously, is a key concern in relation to the scale of the phenomenon. "In this matter, the International Labour ahead of the European Union adopting Convention. no.177/1996 on homeworking, but we can say that the European Union and the International Labour Organization is on the same wavelength as the Commission, by a Recommendation of

27 May 1998 suggested the Member States to ratify the Convention and requested to inform measures taken to implement it. "

"The results are received by both the International Labour Organization and the European Union".

#### 4. REGULATION OF CONTRACT HOME WORKING

The names given to work from home were domestic industry, industry at home and even collective factory, being delimited by independent artisan. Home industry was defined according to the doctrine of the early 1900s that, that form of industrial operation, an operator uses a number of workers who are not in his workshops, but in their own workshops or in their own homes "

The current Labour Code does not introduce an innovation in the field. Since the start of rent contract for separation and detachment from the scope of the employment contract of civil contracts, the assumptions to which the term of employment contract, fit and work at home, along with apprenticeships and work that is conducted under the supervision employer at its plant or factory or in a place where the owner may order (Țiclea, 2012).

Work at home receives explicit statutory regulation by the Law on employment contracts in 1929, introducing the obligation to respect the employment contract that through the employee be employed continuously or at certain times of the year

Taking as a starting point the international regulations, it was proposed the following definition: individual employment contract at home is that individual contract special character, under which a person, called the employee at home, undertakes to perform, alone or with family members on a regular basis, the duties of the office he holds at home or other place of his choice, except those belonging to the employer, which in turn is obliged to pay remuneration, called salary and ensure adequate conduct of business, maintaining health and safety.

The individual contract of working at home is an individual employment contract named special character, with the main feature that "work place" is not located in the unit, the employer, but the employee's residence (Moțiu, 2012).

"Even if the Labour Code does not refer to another location or another place we appreciate that because inherently, certain activities may take place at the residence of the employee, and no.177/1996 Convention on Home Work, adopted by the Organization international Labour referred to them if the workplace of the employee is residence or place of his choice, other than the employer, we find ourselves still in the presence of such a contract".

Therefore, we subscribe that requires that *lege ferenda* in agreement with the international stipulations, rigid vision might be removed and expand express the opportunity to not only perform the work at home employee, but also in any place of his choice provided they do not belong to the employer.

It should be noted that the residence should appear as the basis for performing the work place just because one of the main means of identification of the person who is an employee, office or residence as the same value for the natural or legal persons employer. From the fact that the employee does not perform work in places that belong

to the employer, not to understand, however, that the presence in these places is prohibited.

Should be considered article 1 letter. b) of ILO Convention no. 177/1996 which specifies that "a person who does not become an employee working at home ... simply because occasionally carry out the work of the employee at his home and his place of work not commonly<sup>†</sup>.

"Place of work", as specific element of the individual employment contract at home, does not affect the normal work organization, meaning that the subordination of the employee to the employer remains an essential - job duties performed outside of locations are, both functionally and legally the "linked" the premises, but not in the classic sense. Appreciate as relevance of this observation in the early 1900s: "The difference between home and factory industry is that industry at home is a great operating decentralized and centralized factory is a big operation." Home industry trade organization of forces is sporadic, but homogeneous organization and discipline of the factory is technique heterogeneous forces". "The employer and the worker industry does not form an economic unit at home as in the factory.

Homeworkers can leave work today off till tomorrow is observed that is missing permanent legal bond between the worker and the entrepreneur.

## **5. THE SITUATION OF THE INDIVIDUAL CONTRACT ON TELEWORKING IN ROMANIA**

In employment law there are no regulations specific to the individual contract on teleworking. Pursuant to freedom of contract, does not preclude anything as such a contract can be completed, how else is happening in practice; is essential to respect the general provisions in individual employment contract and the principle of good faith (article 11 paragraph. 1 of the new Civil Code), and respect public order and morality (Article 11 paragraph 2 of the same Code).

Through the Romanian labour legislation and collective labour contract at national level, we can talk about a contract unnamed that borrows, by analogy, some their own rules at home employment contract (Article 105-107 of the Labour Code).

Teleworking has received only on the way doctrinal definitions. For example, was defined as "a form of organization or work performance under modern information technologies, based on a contract or employment relationship, in which the work is - usually - on premises" or as "a form of ongoing work that is characterized by the fact that activity - comparable to that of an employee to the employer - are provided regularly by an employee outside the office - at the residence of the employee or to another place - using the information technologies in connection with the employer's computer network" (Ștefănescu, 2012, p.303).

The economic doctrine, teleworking was defined as "the work done by a person in a different place from the person who directly supervise or pay for work

---

<sup>†</sup> In the same sense are the provisions of point 1. b) ILO Recommendation no. 184/1996 on work at home.

done” or as representing the use of telecommunications technology to replace, wholly or partly, moving to work and back home.

For the private sector, teleworking is not yet widespread, but there is a growing interest in the field, this is evident when you see the reality around us namely growth number of organizations are increasingly using applications of information and communication technologies, increasing spectacular level of use of the Internet, personal computers and mobile phones, there is a vision of information society and a government strategy in this respect, and the high level of collaboration and appreciation enjoyed by the Romanian sector of information technology developed countries (Ştefănescu, 2011).

Although it is very useful in Romanian public administration, teleworking is still hampered by fear of detention or lack of experience. I pointed out that certain categories of specific activities civil service system which, according to article 2 paragraph. 3 of Law no. 188/1999 on the Statute of civil servants, involving the exercise of public power could be achieved successfully through teleworking.

The public administration might even require take their own measures of restructuring, modernization and even to rethink the role and functioning, especially in the conditions of the information society.

An important role for the development teleworking Romanian Association for Telework plays and Teleactivities. If the most important of these associations are based on the largest companies in the field, either bidders Internet service or activity in electronics or computer science. Romanian Association for Telework and Teleactivities draws its ranks primarily individuals - experts in various fields - acting individually and teleactivities telework and very small firms - micro-enterprises - mostly at start up.

Is to improve legislation on telework and teleactivities, create favourable attitudes among both telework and teleactivities operators and consumers; obtaining and disseminating information and instruments required of telework and teleactivities; promoting activities of members of the Association<sup>‡</sup>.

## **6. THE INDIVIDUAL CONTRACT ON TELEWORKING IN EUROPEAN LAW AND COMPARATIVE LAW**

At international level the International Labour Organisation any rules or regulations and EU directives do not refer to the individual on teleworking (Vartolomei, 2008).

Individual labour contract on teleworking is defined as the individual contract of employment with special character, under which an employee called teleworker undertakes to exercise regularly, alone or together with his family members, tasks specific to the position holds, using information technologies in home or other place of his choice, except locations employer, who in turn is obliged to pay remuneration, called salary and ensure appropriate conditions are in operation, maintaining health and safety employment.

---

<sup>‡</sup> <http://www.teleorg.org/ro/index.htm>.

Teleworking is defined, according to article 2 paragraph 1 of the European Framework Agreement as a form of organizational or occupational achievement using information technologies in a contract or employment relationship, the work - which could be done equally in employment that belonging to the employer - is performed outside their regular. According to paragraph 2 of the same Article, the party who performs the work in such a contract is called teleworker (Țiclea, 2009).

The laws of many countries such as Belgium, Switzerland, Germany, Italy, Spain, Russia, Belarus, Ukraine, Uzbekistan provides for of the employee participation in family work at home to achieve its duties. It is natural that the individual contract manageable and on teleworking, because of the similarity of the two forms of work organization (Cioriciu Ștefănescu, 2008).

The European Commission has recommended that countries in this regard to take as a model the ILO Convention no. 177/1996 on work at home and take into account its recommendation no. 184/1996 on work at home<sup>§</sup>.

In September 2006, in the European social dialogue has been completed first joint report on its application. In most EU Member States except Cyprus, Estonia, Lithuania and Slovakia, and in Iceland and Norway applied Agreement respecting traditions and mechanisms in the field of labour relations or national or sectorial collective agreements - the branch (Denmark, France, Greece, Italy, Luxembourg, Sweden, Belgium) by the adoption of codes of conduct (England, Ireland) and finally by adopting laws (Portugal, Czech Republic, Hungary). In other countries, like Britain and Germany, governments or other authorities were limited to issuing guidelines teleworking (Ținca, 2005).

Although the public sector, strictly speaking, is excluded from the European Agreement, there is reluctance in the reconsider this aspect of the organization of work by the social partners. Moreover, given the broad spectrum of in the light teleworking flexicurity concept, we can say that such an approach is even encouraged (Cioriciu Ștefănescu, 2009).

## **7. LEGAL NATURE AND THE SPECIFIC ELEMENTS THE INDIVIDUAL CONTRACT ON TELEWORKING**

The individual contract on teleworking is an individual contract of employment with the special character that sometimes identifies individual contract of homeworking, because the "work place" is residence teleworker or any place of his choice. Because of this, the European Commission recommended that countries consider adopting legislation on telework ILO Convention no. 177/1996 on work at home and ILO Recommendation no. 184/1996 on work at home.

What differentiates the individual contract on the individual employment contract teleworking at home under civil law is "the type of work". It "consists in the provision of an electronic means activities", underlining that the use of information technology should be the key and not of benefit to both accessory and not only in the

---

<sup>§</sup> [www.un.ro/ilo/3/RECOMANDAREA%20184.doc](http://www.un.ro/ilo/3/RECOMANDAREA%20184.doc).

stage of sending the result to the headquarters of belonging, both in the real and execution phase of the benefit itself (Man, 2007).

Individualization of precise place of supply is definitely an essential element in the formation of parties' agreement of the parties. In this respect the court ruled in Milan, in the a dispute having as object the determination of the actual job at the end of a contract for teleworking address due to the exchange between the parties. The court rejected the employee's claim, alleging that in the agreement on teleworking could be talking about a "job" than the "telematic" so would not disclose the employer where the employee had chosen to conduct the performance, stating on the contrary, that it was an essential element for the formation of the agreement between the parties (Cioriciu Ştefănescu, 2009).

It was pointed out that if telework, "place of work" is not related to jobs located in telecentres or television, as various studies have shown that they either belong to the employer, or are both owned by and other employers or self-employed workers or their organization those listed are involved. From the perspective of "place of work" is excluded and mobile work performed or semi-mobile with information technology because they are mobile directed by the employer pursuant to any mobility of an individual contract "standard" (Cioriciu Ştefănescu, 2009).

Given the specific "type of work" in the teleworking shows that they are compatible with related activities' preparation, processing, handling and dissemination of information, as appropriate, by analysts, programmers, program directors, managers, accountants, consultants in various fields, translators and other people using the computer system, etc., "and from this it follows that teleworkers must have knowledge in information technology.

From the mentioned above it follows that what characterizes the legal concept of teleworking is the combination of functionally - organization of two elements, topographical and technology. In other words, to configure a report teleworking, that benefit executed outside employer jobs through technological elements must be both functionally and from the legal point of view can be linked based employer (Lucafo, 2007).

Considering this feature, we consider it useful to point out just below legal issues specific to the contract analyzed in relation to individual employment contract "standard", and in relation to individual employment contract at home.

For both parties teleworking is eminently volunteer; pursuant to article 3 of the European framework agreement on teleworking, whichever depending on specific interests, may refuse or accept the offer. "It may be part of the original description - at the conclusion of the work - the place and type of work the employee, or may subsequently negotiate addendum; such an agreement is always reversible (Ştefănescu, 2012).

The employer is in a position to decide the organization of teleworking under the privilege enjoyed by the labour organization. From this, it should be understood that if the employer proposes such work during the execution of an individual contract of employment "standard", the employee may not accept them a reason to unilaterally change working conditions for sanction or disciplinary dismissal.

The employer must notify the person selected for employment on the following specific elements:

- actual place of performance teleworking;
- the work to be carried out under conditions of information technology;
- department within which forms part teleworker;
- name of supervisor to whom they respond or work-related inquiries;
- concrete ways in which it is required to prepare reports on the performance of duties;
- legal norms applicable to conventional, especially surprised by the internal regulations of the establishment;
- restrictions on the use of technical equipment available;
- disciplinary sanctions for failure to comply with these rules.

Work at home is an extremely complex phenomenon - it covers not only traditional activities, manual or craft, but also covers those activities legal predetermined specific child protection or the protection and promotion of disabled persons also international development and technical - science have led to a modern and flexible ways of performing the job at home, called teleworking, which will continue to grow increasingly more.

#### REFERENCES:

- [1]. Athanasiu, A.; Dima, L. (2005) *Dreptul muncii*, Editura All Beck, București
- [2]. Cioriciu Ștefănescu, A. (2011) *Munca la domiciliu și telemunca*, Editura Universul Juridic, București
- [3]. Cioriciu Ștefănescu, A. (2009) *Telemunca*, Revista Română de Dreptul Muncii, nr.1
- [4]. Cioriciu Ștefănescu, A. (2008) *Forme de prestare a muncii la domiciliu – elemente de drept comparat*, Revista Română de Dreptul muncii nr.1
- [5]. Cioriciu Ștefănescu, A. (2010) *Distinction between teleworking labour contract and other working forms performed from distance by information technology*, European Legal Study Research, International Conference of PhD Students in Law, Timișoara, 2010, Editura Wolterskluwer
- [6]. Dima, L. (2012) *Dreptul securității sociale*, Editura CH Beck, București
- [7]. Lucafo, F. (2007) *Il rapporto di telelavoro. Regole giuridiche e prassi contrattuali*, Editura Cossi e Come, Miano
- [8]. Gidro, R. (2013) *Dreptul muncii*, Editura Universul Juridic, București
- [9]. Man, C. (2007) *Teleworking: Telelucru, teleactivități sau munca la distanță*, Editura Grafnet, Oradea
- [10]. Mara, I. (2009) *Contractul Individual de muncă și convenția civilă de prestări servicii*, Ed. Wolters Kluwer România, București
- [11]. Moțiu, D. (2012) *Dreptul individual al muncii*, Editura CH Beck, București
- [12]. Popescu, A. (2009) *Dreptul internațional și european al muncii*, Editura C.H. Beck, ediția a II-a, București
- [13]. Ștefănescu, I.T. (2012) *Tratat teoretic și practic de drept al muncii*, Editura Universul Juridic, București
- [14]. Țiclea, A. (2012) *Tratat de dreptul muncii*, ediția a IV-a, Editura Universul Juridic, București,
- [15]. Ținca, O. (2005) *Drept social comunitar*, Editura Lumina Lex, București

- [16]. **Vartolomei, B.** (2008) *Telemunca – o nouă formă de organizare a muncii*, Dreptul nr. 2
- [17]. Legea nr.53/2003 privind Codul muncii
- [18]. Convenția nr.177/1996 a Organizației Internaționale a Muncii privind munca la domiciliu
- [19]. Recomandarea nr.184/1996 a Organizației Internaționale a Muncii privind munca la domiciliu
- [20]. Acordul-cadru European privind telemunca din 2002
- [21]. [http://www.teleorg.org/ro/ghid\\_telelucru/index.htm](http://www.teleorg.org/ro/ghid_telelucru/index.htm). (accessed at 14 july 2013)

## **ANALYSIS OF THE CHANGES TO THE LABOUR MARKET AND UNEMPLOYMENT IN REPUBLIC OF MOLDOVA FROM THE PERSPECTIVE OF SIGNING THE ASSOCIATION AGREEMENT WITH THE EU**

**OANA-CARMEN RĂVAȘ** \*

**ABSTRACT:** *Issues regarding future and employment represent some of the most important problems facing the economy. Work and all productive activities aimed at increasing the wealth of nations and thus create a better life for all people. In terms of labour market restructuring of the economy has accumulated a large number of social issues, including the emergence and growth of unemployment. Republic of Moldova is facing a real crisis of employment in the economic downturn installed recently. Involution occurred in the economy have restricted opportunities for employment working as a reduction lead this active population and chronic unemployment.*

**KEY WORDS:** *unemployment, job control and prevention measures, employment, labour, employers.*

**JEL CLASIFICATION:** *J62, J64 J81, K31, K33.*

### **1. INTRODUCTION**

Employment is in any society, including in developed countries a prerequisite to ensure macroeconomic balance and socio-political stability. It is a dynamic process of interest to all economic and social partners, present and future society, with different implications: economic, psychosocial, educational, cultural, etc.

Decrease unemployment and increase employment of labour are now essentials of economic policy objectives of all countries, made possible by the balance between supply and demand for labour in the labour market. The problem of ensuring jobs and unemployment phenomenon represented to me an area that requires more attention because of its timeliness. Global crisis is that economic fundamentals "shaken" even

---

\* *Assist. Prof., Ph.D., University of Petroșani, Romania, [oana\\_dumitrescu@yahoo.com](mailto:oana_dumitrescu@yahoo.com)*

countries with a high economic level, in favour of increasing unemployment and reducing the number of jobs.

For these reasons I think that we need be carried out a thorough analysis of both the causes and processes that gave rise to this situation as well as the consequences it has on the population. Unemployment is leading to significant loss of production and income of the company, damage skills, individual impulsion, loss of income and social status, the discouragement and motivation.

The labour force is the "commodity" which is owned by the possession and use of any person. This person appears on the market as a seller of resource which holds that the ability to work.

According to the definition, the labour market is the confrontation between demand and supply of labour in a particular time and in a certain space, and finally the sale - purchase labour for a price called wages, working in each country, different groups of countries worldwide.

On a macroeconomic scale, the economy is in the form of a system of interconnected markets.

The labour market is influenced by various socio-economic, demographic, social. The most important of the factors influencing the labour market are: technical progress and social productivity of labour emigration-immigration demographic processes; cultural and behavioural characteristics of the population; education and skill level of the workforce; production and capital;

This last involves the following elements: workers, employers, employment, employment (transactions between workers and employers), networks (communication links between the possible occupants of jobs and different companies) and contracts (agreements on tasks, effort filed, working conditions, salary level).

The labour market is a system of economic relations on all employment and labour utilization and to ensure the protection and welfare of the owners of this special commodity.

Low mobility of labour to its holder; people are attached to socio-economic environment in which it formed and where they live; economic benefits to other areas (cities) do not exercise unlimited role in the people's movements for new jobs;

Offer of employment depends on factors such as age, health, psychology people outside the business. The heterogeneity of demand and supply of labour, the disparity between their structures make them substitution between different components is reduced.

The main components of the labour market are supply and demand. Demand for labour is actually the need for employed labour, expressed through the number of jobs actually falling all relationships, relationships and connections on the volume and structure of employment in occupations and skill levels, so each component of the economy national, as well as a whole. Satisfying the need for work involves working due to available use in society that the workload can be made of the working population. We must keep in mind that not all labour availability is considered the offer, but only those to be paid. The application contains the necessary labour force of workers in various trades and professions, in a certain geographical area and time period.

Demand for workers is based a lot on quantitative aspect and qualitative one, that the qualification skills. In this respect there is a tendency content intellectualization activities by the growing number of professions. The ability to practice under performer economic conditions a larger range of crafts is generated by changes in demand for products and services and manufacturing techniques and technologies. Depending on the duration of the work or temporary work distinguished (here fall part-time or seasonal work).

The owners of labour have relatively low mobility; people do not move from one place to another and do not change easily work but are attached to economic and social environment, even if they have economic advantages.

Labour supply depends on age, sex, health, psychology, working conditions and so on, things that are not necessarily economic. Size and population dynamics are determined economic, biological and demographic, which causes some peculiarities of labour supply and demand.

## **2. ANALYSIS OF THE STRUCTURE OF UNEMPLOYMENT AND EMPLOYMENT IN MOLDOVA DURING 2000-2012**

Unemployment is a major labour market dysfunction defined by a labour surplus in relation to labour demand. In this context, unemployment is linked to the labour market and hence wage work. This suggests that in relation to the labour market, labour supply consists of the employed and unemployed.

International Labour Office defines an unemployed person as someone who has reached the age of 15 years and satisfies all the following requirements:

- Is able to work (it is able to work);
- Is deprived of a job;
- Is looking for a paid job;
- Is available for an employee or otherwise.

Unemployment is a negative for the economy consequences which refers to the allocation of part of the working population by failing jobs.

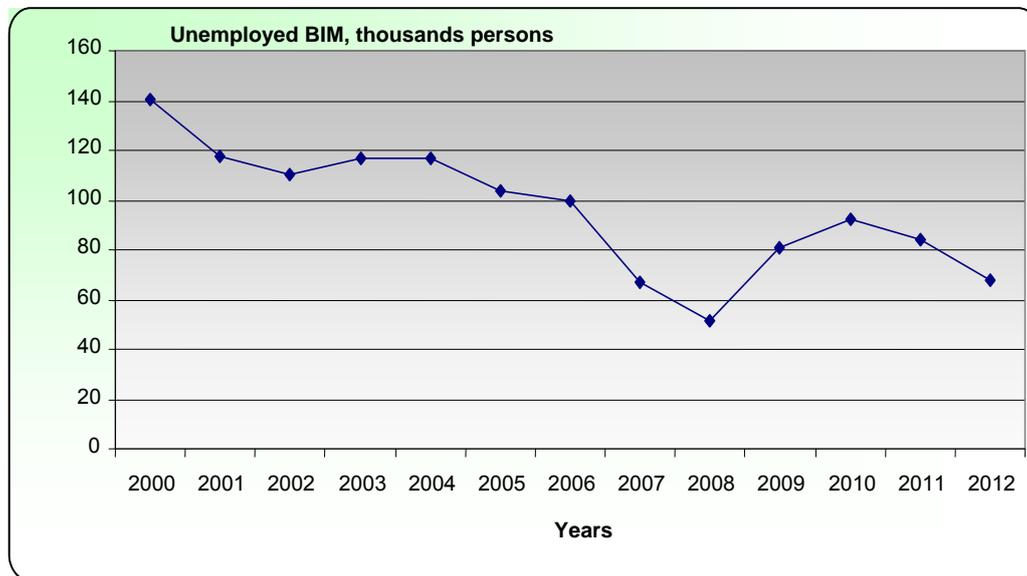
Unemployment is in the vacancy of the incomplete use of the "labour" of that group of persons available who are willing to work for lower wages than the existing real, so that when the actual demand labour force they will also increase employment increases.

Official unemployment refers to a situation in which the unemployed person has submitted an application to the office of workforce demand unresolved and unofficial unemployment highlights the fact that people looking for a job have not submitted an application to the institutions State dealing with job placements.

Unemployment structure is given by the classification by different criteria. Included in these criteria are: the after life environments, where the duration of unemployment by age groups, by level of education, unemployment by gender, by region (north, centre and south).

Unemployment, as a characteristic element of the economy in transition accounted for Moldova, as well as post-Soviet country, a new phenomenon, whose appearance was due to slowing down economic activity and stable economic crisis,

followed by changes industry structure (reducing public sector), agriculture (land reform), in services (targeting the private sector).



Source: <http://www.statbank.statistica.md>

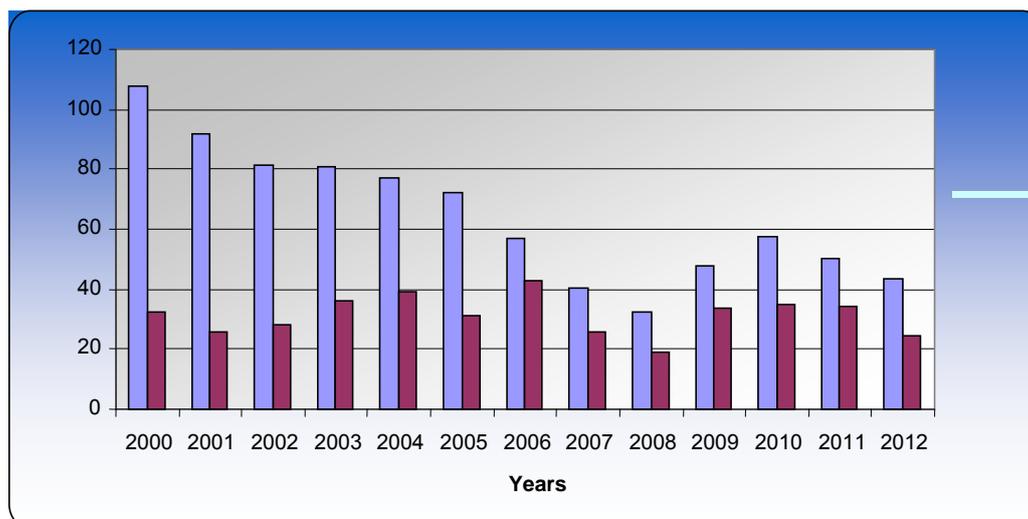
**Figure 1. Unemployment Moldova determined according to the methods BIM**

In Moldova, during 2000-2012, unemployed, calculated according to the methodology of the International Labour ranged from 51-140000 people. It is noted that the lowest level of unemployment falls in 2008 was 51.7 thousand, and in 2011 and 2012 the number of unemployed has a tendency to decrease it with the values of 84.0 thousand, ie 67, 7000 people.

According to Figure 1 can be found most urban unemployed, even if they have more job opportunities, a situation reflected in 2012 when urban 43 600 people were registered respectively in rural areas - 24 , 2000 people. During 2000 - 2012, the highest number of unemployed persons was registered in 2000 (140 thousand), and the lowest - in 2008 (51 700 people). In terms of urban unemployed in 2000 was dotted maximum of 107 600 people, the relative size is 76.80% of total unemployment for the year. In 2008, the urban unemployed registered the lowest level, ie 32.7%, the relative size is 63.13% of the total unemployed. Rural unemployed registered the highest number in 2006 (43 100 people), which constituted 43.14% of total unemployment and the lowest number in 2008 (19.1 thousand), representing 36 87% of total unemployed for this year. After unemployment duration 12-23 months unemployed registered the highest level in 2000 (30.8 thousand), and the lowest - in 2008 (7000 persons).

Unemployment phenomenon has a major impact on the population, this argument is supported by the large number of people unemployed for 24 months or more, in 2000 he recorded the highest value of 53 800 people, and by a decrease considerable, in 2008, reached the lowest level (9200 people).

In terms of unemployment duration of less than three months, official statistics communicate the fact that the highest number of unemployed enrolled in 2003 (29 600 people), and the lowest - in 2008 (14, 7000 persons). If we refer to the "distribution" unemployment by age when we can say with certainty that the age group most affected by unemployment is in the range 15-24, which records the highest point in 2000 (37 000 people), and the lowest - in 2008 (15 600 people).



Source: <http://www.statbank.statistica.md>

**Figure 2. Unemployed after living environments**

The age group 25 - 34 years recorded in 2000 the highest number of unemployed - 32 500 people and in 2008 the lowest - 11 700 people. During 2000 - 2012, according to the age group of 35-44 years is highlighted in the early period, the highest level of unemployment (39 200 persons), and in 2008 - the lowest (9000 people ).

Unemployed people aged between 45-54 years have included 27 400 persons in 2000 and in 2012 they represented the equivalent of 11 900 people.

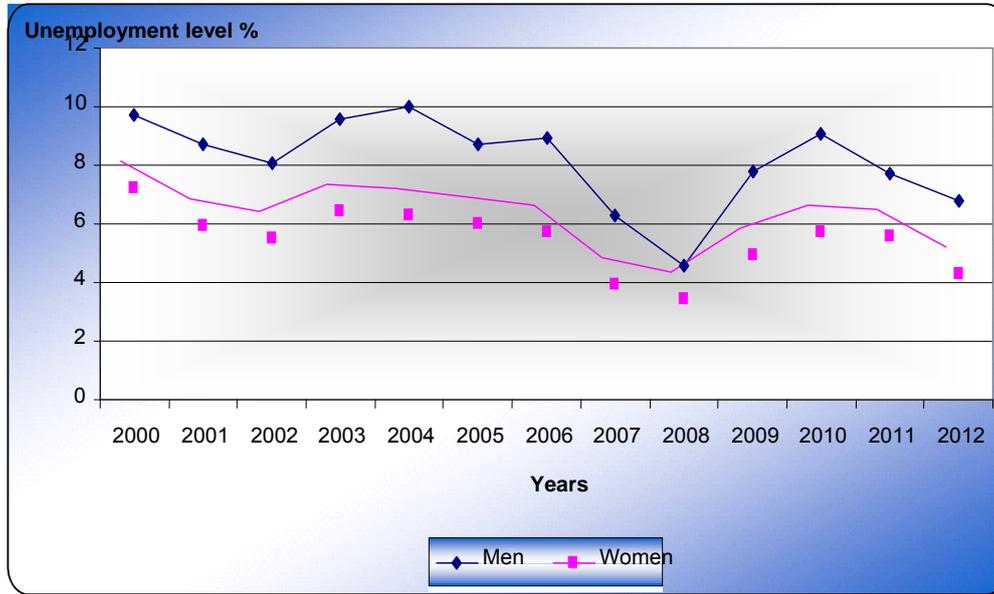
People belonging to the age group 55-64 years have the highest level in 2005 (5.6%) and 2009 (5.6%) and the lowest - in 2001 (3.4%).

The less significant the unemployed are persons 65 years and above, normal situation also, because people in this age group can not be classified were employed, because of advanced age and health of young and which eventually fall into the category of inactive population.

### **3. THE EVOLUTION OF UNEMPLOYMENT BY GENDER**

Unemployment among men, although decreased from 9.7% (in 2000) to 6.8% (in 2012), is higher than that for women (this has been matched by unemployment 7.2% in 2000, ie 4.3% each in 2012) because women who accept jobs paid more

modest and vacancies for unskilled labour, compared with men whose pay is 30% higher than the female part and prefer management posts.



Source: <http://www.statbank.statistica.md>

Figure 3. The evolution of unemployment by gender

#### 4. THE UNEMPLOYMENT LEVEL BY REGION

Throughout the 2000-2012 period, the unemployment rate in Chisinau is higher than in other regions, it has the highest value in 2010 (10.4%) and the lowest - in 2008 (8.6%).

In the northern region of Moldova, marking the highest rate in 2010 (5.7%) and the lowest - in 2008 (3.1%).

In the centre of the country has emerged the highest rate in 2010 (6.8%) and the lowest - in 2008 (3.2%).

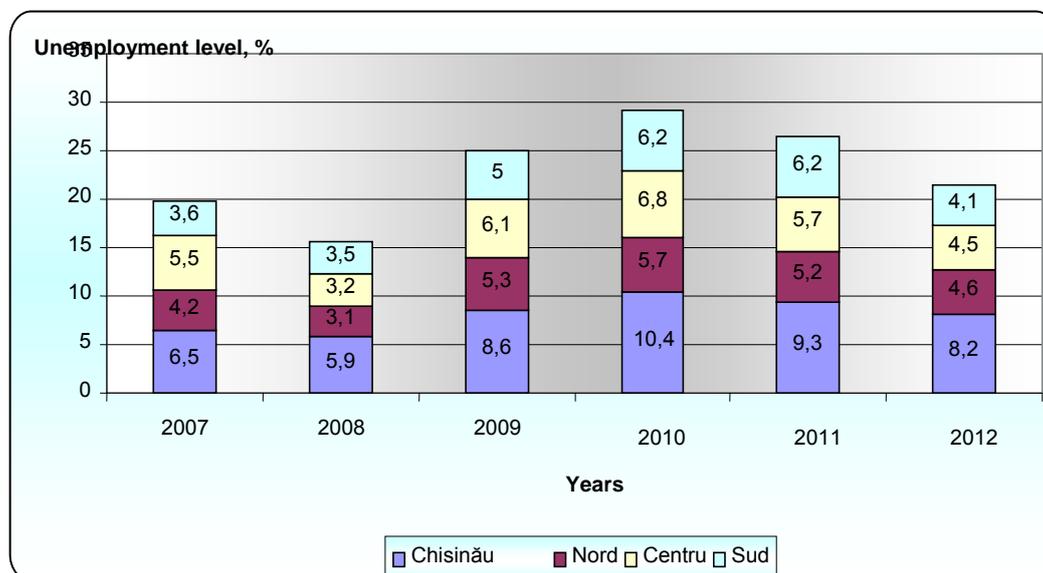
The southern region was dotted the major rate (6.2%) in 2010 and 2011 and the lowest - in 2008 (3.5%).

In 2012, the unemployment rate in the region the following values:

1. Chişinău – 8.2%;
2. North – 4.6%;
3. Centre – 4.5%;
4. South – 4.1%.

In Moldova, as well as in Romania, employment has become a very serious problem with the transition to a market economy. This dilemma is of significant importance as it pertains to each individual. Layoffs and intensification of unemployment occurred due to changes in the labour market caused by the

privatization and restructuring of the economy and employment opportunities employment consequences of the economic downturn.



Source: <http://www.statbank.statistica.md>

Figure 4. Unemployment rate by region

In order to simplify access to information to those affected have been outlined some measures:

- Labour Mediation provides interaction between potential employers and people looking for a job in order to establish employment reports and employment vacancies. Types of services offered by the National Mediation refers to information free work stations and their employment requirements, access to the database of vacancies, preparation of individual mediation plan to increase employment opportunities employment, involvement in seminars to the unemployed and employers, as well as attending job fairs.
- Job Fair is a service that helps people looking for a job to be included as participants in various job fairs thus having the opportunity to meet with a potential employer and negotiate direct employment opportunities.
- Public works. ANOFM supports helping the unemployed to engage in paid work in community, on a temporary basis, provided and financed by the government of localities. These public works relate to public services and construction work for restoration and maintenance of local public institutions, roads, greening works also works Utilities (participation in conducting the census, statistical surveys, etc.). These works also include social services, which consist of home care activities and specialized agencies of the sick, children, old people, people with disabilities, large families, etc.. To accomplish these tasks, the unemployed person is paid by the

Unemployment Fund grant a monthly allowance equal to 30% of average salary for the previous year, according to the time actually worked.

- Outplacement services are provided to persons to be dismissed due to changes in the organization, including liquidation, reorganization or readjustment unit. These services are provided in order to not let the unemployed off people and also to inform about the law on social protection of persons seeking employment location.

Employment assistance is helping employers on choosing candidates from the database of the National Agency for occupying vacancies, including training in public works. For a business to thrive, the human factor plays a significant role and issues of selection, motivation and retention of employees are increasingly important, as employees become more demanding requirements in a continuously changing professional.

Workforce benefits from the protection of the National Agency for Employment and giving it the financial support materialized in unemployment benefits and allowances integration or reintegration.

Aid or unemployment benefits are a form of material support and social protection of those left temporarily unemployed and consists of a fixed amount of money, tax-free, to be determined and paid monthly, for a certain period of time, differentiated categories of persons and length of service, and taking into account the minimum gross wage per country, in force at the time to its

National Agency granted unemployment benefits for a period of 6 to 12 months, all the people left without a job in order to support and stimulate to get back into work as close future.

The amount of unemployment benefits are calculated differently depending on the circumstances in which the person has finally work activity and its payment period is determined differently depending on the length of employment of the applicant. Size that aid can have a value less than the minimum wage for the country and will not exceed the amount of the average wage in the previous year.

Thus, the problems that currently confront Republic of Moldova are:

1. Lack of a detailed analysis of labour market processes that would guide the development of training policies and employment work.
2. Smaller number of jobs available in the national economy. Low wages available high requirements submitted by businesses for employment.
3. Reduced possibilities of employment for women, youth, graduates of educational institutions.
4. Increase the number of people employed in the informal sector and of labour exploitation by traders. Being employed informally, especially young people, work a month or two after they are fired without being paid. 01.01.2002. With the creation of the Labour Inspection, which has already started, this negative phenomenon will disappear.
5. The lower role of the labour management in policy on the labour market.
6. Tendency to reduce employment. Decrease in the number of economically active population and employment in the economy is a relatively normal in terms of substituting an economic system to another. Economically active population

decreased in 2001 by 54 thousand compared to 1997, while employment in the national economy - by 147 thousand people.

7. Insufficient use of human potential in the current period is subject to falling demand for highly skilled labour force, driven by structural changes in the economy, low wages, lack of jobs etc.

Rising unemployment in Moldova is supported by some specific demographic characteristics as:

- Increased density of population (about 128 persons. 1 sq. km), which is a serious restriction territorial mobility of labour;
- Delivered agrarian nature of the economy, most people living in rural areas (54%), the issue of employment and unemployment are here acute and extremely difficult to solve; high percentage of women (52%) of the total population and their level of activity traditionally high.

Unemployment is generated by the action of several factors in the economy. Appearance and its emphasis is due to both objective causes, as well as some subjective. With high labour productivity, economic growth is no longer able to create new jobs, so to ensure full employment, the labour market, the gap between demand and supply of labour is to the latter. There are also subjective reasons, related to the behaviour of economic agents retained to hire young, either because of their lack of experience, or that they do not fall in labour discipline. In youth unemployment appears due to the tendency to seek employment paid a higher salary, which delayed their active integration.

In analyzing the causes of unemployment is necessary to consider several aspects among which the natural growth of labour resources, those of working age population; housewives who want to enter the labour market; availability of part of the population employed, the disappearance of jobs and reclassification of others and lack of suitable sources of raw materials, energy, capital etc.

A controversial role on unemployment it is technical progress. Labour productivity growth through the use of machinery can have three alternative effects: reducing manpower demand and thus unemployment; a neutral impact on the whole economy employment, but may cause unemployment in certain sectors (unemployment occurs in this type frictional case, the balance between labour market regulation) and ultimo effect would be that stimulates eating ethnic progress and guide economy to new investments resulting in overall growth of employment and unemployment decreases.

We can say, then, that in the short term, the program generates ethnic unemployment, a greater or lesser extent, depending on the financial capacity to absorb the news on scientific research, but in the long term generates new needs, which are covered through the products of new activities generating jobs.

Another influential factor that can lead to increased unemployment is the cyclical economic processes. In this category we find the scientific and technical revolution and population movements. "There are opinions that say that one of the biggest defect of modern market economies is their cyclic failure to ensure full employment of labour." Recession, the global phase of the economic cycle, the Republic of Moldova is a cause of unemployment.

Another cause of unemployment is the strongest labour migration. The immigration active part of the population to engage in different countries will increase demand labour force within them. Emigration has an opposite effect, decreasing the supply of labour in the home

Poverty is another cause of unemployment during the transaction and post-transaction. Between the two there is a close relation of independence. On the other hand, generates unemployment and poverty on the other hand poverty, regardless of its cause, causes amplification of unemployment. Manifestation of poverty is the dramatic reduction in revenue breakdown and loss of material goods accumulated over time

There are many effects on employment. In the first place there is a strong narrowing of the internal market. This occurs both at the level of aggregate demand, and at the level of certain products and Services of. An equally important component of poverty is the weakening process of education and training. Lack of money changes the behaviour very much towards the education that leads in time to a lack of adaptation to the labour market.

Another cause is the changes in the structure of industries and sectors. Under the impact of diversification of demand for goods, the energy crisis, which inevitably lead to a long period to reduce the demand for labour. The transition from the centralized economy to a market economy has produced major changes in the economic. Some business units have completely ceased activity, and others have restricted it due to reorganization.

To survive in the market, more and more companies will choose for restructuring. Even though this solution is regarded as one of short-term results, in some cases it is necessary to measure. Organizations need to reduce costs so as to secure forecast cash needed to operate the business and achieve profitability targets. Resorting to this act, companies would be able to withstand the pressure and could be ready for the moment when the market will start to grow again. The difficulty lies in keeping a balance for restructuring too "soft" can produce enough cash flow, and one too "tough" might affect the operational compatibility.

Another factor that leads to the emergence and increasing unemployment is the major economic imbalances. Unemployment is itself an imbalance, the most important, and is powered by other major imbalances. Inflation is one of the biggest influences on unemployment.

The realities of today show that inflation and unemployment coexist with mutual maintain. The statistics confirm the growth period increases inflation and unemployment. Monopolized markets are indeed a source of inflation and budget deficit by nature, no matter it is public or private monopolies. The budget deficit has another great imbalance in the economy that impact on unemployment. Its role is to decrease or increase unemployment by way of adopting of ways to cope. Failure to budget revenues due to tax evasion is likely to generate deficit by redistributing chaotic. It is unlikely that those violating the law increase their income to invest to create new jobs.

However, but one of the most important causes of unemployment and economic crisis that can be seen even in the moment. The shock wave of the economic crisis has spread from developed countries to emerging ones. As such, it is felt in the

activities of companies in Moldova. It caused large decreases in agricultural production, affecting materials market build from; therefore mobile. Also it feels and falling prices in the housing market and banking is also affected. Another issue closely related to the first is the return of Moldovans working abroad.

## **5. CONCLUSION**

Studies conducted in countries that have managed to create in recent years a significant number of jobs revealed the following: the creation of new jobs is achieved while increasing existing activities in the economy; activities that contribute to the creation of new jobs are mostly of industry, although the share of industry in the economy tends to decrease; The more labour market is more flexible, increase and diversify the employment offer in the development of economic activities; there is a reconsideration of employment and non-employment to employment, enhance the ability of small firms to hire older employees effective.

Measures to reduce unemployment and improve the conditions of those affected by unemployment are among the claims of all union organizations and are supported by broader socio-professional groups. Action programs of unions include however other objectives concerning employment: securing jobs, increasing wages and improving conditions for rest, removing the large discrepancy between the average salaries of men and women.

The research results reveal that the labour market in Moldova such reality is when a behaviour most active mostly unemployed and an urgent need jobs, contradict the fact that most passive current employment policy, which makes us consider necessary and appropriate actions to improve policy.

The final effectiveness of employment policy success depends both developed programs and services provided, as well as the efficiency of financial resource, especially as when one of the main limits of data policy in Moldova is namely a lack of funds.

Employment and unemployment are two basic components of the labour market that enjoys great attention nationally in each country as well as internationally. The results of these efforts, however, are highly conjugated increasingly different from one country to another, some succeed more than others, some get less qualitative and quantitative results etc. heating circuit a number of factors including the economic situation, economic and financial possibilities, targeting investments and resources for social protection, the type of labour market efficiency adjustment mechanisms used in the human resources.

Young people have the highest share in unemployment. Often the share of unemployed youth is unemployment resulting from the removal of the active life of persons active elder (retirement, discouraging search). However, among the unemployed youth sizes are actually larger and more threatening. There are countries with low rates of unemployment young (Germany, Austria, Denmark). On the other side, with the highest rates of youth unemployment is Moldova, Romania, Slovenia, Norway, USA and Belgium.

**REFERENCES:**

- [1]. Athanasiu, A.; Dima, L. (2005) *Dreptul muncii*, Editura All Beck, București
- [2]. Baicu, G.; Bonciu, F. (2010) *Economia mondiala sub lupa - De la crize acute la crize cronice*, Editura Prouniversitaria, Bucuresti
- [3]. Dima, L. (2012) *Dreptul securității sociale*, Editura C.H. Beck, București
- [4]. Gidro, R. (2013), *Dreptul muncii*, Editura Universul Juridic, București
- [5]. Popescu, A. (2009) *Dreptul internațional și european al muncii*, Editura C.H. Beck, ediția a II-a, București
- [6]. Prohnițchi, V. (2013) *Șomajul: un blestem al tranziției*, [www.e-democracy.md/comments/socioeconomic/200509012](http://www.e-democracy.md/comments/socioeconomic/200509012), accessed at 12 april
- [7]. Ștefănescu, I.T. (2012) *Tratat teoretic și practic de drept al muncii*, Editura Universul Juridic, București
- [8]. Țiclea, A. (2012) *Tratat de dreptul muncii*, ediția a IV-a, Editura Universul Juridic, București
- [9]. <http://clubeconomic.files.wordpress.com/2010/11/analiza-angajabilitatii-tinerilor-cnsiem.pdf>, accessed at 16 april 2013
- [10]. [http://Evolutii\\_tendinte\\_si\\_pronosticuri\\_referitoare\\_la\\_piata\\_muncii\\_din\\_Republica\\_Moldova\\_in\\_apropierea\\_acesteia\\_de\\_standard](http://Evolutii_tendinte_si_pronosticuri_referitoare_la_piata_muncii_din_Republica_Moldova_in_apropierea_acesteia_de_standard), accessed at 12 april 2013
- [11]. [www.statistica.md](http://www.statistica.md)
- [12]. [www.mpsfc.gov.md](http://www.mpsfc.gov.md)
- [13]. [www.statbank.statistica.md](http://www.statbank.statistica.md)

## **THE PROFILE OF THE ROMANIAN FOOTBALL MANAGER**

**IOAN STELESCU** \*

**ABSTRACT:** *It is an exercise that every professional can use to see what the value of the manager is, "whether or not you're a manager," and the professional football coach without borders, boundaries of countries or cultures-in which we were born and professional culture in which we live and we want to live now and in the future.*

**KEY WORDS:** *personality profile, football manager, football coach, interpersonal relationships, cooperation.*

**JEL CLASSIFICATION:** L83.

In order to help those who are, or who intend of becoming or working as a manager (new international format), we need to:

1. Be aware of who we are - in fact - as a manager?
2. What is the value of the manager's own personality?
3. What are our essential qualities?
4. What are our major deficiencies?
5. What qualities, skills and talent we have to prepare ourselves and move into another category of value from national to international!

For this, we presented the personality of a football manager in a personality profile.

- Science in general and especially in football starts when using numbers in our situations working with personality profiles evaluated according to the classical life operated scale : 1-10;
- The profile is simple, and may be used by everyone who wants to know who he really is, being honest to himself;
- As sporting manager – in general and football manager - in special!

---

\* *Lecturer, Ph.D., University of Petroșani, Romania, [i.stelescu@yahoo.com](mailto:i.stelescu@yahoo.com)*

### Professional Technical Note

Again, this profile can be modified by each of us with other qualities that the national and even the international practice recommend and which we include as deviations from normal used by employers who want to win at any cost using methods and people who are at the risk limit of freedom and legality.

Before dealing with the presentation of a proper profile, it is necessary to present deviations from normal of the football managers used by the national and international football movement: the coaches, referees, managers, journalists, agents, connecting people, experts in illicit activities, fakes and "professional bombs"!

#### Profile no. 1: Profile of super – false negative Managers

Born to steal and deceive

Some of the " qualities " of false - manager

No.	Illegal factors of risk and negative personality, the evil demons of a corrupt football	Comments (notes 1-10)
1	It must have been: player, coach, referee, manager, administrator, janitor, or lived among the people of national or international football, etc.	
2	Lies in order to be believed! Unscrupulous social-professional remorse or shame.	
3	Usually they were eliminated from football or other activities for fraud, irregularities, sports hooliganism or social, and moral, in any activity.	
4	Must relate to the referees who he has to know, be like a members of the football family, to convince / bribe and be believed!	
5	Must have connections to coaches, players, referees, club leaders and other managers to be able to conceive bilateral realizations: Bandit sports strategies.	
6	Must have "confidence and the key to the treasury of the employer" for which the sums of money do not matter. He likes corruption, wants victory, want supremacy at all cost!	
7	He must be connected to the Federation, the police, the mayor, the parties, the security, the main sports newspapers everywhere, being known and recognized as the " Man with 10 faces ", the one who shares honour – dirt – bribe!	
8	Charlatan, con man, who is able to sell his life, the team, the coach, the club and even the country to achieve the mission - sports public deception for money!	
9	Accept even go to jail to save the employer, the club, the community, knowing that once out, he will have enough money to live peacefully!	
10	Has all social ills: drink, smokes, has a double and triple life, a man who has a normal personality is a great	

	manager - the mind and works perfectly with the social bandit - sports - moral - ethical facts!	
<b>TOTAL, POINTS!</b>		
	The more broken, dirty, stealing, lying, cheating, denounce, invents possible causes, has a social-sportive sick mind! But our illustrious character is searched in any country, or family division football national and / or international.	

These qualities were presented "qualities of evil of Romanian and international football," to understand that such activities are true, and the world in which we live and every time we ask why we are forced to accept these models of sports Bandit used by clubs and employers to illegally, dishonestly, and fraudulently win)! They all say: if they all do so, why can't I live among the jackals, and I have to, they are all a bunch of social and sporting paraphernalia, "who when we go out – we are in fact out."

**Profile no. 2: The profile of the positive national football manager**

From the profile of the negative we pass on to the profile of the positive national and international football manager.

**Profile no. 2  
The positive profile of the national football manager:**

No.	Personality factors	N 1-10	Date	Technical observations
<b>I.</b>	<b>Visible personality</b>			
1	Civilized appearance, he can be believed, he is charismatic, has an enjoyable presence, "YES"! At first impression, he may be accepted.			
2	Native intelligence, the ability to think logically, expresses variants and can convince in any managerial task. It is honest and positive!			
3	Emotional Intelligence + copes with stressful situations intelligently for both sides in a dispute / relationship, he is a very big help to the team			
<b>II.</b>	<b>Football personalities / professional value</b>			
4	A good general knowledge and culture, a good life perspective, a good education and a good professional culture, modest!			

5	Good - Management interrelations of all stakeholders interested in football performance.			
6	Positive force to help coach for achieving performance in the field!			
<b>III.</b>	<b>Social personality and the influence of national and international manager</b>			
7.	He is a model manager: honest, hardworking, sincere, respects the national and international laws of football, is a cooperative – a winner!			
8.	He is a social model has a family, has a civilized social life and hobbies, is a national and international model. He is a strong character, and he may be confiding in!			
9.	Has prestige that could be considered a positive person who brings services to the sports football movement – the sport, the team, the club, to football !			
<b>Total general points</b>				

Also, we would like you to take an example of manager from the divisional football and consider it as a model please take an example of divisional football manager that you consider in this category managers positive patterns of Romania.

The same procedure is applied:

- Read each quality of the 10 presented;
- Assess in grades from 1 to 10;
- Make and subtract the total of 100 points maximum which is the ideal profile (which actually does not exist in reality)!

If an analysis of any football manager had to be done, it is required to use the following means of knowledge.

But proceed in a practical manner.

As the coach, the referee, the journalist, and the football player, the manager has as well three categories of staff:

1. Genetic personality:

- If he is born (with talent) for this profession;
- If he have special qualities of intelligence, educational, managerial, social, of a special quality that can be called "art and science, to live and to work with people"!
- Is he a man of talks, he is sent to solve a important task and magnetism and force to solve these human obligations, professional, social, sport?

2. Personality professional:

- Usually, former referees have become managers who by nature to wrong activity and restore mistakes in other situations, an attitude

of duality and usefulness for all. A man and his activity in and out of any business-critical situations, the negotiations, the support causes death, dishonest," A man who lives in stress, stress and resolve stress do"!

- In special cases these people proceed with white gloves, they are people who look clean and take care of things at the limit of legality and Hazard, a person who solves everything positively.
- Football managers generally have "a controversial life" full of questions and one that shows the face of a man with results and prestige of a difficult profession, not fit for everyone.
- To take part in this play, you have to be born, made and perfected by a master, a model, a country, a club, an owner, a wife and friends and enemies and situations often unpleasant!

### **Social – Sportive Personality**

A true manager is like a lawyer who knows better than that who he defends – his client is a model of a man who killed someone. He must find laws, examples, patterns, reasons, causes, situations which prove that “he did so to defend and to save, as in self-defence, killed his in order to escape, therefore in legitimate defence”!

In Italy, France, Germany, England, and especially in Romania, everywhere, managers are the same people” playing with fire “with his psychic power play " on the edge and win or lose , but" are called the business men under the table and off the table, or business that begins and ends on the table under the table”;

The thing is that when a manager loses, a clever one considers it a win:

- With an opposition club (there are the reciprocal bribes, applying the principle of " WIN -WIN " – namely both him and the adversary wins, or vice versa), and life unfolds in mental tension, the threat of loss of direct or indirect, or total and partial freedoms. "It is another mission impossible " it is a" difficult task and very heavy, high-risk occupational freedom or professional death (as it is that of the miners, pilots, ferocious animal trainers at the circus, the guardians of shark farms or crocodiles), the prison guards, etc ... a world that is seemingly quiet, but death (life and liberty) can be put under doubt or even loose "everything"!

### **Profile no. 3. Personality football manager international**

1. Coaches as well as players and managers, in order to become international need a number of other considerations, the minimum required and mandatory for personality especially international football manager:
2. A modern manager is (or it should be) a specialist, a scientist in football, a technically refined man, an illustrious strategist with qualities of which we mention only a few, in the table presented below for profile no. 3.

**Profile no. 3**  
**International manager profile**

No.	Factors of the international manager profile	Rating & Comments
1	An impeccable presentation, an arbiter of elegance, a man who one can talk to and do business	Commands respect by presenting manners, language, thinking
2	Knowledge of 1 to 5 foreign languages (one gets a 25% of added value in the partnership in football)	It is an intellectual of international football game!
3	Nobody smokes in front of business partners, or people with whom they work;	Controlled outfit, watched and suspected knew it!
4	Does not do drugs not to risk losing life balance!	Any mistake
5	No alcohol abuse, which can bring great harm, and break the professional and prestigious barriers and reduce the chance of credibility!	The great danger is that the alcoholic liquid as you lose all control.
6	No love relationships, mixing with the business, divorces, marriages in each city, country, etc ...	This is another commonly used as bait! No! No!
7	An international reputation for fair play business, which is a card which makes you available on the international market!	Tradition, history, prestige arguments required
8	Friendliness, hospitality, punctuality, management, computerized everything, like a model!	The management model is an international model!
9	A man of prestige and human trust and business. It is sometimes more important than the whole club, him being the mirror of the team, the club, and of the country!	Great achievements of the great clubs are made of high Managers + and / or Coaches
10	A top international professional / good with relations with all opposing teams, coaches, journalists, referees, fans, official football world	International Manager is an ambassador of the country club, federation, football!
	International manager - CONSIDERATIONS: 1. Football - SCIENCE (made by coaches) 2. Football - ART (made by players) 3. Football - BUSINESS (made by managers and coaches);	Therefore, the new form of management integrated in the duties of a coach into the game format intellectual culture sportiness and international fair play!
<b>TOTAL SCORE: 1-10 notes</b>		

A man on who the about players, coaches, and other managers say, YES! Is a real sports man!

A man – a specialist who consider FOOTBALL:

- Science (being able to know the laws of football performance);
- Art (the presentation of ideas, concepts, and propositions using a computer)
- in the end all these qualities

Additionally what makes the manager a man of business, with which you can discuss and consider what is discussed are professional taboos which need to be kept not disclosed to press, opponents, sporting or non-sporting world. It is a specialist!

SPECIAL TECHNICAL NOTES:

- In the world of great performances (big club teams - international) the manager is the head coach or head coach, is also the manager of the entire activities of the club or the national team of football performance!
- Football = Science + psychology = Art + Management = Business! It is a necessity of a new period of activity and performance in history in general and football and the Romanian football should be the same;

The PSYCHOLOGY of the 20<sup>th</sup> century and the MANAGEMENT of the 21<sup>st</sup> century are specializations boundaries of national and international football performance in life, business and football!

The 20<sup>th</sup> century has considered a great the manager to be a psychologist, a man of culture, skills, intelligence, and versatile.

- Who had more knowledge of psychology, was a great psychologist, coach, referee, knowledge achieved superior human behaviour (as it was and still is) and for teachers, educators, trainers modern.

In the 21<sup>st</sup> century, another professional fad that has come to be called "football coach management of all activities" was born.

- Who knows "Football" + "Psychology" is a specialist and Management = Success!

The conceit of PSYCHOLOGY was one of my interests and I had the opportunity of graduating psycho-sociology college in 2001, which brought me and still brings me today (increased professional, human, life related, satisfactions, helping me understand "what happens in the black box, which everyone wears on their shoulder cautiously and nobody knows accurately what is happening inside. Or know what is happening in health conditions by using legalities, principles, methods, activities, everything to be able to learn " to think , what we say and especially what we do" ( Me vs. my students, Me vs. my family, or Me vs. My sports society, social life).

What I really mean is that psychology for the 20<sup>th</sup> century as well as for the present times is the "mother of subjective sciences" and, in the 21<sup>st</sup> century, Sports Management" joined as the Father of practical sciences".

And together we have achieved a new formula of life and profession:

1. Football + 2. Psychology + 3. Management = helped me be another man, another specialist, in the boundaries of life sciences:

"To understand, to say and especially to do the right thing;

From what I know, can and want to do".

**REFERENCES:**

- [1]. **Stelecu, I.** (2011) *Caracteristici psiho-sociale în jocul de fotbal*, Editura Universitas, Petroșani
- [2]. **Stelecu, I.** (2012) *Probleme ale capacității psihomotrice în fotbal*, Editura Focus, Petroșani

## **THE MANAGEMENT OF THE SPORT ACTIVITY AT THE UNIVERSITY OF PETROȘANI**

**IOAN STELESCU \***

**ABSTRACT:** *The management in sport has a very important role today considering that sport is a source of income and stimulates the industry and the economical development. The level of sport today requires some programmers of management of sport which surfaced recently in the international management and was adjusted to Romanian conditions.*

**KEY WORDS:** *management, sport, sport activity organisation*

**JEL CLASSIFICATION:** L83.

### **1. INTRODUCTION**

In this modern society, sport, considering these three aspects – competition, physical activity and performance – is the beneficiary of adequate management, considering as well the general laws and regulations.

In order to develop university sport and increase performances at the University of Petroșani, it was considered that it is extremely important to carry out the management activity in three directions:

- Increasing the practice of mass sports with students on different fields of sport;
- Optimising the activity and increasing the performances of “Stiinta” Sport Club of Petroșani;
- Management and leadership;
- Improving the basic conditions and rehabilitation of the sports base.

### **2. INCREASING THE PRACTICE OF MASS SPORTS WITH STUDENTS ON DIFFERENT FIELDS OF SPORT**

---

\* *Lecturer, Ph.D., University of Petroșani, Romania, [i\\_stelescu@yahoo.com](mailto:i_stelescu@yahoo.com)*

With the involvement of the Physical Education and Sports staff of the Students' League and the appointment of a regulation for competitions it is desired attract a larger number of students for the different sports competitions organised by the department for the development of mass sport at the University.

Therefore, starting with the year 2014, the staff introduces the assessment criteria for each discipline, the participation of students in local and national sports competitions.

We shall be able therefore to attract a larger number of students to practice mass sports and select a representative number of students to take part in yearly sports competitions organised by the Ministry of Education (MECTS) and the Federation of University Sports (FSSU).

The participation in these competitions and the results obtained shall bring points for the University, points which may be transformed in funds received by the University Sports Club.

Performance groups may be reached only by developing the mass sport, therefore in most sport branches the sports groups need to be created with school students chosen in this respect.

Our staff shall carry out the selection in schools in the area to select the best students in different specialities.

### **3. OPTIMISING THE ACTIVITY AND INCREASING THE PERFORMANCES OF "STIINTA" SPORT CLUB OF PETROȘANI**

The main requirements of the management of the Sport Club for the optimisation of the activity and the increase of performances are the following:

- The leadership of sport organisation needs to adapt to different particularity steps structured in our society, representing therefore the condition for an efficient management;
- As modern society and life depends more and more on information and communication, the informational systems of an organisation receive a similar proportion to that of production, management or other problems;
- The management must foresee the continuous information and communication needs and their analysis based in values and other relevant pieces of information; it also needs to come up with objectives, tasks and practical realistic and encouraging means to help reach personal objectives;
- The problems related to inter-conditioning and development tendencies of different departments and activity subsectors need to be solved for the management of sport activity;
- In order to improve the activity and increase the performances of a sport club, it is required to carry out an investigation of the behaviour of athletes in direct relation with the specific framework, department or team of the club. A sports organisation is considered to be consolidated when it manages to develop its training system with the help of information through reversed connexions and self regulations;

- The management activity is required to counteract routine and promote and support novelties and initiative toward progress; management methods shall be continuously improved and adapted to changes which may occur in different steps of social development.

Regarding the performance sporting activity of the sports club, it may be stated that the main task of the clubs is to have a continuous progress on all its fields, especially there where the individuals in the area prove a real potential for the practice of certain sports.

An important aspect of the results' forecast strategy is represented by verifying and keeping in the club those athletes who have the necessary qualities to reach a national, international and even Olympics performance.

It means to remove the athletes overwhelmed by age, physical potential or technique, together with the selection and enrolment of others, consecrated, as well as young who are able to keep up with the great performance.

The general characteristic of the activity of sport clubs needs to be expressed by the increase each year of the performance, of the number of departments which prepared athletes to compete in national and Olympic competitions.

In order to meet these objectives, the speciality federations and clubs must promote and apply the scientific training methods. Coaches should be bolder to use new and interactive methods, installations and modern devices to train new athletes, considering the athletes' age and speciality, materials and modern devices which unfortunately don't always end up in Romanian clubs.

Therefore, I consider that in the near future it is compulsory to bring new departments at Stiinta Sport Club of Petrosani, such as: archery, chess, football, sports orientation, gymnastics or bobsled.

Large sports clubs need to be dynamic and adapt to the requirements and development directions of Romanian and international sport in order for the structure and departments for each sport to survive.

Romanian sport presents a series of deficiencies and difficulties such as:

- The relation between the number of departments with high performance objectives and that of athletes enrolled is against the athletes. Using athletes who will voluntarily undergo the required efforts is not a solution but the balancing of this relation is essential for clubs in order to increase their contribution to the success of the sport;
- The volume and especially the quality of the training process slack behind considering the requirements and the methodological solutions approved internationally. This state is maintained though the organisation and development of the activity of trainers, the lack of modern materials required for effort control and dosage, and through the modelling and simulation of trials in training conditions;
- The selection, training and promotion of young athletes with qualities for performance in senior departments.

Although, most of the clubs have a large number of specialist they are not able to ensure the required number of values for all their departments. Thus, the training is not carried out with all the right

people and it does not reach the required level to ensure progress specific to the valued performance.

- It is considered that for a series of branches existent in the structure of sport clubs there is a lack of sports bases, while the existent ones, in general, are very unwelcoming and poorly equipped.

A special condition which needs to be met in the management of sports clubs is the way and the conditions in which the athletes and trainers carry out their activity. Improving the quality of the conditions in this field through a better understanding of the factors conditioning therefore the management are really important for the expansion and development of sports.

#### 4. MANAGEMENT AND LEADERSHIP

“*Leadership* is the process through which a person establishes a purpose or a direction for one or more persons and determines them to act together, with skill and dedication in order to accomplish them” (Nicolescu & Verbancu, 2001, p.342).

According to the two authors, leadership is based on team spirit as a state reflecting the desire of people to think, feel and act harmoniously with managers or group components, in order to achieve a common objective, team spirit which integrates the following four processes:

- Building the confidence of the people involved;
- Appointing the mission and clear objectives to which people shall adhere;
- Carrying out decisional participative processes;
- Powerful individual and group motivation to contribute to the accomplishment of group targets.

Leadership deals with the main human approaches, including a certain vision and new management acting directions, makes all the resources of the organisation efficiently operational.

A good management includes a good leadership

The management focuses to lead large organisations – structural organisation – and strategically manages resources

Leadership focuses its operation on the human component, essential as value, educationally substantiating its participants (especially physical education teachers and coaches) considering the complex requirements which they will face as the first leading positions of a series of micro-groups (class, group, team) and a series of sportive micro-organisations.

Practically, it is beneficial to admit that leadership and management are two steps (levels), independent and successive in preparing and carrying out the role of leader:



Figure 1.

I. I. Lador (2000, p. 147) brings a series of arguments to support this point of view:

“The terms Management and Leadership are not completely synonymic. If management means to be in charge or to administer, considering a given skills level, leadership involves guidance, the ability to lead to reach a target, a purpose by following one orientation or direction. To practice leadership does not necessarily mean leaders should have right skills to managing resources.”

Considering the above stated facts, leadership may also be regarded as an optimisation and management process:

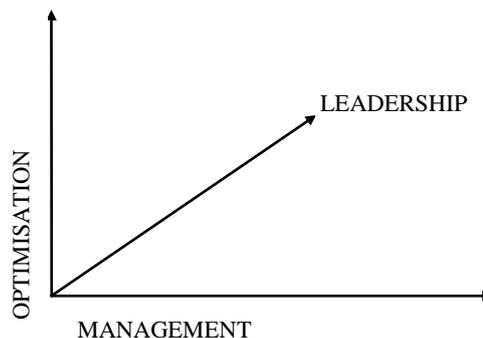
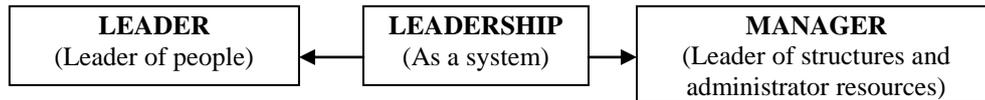


Figure 2.

- The optimisation of inter-human relations corresponds to leadership:
  - Appoint objectives and the people to achieve them (Eisenhower);

- Make others do what they do not like and at the same time pretend they like to do it (Truman);
- Management supposes the organisation and administration of all the resources, i.e. all that corresponds to the management.

Leadership as a system involves both stages for the leader: leader and manager.



**Figure 3.**

## **5. IMPROVING THE BASIC CONDITIONS AND REHABILITATION OF THE SPORTS BASE**

If there is a lack of adequate conditions in the sports bases or the existent ones are not built or managed accordingly, deficiencies may appear.

Therefore, in order to improve these conditions the following actions must be undergone:

- Carrying out a series of repair works to ensure a welcoming aspect and equipping them with the necessary training machines to meet the national and international training conditions, their scope being to create corresponding training conditions and the organisation of national and international competitions managing afterwards to attract athletes for the competitions organised by our University;
- The execution of rehabilitation and consolidation works of the existent base, considering the increase in sports practicing demand.

In order to develop what it has been mentioned before, the following development projects must be carried out:

1. Building a modern gym for games such as: handball, basketball, volleyball, tennis. (3 basketball fields, 1 handball field, 2 volleyball courts and 2 tennis courts)
2. The existing tennis court needs to be rehabilitated and groomed daily (or build on a different surface).
3. The body building gym must be equipped and completed with all the devices bought by the club and by the staff and use them to train the university team as well as for the classes under direct observation of the specialists.
4. The tartan athletic track.
5. Improving the conditions in the bathrooms and locker rooms, equipping them with benches.

The University of Petrosani has become a name often heard in sports competitions starting with 2009. After the rugby team in 7 won the University National

Title in 2009, it's the football players' time to play the National Championship Final for students.

In 2010 the football team wins the second place at the University Football National Championship (Timisoara), the football team of the University of Petrosani became the vice-champion after 47 years, without receiving any goal within regulation time.

The football team of the University of Petrosani has experienced lately a powerful comeback, and in 2011, after 48 years, it re-becomes a national university champion in Timisoara after the penalty shots with "Babes-Bolyai" University of Cluj-Napoca and still in 2011 it places second at the Universitas National football Championship in Bucharest.

Sports management is very important, considering that sport today represents an income source which attracts different markets, stimulating industry and helping the territorial economic development.

The superior level of sport in today's society implies and requires the use of management programmes recently outlined in the international management and adapted to the Romanian possibilities and conditions.

## **6. CONCLUSIONS**

The main conclusion is that in all the aspects concerning the direct (mass sport with an impact on health) or indirect (industry and markets development, external commerce, organisation of sports events and the maintenance of infrastructure) participation in sport, sports management is a necessary and very important condition for the success of such activities.

The management positively or negatively influences the course and the results of the sport activities and it is therefore necessary to know and understand the elements which define the role of the management.

The relationship manager – leader may be synthesised as follows:

- Management focuses on leading the organisations using a structural organisation and manages as well all the resources
- Leadership focuses on the human component, determining for people to act together, based on team spirit with skill and complete dedication in order to reach an appointed target, following the direction established;
- A good management includes a good leadership;
- Leadership educationally substantiates the participants (especially physical education teachers and trainers) considering the complex requirements which they will face as the first leading positions of a series of micro-groups (class, group, team) and a series of sportive micro-organisations;
- Practically, it is beneficial to admit that leadership and management are two steps (levels), independent and successive in preparing and carrying out the role of leader.

**REFERENCES:**

- [1]. **Lador, I.I.** (2000) *Bazele teoretice ale managementului în sport*, University of Pitești Publishing House
- [2]. **Nicolescu, O.; Verbancu, I.** (2001) *Fundamentele managementului organizației*, Tribuna economică Publishing House, Bucharest
- [3]. **Stelescu, I.** (2009) *Ora de Educație Fizică la Universitatea din Petroșani*, EDYRO PRESS Publishing House, Petroșani
- [4]. **Stelescu, I.** (2012) *Probleme ale capacității psihomotrice în fotbal*, Focus Publishing House, Petroșani
- [5]. **Stelescu, I.; Marica, L.; Grecu, E.** (2011) *Ghid de lucrări practice în educație fizică și sport*, Universitas Publishing House, Petroșani

## **THE INFLUENCE OF ACCOUNTING POLICIES OVER THE ENTITIES' RESULT**

**ALICE EMILIA ȚINTA \***

**ABSTRACT:** *This article started from the idea that International Accounting and Financial Reporting Standards have had a major impact over the accounting world. Accounting laws of Continental Europe (especially France) centered on historical cost, are in opposition to IFRS towards fair value. If accounting is based on historical cost we can say that excess of prudence leads to inaction. On the other hand the Anglo-Saxon accounting system is based on fair value that looks for a quick profit and to help investors. Financial statements record how resources have been handled by the management. The role of financial statements is to provide informations that will help users to make decisions. They can accomplish this mission only for those objectives that can be quantified as value and quantity. IFRS is referring to the whole set of financial statements that have to include a statement of the financial position, of the result, of changes in equity and treasury. Alongside these informations has to be a summary of significant accounting policies as well as informations about retrospective application of one or more accounting policies.*

**KEY WORDS:** *performance, accounting policies, fair value, historical cost, result, financial statements.*

**JEL CLASIFICATION:** *M 41.*

### **1. ACCOUNTING POLICIES AND THEIR INFLUENCE ON THE RESULT**

In a world of globalization and internationalization knowing IFRS is a necessity more than an essential instrument for the management of enterprises. From the multitude of accounting policies provided by IFRS that have an impact on the financial performance of an enterprise it's difficult to choose the most relevant one. The variety of accounting practices makes it difficult to realistically assess the performance and financial situation of some enterprises that are from different nationalities.

It is true that if we use different accounting solutions for reevaluations, amortization and provisions it will lead to different financial results for identical exploitation conditions. Users of financial statements have limited themselves to consulting only the Profit and Loss account to find out information on the accounting

---

\* Lecturer, Ph.D., Romanian-American University, Bucharest, Romania, [tinta\\_alice\\_emilia@profesor.rau.ro](mailto:tinta_alice_emilia@profesor.rau.ro)

result. It was considered the most significant indicator for measuring performance without taking into consideration the relevance of that information. Accounting result represents the result of the freedom of choice of accounting policies for the companies, leading to an increase or decrease of this result. We have at least 2 questions regarding this aspect:

1. How accurate can we determine the result taking this freedom into consideration?
2. Who uses creativity for financial performance reflected in the Profit and Loss account?

The answer to the first question is that result can only be relative. In the actual context we cannot say that there is an objective result but a more subjective one. Subjectivity is given by choosing one regulation or an option that involves abandoning another regulation or option. This game of choosing is a consequence on financial statement as well as on the accounting result. That is why information provided by the results account must be interpreted carefully because enterprises have means to distort it.

The answer to the second question is that financial statement users stimulate companies to beautify their financial performance. Maximizing performance, thus the value, implies maximizing net profit. Investors think that the most meaningful expression of performance is liquidity. An investment will always be analyzed through future economic benefits, meaning the potential to contribute to the cash flow. Maximizing cash flow implies a constructive effort from the business and the necessity to channel these flows in order to capitalize the business or to pay the capital invested.

The presence of choice in accounting raises the problem of choosing a certain accounting policy. Starting from the limits of accounting principles suppliers of information turn to different ways to shape, until distortion, the final result.

Through IFRS, accounting policies are defined as principles, bases, rules and specific practices applied to enterprise in order to make and present the financial situation.

The accounting policies that are referred to in IFRS are those that allow making financial statements with relevant and viable information regarding transactions and events from the life of the enterprise. The two terms used by IFRS have the following connotations: relevance is closely tied to investors' necessities to make accurate decisions; viability refers to the quality of information needed by financial statements. Based on this we can state that there is a close connection between accounting policy and financial information. This connection comes from the assumption that any change in accounting policies will influence the financial statements. On the other hand relevance and credibility of the information is closely related to the concept of faithful image, a concept from the Anglo-Saxon accounting culture drafted in 1948, Great Britain under the expression *true and fair view*, in the Companies Act that stated: *every balance sheet must give a true and accurate image of the financial and patrimonial statement of the company at the end of the exercise, and every results account must give a true and faithful image of profit or loss at the end of the financial exercise.*

In Europe, this concept was introduced in 1978 for all members of ex- European Economic Community (CEE) through 4<sup>th</sup> Directive at the proposal of Great Britain.

According to the European Directive: *annual accounts must give a faithful image of the patrimony, as well as of the financial statement and the company results*<sup>1</sup>. In France,

---

<sup>1</sup> 4th Directive of European Economic Community, art. 2, paragraph 3.

the General Accounting Plan states that accounting information supplied by financial statements must ensure users an appropriate, loyal, clear and complete description of transactions and events that appear in the life of an enterprise. Specific to French accounting is the fact that the object of accounting information is the reflection of a faithful image of reality represented by it.

The IFRS conceptual framework doesn't refer directly to the concept of faithful image of the financial position and performance of an enterprise, but states that faithful image is a consequence of abiding by the quality of the financial information (comprehensibility, relevance, credibility and comparability) as well as applying proper accounting standards that help prepare the financial statements of an enterprise.

IAS 1 *Presenting financial statements* states that in order to ensure an accurate financial position and treasury flows, an enterprise must present detailed information regarding accounting policies and changes that happen. An enterprise will change accounting policies only if the change will have as a result obtaining financial statements that will provide viable and relevant information regarding the financial position, financial performance or treasury flows. Causes that modify accounting policies refer especially to a series of situations specific to commercial activity ( if we cannot make certified estimates regarding uncertain clients, life duration of amortizable assets, the consumption modality for future economic benefits of amortizable assets).

Retroactivity in an accounting policy will be applied to comparative financial information for prior periods of time as far away in time as possible to the moment of applicability. To ensure time comparison of financial statements, an enterprise must apply its accounting policies in a consistent way for transactions, events and similar conditions, except the time that IFRS allows the use of different policies<sup>2</sup>. This fact is mentioned in the conceptual framework of IFRS. For example, if a company chooses to change the evaluation method for stocks that exit the inventory, from LIFO to FIFO, in a time of high prices, the analysis based on the result indicate an increase in performance. Taking into consideration the policy adopted by the company (changed following the increase of prices) we notice the result is conjectural, determined by the simple market price change. At the same time the accounting information provided by financial statements are no longer compared in time (in a year the company evaluates stocks based on LIFO method, next year on FIFO).

Unlike International Standards, the national accounting framework mentions that any change of accounting policies is made only for future periods of time, starting with the financial exercise that follows the one in which the decision was made. If we change the accounting policy and correct the errors related to a previous period of time, then the balance sheet related to a previous time than the one being reported doesn't have to be changed. Changing accounting policies will be done if an exceptional situation appears in the environment of the enterprise or in the economic and financial context, or if the level of credibility and the relevance of the information increase. For better understanding the situations that imply changing policies there are a few examples: admitting or withdrawing from transaction short term securities of the enterprise, changes in the structure of stakeholders, changes due to entering a group, mergers and similar operations.

---

<sup>2</sup> IAS 8 Accounting policies, *changes or errors and accounting estimates* – (Ceccar, 2009)

In consequence we can observe a different approach from International Standards of Accounting related to a retrospective application of accounting policies and to the reasons that determine the change of a policy. Unlike International Accounting Standards that provide a major role to uncertainty of the commercial activity, the national accounting regulations refer to evaluations for the uncertain clients, moral usage of stocks, and useful life duration in a secondary level.

## 2. EVALUATION BASES AND THE RESULT OF ENTERPRISE

Nowadays evaluation is a key aspect for financial reporting because of the mutations from traditional accounting to fair value (historical cost). International accounting state that evaluation is a process to determinate monetary values that will be recognized as elements in financial statements. The credibility of evaluation<sup>3</sup> is the one that allows or not recognizing some elements from the financial statements. Many times the cost or value must be estimated; using reasonable estimation is an essential part of drawing financial statements and it doesn't influence their credibility. If a reasonable estimate can't be done the item will not be recognized in the balance sheet or the Profit and Loss account. For example, estimated return due to a court process may correspond to the definition of assets and income as well as to the achievement probability criteria; still if a credible evaluation of income is not possible then it cannot be registered as asset or income. FASB (Financial Accounting Standards Comity) states: *"Information provided by financial statements is a result of an approximate quantification rather than an accurate one. Quantification often implies many evaluations, classifications, synthesizing, reasoning and systematization. The product of economic activity in a dynamic economy is uncertain and it's a result of a multitude of factors. So, in spite of the impression of accuracy given by financial statements, with a few exceptions, quantifications are approximations that rely on rules and conventions rather than exact sums"*<sup>4</sup>.

Some items of annual financial statements cannot be evaluated with accuracy but just estimated because of imminent uncertainties. The estimation process implies reasoning based on recent credible information. Usually, estimation may be revised if changes in circumstances take place as a result of new information or a better survey. The Conceptual framework of IFRS mentions the uncertainty related to estimating future economic benefits. *The concept of probability is used as far as recognition criteria in order to have a reference for the uncertainty level in achieving a future economic benefice associated with an item. This concept is imposed by the uncertainty of the economic environment. Evaluating the level of uncertainty related to future economic benefits is tied to the available information when drawing the financial statements.*<sup>5</sup> For example, when cashing a debt is a possibility, in absence of an evidence to prove the contrary, recognizing the debt as asset is justifiable. In case of diversity of debts, the possibility of not cashing will be considered normal so the decrease of economic benefice will be registered as expense.

IFRS Conceptual Framework gives a level of freedom in choosing the basis for evaluation as long as it ensures pertinence and viability of the information provided by

<sup>3</sup> Evaluation is designating a monetary expression to an item in order to present a financial statement.

<sup>4</sup> Concepts of Financial Accounting Statements, no. 1.

<sup>5</sup> IFRS, General Framework, point 85.

financial statements. At present, IFRS Conceptual Framework mentions the use of 4 evaluation bases:

- *Historical cost;*
- *Current cost;*
- *Achievable value;*
- *Actual value.*

Although it doesn't appear in the IFRS Conceptual Framework, fair value is used to evaluate some items of assets and debts. Choosing a basis for evaluation is a problem of option or an imposition of law. The possibility to act within this option appears most of all related to financial assets, historical cost being always mixed with other bases for evaluation, like fair value. IFRS as well as US GAAP have rules regarding demarcating financial assets based on the intent of the enterprise to classify these assets. If the enterprise wants to purchase those assets to make immediate profit then they will be accounted as financial instruments at fair value recognized in the Profit and Loss account. Any change made in fair value will affect the Profit and Loss account. On the other hand if the enterprise purchases these assets to keep them for a long time then they will be accounted as financial instruments available for selling and evaluated at fair value. We can mention other example too: stocks can be registered at the smallest value between cost and net achievable value, bonds can be recorded at the market value and debts related to pensions at their actual value.

The European accounting referential grants much importance to the principle of permanent methods that refers to applying evaluation methods in a consistent basis from one financial year to another.

The International Financial Reporting Standards state that enterprises most use historical cost as basis for evaluation in drawing up financial statements. By using historical cost as basis for evaluation assets will be registered at cash value or equivalents paid in cash or at fair value of the transactions offered in the moment of purchase. According to the European Commission Regulation no. 1136 November 25, 2009, modifying Regulation no. 1126/2008<sup>6</sup> to adopt certain international accounting standards, some enterprises present comparative information besides IFRS and historical synthesis of selected data for periods previous to the first period that presents complete comparative information according IFRS. IFRS 1<sup>7</sup> doesn't specify that such synthesis to be according to rules of recognition and evaluation of IFRS. Some enterprises present comparative information according to previous accounting principles general accepted (GAAP)<sup>8</sup> as well as comparative information requested by IAS 1 *Presenting financial statements*. In every financial statement that includes historical synthesis or compared information according to previous accounting principles generally accepted (GAAP), an enterprise must point out clearly information according to those principles (as not being made according to IFRS) and must describe the nature of main adjustments needed to insure compliance with IFRS.

---

<sup>6</sup> In the annex of the Regulation (CE) no. 1126/2008, International Financial Reporting Standards IFRS 1 Adopting for the first time International Financial Reporting Standards is replaced with IFRS (restructured in 2008).

<sup>7</sup> On November 27, 2008, the Council for International Accounting Standards (IASB) published IFRS 1 "Adopting for the first time International Financial Reporting Standards", that replaced the existent IFRS1.

<sup>8</sup> The accounting base used by an entity that adopts for the first time IFRS just before adopting them.

An enterprise must explain how transition from previous accounting principles generally accepted (GAAP) to IFRS affected its financial position, financial performance and treasury flow.

According to international accounting regulations, *current cost* represents cash value or cash equivalents that should be paid if the same asset or a similar one is to be purchased at a current time. Debts are accounted at an undiscounted cash value or equivalents cash needed to settle an obligation at the current time. International accounting regulations as well as national ones (OMFP NO. 3055/2009) use current cost only to evaluate provisions

IFRS general framework mentions that achievable value (also known as settling value) represents that cash value that can be obtained in the present through normal sale of assets. Debts are registered at discount value that is undiscounted value that will be used to pay off debts. Achievable value is used to evaluate stock items, if net achievable value is lower than stock cost. By achievable net value we understand estimated selling price that could be obtained as long as the commercial activity is normal, from which we subtract estimated costs to finalize a product and estimated costs needed to make sale (IAS 2 *Stocks*).

*Actual value* is the actual value of future cash input that is to be generated for a normal activity of the enterprise as well as the actual value of future cash output needed to pay off debts. Updating cash flow is applied to fixed assets used in production, these assets being a generator of future economic benefits for the enterprise.

Although it is not mentioned in IFRS General Framework, fair value is a basis for evaluation more and more used in accounting language, as well as international and national accounting regulations. Evaluating at fair value assets and liabilities, allows a rapid transmission of information to investors and stakeholders.

At the same time, using fair value as basis for evaluation represents a permanent adjustment of assets purchasing costs with their market value, meaning a continuous reevaluation of items related to the financial situation of the enterprise.

When Romanian accounting system was first reformed we used historical costs that became basis for evaluation used as a general rule for financial statements. Choosing historical cost as evaluation basis was linked to the viability of the information obtained. Meanwhile, it's been proven that this model is not relevant for a hyper inflationist economy such as Romania. Nowadays, national accounting regulations mention that all assets are to be recognized initially at historical cost, except those assets that are contributed because they are evaluated at contribution value and those assets that are obtained free and evaluated at fair value. After initial recognition, all assets are evaluated at historical cost (according to OMFP no. 3055/2009). There are exceptions referring to tangible assets and financial instruments (including those financial instruments derived in consolidated situations) for which we choose reevaluation, evaluation being made at fair value. Unlike international regulations that somewhat eliminated using expressions like *basic treatment* and *alternative treatment*, national accounting regulations continue to use expressions like *basic evaluation rules* and *alternative evaluation rules* (OMFP 3055/2009).

Fair value is obtained by combining different measurement attributes from the bottom level: "market value", "actual value of future cash flow", "replacement costs".

Some of these values are derived from commodity markets while others from purchasing markets. All these attributes have something in common: they are characterized by their orientation to present or future values. As a measurement feature, fair value criteria refers to the inferior part of the matrix, the one on the bottom right especially.

### **3. FAIR VALUE VECTOR OF CHANGE FOR INTERNATIONAL ACCOUNTING REGULATIONS**

#### **3.1. Historical cost versus Fair value**

Evaluating at historical cost is an old accounting principle. It first appeared in June 1979, in a French accounting scheme, after many theoretical debates. Evaluating at historical cost means that inputs are registered by the enterprise in its patrimony at the acquisition price, historical cost without any ulterior modification, even though the real value changes. It reflects the value of items at the moment of their initial recognition, as a fair value at that specific time. In this situation performance cannot be evaluated correctly because of the overvaluation of profit, the enterprise having to pay inflation taxes and to sell fictive dividends that are distributions of the firm's capital. That is why corrections of the historical costs have to be made through reevaluations or using accounting indexed to inflation.

Now, the result of the enterprise determined by historical cost reflect less than a real potential especially for those enterprise centered on providing services and high tech that invest a big part of their resources in intellectual capital. For these enterprises the traditional model based on historical cost doesn't reflect the real value of the enterprise. Also, by applying the prudence principle, that treats asymmetrically value pluses and minuses through registering probable expenses but not recognizing latent pluses of value, enterprises accumulate accounting loses that do not reflect their real potential. It can be concluded that, in the new business environment, the accounting model based on historical cost does not insure the reflection of reality. But a question arises: "what do we use instead of historical cost if this model is no longer according to the future and is characterized by : globalization-technology-complexity?".

The notion of fair value appeared for the first time in 1953, in Accounting Research Bulletins related to balance sheet reevaluation; after this it was introduced by IASB in 1998 for evaluating financial instruments (IAS 39) corresponding to a logical evolution of accounting.

The concept of fair value is defined by international accounting standards as: "*the amount for what an asset can be sold or paid off as a debt, willingly, between knowing parties during a transaction that determines a price objectively*". Experts tried to find out the relationship between fair value and market value if market value shows the fact that a price must be searched on a market. They concluded that market value can be fair value if active, stock, liquid and organized markets exist (a situation corresponding to Anglo-Saxon model of accounting).

International accounting regulations favor fair value. By evaluating at fair value of an item we will attribute a value related to the market- **mark to market**.

Considered the best estimation for fair value, the international accounting normalization instances validated the extensive practice of evaluating at fair value that tends to include all balance sheet assets. Fair value is defined slightly different: “as the price resulted from a normal transaction between partners with *equal guns*, well informed, a price that corresponds to the actual value of cash flow expected from that asset” (Ionașcu, 2003). From the point of view of this definition and according to international standards, any asset is similar to a financial asset for which a correct and real value is given to the actual value of treasury flow expected taking into consideration the risks. So, the fair value is a value oriented towards the future because of its correct estimation of cash flow expected from the sale of the enterprise’s assets. Reality has proven that markets may be absent or characterized by major unbalances. In this situation we have to find a substitute for market value. Between market value and its substitute will exist a difference because market value is observed by the management of the enterprise and it is performed independent of its value judgments, and the item substituting the value is a value determined by the management, determined by own professional judgments.

The methods proposed to determine fair value show difficulties in evaluating **mark to market**. So, the fair value of an asset is given by the actual value of different treasury flows expected in the future. Considering the difficulties, these methods suggest that generalizing fair value as criteria for evaluating all financial assets and debts (the full fair value) seems to be a utopic project because there are many risks to be considered that can generate loss. For example, according to IFRS estimating net treasury flow to receive or to pay for an asset at the end of its life duration, must be represented by the amount expected giving that asset during an objective transaction, between interested and knowing parties, after the deduction of costs associated to disposing the asset. The enterprise must present fair value for every financial assets and debts designated in each category at the time of their designation, as well as classification and accounting value from previous financial statements. According to European Regulation Commission no. 1136/2009, enterprises are allowed to designate a financial asset or debt previously recognized as a financial asset or debt at fair value through the Profit and Loss account, or as available for sale<sup>9</sup>. If the enterprise uses fair value in the opening statement of the financial position as deemed cost<sup>10</sup> for an item of tangible assets, a real estate investment or an intangible asset, then the first financial statements of the enterprise made according to IFRS must present for each item-row from its opening statement: aggregate value of those fair values and aggregate adjustment of reported accounting values according to GAAP.

Problems refer to the impact of evaluation at fair value over the accounting information recorded in the balance sheet and in the results account. So “is a result based on fair value closer to the truth and more reliable than one established on historical cost?”

---

<sup>9</sup> To determine true values according to IFRS, an entity must apply the definition of true value and other precise guidelines to determine the true value of the specified asset or debt. These true values must reflect the existing conditions at the time they were determined.

<sup>10</sup> Commission Regulation (CE) no. 1136/2009 from November 25, 2009, that modifies Commission Regulation (CE) no. 1126/2008 that adopts certain international accounting standards according to European Parliament and Council Regulation (CE) no. 1606/2002 related to the International Standards of Financial Reporting IFRS1, defines *assumed cost* as: a value used as a substitute for cost or amortized cost at a specific time. Subsequent depreciation assumes that the entity has recognized initially the asset or debt at a certain time and that the then cost was equal to its assumed cost.

In order to estimate fair value of assets and debts SFAS 157 suggests a 3 level hierarchy<sup>11</sup>: *level 1*: analysis of existent prices in an active market; *level 2*: analysis of observable market data; *level 3*: market inputs that are not observable. Level 3 needs more reasonable judgments from accounting professionals, and then it is applied to artificial financial instruments that cause the most problems when companies implement SFAS 157. The problems emerging from implementing SFAS 157 are caused by the lack of prices listed from inside some active markets which makes the management of companies to resort to evaluation based on own designs. Doing the hierarchy of fair value on 3 levels has become common between financial statements. From another perspective, the notion of fair value is frowned upon by the management of the companies because its use induces the change of a controllable component (net profit) to a less controllable one (value of net assets). So the evaluation at fair value decreases possibilities of managers related to adjusting results by using historical costs. Historical cost allows setting provisions and making adjustments for devaluation, methods with great impact over the result. At the same time appears the difficulty to explain to stakeholders why the value of assets has changes through fair value.

Based on the facts presented above, we can state that the opposition historical cost-fair value is still active in a traditional Europe (especially France), that is excessive in prudence, and the Anglo- Saxon countries that want before anything else a “quick buck” and to favor the investors. Analyzing the above mentioned bases for evaluation we can talk about a mix between historical cost and fair value. The advantage of using fair value compared to using historical cost is that the value of the enterprise from financial statements is closer to market value that is an objective value. If we cannot talk about an active market then we cannot talk about the objectivity of fair value. So determining fair value will be made through equivalence to a utility value calculated through actuarial methods, using math models based on the evaluation of future treasury flows. Using *mark to model* we have subjectivity generated by choosing the parameters of the model.

### **3.2. Fair value – an evolutionary notion with many aspects**

Synthesizing opinions related to fair value presented by François Mousel<sup>12</sup> we can state that fair value is an evolutionary notion with many aspects. This statement is justified by the things presented as follows. Although it is presented in many international accounting standards, the definition of fair value doesn't appear in the conceptual framework of IFRS. Fair value is defined by international accounting regulation as *the amount for which an asset can be changed or a passive settled between well informed parties, willingly in normal competition conditions*. This definition leaves us to understand that fair value is a market value that materializes in a commercial transaction independent from specific internal factors of the enterprise. At the same time, this definition translates the concern to materialize this notion, meaning that a market value would be an external, objective and verifiable reference that does not need subjective feedback.

---

<sup>11</sup> In September 2006, FASB issued SFAS 157 *Fair Value Measurements* that describe the hierarchy of *fair value* and identifies priorities that must be followed by the management to estimate fair value of assets and debts.

<sup>12</sup> Translation and synthetization after (Mousel, 2006, pp. 157-162).

For reevaluation regarding assets at a specific previous time to a transaction there is no fair value by definition. An example for this ascertainment is fungible financial instruments negotiated on a liquid and well organized market. For such instruments, the listed price at a certain time is the amount used to change these instruments between well informed and willing parties. This happens because from a historical point of view, the fair value concept was used first for financial instruments. Moreover, the usefulness of applying the fair value of financial instruments held at the end of the negotiation is justified because the value of these assets would be represented by a potential selling price susceptible to materialize at a certain time. Fair value would be justifiable through the imminence approach of a commercial transaction. This is but a recent tendency that extends the concept of fair value from financial instruments to tangible and intangible assets. The logic of this expansion is totally different. Often, these assets are destined to a long time use so there is no imminence of a commercial transaction concerning them. On the contrary, using fair value in these cases reflects the conviction that purchasing costs are but a pertinent indication of value (using value) for this asset. While this observation seems debatable in theory, still, it leads to major difficulties for practice and often makes us think to a change of meaning for the term fair value.

Regarding tangible and intangible assets, an enterprise has to choose between 2 accounting methods: cost and reevaluation. The choice must be the same for each category of assets, a category being a multitude of assets of similar nature and use. Between categories of assets the evaluation methods may vary. This structuring is a breach of the individual evaluation principle that is most important for a fiscal accounting. The logic of using reevaluation model for tangible and intangible assets is pretty different from the one regarding financial assets. Actually, the first are destined for a normal enterprise activity because they are subject for depreciation. Overlapping the depreciation and reevaluation technique, IFRS recognizes clearly that the net accounting value for an asset using cost method (purchasing cost minus accumulated depreciation) is not a pertinent information, in most cases, as real value (fair value), for this asset. Actually, these assets destined for exploitation lack in unambiguous market value most of the time. Individual regulation has to base itself on approximation to determine fair value: similar transaction on comparable goods (with the possibility to report I time if the transactions do not exist at the time of reevaluation) or recognizable evaluation methods in general. The obvious problem of these approximations is that they turn the notion of fair value from external and consensual reference value to an estimated theoretical value influenced by the enterprise.

### **3.3. Fair value and the present financial crisis**

International accounting regulations, especially fair value principle have been the target of many allegations. At present the idea that fair value has had an important role in the financial and economic crisis because of its pro cyclic effect, is certified. For this reason the accounting regulations based on fair value have to be reformed. The causal relationship between accounting regulations and economic crisis is a subject that causes a lot of commotion. The debates on this regard have tried to find answers to a few underlying issues: what is a market price when there is no transaction?; how do we measure performance and what is its definition?; what is the relation between international

accounting regulations and gaining from financial markets?; do accounting regulations have an impact on social responsibility of the enterprise?.

Propositions made by IASB and FASB (Exposure draft July 14<sup>th</sup> 2009) leave a free way to expansion of the fair value implementing perimeter. The expansion of fair value implementing perimeter to result will lead to an increase of volatility for the accounting result. Also, evaluating at fair value sends us to a model that favors measuring performance through different items of active and passive in the balance sheet. Representation of the enterprise as a portfolio of changeable assets and passive is the main principle of a normal international accounting system. The expansion of use of fair value includes the increase of accounting evaluations to prices based on models that are more difficult to estimate and with a high uncertainty margin. There for the published accounting results are more opaque.

One of the arguments of those protecting fair value is that any alternative method hides reality presented on a market. The idea that market price is useful information is accepted, but at the same time it is considered that it should not change the result of the enterprise. Assimilation of fair value market price is based on the efficiency of information model of capital markets whose application is based on a set of assumptions that can't always be verified (market liquidity, integration of available information in assets price). Interests of accounting regulators are oriented towards investors, but investors are not a homogenous class from the point of view of accounting information. At present, short term investors are favored by international accounting regulations which make the principle of continuity to seem to not be respected but seem to be reflected in a short term management.

The debates on accounting regulations responsibility IFRS/ US GAAP to increase financial crisis is far from over and it exists in a political and technical double dimension. On a technical level the debate is about the perimeter of fair value application and on the other hand it is about its estimation modalities.

#### **4. CONCLUSIONS**

The debate on accounting regulations responsibility IFRS/US GAAP that accelerate the financial crisis is technical and political. On a technical level the debate refers to the perimeter applied for fair value and its estimation methods. The whole process of revising accounting regulations on an international level wants to create a set of global accounting system capable to ensure comparison and quality to accounting information, thus eliminating creativity from accounting information supplied by financial statements. The national accounting framework assumed some of the international principles referring to accounting policies. Although producing the financial information is set in a regulated framework many enterprises make a correction to the result that is considered legal. It is difficult to choose the most relevant accounting policy from all the policies provided by IFRS. We can state that there is no objective result in the actual context to provide a diversity of options that could reflect the same transaction. Choosing an option that involves giving up another option influences the accounting result and the financial statements.

**REFERENCES:**

- [1]. **Gruiescu, M.** (2010) *Statistical methods of analysis for economic performances*, Universitaria Publishing, Craiova
- [2]. **Ionașcu, I.** (2003) *The Dynamic of contemporary accounting – Studies regarding the accounting practices*, Economic Publishing, Buchares
- [3]. **Mousel, F.** (2006) *Quel impact fiscal suite à l'adoption des normes IFRS par l'Union européenne?*, De Boeck & Larcier s.a., Éditions Larcier, Bruxelles
- [4]. **Popa, A.; Pitulice, C.; Jianu, I.; Nichita, M.** (2007) *Practic studies regarding the IFRS in Romania*, Contaplus Publishing, Bucharest
- [5]. **Ristea, M.; Dumitru, C.** (2008) *Prudence and agresivity in accounting treatments*, Tribuna Economica Publishing, Bucharest
- [6]. **Tirard, J.M.** (2010) *La fiscalité des sociétés dans l'Union Européenne*, 8-ème édition, Groupe Revue Fiduciare, Paris
- [7]. **Deloitte** (2013) *IFRS, Pocket guide, Deloitte IFRS*, [online]. Available la: [www.iasplus.com/dttpubs/2013pocketfrench.pdf](http://www.iasplus.com/dttpubs/2013pocketfrench.pdf)

## **THE ACCOUNTING TREATMENT OF ASSET DEPRECIATION AND THE IMPACT ON RESULT**

**MARILENA ROXANA ZUCA \***

**ABSTRACT:** *The users of the financial statements have long been limited to perusing the loss and profit account to find out information about the accounting result. It has been considered the most significant indicator to measure the performance of a company, without taking into account, however, the relevance of such information. The accounting result is the result of the free choice on accounting policies of companies and leads to an increase or decrease of this result. It is difficult to select the most relevant policy of the multiple accounting policies provided by the International Financial Reporting Standards with impact on a company's financial performance. Such various accounting practices make an accurate evaluation of the performance and financial situation of companies of different nationalities difficult. It is certain, though, that different accounting solutions used for re-evaluations, amortizations and adjustments lead to different financial results for identical exploitation conditions.*

**KEY WORDS:** *depreciation, amortization, adjustment, self-financing.*

**JEL CLASSIFICATION:** *M41.*

### **1. AMORTIZATION – COMPONENT OF MAINTENANCE SELF-FINANCING**

Much of the fixed assets are subject to degradation over time, which requires their replacement, usually, by amortization. Amortization appears as a value equivalent to the irreversible deterioration of an asset following its operation, the action of natural factors, technical progress or other causes. Part of the assets whose use is unlimited in time, for instance lands and financial investments, are not amortized and their potential depreciation is covered by adjustments.

The financial derivated tools have a special behaviour, as they are financial actives, whose liquidation cost must be admitted in accountancy (Gruiescu, et al., 2010, p.111). The amortized cost is the amount at which the assets and the financial

---

\* *Assoc. Prof., Ph.D., Romanian American University of Bucharest, Romania, [marilena.zuca@yahoo.com](mailto:marilena.zuca@yahoo.com)*

debts are measured at the first recognition plus / minus the accumulated depreciation and any other difference between the original amount and the maturity one. Any provision for depreciation and non-charge will be dropped.

Amortization is a notion, a phenomenon, a very complex process, with technical, accounting, economic, financial, legal, tax, etc., determinations. It represents the systematic distribution in expenses of the amortizable amount of an asset throughout its entire lifespan. There are several views regarding amortization:

⇒ *According to the economic (accounting) view on amortization*, companies use the purchased goods to obtain economic advantages during several financial years. Based on a commitment accounting and the separation of the financial years, the input amount of an asset must be divided so that each financial year to bear an expense corresponding to the advantages obtained following the use of such asset. As the economic advantages of an asset are consumed by the company, the accounting value of the asset decreases according to its consumption, usually, by recoding an expense with the amortization. The economic or accounting amortization is determined based on the estimations and calculations resulting from the decisions of the company's management.

⇒ *According to the juridical-economic view*, amortization is connected to the patrimony view on the balance sheet. According to the French accounting plan, amortization is an accounting finding regarding the decrease of an asset's value, arising from the use, the passing of time, technical change or whatsoever cause.

⇒ *According to the financial view*, amortization is a means to recover the invested capital, a source to finance the asset. The accumulation of the yearly amortizations must allow the replacement of the asset which cannot or must not be used (because of the moral depreciation).

Amortization thus becomes an element of the self-financing capacity. The self-financing capacity can be determined from the gross surplus from exploitation – the deductive method, or from the net result – the additive method (table no. 1).

Teodorescu and Badea (Teodorescu & Badea, 2007, pp.163-164) consider that maintenance self-financing plays an important role in a company's performance. Maintenance self-financing consists of amortization, which ensures the replacement of dysfunctional assets, plus the adjustments for depreciation or the value loss of the assets and provisions.

It can be said that **amortization** is a complex phenomenon with various determinations and consequences. It is the main source of self-financing given the simple reproduction of fixed capital (preservation of patrimony). If the company management plans to expand the activity through the development (increase in value) of the assets, it is required to use external financing sources (non-reimbursable loans and financing, bank loans and/or bonds, subsidies, donations, etc.) together with internal sources (allocations from the net profit). In accounting terms, amortization is an expense which indicates the consumption, respectively the use of the asset. The recording of the amortization in the accounting does not affect directly the immobilization account, but only the result account. It plays a role in adjusting the accounting amount of the asset, ensuring the preservation of the information regarding

the initial value of the asset. The same as value adjustments, amortizations do not generate negative cash flows and do not affect the company's treasury.

**Table 1. Self-financing capacity**

No.	Deductive method		Additive method	
1.	<b>GROSS SURPLUS FROM EXPLOTATION</b>		<b>NET RESULT</b>	
2.	+	Other exigible income from exploitation (save for those from the sale of assets)	+	Calculated expenses (amortizations, provisions, adjustments for depreciation or value loss)
3.	-	Other payable exploitation expenses (save for expenses with assigned assets).	-	Calculated income (income from the resumption of provisions and adjustments for depreciation or value loss).
4.	+	Exigible financial income	-	Income from sale of assets
5.	-	Payable financial expenses	+	Unamortized value of assigned assets
6.	+	Extraordinary income	-	Share of subsidies for investments recorded in income
7.	-	Extraordinary expenses		
8.	-	Profit tax		
9.	=	<b>Self-financing capacity</b>	=	<b>Self-financing capacity</b>

Source: Adaptation after: Teodorescu; Badea, 2007, p.39

## 2. THE ACCOUNTING TREATMENT OF DEPRECIATION IN ROMANIA

In the Romanian accounting, we notice at present the increasingly focused tendency to separate accounting from fiscality. As regards amortization, two sensibly different views are currently being used (Popescu, 2008, pp.54-62): *Accounting amortization*, stipulated by the accounting regulations; *Tax amortization*, stipulated by the tax regulations. The accounting amortization is the amortization recorded in the accounting books as expenses, determined according to accounting rules and regulations.

Stipulated under OMFP no. 3.055/2009 for the passing of the Accounting Regulations as per the European directives, accounting amortization is defined in art 31, paragraphs (1) and (2) of OMFP no. 3.055/2009, as follows: (1) *Value adjustments include all the corrections aimed to consider the decreases in the amounts of the individual assets, set on the date of the balance sheet, even if such decrease is definitive or not.* (2) *Value adjustments can be: permanent adjustments, hereinafter referred to as amortizations, and/or temporary adjustments, hereinafter referred to as adjustments for depreciations or value loss, according to the permanent or temporary nature of the assets' adjustment.* In accounting terms, current regulations preserve the view of the duration of economic use, understood as the useful lifespan which represents: *the period for which an asset is set to be used by a certain entity; or the number of produced units or of similar units to be obtained by the entity through the use of such asset.*

Amortization is set by enforcing the amortization shares on the input value of the assets. The amortization of tangible assets is calculated with the month following their startup and until the full recovery of their input value. When the amortization of the tangible assets is determined, there are considered the period of economic use and the use conditions. According to the domestic accounting rules, *there are for types of amortizations* used by companies: *a) Linear amortization*, performed by a uniform inclusion in the exploitation expenses of fixed amounts, established proportionally with the number of years of their period of economic use; *b) Digressive amortization*, which consists of the multiplication of the shares of linear amortization by a certain coefficient. In this case, the legislation in force should be considered; *c) Accelerated amortization*, which is the inclusion, in the first year of operation, in the exploitation expenses of an amortization of maximum 50% of the asset's input value. Yearly amortizations for the following financial years are calculated according to the remainder to be amortized, according to the linear amortization, depending on the number of years. Given that the calculated amortization must be correlated to the use of the asset and given that there are rare situations when a tangible asset is consumed in the first year up to 50%, it is considered that the accelerated amortization is less used for accounting purposes; *d) Amortization calculated per unit of product or service*, when the type of assets justifies the use of such amortization method.

The amortization method used must indicate how the future economic benefits of the asset are to be used by the company. Amortization is applied consistently for all the assets of the same type and used in identical conditions, according to the accounting policy agreed on. It can be changed only when an error occurs in the estimation of the economic benefits' consumption.

As regards amortization per components, the domestic rules indicate that the components from the structure of a tangible asset, whose regular lifespan differs from the one of the asset, the amortization will be determined for each individual component. The treatment of amortization per components is recognized only for the components which require regular replacement and which have a high price. The second type of components, concerning the expenses for general verifications, are considered expenses made for repairs because it is considered that they do not generate additional economic benefits for the company. Therefore, they will be recorded directly in the result account.

According to the domestic accounting rules, value adjustments include all corrections meant to take into account the decreases of the individual assets' amount, set on the date of the balance sheet, even if such decrease is definitive or not. Following the calculation and recording of adjustments for depreciation or the value loss of the assets, the temporary loss of value is calculated, observing the requirements for the accounting information, namely to offer a clear, honest, faithful and full image of the patrimony.

In terms of the accounting treatment, temporary adjustments are similar to provisions. The recording of the expenses regarding the adjustment of the tangible assets' value will result into the decrease of the gross result of the financial year, of the profit tax in case of provisions which can be deducted fiscally and implicitly, of the net

financial result. The takeover of a loss from depreciation must be recorded in the loss and profit account.

The recording of the adjustments regarding the depreciation must not be a decision of the company. It is an obligation which will lead to the presentation of an accurate image of the financial statements.

### **3. THE ACCOUNTING TREATMENT OF DEPRECIATION ACCORDING TO THE INTERNATIONAL ACCOUNTING RULES**

The literature describes two accounting methods to evaluate assets from financial statements: the amortization method and the depreciation method. The two methods ensure the re-evaluation of the assets' value when the financial statements are prepared and start from the idea that the assets' value is influenced by the following: (1) *A definitive depreciation*, which results into the recording of an amortization; (2) *A temporary depreciation*, which results into the recording of an adjustment for depreciation. Value adjustments include all the corrections meant to consider the decrease in value of the assets set on the date of the balance sheet, even if such decrease is definitive or not.

The International Accounting Standards define amortization as the systematic distribution of the amortizable amount of an asset during its entire useful lifespan (CECCAR, 2011)<sup>1</sup>. To determine the useful lifespan of an asset, a company must consider the following assets: a). the estimated use of the asset, evaluated according to the estimated capacity of the asset or to the physical production; b). the estimated physical wear and tear which depends on the operational factors; such as the number of shifts when the asset is to be used; the repair and maintenance schedule, etc.; c). the technical or commercial wear and tear caused by production changes or improvements or by a change in the market demand as regards the product or service delivered by the asset; d). the limits stipulated by the law or the like for the use of the asset, for instance the expiry date of the leasing contract.

The amortization of an asset starts when it becomes available for use, respectively when it is in the emplacement and condition required to function according to the plans of the company's management (CECCAR, 2011). The amortization must be recorded even if the actual value of the asset exceeds its accounting value, as long as the residual value<sup>2</sup> does not exceed its accounting value<sup>3</sup>.

The amortizable value is the cost of an asset (if the company plans to use the asset until the termination of its economic lifespan) or any other value which replaces the cost in the financial statements, less the residual value of the asset (if the company plans to replace the asset before the termination of its economic lifespan).

---

<sup>1</sup> According to IFRS, the term *amortization* is generally used instead of the term depreciation for intangible assets, the two terms having the same meaning.

<sup>2</sup> *The residual value* of an asset is the estimated value to be obtained by an entity if the asset is assigned, after deducting the assignment related costs and if the asset has the age and condition stipulated until the end of its useful lifespan.

<sup>3</sup> *The accounting value* of an asset is the value for which the asset is recorded after deducting the accrued amortization and the losses accrued from depreciation.

The assets which generate future economic advantages, which are unlimited in time, are not amortizable. These are lands, artworks, etc., whose purchase price is not distributed in time.

A company can use several amortization methods. The selection of the amortization method must indicate the rhythm estimated to consume the future economic benefits of the asset. Each amortization method influences in a certain way the expense for the amortization: a). *the linear amortization* results into a constant expense throughout the useful lifespan of the asset if the residual value of the asset is not changed; b). *the digressive amortization* results into a decreasing amortization expense during the useful lifespan of the asset; c). *the amortization calculated by the method of the units of production* results in an expense determined based on the use or production estimated to be obtained.

A special aspect of the tangible assets' amortization, stipulated by IAS 16 *Tangible immobilizations*, concerns the amortization per components. It can be used if two conditions are simultaneously met: future economic benefits are likely to be generated for the company and the cost of the immobilization can be credibly evaluated;

**The International Financial Reporting Standards** state that each part of an element of tangible assets with a significant cost related to the total cost will be amortized separately. There are two types of components: elements to be replaced and the expenses generated by the multiannual verifications made to identify malfunctions. These expenses must not be mistaken for the current repairs which must be recorded directly in the loss and profit account.

In **France**, for instance, in terms of the accounting plan, companies must amortize assets according to their predictable real lifespan. According to the French accounting rules, the probable useful lifespan can be determined starting from criteria such as: physical wear and tear, moral wear and tear and the so-called juridical decline of an intangible asset, which starts from the reason that the protection of certain rights, such as patents, exclusivity rights, usufructs, etc., is limited in time (Cozian & Deboissy, 2009). The French accounting rules indicate that for the same type of immobilization, this lifespan can differ from one company to another, according to the use of the machines. Lifespan can also depend on the renewal policy of the immobilizations (for instance, a company can decide to renew a car park every five or three years; in the first case, it is amortized in five years and in the second in three years, taking into account the residual value<sup>4</sup>).

In the particular case of France, before the reform in the field of accounting begun on January 1, 2005, tangible assets were amortized unitarily even if some of their components deteriorated faster and had to be replaced on the way.

The new international accounting regulations have had a significant impact on the accounting treatment of amortization. Thus, a building was amortized within a sole period of time (for instance, thirty years) even if parts thereof had to be replaced after a

---

<sup>4</sup> The new accounting standards require companies to consider the residual value of an asset when it is safe that the useful lifespan will be lower than the probable lifespan of the asset. The residual value must match the price the company will obtain when it resells the asset, at the end of its useful lifespan; it must be significant and measurable on the purchase of the asset.

shorter period of use (for instance, ten years). According to the new accounting regulations, the cost of the immobilization to be amortized is made per components. For the example presented above, an amount of the building's structure is determined and will be amortized in thirty years and another amount is set for the heating and air-conditioning systems which will be amortized within a shorter period, like ten years. The breakdown applies with certain restrictions as regards the amount of the components and their lifespan. Thus, the distribution of cost per components is not made for those components, whose amount is lower than 500 euro or if it is lower than 15% of the cost of the entire equipment for movable assets (1% for immovable assets). The restriction regarding lifespan forbids the distribution of cost for those components whose lifespan is higher or equal to 80% of the entire equipment's lifespan. The distribution is not made if the lifespan of a component is lower than a year.

Most opinions on the amortization per components indicate that these changes have impacted the company's tax basis. As Burlaud & Colasse (Burlaud & Colasse, 2010, pp.10-15) state, the amortization per components generated in the financial year 2005 an increase or decrease of the taxable income, depending on the company. The breakdown of assets into components affects the periods and specific means of amortization. Thus, in case of spare parts<sup>5</sup> which meet the conditions on amount and lifespan, as regards the breakdown on components of an asset, the enforcement of the new regulations results into their re-evaluation. Until the replacement of the deteriorated components, the spare parts will be considered assets. It can be said that the breakdown of tangible assets per components influences their amortizable amount, considered as base to calculate the amortization and, implicitly, the financial result of the company. Save for amortization, which is a permanent depreciation, there is also another class of depreciations, which indicate a temporary loss of value, which can be cancelled in the future. The recording in the historical cost points out the assets in the balance sheet at their initial value (the purchase value of the production value). The initial value remains unchanged, irrespective of the evolution of the asset's value. To ensure a faithful image of the financial statements and taking into account the principle of prudence, the depreciation of the asset's value is recorded. An asset is considered depreciated when its current value is below the net accounting value. It can be noticed that, according to the International Financing Reporting Standards, depreciation is the size of the positive difference<sup>6</sup> between the accounting value of an asset and its recoverable value, in which situation the asset is considered depreciated. If the recoverable value is higher than the accounting value, the asset is appreciated in value and this appreciation is not registered in the accounting based on the principle of prudence. The finding of depreciation is made both for amortizable assets and for non-amortizable ones. In case of amortizable findings, depreciation leads to the decrease of the amortization basis for the future financial years.

Depreciation is not definitive and its value can be readjusted up or down if the asset gains or losses value. Depreciation is an expense indicating the loss of value for an asset as regards its sale or use, a special situation concerning the assets evaluated at their re-evaluated value. An adjustment regarding depreciations or losses of value

---

<sup>5</sup> Seen as components of an asset

<sup>6</sup> Recoverable asset lower than the accounting value

appears when the accounting value of an asset exceeds the recoverable value, in case of fixed assets, the net value for inventories or the actual value or the amortizable costs in case of financial instruments. The recording of an adjustment regarding depreciation or loss of value is an effect of the enforcement of the principle of prudence in accounting.

A loss from depreciation is recorded, evaluated and registered in the loss and profit account or in the capital account based on estimates. Any change of the initial parameters considered for the estimation influences the net financial result of the current period or the change of reserves.

#### 4. THE INFLUENCE OF DEPRECIATION ON THE COMPANY'S RESULT

According to IAS 36 – *Depreciation of assets*, depreciation usually refers to a deterioration of an asset's value, which has low chances to disappear in the future, as it is caused by moral wear and tear, unfavourable market conditions, etc. Taking into account that a loss from depreciation is recorded, evaluated and registered in the profit and loss account or in the capital account based in estimates, *any change of the initial parameters considered for the estimation influence the net financial result of the current period or the change of reserves* (Mateş, et al., 2009, p.46).

In practice, two opposed tendencies have been noticed. Companies are tempted to increase the value of the depreciation to lower the taxable result. On the other hand, listed companies have an opposed tendency and are tempted to reduce depreciations to avoid affecting significantly the result, which might lead to the alienation of investors.

Paragraph 60 of IAS 36 – *Depreciation of assets*, states that any loss from depreciation will be immediately recorded in the loss and profit account of the financial year. Save for the situation when the asset is recorded at its revaluated amount, as per the provisions of IAS 16 – *Tangible assets*. In case of a revaluated asset, any loss from depreciation will be considered as a decrease generated by re-evaluation.

To determine the loss of value, the recoverable value of the asset will be estimated and, implicitly, of the net price of sale and usefulness value. Mateş and Grozi deem that the estimation of the loss from depreciation is based on the existence of clues arising from information from sources external to the company (increase of the asset's market value, significant changes with favourable effects in the technological, economic, legal or market environment where the company operates) and from inner sources (significant changes in the use of an asset) (Mateş & Grozi, 2008, pp.46-53).

According to the accounting situation of the depreciated asset, loss from depreciation is recorded two ways: ❶ *If an asset hasn't been re-evaluated*, the loss from depreciation will be recorded directly in the profit or loss of the period; ❷ *If an asset has been re-evaluated* (as per the re-evaluation model of IAS 16), the loss from depreciation must be recorded in the overall result, by decreasing the surplus arising from the re-evaluation if the loss from depreciation does not exceed the surplus from the re-evaluation of such asset. If the loss from depreciation is higher than the surplus from re-evaluation, the loss of value is charged mainly on the reserve from re-evaluation and after its depletion is recorded as expense in the profit or loss of the period.

IAS 36 – *Depreciation of assets* indicates the situations when the company must resume or decrease a loss from depreciation. The resumption of a loss from depreciation results into an accounting value which must not exceed the initial cost of the asset from which the amortization's value is decreased. Any value exceeding the historical depreciated cost must be treated as difference from re-evaluation by influencing the capital costs. The standard IAS 36 – *Depreciation of assets* indicates that a loss of value recorded in the financial years will be resumed only of a change occurred in the estimates used to determine the recoverable value from the last recording of the loss from depreciation. This loss can be resumed only if it does not lead to an accounting value higher than the one determined if there had not been any depreciation in the previous years. Both after the recording and after the resumption of a loss from depreciation, the amortization of the asset must be adjusted in the future financial years (thought the remaining useful lifespan, the review accounting value of the asset will be distributed, less its residual value, if any). The amortizable value must be recalculated to determine the future amortization, irrespective of the method used to record the depreciation in the accounting.

International accounting rules state that it is not necessary to determine both the just value of an asset (less the cost generated by the sale) and the use value, indicating that, any of these values exceeds the accounting value of the asset, the asset is not depreciated. The calculation of the value, less the costs generated by the sale<sup>7</sup> is possible even if the asset considered is not sold on an active market<sup>8</sup>. The estimation of the use value of an asset represents: estimation of future cash incoming or outgoing arising from the continuous use of the asset and from its assignment; the enforcement of the update share proper for these future treasury flows.

The update rate must be the rate before taxation, which indicates the evaluations of the current market of the value – time of money and risks specific to the asset.

At the end of the financial year, a company which recorded in the previous years a loss from depreciation for an asset or a unit generating cash flows<sup>9</sup> must evaluate if there a new clues to cancel the loss from depreciation or to decrease it. If there is such information, the company must re-evaluate the recoverable value of the asset or of the unit generating cash flows and to resume or decrease the loss from depreciation.

In **France**, the observation of a depreciation results into recording a deductible expense from the accounting result as taxable result. Further readjustments, namely the

---

<sup>7</sup> *The just value minus the sale (assignment) costs* represents the value to be obtained following the sale of an asset or of an unit generating cash flow, in a transaction completed under objective conditions, between interested and informed parties, less the assignment costs. The assignment costs are costs for the change of level of activity, costs directly related to the assignment of an asset or of a unit generating cash flow, save for the financing costs and the profit tax costs.

<sup>8</sup> According to IFRS, an *active market* is a market which cumulatively meets the following three conditions: the elements transacted on the market are homogenous; normally, sellers and buyers can be found at any moment; the prices are accessible to the public.

<sup>9</sup> *The unit generating cash flows* is the smallest identifiable group of assets whose continuous use generates cash flows, independently of the incoming cash flows generated by other assets or groups of assets.

increase of the value, lead to the recording of some income in accounting. No extra-accounting corrections are made.

## 5. CONCLUSIONS

The result can be only a relative one. Given the current environment of regulations, where there are several options to record the same transaction, therefore it cannot be said that there is an objective result, but rather a subjective one. The subjectivity arises from the selection of a norm or option which involves the elimination of another norm or option. This game of selection impacts the financial statements and, implicitly, the accounting result.

The presence of options in accounting gives raise to the issue of criterion to decide on such accounting policy. Starting from the limits of the accounting principles, the producers of information call on different ways to shape, up to deformation, the final result.

The recording of depreciations or further adjustments in accounting explains at least partially the economic crisis started in 2008. Certain assets considered "toxic products" listed in the balance sheets of certain banks or insurance companies justified massive depreciations which led to negative results on the conclusion of the financial year of 2008.

## REFERENCES:

- [1]. **Burlaud, A.; Colasse, B.** (2010) *Standardizarea contabilă internațională: reîntoarcerea politicului?* (II), Audit financiar, Anul VIII, nr. 2, Chamber of Financial Auditors from Romania
- [2]. **Cozian, M.; Deboissy, F.** (2009) *Précis de fiscalité des entreprises 2009-2010*, 33e édition, Litec, Paris
- [3]. **Gruiescu, M.; Ioanăș, C.; Popa, A.F.** (2010) *Models that evaluate the value of the financial instruments. Recognition and measurement under international rules*, publicat în Romanian Economic and Business Review, summer, 5(1), Editura Pro Universitaria, Bucharest, pp. 106-113, www.rebe.rau.ro
- [4]. **Mateș, D.; Grozi, D.; Grosu, V.** (2009) *Reguli specifice privind reluarea unei pierderi din depreciere*, Revista Contabilitatea, Expertiza și Auditul afacerilor, nr.2, February, CECCAR Publishing House, Bucharest
- [5]. **Mateș, D.; Grozi, D.** (2008) *Surse de informații pentru reluarea pierderii din depreciere a unei imobilizări corporale*, Revista Contabilitatea, Expertiza și Auditul afacerilor, nr.11, November, CECCAR Publishing House, Bucharest
- [6]. **Popescu, L.** (2008) *Amortizarea fiscală în România postaderare*, Revista Contabilitatea, Expertiza și Auditul afacerilor, no.11, November, CECCAR Publishing House, Bucharest
- [7]. **Teodorescu, M.; Badea, L.** (2007) *Finanțele întreprinderii*, Editura Cartea Studențească, Bucharest
- [8]. **CECCAR** (2011) *International Financing Reporting Standards (IFRS)*, CECCAR Publishing House, Bucharest
- [9]. **CECCAR** (2009) CECCAR Publishing House, Bucharest

## **THE PLACE OF ENTREPRISE ECONOMY WITHIN ECONOMIC SCIENCES**

**CLAUDIA ISAC, CODRUȚA DURA \***

**ABSTRACT:** *In this paper I have tried to present the place and importance of the discipline of Enterprise Economy among economic disciplines. Thus, in the first part we have showed the opinions of various authors from Romania on the interference of this discipline in the economic field with great implications through the 5 functions of the company to be presented. The second part of the thesis highlights the enterprise within modern economy and thus all the effects that increasingly complex and dynamic economic processes have upon the functions of the enterprise, the effective management of activities within the major functions of the enterprise: production, commercial, financial-accounting and human resources. Far from being just an analytic approach, this paper reveals the fact that the economy of enterprise is a theoretical and practical discipline with the aim of synthesizing basic knowledge of economic processes that take place at the microeconomic level.*

**KEY WORDS:** *enterprise economy, economic sciences, economy, company.*

**JEL CLASSIFICATION:** *E00, E60.*

### **1. INTRODUCTION**

Components of the "*national economy*" macro-system, modern enterprises no longer operate in a segregate manner. The economic environment in which they operate is becoming more dynamic, but the primary factor which boosts concentration and specialization processes at the level of enterprises can be considered the contemporary scientific and technical progress, which feeds permanently the tendency for restructuring the forms of organization of businesses. Economic activity - the functioning engine of the national economy system - is carried out within companies that become, in this way, users of resources, generators of wealth and decision-making centres. The spectacular development over the past decades of small and medium size enterprises, a characteristic feature of the current stage of evolution of modern

---

\* *Assoc.Prof., Ph.D., University of Petrosani, Romania, [isacclaudia@gmail.com](mailto:isacclaudia@gmail.com)  
Assoc.Prof., Ph.D., University of Petrosani, Romania, [codrutadura@yahoo.com](mailto:codrutadura@yahoo.com)*

economies, was determined by significant widening of the range of activities in this category of businesses, by their penetration of high technological industries, but especially by taking over, substantially and progressively, specific mechanisms of managerial acts conducted in large enterprises.

## 2. THE RELATION ENTERPRISE - ECONOMY

Clarifying the concept of enterprise represents the content of debates that accompanied the process of formation and consolidation of the modern economy. The enterprise (the company) is a system which, through the use of production factors, turns out goods, works or services for sale-purchase, intended to meet the needs of consumers and to intercede the obtaining of profit. Therefore, the ultimate goal of any activity of an enterprise is - in a market economy - profit maximization. Currently, the contemporary economy is dominated by the existence of a great variety of companies (each with different roles, sizes and features), the coexistence of which gives diversity to the system of each national economy and makes it possible to use available resources and to develop private initiatives.

Thus, worldwide, there are enterprises specific to pre-capitalist production modes and organizations of the future (digital ventures), at the same time; companies that do not have employees (using different legal and organizational arrangements for contracting and using labour power) and enterprises with hundreds of thousands of employees; companies which use the entrepreneur's address as its registered office and enterprises with dozens of subsidiaries in major cities of the world; companies that use rudimentary technology and business organizations in which advanced production systems make the human factor a supervisor of manufacturing processes etc. (Kerbalek, 2000).

Nowadays, more and more specialists from all fields of activity seek to complete the mechanisms that control the operation of modern enterprises on the coordinates of a more dynamic and unpredictable environment. In fact, a simple overview of the transformations in the economy and society in recent years entitles us to consider that the saying "*change is the only constant*" has proven its validity within the contemporary economic life. The implications of these transformations, in most cases, extremely complex, directly affect the setting up and the functioning of the nucleus of any economic system - the enterprise. The enterprise represents the functional economic entity in which production factors are turned into goods and services and then they are retailed on the market, with a certain profit.

In the real economic world, things are not so simple, as this approach would suggest, on the one hand due to the fact that the interests of modern enterprises can no longer be limited to ensure its simple financing in a discontinuous and changing environment, and on the other hand as a result of the intensified competition amidst rising trends of globalization and economic integration. Under these circumstances, enterprises are forced to gradually acquire a new conduct that involves responsiveness to the requirements of the society, high capacity to adapt to the demands and requirements of the market, innovative spirit, competitiveness, flexibility in the functioning mechanism, maximum efficiency. In conclusion, the relation enterprise –

national economy reveals the fact that the company must be considered, first of all, a basic component of the national economy, regardless of its size or field of activity.

### 3. CONCEPTS REGARDING THE ECONOMY OF ENTERPRISE

Before making a comparative analysis of the conceptual models regarding the economy of enterprise it is necessary to place this discipline within the complex and dynamic framework of economic sciences. The diversity of companies on the market and the multitude of fields in which they operate, make their activity be studied by many disciplines, one of the most important being the Enterprise Economy. As revealed in the study of the Romanian specialized literature, it must be regarded as an interdisciplinary science placed between the disciplines devoted to economics and related subject areas, such as management, accounting, finance, etc.

Thus, in a broad sense, the enterprise economy is defined as the discipline that integrates organically the knowledge of political economy, management, marketing, accounting, finance, human resources, costs, as well as law, psychology and sociology and presents the enterprise under the aspects of its objectives, its structure, of the means at its disposal and of their effective use, of its complex functioning (Vărzaru, 2012). A definition in a narrow sense, of the enterprise economy starts from its object of study, from the study of micro-economy, understood through the behaviour of economic agents in a particular institutional framework that facilitates connections between them in the national economy ([www.economiaintreprinderii.ro](http://www.economiaintreprinderii.ro)).

Starting from these definitions, one can notice that between the enterprise economy as a science that developed in Western Europe and the science of management implemented in North America, there is an increasingly sharp closeness going all the way to the conceptual identity.

Professor Kerbalek states that the economy of enterprise as a science has a triple specialization: an economic theory which studies the enterprise, the phenomena, the processes and the specific relations; enterprise policy aimed at reaching the objectives due to certain principles and regulations; a set of instruments, procedures and techniques for planning, organizing and controlling activities.

Regardless of the opinion on the studied objectives of this discipline, it should be analyzed both **theoretically** and as a **practical discipline**. The theoretical approach uses specific methods, such as abstraction, induction and deduction, or modelling of economic processes while the practical characteristic is determined by the application of the fundamental principle of maximizing profits in economic units set up for this purpose, using economic calculation instruments for the implementation of theoretical statements. As Prof. Zaccaria Dean asserts, the task of enterprise economy is to describe and explain the phenomena and problems that occur within the enterprise, which are common to all companies, regardless of the economic branch, of the legal form of organization and of the form o/f ownership ([www.biblioteca-digitala.ase.ro/biblioteca/carte2.asp?id=147&idb=](http://www.biblioteca-digitala.ase.ro/biblioteca/carte2.asp?id=147&idb=)).

#### 4. CRITERIA & STRUCTURE

The base of enterprise economy studies the enterprise as a unitary system and the common aspects that are found in all types of businesses, regardless of size and whatever the field of activity.

**Tabel 1. Criteria & Structure**

		The Economic structure criterion							
		Industry	Com- merce	Banking	Insu- rance	Tourism	Agri- culture	Transpor- tation	
		Economic dimension criterion	Small, medium sized and large enterprises						
The functions of the enterprise	Economy of supply	Small, medium sized and large enterprises							
	Economy of outlet								
	Economy of production								
	Economy of employees								
	Economy of research								
	Economy of investments and financing								
	Planning								
	Accounting								
	Organizing								

Discipline is the foundation that supports the various divisions of the enterprise economy. These divisions shall be determined on the three distinct criteria that are, in most approaches, the key element for identifying the set of knowledge, concepts and methods characteristic to the discipline of Enterprise Economy:

- ***the economic size of the enterprise*** based on statistical clustering of enterprises according to the financial strength and specific dimensions in the current economic environment. This theory has allowed the authors to study, in the first part of the paper, the enterprise as a unitary system, and to highlight the common aspects and the specific aspects of its operation, whether we are talking about a small and medium-sized enterprise or a multinational company;
- ***the criterion of horizontal and vertical partitioning of national economy.*** Horizontally, the national economy is in terms of content, divided into four sectors, according to the type of activity carried out within companies, as follows: *the primary sector* companies which use natural factors, in particular; *the secondary sector* groups companies which use natural factors as well as the branches of manufacturing industry and constructions, where fixed assets are essential; *the third sector* also called the service provider sector covers the activities that meet the demands of the population and economic agents; *the quaternary sector* includes scientific research, technological development, design, etc. According to

the legislation in force, the structure of the CAEN sections includes: agriculture, forestry, mining and quarrying, manufacturing industry, electricity and heating, constructions, wholesale trade and retail trade, transportation and warehousing, financial activities, banking and insurance, public administration, education, health and social assistance, the activities of organizations and extraterritorial units;

- ***the functions of the company*** which were used to group specialized homogeneous activities within the enterprise, allowing the delimitation of concrete areas in which authority is exercised and managerial decisions are taken: the commercial function, production function, the function of human resources and the financial and accounting function. Each of the areas mentioned above constitutes a major component of the organizational subsystem of the enterprise, with a decisive impact on the effectiveness of the management.

Based on these considerations, the content of the paper tries to depict, as close to reality as possible, the place the modern enterprise, in its essence, has in relation to its internal and external environment starting from analyzing the issue of the theory of enterprises emphasizing the operating mechanism of the contemporary company.

In summary, the most relevant issues addressed in this paper are presented in a logical sequence, as follows:

- **Concepts, notions and classifications** that define **the enterprise and its characteristics**, describe the typology of enterprises, decipher the content and the components of the environment, present the most important categories of resources available to the enterprise and also some aspects dedicated to the association and rearrangement of enterprises, a phenomenon that has undergone an unprecedented development in the last period and gave rise to high performance economic entities and forms of business organizations;
- **Small and medium size enterprises** - a special category of organization, whose special contribution to the overall economic development can no longer be questioned nowadays. The analysis of the characteristics of SMEs and their implications in the management processes are complemented by the development of SMEs in Romania in the period 2010-2012. Statistics speak for themselves regarding the role of the SME sector in the Romanian economy in spite of the economic difficulties inherent during the phenomenon of the global economic crisis: SMEs contribute with 58.4% to the gross value added index and use more than 68% of the working manpower at the level of national economy. Under these circumstances the entrepreneurial spirit can be considered the key element for increasing the competitiveness of the Romanian economy.
- **Operation of companies** - the most common form of business organization - is the subject approached in the third chapter of this paper. It analyses comparatively, in terms of the most important features, advantages and disadvantages, the main types of companies which are set up by the legal regulations in force in our country – partnership companies, limited partnership ventures (simple and limited by shares), joint stock companies and limited liability companies.
- **Multinational companies**, acting as vectors of economic globalization processes that occur nowadays at global level, are subject to investigations carried out in chapter IV. Analysis of the most important trends within the specialized literature

is likely to highlight the main role that this type of economic entities play today on the stage of the world economy. Such a role derives from their gigantic dimensions, from the extent of the work carried out (which can exceed in some cases even the economic power of the national state), from the interdependence with the financial flows which encourage the globalization phenomenon. The presence of multinational companies within Eastern Europe is likely to exert both positive and negative effects on host states; however, based on the analyses carried out, we consider that the strong points clearly outmatch the weak points which may result from the establishment of the "Giants" in the region. For example, in Romania, multinational companies have represented the spearhead in the introduction and operation of the concept of social responsibility, as a form of concern of modern enterprises to resolve the social problems that occur in the field in which they operate, but also in the relations with the community and with its own employees. In this context, I considered useful to recap some examples of good practice carried out by socially responsible multinational companies which operate in Romania.

The effective management of the activities within the major functions of the enterprise: commercial, production, financial - accounting and human resources.

Within **the commercial function** there are three main activities - technical and material supply, marketing and sales; for each of them the specialized literature presents a series of selected methods and tools that are able to ensure an efficient progress of the activities mentioned previously. It refers to developing step-by-step the supply program and the methods for calculating the amount of material resources needed for the implementation of the production plan; designing policies for marketing-mix (product policy, price policy, promotion policy, distribution policy); distribution systems and forms of the sale of goods and services.

**The production function** – a vital segment of activity of any industrial enterprise – has as a rough guide the types of production, a prerequisite for choosing the most appropriate models for production management, connected to the characteristics of production processes that are carried out at the level of each organizational link. Thus, reviewing the types of production - mass production, batch production and piece production - is followed by the presentation of the methods of organizing base production: organizing assembly production, production lines (for mass production and large scale production) and the technological organization of production (for medium batch production, small lot production and piece production). However, the size of the output of an organizational subdivision is based on the calculation of production capacity, understood as the maximum output of a certain structure and quality a production unit can turn out in optimum technical and organizational conditions. Correct determination of this particularly important indicator for the management of production activities within industrial enterprises requires knowledge of the determinants of production capacity, of the general principles to be followed in order to perform proper calculations, of the general relation and of its particularities in relation to the characteristics of each production process (cyclic continuous and discontinuous processes, etc.).

At last, the description of modern systems and methods of industrial production management represents a subject so important – considering its actual characteristics and practical implications - that it holds a generous place in the economy of this chapter: the Just-in-Time system (eliminating inventory); the SMED method for reducing changeovers and startups; the method OPT (Optimized Production Technology) for balancing production flows and eliminating “bottlenecks” (capacity constraints).

**The financial – accounting function** of the enterprise is detailed in chapters seven, eight and nine, which present elements of financial analysis carried out on the basis of the balance sheet and of the outturn account, and the financial performance analysis based on the rates and financing sources of the enterprise. The financial equilibrium indicators can be explained based on the financial significance of the balance sheet and on its structure according to financial criteria: the revolving fund, the demand for revolving fund and net treasury. It also describes methods of assessment of financial situations based on the outturn account using the intermediate management balances and the breakeven analysis, the financial performance analysis using a system of rates, determined on the basis of the balance sheet and the profit and loss account, grouped into the following categories: structural rates; rates of financial equilibrium; inventory turnover and rates of return. Nowadays, enterprises must find new sources of financing in order to resume production cycles; therefore, specialists from the financial-accounting department are responsible for the decisions regarding short term and long term financing sources, and according to their origin there are the following categories: own resources (equity) and borrowed resources (borrowed capital).

**The human resources function** is important due to the fact that the amplification of the role of human resources in business organizations is a current trend, which marks the undeniable superiority of the human factor over the tangible resources of the enterprise. In accordance with those found in the specialized literature, the effective management of human resources involves a global approach, both interdisciplinary and related to the professional problems of the personnel working within an enterprise. From this perspective, this function should tackle classical human resources management subjects such as: recruitment; selection; employment; the training and further training of human resources; evaluation and promotion and it should emphasize the methodological support specific to each activity, highlighted by the presentation of a series of simple methods that help carry out with maximum efficiency every each activity regarding the personnel.

## 5. CONCLUSIONS

In investigating complex issues regarding the enterprise of the third Millennium, the systematic and interdisciplinary approach of its functionality starting from the underlying economic processes that are carried out within its framework, becomes an indispensable condition. Thus, the authors’ interest for such an approach is triggered by the multitude of situations faced by management teams during this period marked by multiple and complex challenges of the business environment. Thus, the economy of enterprise becomes a cultural discipline, in the sense that it allows rapid

insertion of a large amount of information from various sources (clients, media and legislation) in the coordinates of any entrepreneur, specialist, and employee by studying its basic notions. Far from being just an analytic approach, this paper reveals the fact that the economy of enterprise is a theoretical and practical discipline with the aim of synthesizing basic knowledge of economic processes that take place at the microeconomic level.

#### REFERENCES:

- [1]. **Bărbulescu, C.; Lefter, V.; Gavrilă, T.; ș.a.** (1995) *Economia și gestiunea întreprinderii*, Ed. Economică, București
- [2]. **Cârstea, Gh.; Pârvu, F.** (1999) *Economia și gestiunea întreprinderii*, Editura Economică, București
- [3]. **Constantinescu, D.; Nistorescu, T.; Meghișan, Gh.** (2002) *Economia întreprinderii*, Ed. Economică, București
- [4]. **Constantinescu, D.; Nistorescu, T.** (2008) *Economia întreprinderii*, Editura Universitaria, Craiova
- [5]. **Cornescu, V.** (1994) *Management. Teorie și practică*, Editura Actami, București
- [6]. **Crăciun, L.; Ogarcă, G.; Barbu, M.C.** (2003) *Economia întreprinderii. Aplicații și studii de caz*, Tipografia Universității din Craiova
- [7]. **Deaconu, A.** (1998) *Economia întreprinderii*, Editura Didactică și Pedagogică, București
- [8]. **Dura, C.; Isac, C.** (2007) *Economia întreprinderii*, Editura Universitas, Petroșani
- [9]. **Jaba, O.; Niță, V.** (2003) *Economia și gestiunea întreprinderii*, Vol. I, Editura Universității "Al. I. Cuza", Iași
- [10]. **Kerbalek, I.** (coord.) (2000) *Economia întreprinderii*, Editura Forum Consulting Partners, București
- [11]. **Kerbalek, I.** (coord.) (2004) *Economia întreprinderii*, Editura Gruber, București
- [12]. **Vărzaru, M.** (2012) *Economia întreprinderii. Noțiuni fundamentale*, Ed. Universitaria, Craiova
- [13]. [www.economiaintreprinderii.ro](http://www.economiaintreprinderii.ro), [Accessed 10 May 2013]
- [14]. <http://www.universitatea-cantemir.ro/CursuriRei/documente/curs1EC.pdf>, [Accessed 11 May 2013]
- [15]. <http://www.biblioteca-digitala.ase.ro/biblioteca/carte2.asp?id=147&idb=>, [Accessed 11 May 2013]

### **Index of Authors**

#### **A**

Andrioni, F. (5, 181)

#### **B**

Baron, M. (13)

Brezeanu, P. (23)

#### **C**

Celea, S. (23)

Cucu, C. (31)

Cucu, I. (37)

#### **D**

Dobre-Baron, O. (13)

Drigă, I. (41, 51)

Dura, C. (41, 51, 133, 281)

#### **G**

Ghuman, R.S. (61)

Guță, A. (85, 93)

#### **I**

Iacob, S.V. (99)

Isac, A. (109)

Isac, C. (117, 125, 133, 281)

#### **M**

Monea, M. (141, 149, 191, 203)

Munteanu, R. (157)

#### **P**

Păun, A.P. (23)

Pleșa, R. (165, 173)

Popp, L.E. (5, 181)

Preda, A. (191, 203)

#### **R**

Răvaș, B. (213)

Răvaș, O.C. (221, 231)

#### **S**

Singh, I. (61)

Steleșcu, I. (243, 251)

#### **T**

Ținta, A.E. (259)

#### **Z**

Zuca, M.R. (271)

*The authors are entirely responsible for the content of their articles.  
The publication of the papers in the Annals of the University of Petroșani - Economics is  
the result of a peer review evaluation process.  
The papers were reviewed by the members of the Advisory Board.*