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## **THE USE OF TARGET-COST AND TARGET-PRICE BY THE COMPANY'S MANAGEMENT**

**MARIANA MAN, ALINA FLEȘER \***

**ABSTRACT:** *Within the companies that adopt the target-costing method (T.C.) products' prices are determined by market prices and not by totalizing afferent costs. The marketing department of the company determines the target-sale price. The target-cost may be considered an estimated production cost calculated according to an estimated sale price. Nevertheless the T.C. method does not exclude the calculation and survey of costs during the production process. Products' estimated costs are calculated and compared with the target-costs.*

**KEY WORDS:** *Target-Costing method, target-costs, target-prices, target-margin, estimated costs, estimated financial result, estimated result*

### **1. OVERALL VIEW**

Target-Costing (T.C.) method is a method of costs calculation used since the beginning of the 70' by Japanese companies.

The basic principles of the T.C. method are the following ones: the calculation and analysis of costs done per product; the calculation and analysis of costs used during the whole life cycle of the product; the maintaining of the product on the market determined by its price and the customers' satisfaction level.

Within the companies that adopt T.C. method products' costs are determined by market prices and not by totalizing afferent costs. The marketing department of the company determines the target-sale price. The settling of this price is done before planning and beginning to manufacture the new product. The level of the target-sale price should allow the company to enter the desired market segment and to obtain the desired financial result. When one subtracts from the target-sale price the "target-profit margin" desired by the company then the maximum "target-cost" admitted for the product is determined.

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The general calculation formula is the following one:

$$\text{Target-Cost} = \text{Target-Sale Price} - \text{Target-Margin} \quad (1)$$

Target-cost may be considered an estimated production cost calculated according to an estimated sale price. It is determined during the period of conceiving the product, a fact that makes it different from standard-cost which is determined after conceiving the product when its specific elements have already been drawn out.

Nevertheless T.C. method does not exclude the calculation and survey of costs during the production process. Products' estimated costs are calculated and compared with the target-costs. In case estimated costs are higher than target-costs the technical and economic specialists are going to focus upon the modification of certain characteristics of the product with a view of diminishing manufacturing costs; they will have to look for methods of improving production efficiency so that target-cost might be reached within a short term.

Although the estimated cost of a product may overpass target-cost, target-cost is going to be the basic element in adopting decisions regarding the product's production and sale. The managers of the production department have as a main goal the observation of target-costs. Consequently, target-costs imply a backward display of the analysis, from a competitive target-sale price towards a target-cost at a specified level of demand that further becomes a goal to be attained.

## 2. CALCULATION OF A "TARGET-COST"

We further exhibit two examples of calculating target-cost.

The *first example* displays a simplified method that reduces to globally determining "target-cost" for a certain product without taking into consideration its life cycle:

An industrial company, member of a group of companies, has a 3 000 lei production cost for a product "P". The upper management of the group of companies wants to find out what the maximum production cost they can stand is in the case of the above mentioned product under the circumstances of manufacturing 4 000 pieces/year. Out of the market research drawn out by the marketing department one concludes that the average sale price they should practice in order to occupy the desired market segment is 3 500 lei.

According to the goals and policy of upper management, the company should achieve a net profit margin of at least 20% of the total cost of the product. At the same time, the company should face sale costs representing about %% of the sale price; also the general administration costs charged upon the product will represent 100 000 lei/year.

Solution:

$$\text{Target-Cost} = \text{sale price} - \text{margin} \quad (2)$$

1. Production cost = "C"
  2. General administration costs =  $100\,000 : 4000 = 25$
  3. Sale costs =  $3500 \times 5\% = 175$
- 
- ⇒ Total cost =  $"C" + 25 + 175 = "C" + 200$
4. Profit margin =  $( "C" + 200 ) \times 20\% = 0.2 \times "C" + 40$
- 
- ⇒ Target cost:  
 $"C" + 200 = 3500 - (0.2 \times "C" + 40)$   
 ⇒ "C" = 2716.66 lei

Target cost is 2716.66 lei and is placed under the level of estimated cost which is 3 000 lei, the difference representing 283.34 lei. The company's management should find out solutions able to diminish estimated cost.

Cost diminishing that should be considered is to be regarded not only as a whole but according to each phase, beginning with conception phase to the sale phase.

A simplified determination of the "target-cost" is required by the companies' management; yet, such an approach is far from enough. The calculation of target-cost should be done during each phase of the life cycle and should be completed with: the calculation of estimated costs of the product during each phase of its life cycle; the comparison and interpretation of the results; the calculation of total estimated results for each phase of the life cycle.

With these in view, and in order to give certain examples, let's presume that an industrial company wants to manufacture and launch on the market a new product. Researches show that the product's life cycle will last 5 years and have three phases: P1 (one year), P2 (two years), and P3 (two years).

*a). Determination of product's "target-cost" during each phase (P1, P2, P3) of its life cycle:*

The market research done by the marketing department shows that the target-sale price is 170 lei/Kg in order to enter the desired market segment. They estimate that after one year, due to the entering of similar products to the market, sale price is going to diminish with 2% in phase P2 and 5% in phase P3 as compared with phase P1. The company's management wants to get a net profit margin upon sale price of 5% during phase P1, 10% during phase P2, and 10% during phase P3. The calculation of the target-cost is displayed in table 1.

**Table 1. The calculation of the target-cost**

No.	Specification	P1	P2	P3
1.	Target-sale price (lei/kg)	170	170-(170 x 2%) = 166.6	170-(170 x 5%) = 161.5
2.	Target-margin (lei/kg)	170 x 5% = 8,5	166.6 x 10% = 16.66	161.5 x 10% = 16.15
3.	Target-cost (1-2)	161.5	149.94	145.35

*b). Determination of the “estimated cost” (envisaged) of the product during each phase of its life cycle:*

The estimated costs during the first phase of the product’s life cycle are the following ones:

- Direct costs (unitary):
  - Raw materials and materials:
    - x : 0.5 Kg. ....10 lei/Kg;
    - y : 1 Kg. ....5 lei/Kg;
    - z : 1.5 Kg. ....20 lei/Kg;
  - Labor:
    - Salaries: 25 lei/Kg;
    - Contribution to social insurances and social protection afferent to direct salaries: 10 lei/Kg;
  - Other direct costs:
    - Electricity: 5 lei/Kg;
    - Technological fuel: 4 lei/Kg;
- Indirect costs (total):
  - Indirect production costs : 1 625 000 lei;
  - General administration costs: 1 000 000 lei;
  - Sale costs: 0 lei.

The cost of raw materials and materials is estimated to diminish with 1% during P2 and 2% during P3 as compared with P1 due to the long term contracts concluded with suppliers.

Labor costs are going to rise with 3% during P2 and 5% during P3 as compared with P1 due to the increase of the minimum salary. Electricity and technological fuel costs will grow with 1% during P2 and 3% during P3 as compared with P1 due to the policy of periodical increase of utilities’ prices.

Indirect costs will drop with 10% during P3 as compared with P1 as a result of re-structuring certain functional departments of the company within the next 4-5 years.

The maximum available production capacity is of 50 000 Kg; of it 65% during P1, 75% during P2, and 100% during P3 are going to be used.

The calculation of estimated unitary cost is displayed in table 2.

*c). Comparing the level of target-cost with the level of estimated cost and interpreting the results (table 3.).*

Calculations show that target-cost is the result of two conditions: the first one is the price imposed on the company by the market, and the second one regards the level of compulsory profit margin. During phases P1 and P2 estimated cost is higher than target-cost. Accordingly, during phase P1, the difference between estimated cost (164.76 lei/piece) and target-cost (161.5 lei/piece) represents 2%, and during phase P2 it grows to 3.2%. As estimated costs of the new product overpass target-costs, designers should focus upon changing the product’s design in order to reduce production cost. At the same time, production engineers should find out methods capable of improving production efficiency so that target-cost might be reached after



about 2-3 years. During the third phase (P3) estimated cost is reached and even overpassed by target-cost with 12.88 lei/piece. During this phase estimated result will also witness its highest level (+1 451 500 lei) as compared with the previous phases.

*d). Determining total estimated cost, financial result, and estimated final result (table 4.).*

**Table 2. The calculation of estimated unitary cost**

No.	Specification	P1	P2	P3
1.	Estimated production (Kg.)	50 000 x 65% = <b>32 500</b>	50 000 x 75% = <b>37 500</b>	50 000 x 100% = <b>50 000</b>
2.	Estimated direct costs: (lei/Kg.)	<b>84</b>	<b>84.74</b>	<b>85.22</b>
	Of which:			
	- Raw materials and materials:	<b>40</b>	<b>39.6</b>	<b>39.2</b>
	- x :	0.5 x 10 = 5	5 - (5 x 1%) = 4.95	5 - (5 x 2%) = 4.9
	- y :	1 x 5 = 5	5 - (5 x 1%) = 4.95	5 - (5 x 2%) = 4.9
	- z :	1.5 x 20 = 30	30 - (30 x 1%) = 29.7	30 - (30 x 2%) = 29.4
	- Labor:	<b>35</b>	<b>36.05</b>	<b>36.75</b>
	- Salaries:	25	25 + (25 x 3%) = 25.75	25 + (25 x 5%) = 26.25
	- Contributions:	10	10 + (10 x 3%) = 10.3	10 + (10 x 5%) = 10.5
	- Other direct costs:	<b>9</b>	<b>9.09</b>	<b>9.27</b>
	- Electricity:	5	5 + (5 x 1%) = 5.05	5 + (5 x 3%) = 5.15
	- Technological fuel:	4	4 + (4 x 1%) = 4.04	4 + (4 x 3%) = 4.12
3.	Estimated indirect costs: (lei/Kg.)	<b>80.76</b>	<b>70.09</b>	<b>47.25</b>
	Of which:			
	- Indirect production costs:	1 625 000 : 32 500 = 50	1 625 000 : 37 500 = 43.33	1 625 000 : 50 000 = 32.5 32.5 - (32.5 x 10%) = 29.25
	- General administration costs:	1 000 000 : 32 500 = 30.76	1 000 000 : 37 500 = 26.76	1 000 000 : 50 000 = 20 20 - (20 x 10%) = 18
4.	Estimated unitary cost (lei/Kg.)	<b>164.76</b>	<b>154.83</b>	<b>132.47</b>

**Table 3. Comparing the level of target-cost with the level of estimated cost and interpreting the results**

No.	Specification	P1	P2	P3
1.	Target-cost	161.5	149.94	145.35
2.	Estimated cost	164.76	154.83	132.47
3.	Deviation (2-1)	+3.26	+4.89	-12.88

**Table 4. Determining total estimated cost, financial result and estimated final result**

No.	Specification	P1	P2	P3
1.	Estimated financial result (lei)	32 500 x 170 = <b>5 525 000</b>	37 500 x 166.6 = <b>6 247 500</b>	50 000 x 161.5 = <b>8 075 000</b>
2.	Estimated total cost (lei)	32 500 x 164.76 = <b>5 354 700</b>	37 500 x 154.83 = <b>5 806 125</b>	50 000 x 132.47 = <b>6 623 500</b>
3.	Estimated result (lei) (1-2)	<b>170 300</b>	<b>441 375</b>	<b>1 451 500</b>

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## **GLOBALIZATION-QUALITY: INSEPARABLE BINOMIAL IN THE LANDSCAPE OF THE RURAL TOURISTIC DESTINATIONS**

**MIRELA MAZILU \***

**ABSTRACT:** *Globalization, the proliferation of new destination, the new technologies has changed the competitive environment of the European countries. Nowadays, the most powerful instrument in the touristic promotion is represented by the image of a country or region or a touristic product. If we concentrate upon the international dimension, the strategies of image construction or touristic promotion are: the creation of new touristic images, the re-positioning of a traditional touristic destination, the creation of an awareness degree within a competitive framework, the creation process of the brand (the brand which covers the national/regional level).*

**KEY WORDS:** *rural tourism, reception, mutual discovery, animation*

In the contemporary society, in the conditions of more and more stressful activities, of the increase of the urbanization degree, the attention was focused onto another way of spending the spare time, generating a form of tourism which combines harmoniously the natural resources (geographical position, relief, hydrography, landscape, cynegetic and piscicultural fund, viticultural and fruit-growing fund) with the social ones (cultural-historical objectives, monuments, museums, hospitality, language, mentality, customs and traditions, ethnography and folklore, art and culture etc.), which are carried in the rural environment, known under the name of “*rural tourism*”.

The rural tourism is characterized by many determinant factors: the quality of the natural landscape and many touristic objectives of religious nature with the addition of the quality of air and waters. A key element is people’s hospitality, this characteristic defining the Romanian peasant. It is in the nature of the Romanian peasant to be hospitable with everyone crossing his threshold.

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There are a lot of factors which determine the quality of the rural touristic performance and therefore, the definition of the notion of quality has a very relative character. Thus, quality should satisfy only some persons at one time, under the conditions of a fair price, and on the other hand, quality is a philosophical, subjective notion, existing first of all in our mind, but at the same time, it is a notion continuously evolving, whose equilibrium is conferred by the harmony of the components of the product required by a well-defined clientele. The assertion and maintenance of a branded image of the rural touristic performance require the existence of an optimum relation between the character of the offer, the quality of services and the perceived price.

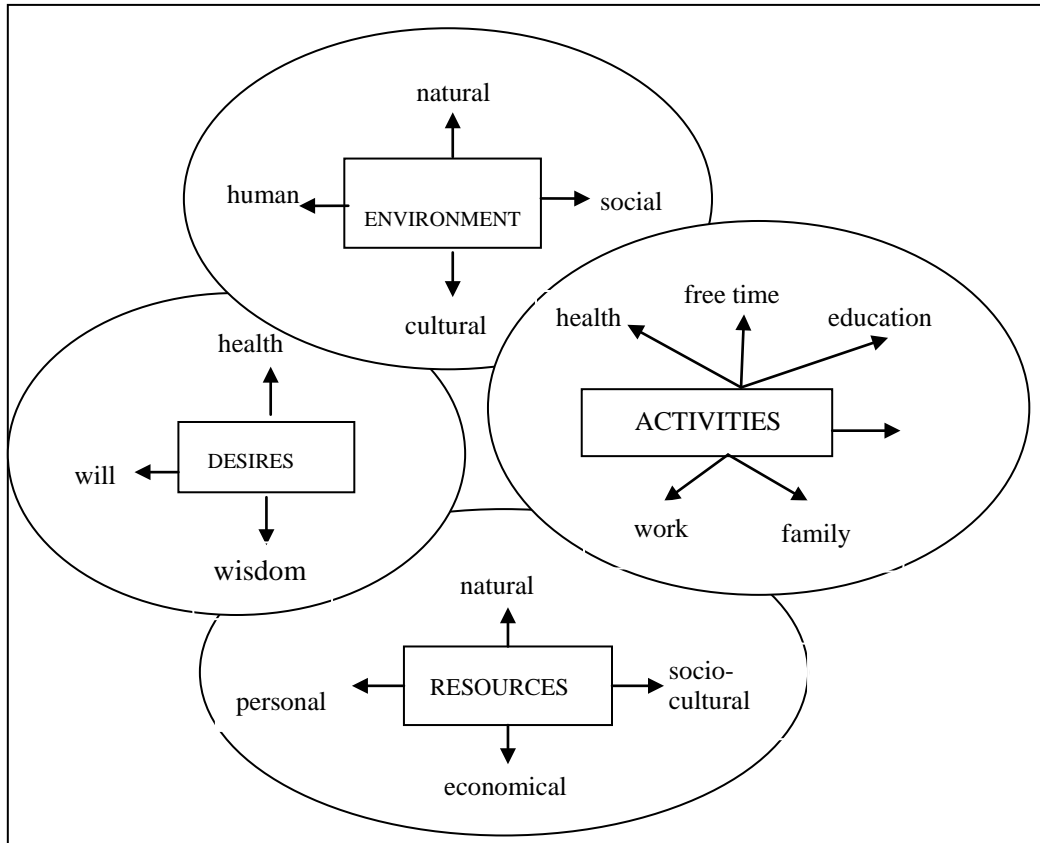
The concepts of quality of life and economic growth include component elements which influence each other. Thus, to ensure the quality of life at a level as higher as possible implies a corresponding economic growth and development. The process of development, of the effects produced by it and implicitly, of the economic growth lead to an increase of the incomes of the population, of the consumption of goods and services, providing thus the meeting of the demand at high quotas, the rise of the culture and civilisation level, the increase of the protection and security measure, and therefore, the quality of life.

The interdependence relation between the two phenomena is not absolute as not every economic growth leads implicitly to the rise of the life quality and vice versa. An economic growth does not always mean a human increase, as certain economic activities do not have a direct and immediate impact upon the quality of life. Also, only within a certain socio-cultural context, the quality of life influences positively the economic growth. Seen as a mechanism of the progress of any society, the quality of life seems to be as a system whose components aim at two directions of action: from the part to the whole and from the whole to the part, implying a responsibility of everyone, both as an individual and as a member of the society.

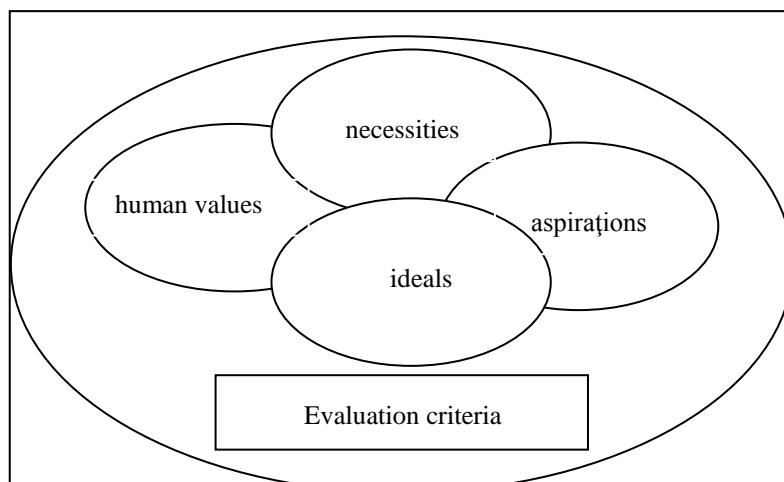
The objective character of the quality of life is based on its component activities and conditions: the quality of the environment; the quality of the habitat; the quality of labour; the quality of the family life; the quality of the spare time; the quality of education; the quality of health; the quality of participating in the social life; the quality of the economic and social services; the quality of the social environment. The life quality from the structural point of view is described in Figure 1.

The appreciation of the life quality may also be subjective as the aspiration of each individual is placed at a certain level of needs and aspirations. The indicators of the evaluation criteria are established starting from the interpenetration of the following elements (figure 2).

In the determination of the quality of the rural touristic product, beside the components belonging to the natural and anthropic, the accommodation and promotion system, a major part is played by: 1. reception, mutual discovery, animation; 2. quality of equipments.



**Figure 1.** The structure of the life quality



**Figure 2.** Basic elements for the indicators of the evaluation criteria

### **1. The reception, mutual discovery, animation**

The traditional reception of high quality is an indispensable characteristic of the rural tourism and at the same time represents the main trump of this form of tourism. The reception in the rural environment is mostly authentic and anchored in a cultural environment. The tourist has to perceive the warmth and personality of a certain tradition, irrespective if at the host in the village or in the village.

As the tourist is, by definition, a guest passing by, the provision of a reception in accordance with his expectations has an important significance. The first form of reception is *the supply of the necessary information to the tourist*. The information constitutes a means of communication which favours the maintenance of a local identity and it is indispensable within any project of development of the touristic activity. The purpose is that the tourist to be supplied with as many information as possible within the shortest time with regard to the centre of the village and its attractions, possibilities of accommodation, services, touristic signs etc. the information may be transmitted by documentary, advertising materials and may be distributed in most of the public places (hotel, restaurant, shops).

The quality of the reception also depends on the quality of the landscape, more precisely, on the existence of the green areas accessible to the public, alleys which facilitate the visiting of the sites or the access to the areas around. The cleanliness and maintenance of the lodgings and public institutions create an adequate ambience. All these elements show attention and hospitality paid to and offered to the tourists, aspects which matter a lot to them.

The reception of the tourists may be approached from two points of view:

- a. reception at distance;
- b. reception on the spot.

**a. The reception at a distance** is based on the idea of anticipating all the difficulties which the tourist could cope with in order to accede to the chosen destination, maintaining however an agreeable state of mind. The potential client should be informed in an affable manner through a concise message, on the name of the owner, address, type of accommodation and conditions of comfort, facilities and other details. It is ideal that the one making the offer have sample letters of introduction and acknowledgement for various variants of answers: neuter, affirmative, negative, official, which may be filled out operatively with the various variables regarding the necessary conditions, cost and modalities of payment etc.

A suitable accommodation usually begins through an agreeable and exact answer. We must keep in mind that it is unpleasant a telephonic contact with a person who does not know the arrival, vacillating or leaves you with the impression of being disturbed. For certain touristic products, the telephonic contact is of primordial importance, as sales depend frequently on its quality. It is preferable to use a recorded competent message, which should contain all the elements of major interest to prevent the answer of some incompetent persons. The reception at distance may be facilitated through an adequate signposting of the destination, through road signs. Also, the

neighbours or the traders around may be informed upon the arrival of guests, and thus, they will be reached more easily.

**b. The reception on the spot** is the proper reception. The first contact of the tourist with the place chosen for the spending of the vacation is with the fronting of the building and its surroundings. A potential or expected client will appreciate positively when he/she is welcomed by the host. The host should be dressed as neater as possible and to address to the guest polite and warm introductory formulae. The quality of the reception may be significantly ameliorated by making some small presents or services, such as providing the minimum things for sewing, the local newspaper, a few fruit or other small things that do not cost a lot but have the role of seducing the tourist.

The host should be close to the clients, and this does not necessarily imply his physical presence as at a certain point it may become boring or even uncomfortable. It is recommended that the host listen more than talk, to assert things not excessively categorical, which may become unpleasant and to infer any wish or inconvenient shown by the guests' behaviour.

For a successful reception and touristic service, a special attention should be paid to fronting of the house and its immediate surroundings in order to create an impression of authenticity and harmony. A useful rule to observe is that of preserving the original elements of the land: trees, slopes, traditional wells and generally, everything which is traditional. Another condition for a reception of quality is connected to the nature and variety of possibilities of fun and recreation which can be provided by the community and the host itself. The village fetes, popular festivals, balls may represent alternatives for recreation and fun for the most varied tastes. Extremely important is the quality of landscapes as the tourists want to see a beautiful, clean and accessible nature.

The quality of reception is in general essential in any touristic service, but in the rural environment, it should turn to good account all the possibilities of interpersonal communication and to personalize contacts in all the forms of the touristic offer. The reception also implies the invitation of the tourist to participate in the life of the community, and this represents an effort of understating each other, of hospitality and cordiality.

**2. The quality of the equipments** represents the basis of the rural touristic performance and the exigency with regard to the quality of the equipments grows regularly and their moral wearing becomes inevitable over the time.

Most of the tourists wish that in their vacation, they may benefit from a comfort level equivalent or even superior to that of their homes. This aspiration aims especially at the rooms and bathrooms. Their level of cleanliness and hygiene is decisive and it is preferable to be provided according to certain standards.

Generally, for the quality of the reception there are some qualitative criteria such as the ambience, the charm, the cosy appearance of the rooms and so on.

A simple, authentic, coherent lodging rented against a fair price may totally satisfy a certain type of clientele and may become profitable. An accommodation of quality in the rural environment usually requires traditional furniture in accordance

with the harmony with the architecture of the house. The wood should be preferred to modern materials.

For the owners of touristic and agro-touristic pensions, a qualitative system well trained and certified according to the requirements of the standards in force represents a real chance of surviving in the conditions of our slow transition to the market economy.

The application of the quality management allows the owner of the touristic pension to provide products which:

- meet a necessity or correspond to a well defined objective; meet the client's expectations;
- correspond to the applicable standards and specifications; correspond to the requirements of the society (regulations, rules etc.);
- take into account the necessity of protecting the environment;
- are provided against competitive prices;
- are obtained in conditions of profit.

The raise of the quality of products and services allows the entrepreneur in the rural tourism to obtain a profit adequate to the process of the sustainable development.

**Rural tourism** is placed on an intermediary level between the health condition of the individual and the influence factors. This level allows a two-way action, and thus it plays a major part in the structure of the life quality and implicitly, of the economic growth.

The quality raise of the reception in the rural tourism can be obtained only through a sustained, continuous and simultaneous improvement of the quality of all the spheres with which it interpenetrates: individual's health condition, the condition of the environment, labour, family life, family time, participation in the social life etc.

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## **ANALYSIS OF THE IMPACT OF SOME ECONOMIC POLICIES ON MACROECONOMIC VARIABLES USING A GENERAL EQUILIBRIUM MODEL**

**IOANA TEODORA MEȘTER \***

**ABSTRACT:** *The term “business cycle” refers to joint time-series behavior of a wide range of economic variables such as prices, output, employment, consumption and investment. The objective of this article is to study the effect of the terms of trade in a small open economy general stochastic equilibrium model. For the beginning, I examine the role of world prices in inducing business cycle fluctuations using a dynamic stochastic small open economy model.*

**KEY WORDS:** *business cycle, general equilibrium model, impulse response function*

### **1. THE MODEL**

The model embodies the main characteristics of small open developing economies. In particular, the model provides an environment in which the dynamic interactions between world price shocks and business fluctuations in traded and non-traded goods sectors, and several factors of production including imported capital goods sectors, imported intermediate inputs, non-tradable and inelastically supplied capital (land), and labor can be studied. I also examine impulse responses to investigate the propagation of economic fluctuations generated by world price shocks and domestic productivity shocks.

We consider a variant of the specific factors model with two sectors: production of exportable primary goods features diminishing returns as these goods are produced with imported capital, domestic labor and inelastically supplied land. The non-traded final goods sector employs capital, imported intermediate inputs, and domestic labor. This production structure, while capturing the important role played by land in production process, limits the substitution effects across different types of factors, and reduces the volatility of primary sector output. This decreases the volatility of aggregate output, and helps the model to generate realistic volatility properties.

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The optimization problem is solved using the log-linear approximation method of King, Plosser and Rebelo, which is widely used in solving open economy business cycle models. In particular We will study the situation of Romania, using econometric analysis, in order to determine the estimation of these parameters. Finally, I will simulate the impact of the terms of trade and their modification, in the perspective of Romania's integration, on the level of welfare, consumption, investment, and other key macroeconomic aggregates.

Developing countries are in general small open economies that take world prices as given. The special features that make these countries vulnerable to world price shocks are related to their production and international trade structure. The empirical evidence about these special structural characteristics motivate the central features of the model.

The model economy is inhabited by a large number of infinitely lived, identical households who do not have any control over world prices. These households produce primary goods and non-traded goods, export primary goods, and import intermediate inputs and capital goods. Capital is sector specific and labor input is mobile across the two sectors; hence, the model is a variant of the specific factors model. Primary goods production requires land, labor, and imported capital. Non-traded goods production uses labor, imported intermediate inputs, and domestic capital. Households consume non-traded goods and leisure. They can buy and sell one-period risk free bonds in world financial markets. They are subject to domestic productivity shocks, and world price shocks affecting prices of export and import items as well as the world real interest rate.

The representative household maximizes expected lifetime utility given by:

$$U(c, l) = E_0 \left[ \sum_{t=0}^{\infty} \left\{ \frac{u(c_t, l_t) - 1}{1 - \sigma} \exp \left( - \sum_{\tau=0}^{t-1} \varphi(c_\tau, l_\tau) \right) \right\} \right] \quad (1)$$

$$u(c_t, l_t) = (c_t - \psi(1 - l_t)^v)^{1-\sigma} \quad (2)$$

$$\varphi(c_\tau, l_\tau) = \beta \left( c_\tau + \psi(1 - l_\tau)^v \right) \quad (3)$$

$$\sigma > 0, \beta > 0, v > 1, \psi > 0, \quad (4)$$

where  $\beta$  denotes the elasticity of the discount factor with respect to the utility,  $\sigma$  is the risk aversion parameter.  $v$  governs the intertemporal elasticity of substitution in labor supply, and  $\psi$  scales labor hours.  $c_t$  is consumption of the non-traded final good, and  $l_t$ , represents leisure in period  $t$ . The non-time separable preference formulation features an endogenous discount factor,  $\exp[-\varphi(c_t, l_t)]$ , which is increasing with the level of past consumption.

This preference structure produces well-defined steady state dynamics of net foreign assets in a small open economy model.

Neither exported nor imported goods are modeled as utility deriving goods in keeping with the stylized facts mentioned above: consumer goods account for only a small fraction of total imports of developing countries and primary goods constitute a significant fraction of exports in developing countries. These exported primary goods are generally used as inputs in producing non-traded final goods, so the contribution of these goods to utility is via final goods. Moreover, good time series data on disaggregated consumption for developing countries do not exist. This limits comparison of the predictions of the model regarding features of business cycles in disaggregated consumption series with those in the data.

The production side of the model also reflects the empirically relevant structural differences discussed above. The economy produces non-traded final goods and primary goods. Non-traded final goods production,  $y_t^f$  uses labor,  $n_t^f$ , capital,  $k_t^f$ , and intermediate inputs,  $v_t$ :

$$y_t^f = z_t^f (n_t^f)^\alpha \left[ s(k_t^f)^{-u} + (1-s)v_t^{-u} \right]^{-(1-\alpha)/u} \quad (5)$$

$$0 < \alpha, s, u < 1$$

$z_t^f$  represents the exogenous productivity shock.  $\alpha$  is the share of non-traded output earned by labor and  $s$  is the relative weight of capital. The elasticity of substitution between intermediate inputs and capital is governed by  $u$ . This formulation allows me to analyze the impact of degree of substitutability between domestic capital goods and foreign intermediate inputs on the dynamics of the model.

The primary goods sector produces output using labor,  $n_t^p$ , capital,  $k_t^p$ , and land,  $L^p$ , which is assumed to be inelastically supplied. The production function in the primary goods sector is

$$y_t^p = z_t^p (n_t^p)^{\theta_1} (k_t^p)^{\theta_2} (L^p)^{1-\theta_1-\theta_2} \quad (6)$$

$$0 < \theta_1, \theta_2 < 1$$

where  $z_t^p$  is the productivity shock.  $\theta_1$  and  $\theta_2$ , are the labor and capital income shares, respectively. Considering that the production of primary goods requires significant amount of land input in developing countries, I introduce land into the

production function; hence there are decreasing returns to scale in the non-fixed factors.

Capital accumulation is modeled as:

$$k_{t+1}^j = (1 - \delta)k_t^j + \Phi_j\left(\frac{i_t^j}{k_t^j}\right)k_t^j, \quad j = f, p \quad (7)$$

Here  $\delta$  is the rate of depreciation and  $\Phi_j(\cdot)$  represents the adjustment cost function, with  $\Phi_j(\cdot) > 0$ ,  $\Phi_j'(\cdot) > 0$ , and  $\Phi_j''(\cdot) < 0$ . Adjustment costs differentiate physical from financial capital and prevent excessive volatility of investment (see Baxter and Crucini).

At this junction it is informative to compare the production structure in this model with those in related studies: Mendoza assumes that domestically produced capital goods in the non-tradable goods sector are inelastically supplied, and capital is perfectly substitutable between exportable and importable goods producing sectors. In his model, terms of trade shocks do not have a direct impact on the dynamics of non-traded sector because the only endogenous factor in that sector is domestic labor.

We allow neither the perfect substitutability of capital across sectors, nor do I assume that the supply of non-traded capital goods is exogenously determined. These features of the model provide an environment in which spillover effects of the price shocks in the distribution of imported intermediate inputs and capital goods across two sectors can be studied. Moreover, I am able to examine the impact of different types of price shocks on different types of factors of production.

Capital is sector specific in my model. In particular, I assume that primary sector capital is imported and capital used in the non-traded goods sector is domestically produced. This approach is empirically relevant because capital goods used in the primary goods sector are generally machinery and equipment items, and a significant fraction of capital goods used in the non-traded final goods sector are structures.

Fluctuations in the cost of servicing external debt seem to be another important source of business cycles in highly indebted developing countries. The average ratio of external debt to GNP is more than 77%, and debt service to export ratio, which is a widely used measure of debt burden, is about 28%. To examine the importance of world interest rate fluctuations in inducing business cycles in developing countries, I explicitly model world financial markets in which each household can trade a single financial asset,  $A_t$ , with a stochastic rate of return,  $r_t$ , from period  $t$  to  $t + 1$ . The holdings of financial assets evolve according to the formula

$$p_{t+1}^v A_{t+1} = nx_t + p_t^v A_t (1 + r_t) \quad (8)$$

where  $nx_t$ , represents the balance of trade and  $p_t^v$  denote the stochastic price of imported intermediate inputs. I assume foreign financial assets are denominated in units of the imported intermediate inputs. Since the quantitative implications of models with incomplete contingent-claims markets depend on the units in terms of which foreign financial assets are denominated, the choice of the units is important. Depending on this choice, different types of wealth affects can arise as the unit choice can change the real value of debt commitment. The possibility of the household playing a Ponzi game is ruled out by imposing the condition:

$$\lim_{t \rightarrow \infty} E_0 \left( A_t \frac{1}{(1 + r_t)^t} \right) = 0 \quad (9)$$

The resource constraint for the non-traded goods sector is given by

$$c_t + i_t^f = y_t^f \quad (10)$$

and for the primary goods sector is

$$p_t^k i_t^p + p_t^v v_t = y_t^p \quad (11)$$

where  $i_t^f$  and  $i_t^p$  are investment in capital goods in the non-traded and primary goods sectors, respectively, and  $p_t^k$  denote the stochastic price of imported capital goods. The price of the primary good is the numeraire.

I assume that labor input is mobile across the sectors. This feature of the model allows me to study the impact of different types of shocks on fluctuations in labor supply. By contrast, Mendoza assumes that labor is inelastically supplied in the traded goods producing sectors. The household, who has a fixed time endowment normalized to one, faces the following labor-leisure allocation constraint

$$l_t + n_t^f + n_t^p = 1 \quad (12)$$

There are five shocks in the model: two sectoral productivity shocks, two shocks to the relative prices of imported capital and intermediate goods,

and a world interest rate shock. The vector of exogenous shocks is represented by

$$Z_{t+1} = [\ln(p_t^k), \ln(p_t^v), r_t, \ln(z_t^f), \ln(z_t^p)]' \quad (13)$$

The evolution of  $Z$ , follows a first order Markov process and is given by

$$Z_{t+1} = \prod Z_t + \varepsilon_{t+1} \quad (14)$$

The vector of innovations is denoted by

$$\varepsilon_t = [\varepsilon_t^k, \varepsilon_t^v, \varepsilon_t^r, \varepsilon_t^f, \varepsilon_t^p]' \quad (15)$$

where  $\varepsilon_t \sim N(0, \Sigma)$ .

## 2. CALIBRATION

I solve the optimization problem of the representative household by maximizing the expected lifetime utility, (1), subject to the constraints (2)-(12). Since this problem cannot be solved analytically, I find an approximate solution using the log-linear approximation method of King et al.

The model calibration involves selecting a combination of parameter values which are roughly consistent with the long-run features of the economic environment of a representative small open economy. The risk aversion parameter,  $\sigma$ , is equal to 2.61 which is the GMM estimate from the panel study of a group of developing economies by Ostry and Reinhart (1992). The intertemporal elasticity of substitution in labor supply,  $1/(v-1)$ , 0.83, is consistent with those in prior empirical studies. The value of  $\psi$  is selected so that the fraction of hours worked in the steady state implies that 22% of total labor endowment is allocated to market activity. This number is roughly equal to the average of those used in earlier calibration exercises with developing country data.

The average annual real interest rate,  $r^*$ , is found to be 18%. The elasticity of the discount factor with respect to utility,  $\beta$ , is set at 0.043.

The labor share for the non-traded final goods sector,  $\alpha$ , is set at 0.36. The relative weight of capital in the CES composite,  $s$ , is set at 0.55. The capital goods and intermediate inputs shares are set equal to 0.23 and 0.32, respectively. I assume that the share of labor,  $\theta_1$  is 0.35 in the primary sector. I set the share of land,  $1-\theta_1-\theta_2$ , at 0.55. This is consistent with the ratio of primary investment to primary output in developing countries, 0.14,

reported by Kouparitsas (1997a). I select the rate of depreciation at 0.10 that is a widely employed value in the real business cycle literature. Following Baxter and Crucini (1993), I assume that  $\Phi(i_f/k_f) = \Phi(i_p/k_p) = \delta$  and  $\Phi'(i_f/k_f) = \Phi'(i_p/k_p) = 1$  at the steady state. The elasticity of the marginal adjustment cost function,  $\eta = -(\Phi'/\Phi)(i/k)$  for each type of capital, is set so that the volatility of investment generated by the model is equal to that of the data. I present the calibrated parameters of the model in the following table.

**Table 1. Parameters of the model**

Parameter	Description	Value
<i>Preferences</i>		
$\beta$	Consumption elasticity of rate of time preference	0.043
$r$	Real interest rate	0.18
$1/(v-1)$	Intertemporal elasticity of substitution in labor supply	0.83
$\sigma$	Coefficient of relative risk aversion	2.61
$\psi$	Level parameter for labor supply	8.02
<i>Technology</i>		
<i>Primary goods sector</i>		
$\theta_1$	Share of labor income	0.35
$\theta_2$	Share of capital income	0.2
$\eta_p$	Elasticity of marginal adjustment cost function	2
<i>Final goods sector</i>		
$\alpha$	Share of labor income	0.36
$1/(u+1)$	Elasticity of substitution between intermediate and capital goods	0.74
$s$	Weight of capital input in the CES composite	0.55
$\delta$	Depreciation rate	0.1
$\eta_f$	Elasticity of marginal adjustment cost function	5

Using a Matlab program, the linearized system is solved and the form of the solution is determined. Yet, the system does not fulfill the conditions of Blanchard Kahn (1980). The system has infinity of converging trajectories.

### 3. CONCLUSION

We have examined the ability of the model to replicate the main characteristics of business cycles in developing countries. Table 2 presents some of the business cycles properties, namely volatility, measured as standard deviation and covariance, measured as correlations. As we can see, columns 2 and 3 present the stylized business cycle facts in developing countries: production volatility is bigger in primary sector compared with final production. Second, consumption volatility is slightly bigger than the aggregate production's volatility.

Table 2. Business cycle proprieties

Variabile	Developping countries average *		Model		With productivity shock		With price shock	
	Volat.	Cov.	Volat.	Cov.	Volat.	Cov.	Volat.	Cov.
Production	4,10	1,00	5,58	1,00	3,68	1,00	4,04	1,00
Primary production	5,13	0,56	8,33	0,67	6,64	0,6	4,85	0,79
Final production	4,56	0,83	5,64	0,98	3,71	0,98	4,11	0,98
Consumption	6,17	0,64	2,77	0,97	2,06	0,98	1,79	0,98
Investitions	13,56	0,61	13,55	0,94	6,21	0,97	11,92	0,97
Labour hours	6,81	0,30	2,38	1,00	1,49	1,00	1,79	1,00
Commercial balance	15,05	-0,28	27,99	-0,75	13,87	-0,72	24,11	-0,78

\* M. Ayhan Kose, *Explaining business cycles in small open economies. How much do world prices matter?*, *Journal of International Economics* 56 (2002) pag. 313

Excepting the commercial balance, all the variables are procyclical. Columns 4 and 5 show that the model is able to generate realistic variances and covariances. The correlation labour hours – production is slightly bigger than the one from the historical data. The commercial balance is negatively correlated to the final consumption.

The presence of the two production sectors, the role played by the land, the intermediary inputs as well as the existence of the world price shocks and internal productivity shocks strengthen the ability of the model to generate business cycles that are similar to those met in developing countries.

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## **STATISTICAL SURVEY OF THE TOURISTIC DEMAND IN THE ROMANIAN MOUNTAIN RESORTS**

**IOANA TEODORA MEȘTER, ALINA BĂDULESCU,  
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**ABSTRACT:** *Our paper's aim is the quantitative and qualitative description of the touristic demand in the Romanian mountain resorts. In order to achieve our goal, we will quantify some important aspects regarding the touristic circulation and the economic results in these resorts and we will present the profile of the tourist that arrived in the mountain resorts.*

**KEY WORDS:** *touristic demand, survey, mountain resorts*

### **1. THE MAIN MOUNTAIN RESORTS IN ROMANIA**

Poiana Brasov is located in the south-east of Transylvania, 13 km away from Brașov at an altitude of 1 030 m. The skiing domain offers great conditions for this sport both for the beginners and professionals. The vicinity allows trips in some medieval towns (Brașov), some churches like Prejmer, Harman; the Bran castle is 25 km away, as well as the peasant fortress from Râșnov.

In the same Brașov County, 145 km North of Bucharest, between Postăvaru and Piatra Mare Mountains, is located the Predeal resort. It is the highest urban settlement in Romania, situated at an altitude of more than 1 000 m. It offers good conditions for skiing both at day and at night. The resort has also artificial snow. The neighboring chalets offers the best trips to the tourism objectives located at maximum 25 km away (Sinaia with Peleş Castle and George Enescu Museum, Brașov with the Black Church and Schei district).

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Close to Bucharest, around 125-135 km away, as well in Prahova County, three famous resorts are located revealing in brief the history of the Romanian mountain tourism from two different perspectives: Sinaia, the resort with skiing tracks up to 2 000 m altitude both for advanced and beginners, and Azuga, that has two skiing tracks designed in the last years. Azuga and Buşteni offer all the conditions required by a mountain fan. Recently, the works for a new skiing track were begun. All these resorts are located at an altitude between 800 and 950 m, while the tracks reach even 2.000 m.

Păltiniş, a resort located at an altitude of 1400 m, in Sibiu County, in the north of Cindrel Mountains, offers the best conditions for skiing and snowboard as well as for hiking in the neighbourhood. Vatra Dornei in Suceava County gained the fame of one of the best active tourism resorts in the north of the country, alongside the spa reputation. Beside these resorts, the skiing facilities are to be found in different corners of the country: Aries Valley or Băişoara Mountains in Apuseni Mountains; Bran in Bucegi Mountains, Sugas near Sfântu Gheorghe, in Covasna County, Harghita - Mădăras and Izvoru Mureşului in Harghita County etc.

## **2. THE OBJECTIVES OF OUR RESEARCH**

Our paper's aim is the quantitative and qualitative description of the touristic demand in the Romanian mountain resorts. In order to achieve our goal, we will quantify some important aspects regarding the touristic circulation and the economic results in these resorts and we will present the profile of the tourist that arrived in the mountain resorts.

The objectives of our survey are:

- the quantitative and qualitative description of the touristic demand in the Romanian mountain resorts, with respect to :
  - o the number of arriving tourists,
  - o the preferences of incoming tourists, with respect to comfort class,
  - o overnights by Romanian and foreign tourists,
  - o the average duration of a stay,
  - o the net use of bed places.
- the description of the tourist in a Romanian mountain resort

The objectives will be attained using a series of periodic inquiry, held in the receiving structures, using a special designed questionnaire. The units are representative from several points of view - structure, comfort level as well as from the distribution point of view. The size of the sample is chosen after a close analysis of the touristic demand during the last years.

### 3. MOUNTAIN RESORTS DEMAND

During the last 8 years the evolution of arriving tourists in the touristic receiving structures had a quite fluctuating trend, as presented in Table 1.

**Table 1. Number of arrivals in touristic receiving structures - total and mountain resorts -**

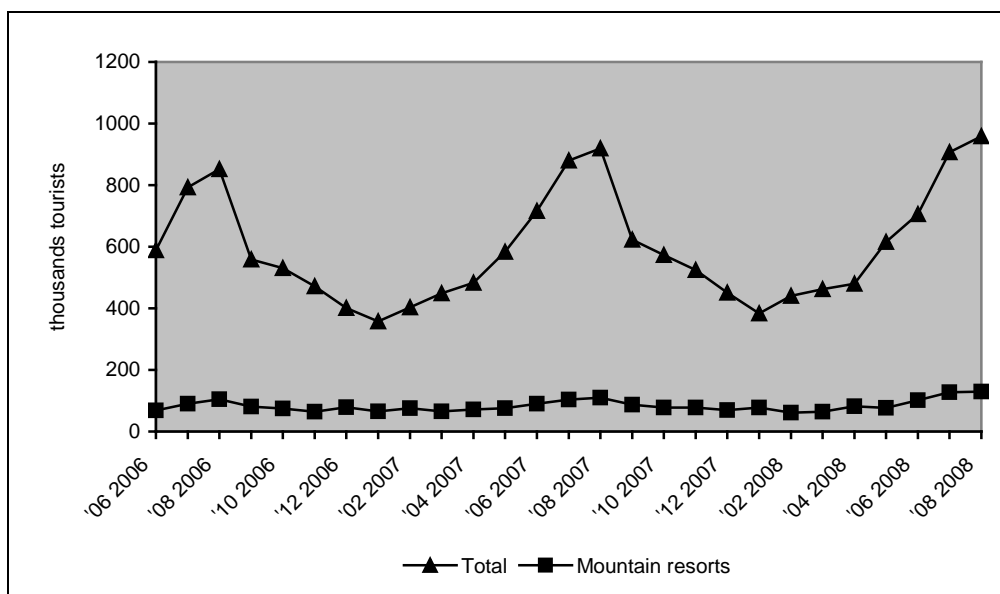
	2000	2001	2002	2003	2004	2005	2006	2007
Total*	4,92	4,87	4,84	5,56	5,63	5,8	6,21	6,97
Mountain resorts*	0,75	0,74	0,69	0,74	0,83	0,82	0,88	0,99

\* Millions arrivals

Source: INSSE – Online Tempo Time Series, [www.insse.ro](http://www.insse.ro)

The total number of arriving tourists in the mountain resorts has been increasing during the last 3 years, but the percentage in total arriving tourists is decreasing.

The evolution of number of arrivals in the main establishments during June 2006 – August 2008 is presented in figure 1.



**Figure 1. Evolution of number of arrivals in the main establishments during June 2006 – August 2008**

Source: Buletin Statistic Lunar nr. 6/2007, p. 100, 6/2008, p.98, 8/2008, p.98

During the last, the mountain resorts had received a number of 882 846 tourists, 64,3% of which preferred hotels, hostels and hotels for youth, 12,8% of the tourists were hosted in villas and urban tourists boarding houses, 8,9% of them chose rural tourist boarding houses, 7,9% - tourist chalets and 5,4% preferred inns and motels. In aspects regarding the allocation of the touristic demand with the comfort class, 14% of the tourists that visited the mountain side resorts preferred the 4 - star units, 27% had chosen 3 star units, 43% - the 2 star units and 12% - the 1 star ones.

We can add to these facts some others, which will complete the description of the demand in the Romanian mountain resorts:

- the number of tourists that arrived in the mountain resorts during June 2008 was aprox. 90 000, 8,8% more than in the same month of 2007;
- from all the tourists that stayed in the mountain resorts during June 2008, almost 77% were Romanians, and only 23% were foreigners, while the same proportion in June 2007 was 24%;
- the total number of overnight stays in the first 6 months of 2008 was 7,92 million nights – tourist, almost 25% less than the same period of 2007. The total number of overnight stays in the mountain resorts during the first 6 months of 2008 was 0,94 million nights – tourist, almost 10% more than during the same period of 2007;
- from a total of more than 190 000 days tourist in June 2008, 84% were Romanian while 15,9% - foreigners;
- the average duration of a stay in June 2008 was 2,1 days/tourist, the same as in June 2006;
- the degree of net use of tourist accommodation bed places was 24,3% in June 2008, 4,3% more than in the same month of 2007.

#### **4. THE SAMPLE**

The market research was conducted in 39 accommodation units from most of the mountain side resorts from Romania. The sample is composed from 25 hotels, youth hotels and hostels, 2 motels, 5 villas, 4 tourist boarding houses, 3 touristic chalets. The distribution of these 39 accommodation units by comfort is: six 4 – star units, eleven 3 star units, nineteen 2 star units and three 1 star unit. From the geographical distribution point of view, in our marketing research we included units from the main mountain resorts - Sinaia, Buşteni, Cheia, Predeal, Pârâul Rece, Poiana Braşov, Bran Secu, Borşa, Păltiniş, Câmpulung Moldovenesc, Durău, as well as Vatra Dornei.

#### **5. THE PROFILE OF A TOURIST IN THE ROMANIAN MOUNTAIN RESORTS**

In order to outline the profile of the tourist in the mountain resort, we distributed a number of 200 questionnaires in the main mountain side resorts, mainly from the Prahova Valley, region with the biggest touristic afflux in this form of

tourism. The resorts included in our sample were Sinaia, Buşteni, Cheia, Predeal, Poiana Braşov, Bran, Pârâul Rece, Păltiniş, Secu, Voineasa, Durău, Câmpulung Moldovenesc. We have chosen a number of 39 units (hotels, villas, touristic complexes), of different comfort levels.

The results of our questionnaire can be synthesized as follows:

A) The main means of transport used by the tourist, in order to come to mountain side resorts is the automobile (65% of our respondents had chosen this means of transport), followed by bus (18%) and train (16%);

B) The most of our respondents had an age ranging from 35 – 49 years (34%), followed by the 20 – 34 year group (33%) and 50 – 64 year group (23%);

C) The education level of the typical tourist in a mountain side resort is medium and high – 40% of our respondents had a medium level of education while 53 % of them had a high level of education;

D) Regarding the sum of money spent by the tourists included in our sample, most of them answered that they spent more than 1500 RON, here included most of the foreign tourists, 20% of the tourists spent a sum of money between 500 and 700 RON, and 16% of them spent between 900 and 1100 RON.

E) The opinion of the tourists regarding the quality of the services is as follows:

- in what concerns the accommodation, 57% of our sample found these services to be very good, 36% found it good, only 6% answered that these services are of a poor quality;
- regarding the food services more than 67 % of those asked found these services very good, 29 % of them think these services are good;
- regarding the recreation services, a half of those who were asked said these services were very good, while 33% said they are good;

F) The main purpose of the tourists that come to a Romanian mountain side resort is leisure (60%), followed by entertainment (20%) and business (10%);

G) 88% of the respondents were Romanians; only 12% were foreigners, mainly from Switzerland, France, Germany, Spain, Belgium and Israel.

## **6. CONCLUSION**

Tourism in post-communist Romania is currently in a state of uncertain transition. Although the country has an extraordinarily rich and diverse tourism potential (which can rival anywhere else in Europe), Romania is also a vivid illustration that the potential does not equate with tourism demand. In terms of demand, international arrivals are stagnant, and domestic tourism has declined. In terms of supply, much hotel accommodation is deteriorating and in need of investment, while there is also a shortage of expertise, training, and a general understanding of the market economy among tourism workers.

On short run, the prospects for Romanian tourism do not look promising. There is likely to be little significant upgrading of the hotel sector except in the largest cities, international demand is unlikely to increase significantly, and domestic demand will continue to fall. Until the government has implemented macro-economic reform, tourism will remain a low political priority.

On medium to long run, much will depend on the survival of the current administration and its success in achieving the macro-economic restructuring which Western analysts consider essential if the country is ever to achieve prosperity. Economic growth will revive domestic tourism and will make available more capital for investment in accommodation; it will allow the further growth of a private sector in tourism; and it should mean increased funding for the Ministry of Tourism, allowing more advertising and promotion. Moreover, an environment of political and economic stability plays an important role in making the country more attractive for potential tourists. In the longer term Romania could enjoy the tourism boom experienced in the former communist countries of Central Europe.

In particular, the country has the potential to relaunch itself as a destination for alternative forms of tourism, and the development of rural and heritage types in Transylvania could, if successfully promoted, play a major role in contributing to local economic growth. However, the process of transition in Romania is still not complete, so that future tourism development in the country will continue to be strongly dependent upon broader political and economic developments which are beyond its control.

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## **THE INTEGRATION OF JIU VALLEY'S ECONOMY ON REGIONAL AND NATIONAL LEVEL**

**DORINA NIȚĂ, IMOLA DRIGĂ \***

**ABSTRACT:** *The following paper is meant to present and analyze some of the aspects considered significant in characterizing the degree of competitiveness of a geographic region specific to the national economy taking into consideration the intensity and the promptitude of major changes which modified radically the business environment and the living standards of the entire autochthon population.*

*This phase is only the first step within a necessary process and also a complex process which aims at increasing economic efficiency of every "link" that forms the "chain" represented by regional economy and national economy, respectively.*

**KEY WORDS:** *competitiveness, private sector, entrepreneurial initiative, narrow market, mono-industrial area*

Located in the Central – Western part of Romania, in South – South-western Transylvania and in the South – Western part of Hunedoara County, Petrosani, or the Jiu Valley spreads over approximately 163 square km along the two Jiu rivers (the Eastern Jiu river and the Western Jiu river). It includes the following administrative units:

- Petrosani Municipality and the villages Dâlja Mare, Dâlja Mică, Peștera and Slătioara;
- Petrila with the villages Lonea, Cimpa, Jiet, Rascoala and Tirici;
- Aninoasa and Iscroni;
- Vulcan Municipality and the villages Dealul Babii, Jiu-Paroșeni;
- Lupeni Municipality;
- Uricani and Câmpu lui Neag, Valea de Brazi.

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The population of the Jiu Valley estimated at 147.880 people (according to the census of March 2002) represents 30% of the population of Hunedoara County and approximately 7.5% of the inhabitants of the Western V Region. The main city within the Jiu Valley is Petrosani with little over 46.000 inhabitants, followed by Lupeni with more than 30.000 people, Vulcan – almost 30.000 inhabitants, Petrila – over 26.000 people, Uricani – 10.000 people and Aninoasa – less over 5000 inhabitants.

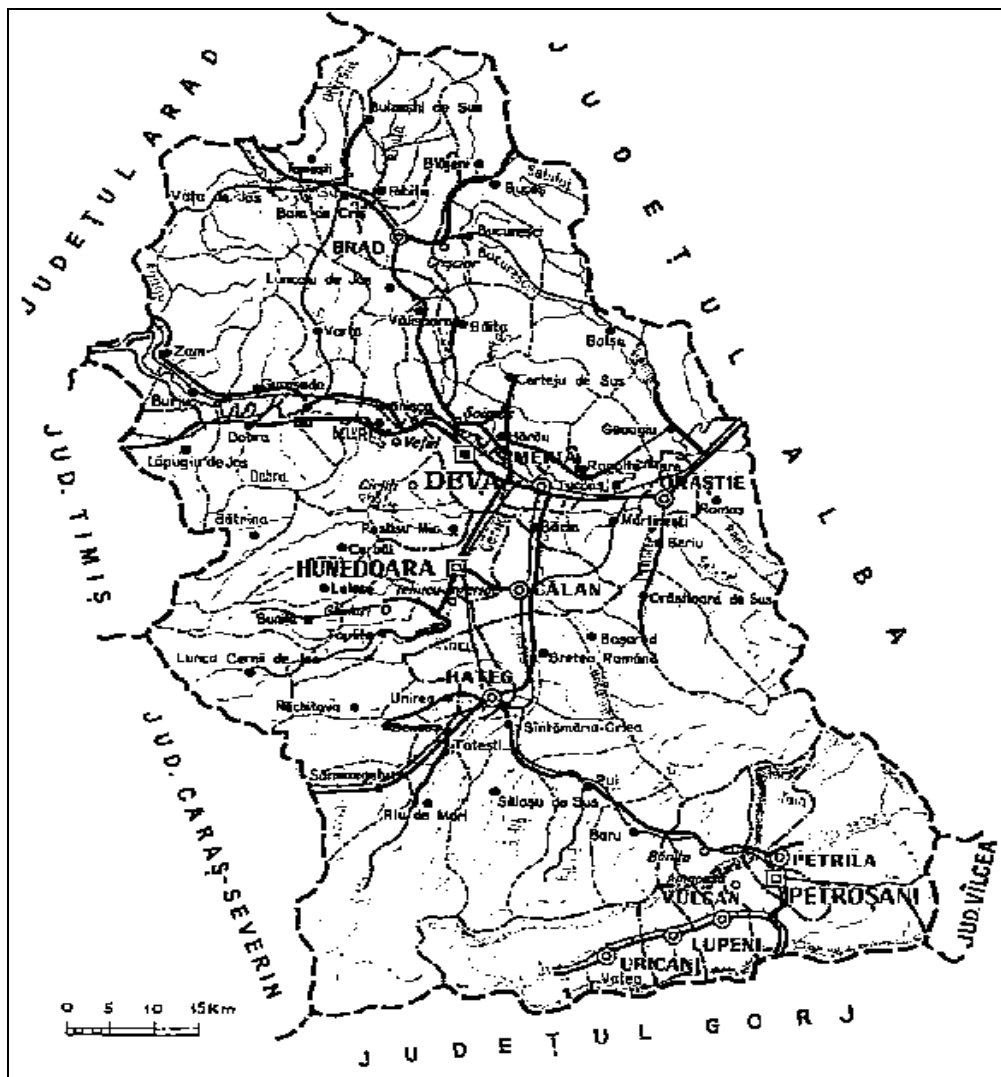


Figure 1. Locating the Jiu Valley on the map of Hunedoara County



By the middle of the 20<sup>th</sup> century, when the coal industry started to flourish, shepherding had been the only most important profession of people and the first human establishments within the Jiu Valley had been certified at the same time. Ever since coal mines were put into operation, the region experienced intense population growth; this tendency was almost constant until 1997 when the coal mine reorganization began. The demographic increase was determined by both the growth of population and by immigration (this region offered well-paid jobs compared to other areas within the country, plus other social facilities like accommodation, subventions for electricity); thus the Jiu Valley represents the melting pot of people of different communities, religion from all the counties of Romania and even from the neighbouring countries.

The development of mining industry has contributed to the shaping of the new economic lifeline of the region, Jiu Valley becoming reliant on a single industry, where most of the employees worked in pit coal mines.

The last decades before 1990, have brought about the diversification of the economic activity of the region as new industries started to develop: the textile industry, the food industry, the chemical and wood industry, due to the policies of those times regarding the need to increase employment, especially among women, thus reducing the number of housewives and also due to need to reduce costs by locating production near the consumption area. Since the Jiu Valley embarked on an intensive industrial and demographic growth, the mines were structured in a way that they were able to meet the demands of a booming market and to take in all the labour force that was to come.

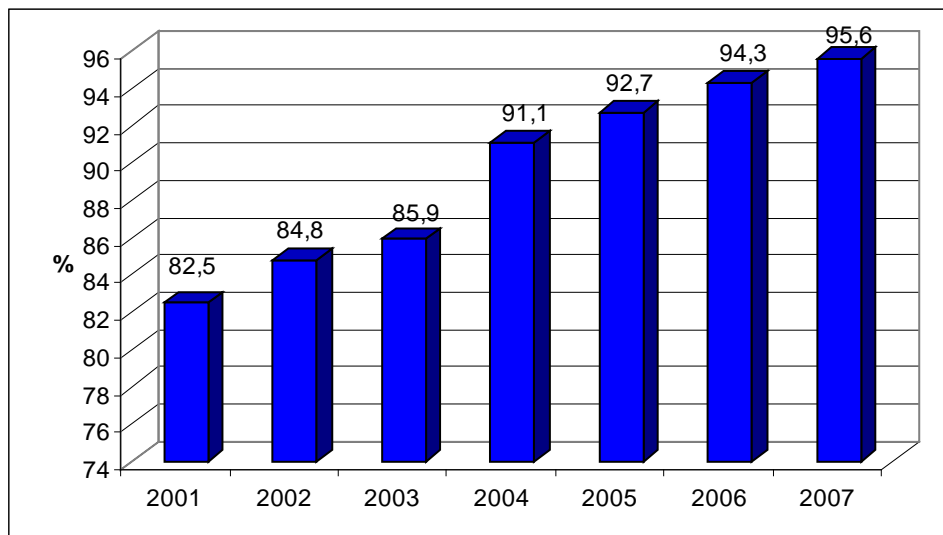
After 1990, the country's economic contraction heavily influenced these mines which were too large for the deteriorating market. Even though companies there were companies that operated in other economic fields, especially in manufacturing industry, they too suffer profound similar changes on national level which led even to their closing down; however, the restructuring of the coal sector was stable and it was done "delicately", the number of employees and the salaries remained high in comparison with the national average, especially during the first years of transition, as a result of pressures from trade unions. The negative results generated by maintaining these facts increased and they were covered by subventions and other financial assistance coming from the state budget, without deeply affecting the living standards in this region.

Starting with 1997, the coal mine restructuring process goes through another phase, "the phase of massive layoffs and compensatory payments"; from then on, even though there are "slight" improvements of some economic-financial indicators such as labour productivity, exploitation costs, etc., in the activity of each mine, on regional economic level the consequences are devastating, and they can be found in the "rough/violent/heavy" increase of the unemployment rate, in the escalating number of people who benefited from social security or from the minimum guaranteed salary, in the degradation of the population's health because of poverty, etc. (it is estimated that between 1997 and 2005, 17% of the population of the Jiu Valley was directly affected

by the restructuring of the coal sector, and this percentage would continue to amount to 19% during 2006 and 2010, until it reaches 25% after the year 2010); all these factors led to a demographic decrease of this region – for example, if in 1997 the number of inhabitants of Petrosani reached 100.000, the census carried out in March 2002 revealed a number which hardly exceeded 46.000 people.

On a county level, the situation was similar in Hunedoara or Calan, cities which were severely affected by the restructuring processes in metallurgical engineering and ferrous metallurgy industry; these industries played an important part in the county's economy. On the whole, statistics show that throughout the two censuses (1992 and 2002), the population of Hunedoara County decreased by 11.4% and the outlook is depressing; it is estimated that by 2020 the total population of the county will have been reduced by 80.000 inhabitants. Together with Caras Severin (-11.5%), the two counties from the Western Region experienced a 7.3% demographic decrease of the total population, which almost doubled compared with the decrease registered on national level.

Today, the workforce within the valley still depends on mines for work and income; there are fewer outlets and job offers for women, which bring about major problems in the process of economic restructuring, leads to an unstable socio-cultural equilibrium and ecologic environment. Most of the consumer goods that can be bought in the Jiu Valley are produced elsewhere; the local production consists only of breadstuff and timber. Thus, according to the assessments regarding the position of the Jiu Valley's economy within the county's economy, the economy of the West Region respectively, the contribution of the mining sector is considered defining, due to the fact that it is almost entirely isolated within the Jiu Valley boundaries.

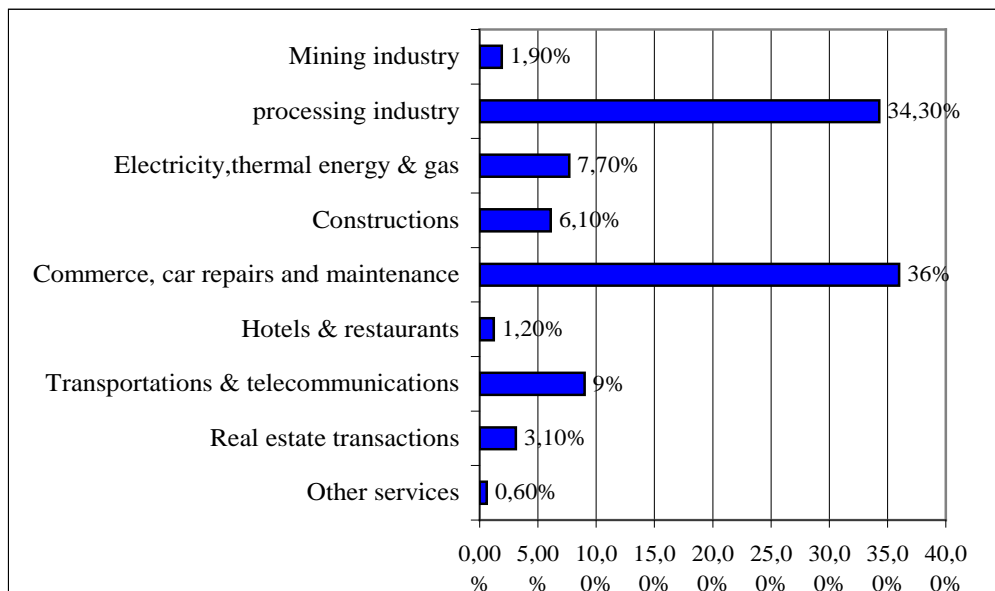


**Figure 2.** Coal mine employees in the Jiu Valley – Hunedoara County

This region provides a modest percentage of the gross added value and of the total turnover obtained on county and regional level due to the mining activities carried out within the Jiu Valley; moreover, the number of workers employed in mines and related activities makes up a small percent of the employees on the county level (7.82% in 2006) and on regional level (2.9% in 2006).

The significant production decrease of **the main employer in the area** – the National Coal Company – resulted in low efficiency and competition of the company and of the regional economy, which continued to be stable until 1997 – when the Romanian coal mine restructuring process was started. The paternalistic attitude materialized in annual financial assistance such as subventions or other transfers, thus eliminating/rejecting the involvement of local authorities and communities in creating the alternate business environment, other than mining.

Sticking by these policies proved to be very difficult so that the tensions regarding mine restructuring and layoffs forced the Company to make a decision in this respect. The Company's decision had positive effects which materialized in the improvement of the economic-financial indicators; however they were shadowed by the economic and social consequences that affected the local communities: changing one of the wealthiest populations into a population with living standards under the national average. The Jiu Valley became a region where shortage/failure is overwhelming, it goes beyond opportunities, where social threats are serious and people are losing hope and power to adapt themselves.



**Figure 3.** The weight of industries that make up the total turnover of active mines from the West Region in 2006

Source: [www.adr5vest.ro](http://www.adr5vest.ro)

Despite the strict measures that were adopted, massive layoffs reduced the number of miners by 60%, the local economy continued to depend on the activity of the National Coal Company which **has a dominant and privileged position** (counting almost 11.700 employees, which represents 55% of the population of the valley) **as a direct or indirect source for development or as a social protector for the present and former employees:**

- still registering losses, the management of the Company has set as a priority the payment of debts owed to important suppliers and to employees, but the income received/cashed in from beneficiaries (especially the Mintia Power Plant, the most important consumer of coal sold by the Company) along with the subventions received from the Ministry of Commerce and Economy prove to be insufficient to cover the amount of money owed to local and state budget as well. A substantial contraction of the budgetary resources by not paying the debts owed by the Company to local public budgets, limits the capacity of authorities to support financially any economic development project within the area;
- besides the money owed to local administration budgets, the Company proves a constant debtor towards the local service provider companies, especially towards the one that supplies central heating. The present and former employees of the Company (the retired) benefit annually by coal tickets which cover a significant part of the services provided by companies that supply thermal power, due to the compensation agreement between the two companies. Failure to pay the debts in time leads to the increase of the debt and thus the suppliers are unable to provide quality services towards the population;
- the Companies employees have several advantages and higher salaries than the rest of the population working in other economic sectors in the Jiu Valley so that the position of miner or that of an employee of the Company still remains one of the most hunted jobs in this region;
- the National Coal Company continues to own or govern most of the land that can be used in carrying out industrial activities – on which you can find abandoned mines or mines that were closed down - , so that the process of transferring them under the administration of local public authorities is slowed down and thus the initiative of private investors is delayed because of there is no available land to develop a business;
- even though it the most important employer within the area, the National Coal Company is also the greatest “destroyer” of jobs since the restructuring of the coal sector began and it the held responsible for the increase of the unemployment rate within the region.

The closing down of mines had a negative impact upon the equilibrium of the local market. The intense personnel disposals among miners generated a “cascade” effect which influenced the level and evolution of the economic entities that were operational at that time in the region and of the regional economy. Beside the mines, the activity of which is to extract coal, there are other companies the activity of which is closely related to the existence and the activity of these mines, and thus they were also affected by this reorganization process.

The personnel layoffs reduced the activity of the National Coal Company with a devastating effect on those economic entities the activity of which was based on “coal”; they too proceeded to dismissals and changed their object of activity in their effort to adapt to the new conditions.

Following the interdependence chain income-consumption-investments, the restructuring of activities on regional level is expected because of the decrease of income and the reduction of consumption, implicitly; legal entities that do not perform mine-related activities also face difficulties as they are dramatically threatened by the low level of demand and profits.

On the other hand, potential investors are not attracted by the poverty of the region. As a consequence, they are reticent on setting up new businesses here, mostly because of the impression the Jiu Valley left on people after the period eruptions of violence and miners strikes (mineriad) being considered a “bomb shelter”.

The low living standards did not encourage the development of services destined for consumption, and labour training did not stimulate the rapid reorganization of the local economy. Under the circumstances, it is not hard to understand why after the dismissals of miners and of other employees working in related activities, graduates of various education forms and people who wanted to get a job (generally, in the miners’ families, the man represented the main source of income, therefore, after their husbands had lost their jobs, the wives found themselves under the necessity to find a job) have flooded the labour market in a very short period of time, making it impossible for the market to supply an adequate labour offer.

The deficiencies registered on the labour market regarding labour offers and demands are held responsible for the lack of new jobs, to which we can also add a poor entrepreneurial spirit in the area.

Today, the local labour market is characterized by segmentation and instability, by low rates of employment, poor training of the dismissed workers, high salaries for the employees working in the mining sector as compared with the salaries of other workers within the region, a significant weight of non-salary incomes (the minimum guaranteed salary) and increased unemployment rates especially among the young population. These characteristics show and emphasize at the same time the main deficiency encountered on the Jiu Valley labour market which is **the lack of secure jobs.**

**Table 1. The evolution of unemployment in the Jiu Valley between 1900 and 2007**

Year	TOTAL	Petroșani	Lupeni	Vulcan	Aninoasa	Petrila	Uricani
1990	4.200	1.345	1.087	870	108	268	522
1991	5.436	1.946	1.213	906	145	290	936
1992	5.896	2.190	1.280	980	198	308	940
1993	5.927	2.236	1.197	1.052	125	320	1.024
1994	8.348	3.818	1.553	1.504	143	374	956
1995	10.260	4.964	2.041	1.710	220	302	1.023
1996	12.198	5.485	2.267	2.155	284	335	1.672
1997	15.239	7.404	3.494	2.395	432	450	1.064
1998	16.509	8.012	3.592	2.517	622	670	1.096
1999	17.875	7.318	4.144	3.167	670	1.352	1.224
2000	17.378	4.399	4.299	3.159	2.987	728	1.806
2001	14.023	2.909	3.265	2.400	1.885	2.189	1.375
2002	13.353	3.442	3.467	1.922	1.224	1.644	1.654
2003	10.821	3.263	2.091	1.522	959	1.161	1.825
2004	8.358	2.587	1.763	1.312	339	1.191	1.755
2005	8.230	2.330	1.680	1.160	330	1.180	1.550
2006	8.104	2.319	1.679	1.144	328	1.086	1.548
2007	8.076	2.331	1.670	1.128	321	1.083	1.543

Source: Statistics Department of Hunedoara County

Hunedoara County holds the first place among the counties with the highest unemployment rates due to the value of the indicator which exceeded by all odds the national average especially after 1997.

**Table 2. The Evolution of unemployment in the Jiu Valley, on county and national level between 1995 and 2006**

	'95	'96	'97	'98	'99	'00	'01	'02	'03	'04	'05	'06
Jiu Valley	11,8	13,3	18,8	25	28,8	25,1	23,2	24,7	26,4	19,1	26,7	22,1
Hunedoara County	14,3	13,1	13,2	16,5	19,9	16,4	14,5	9,4	12,3	10,9	10,5	6,7
National level	9,5	6,6	8,9	10,4	11,8	10,5	8,8	8,4	7,6	6,3	5,9	5,2

Source: Statistics Department of Hunedoara County [www.hunedoara.insse.ro](http://www.hunedoara.insse.ro), [www.insse.ro](http://www.insse.ro)

The high unemployment rates in Hunedoara and Caras Severin Counties have determined the increase of this indicator on regional level as well.

If we analyze **the level of training** of the work force in the Jiu Valley we cannot see any remarkable differences from the national average. It is worthy of note the existence of a university – the University of Petrosani – which continues to teach students about mining and geology, fields of activity that have made tradition here and are certified on national and international levels, although the demand on the labour market is much inferior to the offer. The future unemployed – in case they do not turn towards other fields of activity less compatible with their training – are joined in their job hunt by graduates of economic or public administration courses, sociology and office automation.

Textile and footwear industry, wood working and food industry have developed significantly in the long run, but they do not require special training and the salaries are small, revealing **a local labour market which does not need and does not reward higher education.**

On the whole, **the degree of competition** is more reduced than in the rest of the country and it continues to deteriorate as far as all these four categories are concerned: economic structure, resources, natural and institutional environment. This is also shown by the decrease of the added value, by low productivity levels and by low efficiency of companies functioning within the region, by few investments, by a significant percent of non-salary income and high unemployment rates among the young population. The immature behaviour of firms, the underdevelopment of the infrastructure, the lack of sufficient financial and managerial resources provide an unfriendly business environment.

**The private sector** proves to be severely fragmented, consisting of very small firms which represent individual or family businesses. In 2006, there were 2859 firms in the Jiu Valley, out of which only 7 were companies with more than 250 employees, 53 of them were considered medium size businesses (with more than 50 employees) and the remaining number represented small firms. The investments in small and medium size businesses were directed towards wood working, aluminium and stainless works, PVC and stacked wood working, towards the production of thermo-panes, bakery products, home and office furniture and leather working.

Even though financial resources prove to be insufficient, a small part of enterprisers resorts to combining their own financial resources with bank loans or other forms of increasing capital (leasing or EU funds, for example) in their effort to expand their businesses. The use of various forms of financial assistance is correlated with the size of the companies: thus, companies which turn to only one financial support are generally very small businesses, while small and medium size enterprises use bank loans to increase their own capital. In addition, there are companies which have developed over the years so that they can easily access external financial resources such as EU funds.

Moreover, the number of firms which take into consideration potential customers or suppliers outside the Jiu Valley is very small (less than 2%) although the demand on the internal Jiu Valley market is decreasing.

The lack of managerial abilities, of a business culture among enterprisers is the result of the private sector fragmentation and of the disinterest in encouraging the development of entrepreneurship.

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## **NETWORKING - THE URBAN AND REGIONAL DEVELOPMENT STRATEGY?**

**MARIA NOWICKA-SKOWRON, PIOTR PACHURA \***

**ABSTRACT:** *It has become more and more common to claim that the concept of innovations embraces everything that is connected with creation and application of new knowledge in order to win competitive advantage. In this respect innovations concern as well, apart from technology, economy, society and culture. A traditional approach applied by organizational and management sciences is not enough to explain and manage the development of enterprises as well as that of cities, regions and countries. Simultaneously, according to a new approach to innovativeness, creation of innovations depends on a complex/system approach. The word complex is vital since this approach should embrace the complexity of innovative networks as well as complexity of relations of cooperation and the whole network environment together with social context.*

**KEY WORDS:** *network environment, Knowledge management, social capital, innovation networks*

### **1. INTRODUCTION**

It has become more and more common to claim that the concept of innovations embraces everything that is connected with creation and application of new knowledge in order to win competitive advantage. In this respect innovations concern as well, apart from technology, economy, society and culture. A traditional approach applied by organizational and management sciences is not enough to explain and manage the development of enterprises as well as that of cities, regions and countries.

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Simultaneously, according to a new approach to innovativeness, creation of innovations depends on a complex/system approach. The word complex is vital since this approach should embrace the complexity of innovative networks as well as complexity of relations of cooperation and the whole *network environment* together with social context. Most frequently the innovative *network environment* is defined by means of the following elements [Cooke 1998] [12]: producers/creators of knowledge; administrative environment; enterprises.

In recent years, a phenomenon of particular importance is the approach to network pro-innovation structures from the urban and regional point of view. This approach can be justified by the following factors: possibility to locate single elements of the network (geographical proximity); direct contacts between actors are possible and they can be created; synergy exists through common action for a precise community and territory and most frequently, common psychological and cultural patterns.

Innovations (innovativeness) do not constitute a technical process. Transforming knowledge into a new product or process requires social sphere to be engaged. Dynamic dimension of the innovation process may be based on a view of an innovation network as a system possessing ability to self-create/self-renew innovations. P. Ståhle defines the following factors of system/innovation network dynamics [Ståhle, Grönroos 2000] [43].

System possesses features that make it distinct from the environment; it possesses ability to endow identity and to justify the existence. It may also possess a system of common values. Furthermore, the identity of actors (elements) of the system is defined through relations with the environment. The system of common values is created through internal relations (between actors) and through relations with the environment. It can be named *Identity based on self definition*. Innovations system possesses an ability of self-subsistence by processing information concerning its state, changes taking place in the system, goals and rules of action and cooperation. In consequence, a constant communication and flow of information are necessary among elements of the system (actors). Content of this information concerns the identity of the system. Other factors that determine the identity of a system are autonomy of participants (elements, actors) of a network and a belief, awareness of being a part of network.

What makes a network work is a mutual relation between actors who have same rights to access and participate in the network. The whole system must be perceived by every actor. Simultaneously, every actor is partially responsible for the whole. The nature of networking can be understood as a differentiated system of relations (particularly personal ones) inside the network. Tolerance and trust are other foundations of information flow and information return.

## 2. SYSTEMS AND NETWORKS

*Knowledge management*, flow of information are immanent characteristics of the system. It is based on proper instruments of knowledge transfer and information streams. In this respect, the system is open to external information coming from the environment. The system exists in a way in *streams of information* as well as in a state of permanent uncertainty [Prigogine, Stengers 1984] [35]. This results in a change in the way of thinking, leading to giving up routine approaches. *Entropy phenomenon* connected with excess of information and its lack of order constitute factors stimulating creation of the “new”, as well as synthesis of knowledge which leads to innovativeness. Innovations system on the one hand creates entropy of information and knowledge and on the other hand limits it, tries to order and direct it to apply and use for the implementation of goals. In consequence, one deals with a phase (condition) of entropy of knowledge and in the second phase with its ordering (crystallization). As a result, there must be acceptance for information excess among actors as well as tolerance concerning mistakes and uncertainty [Prigogine, Stengers 1984].

Innovations system functions unceasingly between chaos (lack of order) and order (*crystallization*). Knowledge concerning decision making in relation to the situation in the environment is crucial. Environmental analysis and knowledge about processes taking place outside network are key elements in decision-making concerning goals and strategies that the system aims at. Identification of chances and risks enables an effective implementation of goals.

Urban or region competitiveness as understood through the concept of network cooperation as well as the importance of social capital can be evaluated by means of indicators describing the following areas: competitiveness, attractiveness, networking [Sotarauta 1999] [41]. In those approach, the following examples factors may be analyzed: *Human capital*, defined by: number of students, number of students of technical institutes, number of graduates of higher education institutions, percent of professionally active persons, *Innovativeness*, defined by: expenses on R&D, number of patents, number of employees of R&D institutions, *Concentration*, defined by: population density, employment structure, employment in the business services sector, *Infrastructure*, defined by: density of communication network, quality of natural environment, prices of energy, water etc., telecommunication network, *Economy*, defined by: size and structure of industry, value of exports, participation of industries of high technologies, *Institutions*, defined by: higher education institutions, higher education technical institutes, institutes and research centers, etc, *Quality of life and environment*, defined by: pollution, healthcare services, costs of living (media, housing, etc.) and social environment (mutual relations between people, social values, culture, etc.), *Pro-development networks*, defined by: the existence of clusters and enterprise groups, networks of cooperation, platforms, etc., *Competition in creativeness*, defined by: potential to create new knowledge, activeness of public regional and local institutions, common initiatives, implementation of supra-local projects and openness to dialogue and cooperation, etc.

The above-enumerated factors constitute only examples of possible indicators, or, in some cases, guidelines that may serve to create indicators which can be helpful in presentation (evaluation) of Cities or Region competitiveness. Competitiveness based on *social capital and innovation networks*.

Simultaneously, the existence of urban innovation networks, as well as other cooperation networks, (production, clusters of various type) create a urban knowledge system [Smedlund, Pöyhönen 2005] [40]. In this approach it is taken for granted that an enterprise may participate in many local networks and that thanks to such participation innovations appear in natural and constant manner. These factors have decisive influence on the success of any cities or region as well as on capitalizing its potential [Smedlund 2006] [39].

Local production systems, defined in literature as *clusters*, constitute basis for creation of research methodologies concerning urban/regional intellectual capital. Discussion on the intellectual capital of territories by means of clusters is based on a commonly stressed importance and role of those regional sectoral network systems in shaping competitive advantage of any location. Clusters are perceived as a key element generating and sustaining a high level of competitiveness of enterprises functioning in them in a situation of progressing globalization. In literature on the subject it is stressed that the concept of clusters constitutes a new way of thinking about creating competitiveness of national economy as well as regional economies [5]. Porter incorporated clusters into a widely practiced model of diamond of competitiveness embracing main determinants of a national competitive advantage. The author of the cluster concept defines them as “*geographical clusters of mutually connected enterprises, specialized suppliers, units providing services, enterprises working in similar sectors and institutions cooperating with them (universities, normalization units and sectoral associations) in specific domains, competing against each other but also cooperating* [Porter 2001]” [33].

In consequence, many researchers discuss the problem of regional intellectual capital from the perspective of clusters. One of particularly interesting pioneer approaches is a proposition of A. Smedlund and A. Pöyhönen who analyze the intellectual capital at the very level of clusters [34].

They present a system approach based on theory from different scientific sources in order to picture processes of creation of the intellectual capital in clusters framework grouping small local enterprises. This procedure enables to define a regional system of knowledge based on three kinds of networks namely production, development and innovative networks. Further, the authors present another approach and model of evaluation of intellectual capital based similarly on the concept of clusters. An enterprise functioning as an element of network of *value in cluster framework* profits from numerous advantages such as lower transaction costs, wider possibilities to learn new practices. Finally, it may gain valuable market information from its partners. The main benefit of being a member of a regional economic network though, is a possibility to generate innovations through cooperation with other partners.

Local production system provides with constant possibilities to improve products, production methods and processes.

This is possible thanks to creation of conditions favoring joining of different assets and knowledge. In the center of processes of creation of innovations one should place the ability to create and transfer new knowledge as well as to use the existing knowledge inside the network. According to A. Smedlund and A. Pöyhönen, in order to maximize the potential of value creation by regional or urban clusters of small enterprises, those enterprises should simultaneously create new knowledge as well as transfer and implement knowledge they already possess [Smedlund, Pöyhönen 2004][34]. The approach presented by the authors lets understand in a fuller way the processes of creation of regional knowledge and dynamics of creation of intellectual capital in a framework of complex cooperation of many different regional actors.

Authors justly claim that works concerning intellectual capital are in large part dominated by three basic research streams. First of them treats the *IC* in categories of immaterial assets. Second perceives *IC* as dynamic capacities to create immaterial assets. Finally third one takes into account social relations as a framework in which knowledge processes take place [34]. Authors understand *IC* as an organization's capacity to create, transfer and implement knowledge, which seems to be in compliance with the fact of treating innovations as a key factor in winning competitive advantage.

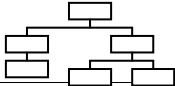
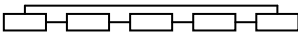
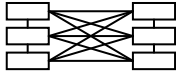
Each of the above-presented conceptual approaches treats knowledge in a different manner. Intellectual capital understood in categories of static immaterial assets embraces knowledge possessed by an organization and is most frequently classified into three categories: *human, structural and customers or relational capital*. *IC* understood as dynamic capacities to create immaterial assets, on the other hand, treats knowledge as constant and emerging process, in which a central role is played by a capacity to reinforce, develop and change the level of immaterial assets. Finally the last approach to the concept of intellectual capital is connected with implementation of *social capital in its structure*. In this case, knowledge is perceived as an asset shared in the context of social relations. A joining factor and a bridge for knowledge processes in case of social relations is social capital.

Considerations on intellectual capital through the notion of clusters based to a high extent on organizational and *social networks* require use of dynamic approach towards the concept of *IC*. Such approach should take into account knowledge processes based on relations found inside a cluster.

In this concept, inside a cluster of small enterprises one can find three kinds of networks: *production, development and innovation*. The above networks are characterized by different structure and functions that they perform in relation to *IC*. Those functions are identified with basic processes concerning knowledge, i.e. its creation, transfer and application. In a production network, flows between participants are connected with manufacturing of a product and thus embrace mainly physical products and cash flows. Inside this kind of network the sales process takes place. All information transferred inside a network concern production, for example stocks. Such

network may be dominated by one participant occupying a central position in it while other partners included in the exchange process may not even know each other. Thus the structure of this network possesses a *hierarchical character*. To ensure its effectiveness, production network requires application of clear and coherent rules and regulations. That is why important information circulating inside a network should take a codified form to ensure that it reaches all units. It is sufficient that information circulates in one direction from up to down since any discussion or new thought may lead to modifications, which are not desired in this kind of network and may constitute an obstacle for its effectiveness.

**Table 1. Characteristic features of three kinds of networks of a regional knowledge system by Smedlund A., Pöyhönen A**

	Production network	Development network	Innovation network
Graphic model			
Structure	Vertical	Horizontal	Diagonal
Function performed in relation to IC	Knowledge implementation	Knowledge transfer	Knowledge creation
Flows between participant of the network	Material (products, payments) Immaterial (information concerning production)	Immaterial (transferable specific information concerning enterprise, know-how)	Material (innovative products, payments) Immaterial (research knowledge, experimental knowledge, know-how)

Źródło: Smedlund A., Pöyhönen A., „*Intellectual Capital Creation in Regions: A Knowledge System Approach*”, [w] Bounfour A., Edvinsson L., red., „*Intellectual Capital for Communities, Nations, Regions, and Cities*”, Elsevier Butterworth-Heinemann, Oxford 2005, pp. 23

Development network is characterized by *horizontal structure* and can be applied to join enterprises in a regional clusters framework, also in case when they do not cooperate in productive functions. Participants of such network can be competitors who agree to share certain information that constitutes a source of individual profit for them. Flows in a development network possess by nature an immaterial character. It can be for example information concerning production methods or know-how

knowledge. Enterprises through learning best practices from others can achieve higher levels of effectiveness.

From the perspective of regional or urban activities, a network orientated for development may boost results of its participants in acquiring high-risk capital. The most important feature of this type of networks is undoubtedly orientation towards sharing knowledge. A constant development of network is based above all on silent knowledge, bi-directional flow of knowledge and mutually dependent relations of all participants. Relations that one deals with in the network possess a reciprocal character and at their base one will rather find trust instead of formal agreements. In a development network there is no dominant unit, however a coordinating entity supporting the process of knowledge sharing may be established.

Taking into account realization of knowledge processes, the most advanced network in this field is innovation network, in framework of which new knowledge is created as well as new solutions needed to deal with specific problems are found. These solutions are worked out consciously and in cooperation with other members of the network. Flows in such network concern the process of innovation, for example product patterns or research knowledge of experimental character. Structure of relations in an innovation network is diagonal which means that its participants are recruited from different sectors and production chains. In this type of network various public and private institutions may cooperate with enterprises. Innovation network has to master the process of knowledge creation, which should be new to all participants of the network. Leader's function is taken by the most competent unit for coordinating assets and knowledge, which means that leadership is not established according to specific hierarchy.

According to the characteristics presented above, each of the three networks found inside a cluster performs specific functions and implements its strategic goals by engaging various categories of knowledge. The strategic goal of a *regional or urban production network* can be for example creation of a possibly most effective flow of intermediate products. Development network may aim at formulation and implementation of common marketing policy identified with the sub-region in which the cluster functions. On the other hand, the main goal of innovation network may be carrying out of research-development works on new technologies for a specific sector. Results of such research which are new methods and production processes should then find application in commercial activities of participants of the cluster.

Inside an innovation network in a local cluster one deals with flows of specific material and immaterial assets between participants of the network. Knowledge is the main asset that is transferred. The flow of assets inside the network generates innovations.

According to A. Smedlund and A. Pöyhönen research, usually three categories of networks tend to form a system. This system is named by the authors a *regional knowledge system*. From the perspective of creating intellectual capital at regional level, knowledge system constitutes an approach towards the process of generating IC according to dynamic approach treating knowledge as dynamic process. It is also

compliant with the approach to the concept of *IC* that takes into account social relations as an important factor in implementation of knowledge processes. Regional knowledge system constitutes a source of better possibilities for creating immaterial assets, *modernization of a cities, region, country* and adapting its to changes appearing in the environment.

In order to win competitive advantage, three kinds of networks should function in regions. Innovations generated in *innovation networks* are transformed into measurable economic benefits through their application on the level of *production network*. *Development network* based on social relations and processes of learning performs a proxy role in transferring innovations between other networks. Each type of network performs specific functions connected with intellectual capital. *Production network* applies and implements generated knowledge in economic reality.

*Development network's* task is to share hidden knowledge among network members. The main function of *innovation network* is to create new knowledge. *Production network* shapes core production processes on local level while knowledge applied in those processes is used to supply products to the market. In *development network*, local actors share their knowledge and provide with reinforcement of *regional or urban social capital*. On the level of these network relations, common language and trust among its participants are formed. In this way, processes of creation, transfer and application of knowledge in a specific cluster become more effective [Smedlund, Pöyhönen 2005] [40].

*In case of existence of the above-mentioned networks in the region, innovations are transferred to all members and bring each of them measurable benefits. Circulation of innovations and new ideas between all types of networks is defined as regional knowledge system. All three kinds of mutually dependent and mutually penetrating networks are essential for existence of a knowledge system.*

Another approach towards the concept of *regional intellectual capital networks* is presented by *M. Viedma* who perceives *intellectual capital of cities* and regions in the context of industrial *sectoral clusters*. This research approach is compatible with the presented before concept of regional knowledge system based on the development of clusters as a factor determining competitiveness of a given *geographical area*. Research approach accepted by *M. Viedma* seems to be particularly interesting because of the fact of evaluating the intellectual capital not only basing on generated statistical data but above all on qualitative indicators. This type of methodology of *intellectual capital evaluation on the city level* requires deeper analyses as well as finding a proper reference platform in order to execute the evaluation. In case of this approach, *micro-clusters functioning in the city area become the platform representing the development potential of the city.*

As it is in case of the majority of models of regional intellectual capital evaluation, the model presented by *M. Viedma* was created on the basis of an author's model known as *ICBS – Intellectual Capital Benchmarking System* applied in enterprises in the past. Main applications of this model embrace evaluation of immaterial assets understood in categories of core competences in the context of



innovative and organizational processes occurring in enterprises. Through execution of certain modifications, the author proposes to apply the method to evaluate intellectual capital of regions and cities as well as social capital of clusters. A modified model is then called *CICBS – Cities’ Intellectual Capital Benchmarking System*.

Conceptual approach and model’s components are shown in the scheme in a subsequent part of the work. *The presented model of city’s intellectual capital evaluation is composed of two sub-models*: a general one based on categories of the modified intellectual capital *Skandia Navigator* applied in this case in city context, a more detailed model embracing *micro-clusters* specific for a city.

According to the author, management process concerning general intellectual capital of a city is composed of five stages [49]: vision creation, identification of core activities necessary for vision implementation, identification of core competencies necessary for implementation of core activities, identification of indicators for all core activities and competencies, categorization of indicators according to existing components of intellectual capital.

All categories mentioned by the author in the context of a general model of intellectual capital model are based on *Skandia* and are compatible with components defined earlier by *N. Bontis* [49]. It seems that an innovatory research approach presented by the author concerns above all the second part of the benchmarking system, that is a more detailed *approach to the evaluation of city’s intellectual capital in the context of industrial clusters*, which are specific in case of a given city.

The goal of intellectual capital model specific for a given city (*CSICM – Cities’ Specific Intellectual Capital Model*) is intellectual capital measurement and management of every *micro-cluster* which is particular for a given industry branch in the city. The author claims that in order to apply the described model, it is necessary in the first stage to define proper micro-clusters in a given city. In a situation when clusters have already been defined, it is possible to apply to each of them a system of intellectual capital benchmarking. *M. Viedma* interprets factors which are of crucial importance for the existence of a cluster and which can be investigated in the following manner [49]: vision: a future vision picturing the cluster according to City authorities’ ideas, demand in a given sector: classification of various demand segments for products of a given cluster, results: classification according to various demand segments, goods and services: functions and attributes of products evaluated according to each demand segment, processes: operational and innovative value chains analyzed in order to identify core activities and competencies, core competencies: competencies constituting a base for core activities in value chains framework, professional core competencies: identification and evaluation of each value chain and type of demand as well as definition of specialists who generate and perfect company’s core competencies.

Modern economy recognized by *P. Drucker* as *postcapitalist* requires new approach to development challenges, where a “*single act of innovation*” is not enough. That is why in present times, the core of modern economy is characterized by network structure. One of characteristics of network dependencies being created is most

frequently their spontaneous and chaotic character. In consequence, an important role is attributed to the environment of *the administrative / governance* environment as a “*catalyst*” and participant of network cooperation. If innovativeness is: a constant process of flow and creation of knowledge, then certain factors defining effective functioning of *network structure* are of crucial importance. If we also take for granted that networking on its own is insufficient to create a process of *continuous innovations*, but requires also *quality of interactions*. The category of *IC and social capital* appears to be a stimulating factor for quality and effectiveness and explain system thinking approach and analyzing [11].

### 3. CLOSING REMARKS

Social capital, the structure of which is interdisciplinary, creates a system concentrating elements and relations of various nature: psychological, economic, sociological, historical, cultural. Simultaneously, among most dynamically developing scientific concepts one may quote management and creation of knowledge, as well as networking and pro-innovative systems in development process, especially for local and regional levels. The present paper is definitely not aiming at a complex and full presentation of the described point. It rather expresses authors interests in searching for a way to explain urban and regional development challenges.

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## **SUSTAINABLE DEVELOPMENT STRATEGY**

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**ABSTRACT:** *This paper deals with European strategy at the beginning Targeted at Cardiff "Partnership for Integration - A strategy for integrating environmental policies of the European Union, where the European Commission considered the second mandatory commitments to the EU : Agenda 2000 and the Kyoto Protocol. LIFE program with three "LIFE - Nature", "LIFE - Environment" and "LIFE - third countries" is another part of this work the previous chapter that refers to the way the European Commission has implemented Protocol Kyoto with "the European Climate Change." Supporting sustainable development worldwide, global chapter is closing this brief overview of the strategy for sustainable development*

**KEY WORDS:** *sustainable, strategy, integration, financial instrument, protection*

Debate on sustainable development in the European Union focuses on two directions: the first focuses on integrating environmental issues into all sectoral policies of the EU, and the second on the role of EU policy in support of sustainable development globally.

### **1. INTEGRATION OF ENVIRONMENTAL POLICY IN EU POLICIES**

In 1998, the European Council in Cardiff have laid the basis for coordinated action to integrate the environment into EU policies. In this regard councils have been created specialized in the following areas: agriculture, transport and energy. They were forced to define their own strategies for integration.

Strategy launched in Cardiff was called "Partnership for Integration - A strategy for integrating environmental policies in the European Union." On this occasion was drawn up a guide with concrete steps to achieve integration of environmental aspects into other sectoral policies that integration becomes an obligation, an imperative, and the responsibility is shared between the European Commission and other EU institutions.

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It clear that full integration of environmental policies in other EU policies is a long-term obligation that requires an approach based on experience in this field.

The European Commission considered the second mandatory commitments to the EU: Agenda 2000 and the Kyoto Protocol<sup>1</sup>.

Agenda 2000 provides proposals for reform of cohesion policy, agricultural policy reform and pre-accession assistance for the states of Central and Eastern Europe. In the Agenda 2000 are included Structural Funds Regulations on measures to protect and improve the environment, with references to degraded environments, which are considered criteria for eligibility for urban areas.

Regional Development Plans and Projects minimum of 50 million € will be assessed in the light of environmental impact assessment. Environmental agencies supporting the integration of environmental protection through programs financed by the Structural Funds. By reforming the Common Agricultural Policy has been replaced with production subsidies for single farm payments to remove pollutants factors, not distort competition in the market. Rural development will be held in compliance with all rules of environmental protection. All measures taken are aimed at maintaining soil quality, preserve biodiversity and natural areas.

In conclusion, Agenda 2000 supports only the provisions that attempt to find a balance between economic development sectors, environmental protection and achieving sustainable development.

## **2. FINANCIAL INSTRUMENT: THE LIFE**

LIFE Program was introduced to update and implement environmental policy integration in other EU policies (sector). The program has three components LIFE "LIFE - Nature ", " LIFE - Environment "and" LIFE - third countries ". LIFE - Nature fund programs to conserve natural area, wildlife conservation, flora in compliance with European Directives for the protection of birds and animals. Financial assistance is up 50% of the eligible costs for nature conservation projects, reaching 75% for projects to protect habitats. LIFE - Environment funding programs in order to implement the policy community and environmental legislation in EU and the new members or candidate. Co-financing from the U.E. is 30% for income generating projects and 50% for other projects. This program supports projects in areas such as spatial planning, management of water resources, waste management and environmental impact of products through an integrated product policy. LIFE - THIRD - finances projects to support sustainable development in third countries. Contribution U.E. these projects is 70%. It is important that U.E. support and implement procedures and orientation of international sustainable development at all levels and in all regions<sup>2</sup>.

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<sup>1</sup> Commission Communication to the European Council Partnership for Integration - A Strategy for Integrating Environment European Union Policies

<sup>2</sup> This program is supported by Regulation no. 1655/2000CE and Regulation 1973/92/CEE, Birds Directive (79/409)EEC și Habitats Directive (92/43/EEC)

**Table 1. Projects supported by the LIFE**

Country	Project Name	Type of project
Germany	Restoring marshy land Recycling of waste from demolition and oils Improving water quality Preservation	Conservation Innovation Innovation
France	Environmental management of land belonging to farms Innovator treatment of waste water The design cars to improve environmental performance	Conservation Innovation Innovation
Denmark	Redevelopment of grazing animals Decontamination of waste wood treated Denomination organic sector retail	Conservation Innovation Innovation
Belgium	Acquiring land to protect areas of special importance Management systems integrated environment for socio-cultural events	Conservation Innovation
Greece	Protection of endangered species such as Foca-monk Projects for the production of olive oil without harm to the environment	Conservation Innovation
Luxembourg	Restoration of biodiversity destroyed by agriculture Using simulation for monitoring treatment of waste water	Conservation Innovation
Italy	Protection of certain species of animals and certain habitats Local initiatives to promote a sustainable environment Fighting the greenhouse effect and air pollution	Conservation Innovation Innovation
Austria	Green Bridge over the motorway to go Bruni bears in the Alps The strategy of sustainable development in rural and urban The processing of building materials recyclable	Conservation Innovation Innovation
Spain,	Protecting marshy land, dunes, lagoons and sailing areas and coping Protecting species of animals of endangered	Conservation Innovation
England	Protecting birds make their nest on Earth, which involves removing species of animals in other places Collection and redistribution of waste neutralization equipment	Conservation Innovation
Sweden	Restoration of extensive areas of the nag high and coastal banks of the Sea Treat organic waste Sustainable management of pasture	Conservation Innovation Innovation
Netherlands	Integrated water management in cities Promoting environmental construction	Conservation Innovation
Hungary	Wolf and bobcat protection in the north eastern country	Conservation
Romanian	National Plan of Action to protect dolphins in the Black Sea	Conservation
Slovenia	Swamp protection	Conservation
Portugal	Monitoring air quality Reducing the environmental impact of pig farms Plans for the regeneration system	Innovation Innovation Innovation

Source: Regulation no. 165/2000/CE and Regulation 1973/92/CEE for the implementation of the LIFE Nature and LIFE Environment

### **3. KYOTO PROTOCOL**

International framework for combating climate change is composed of the Convention - the United Nations Framework on Climate Change and the Kyoto Protocol. In 2002 the European Commission has implemented the Kyoto Protocol with "the European Climate Change". The objective of the program is to identify and develop effective measures that will contribute to achieving the target of 8%. Environmental policies for the period 2008 - 2012 all EU Member States must include the mandatory reduction of emissions by 8% of greenhouse gases. The Central and Eastern European own goal to reduce greenhouse gas emissions by 6 - 8%. Sectors of the economy that require most changes are energy and transport. Integration of environmental policies in agriculture was done with the Common Agricultural Policy reform in the Agenda 2000. This global program is supported financially by three LIFE.

### **4. SUPPORT SUSTAINABLE DEVELOPMENT GLOBALLY**

In 2001, when the European Council in Gotteborg was adopted strategy of sustainable development through the policy dimensions of the environment were included as the third pillar of the Lisbon Strategy. The main objective of the Lisbon Strategy is to make the EU most competitive economy in the world based on knowledge by 2010.

Evidence from Gotteborg is known as the "A sustainable Europe for a Better World: A European Union strategy is sustainable development", is a vision of the European Union in the long run because future economic growth, social cohesion and environmental protection will go together.

To meet the great challenges that threaten the future of Europe, to achieve the more prosperous and more just for all in a cleaner and healthier, the European Commission shared strategy "A Sustainable Europe for a better world" in three parts. The three parties are proposals and recommendations, general objectives and specific measures and measures for implementation and monitoring.

The measures and recommendations to help achieve the main objective of both the Union and abroad. Thus, the European Council at Laken in 2002 were adopted key environmental indicators, and at the European Council in Barcelona in 2002 were adopted clean technologies. In 2003 the European Council in Brussels have been established concrete measures for 2004 by formulating Directive on the schedule for reducing emissions of gases that produce the greenhouse effect<sup>3</sup>.

At the same Council have been established and further recommendations on the implementation of sustainable development, namely: all policies to include aspects of sustainable development; informing the public about the risks and environmental implications of the destruction of biodiversity, taking up proposals for granting

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<sup>3</sup> COM (261)2001; A sustainable Europe for a Better World : A European



incentives to use less polluting technologies; supporting investment in research - development, foster innovation and development of new technologies; mobilizing citizens and society in political decision-making. We appreciate, recruiting firm to the European Union for the implementation of the strategy of sustainable development.

This strategy "A Sustainable Europe for a Better World: A Strategy of the EU sustainable development" contains general objectives and specific measures of particular importance to the prevention of threats, not only for the states of Europe and for other states of the world.

In this regard were four benchmarks priority:

- limiting climate change and increased use of clean energy. This objective is based on commitments set out in Kyoto, under which Member of the European Union must reduce emissions of gases that cause the greenhouse effect by 1% per year by 2020 compared with 1990 levels. In 2005, the European Union launched for consultation to all Member States Directive - framework on emissions of greenhouse gases.
- combat threats to the health of the population. The objective is to ensure by 2020, food quality and safety throughout the food chain, and the production and use of chemicals do not threaten the health of the population and solve problems related to infectious diseases.
- responsible management of natural resources. The objective is to remove the causal relationship between economic growth and resource use and waste generation. The objective of bringing about specific references to protect and restore natural areas and halting the destruction of biodiversity by 2010.
- improving the transport system and management arrangement territory. The objective of eliminating provides causal relationship between transport, economic growth and air pollution. Recommended are those forms of transport that do not damage the environment and promote sustainable development globally.

In this sense, in 2004 was drafted Directive - which examines the costs of using different types of transport that does not harm the environment.

A third part of the strategy includes measures for implementing and monitoring it. These measures are mandatory reporting achievements in the field of environment at European Councils, the definition and development of new indicators for monitoring the Lisbon Strategy and the Cardiff Process, the establishment of new methods of communication between European institutions to increase links between the sectoral policies 2002. The European Commission organized a "European Forum of interested parties" to evaluate sustainable development strategy which include representatives of society, trade unions, NGOs - sized investors and consumers.

Globally, the European Union participated in United Nations Conferences. In 2002, the Monterrey conference was held on funding and development where a decision was taken as EU to increase development aid to 0.39% of GNP. In 2001 held the Doha Round of WTO where all members have agreed that sustainable development should become the main objective of the negotiations. In 2002 the World Conference in Johannesburg to create "a favorable coalition" (the coalition of the willing), a

renewable energy sources in order to support forms of sustainable development, to which the EU was the principal actor.

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## **MIGRATION IMPACT ON THE LOCAL AND EU COMMUNITY LABOUR MARKET**

**CRISTINA OSVATH**\*

**ABSTRACT:** *Migration is a phenomenon with implications at community level and it is carried out through community and family networks. One of migration's most important effects is felt at community level. Due to migration, mentality changes occur determined by the contact with foreign cultures, active social critics and the entrepreneurship spirit increase, strong demographic changes occur, along with depopulated and aging communities. During the past few years, Romania was mainly the source country or the transit country in the migration fluxes. The status of Member State of the EU correlated with an increase in the level of salaries and incomes in Romania will most likely lead in the following years to a shift in this situation. In a first stage, Romania will be source and destination country at the same time and later; the number of immigrants will overcome the number of emigrants. [3]*

**KEY WORDS:** *impact, migration, labour force market, effects of migration, mobility*

### **1. MOBILITY. THE CATEGORIES, FUNCTIONS, FACTORS AND COST OF MOBILITY**

In the past, mobility was a chance phenomenon, limited to certain segments of the population. Currently, mobility includes in its sphere the entire labour force. Mobility is a form of displacement of population and labour force in relation to the ever-changing needs of production. This movement is performed in a space, a branch or a certain profession. If the movement of the population, accompanied by the change of normal residence is done in the country, we are dealing with *internal migration*, and if done outside the country, we are dealing with the phenomenon of *external migration*. Any person who recorded the event "migration" appears in a dual state: emigrant, for the town he leaves and immigrant for the town where he establishes his new home.

Speaking about the mobility of population and labour force, there are several categories of mobility, as follows: territorial (geographical) mobility called migration, is a spatial process of adaptation of the workforce to the request of the productive

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system, made either in the form of change of residence, narrowing down the space between the place of residence and the place of work (migration) or by keeping the place of residence and going to work (commuting); professional mobility, which expresses the human capacity to exercise simultaneously or alternatively as a wide range of concrete work under conditions of high economic efficiency.

Mobility presents a series of specific functions due to which it differs from fluctuation, as a form of demographic mobility, as follow:

- *The function of balance* lies in correlating the size of the labour force with the number of jobs, with their professional structure, and with their territorial distribution;
- *The function of securing employment* is explained by that whenever changes in the productive system at micro or macro level occur, a part of the labour force becomes available (leading to the emergence of unemployment);
- *The function of efficient use of labour force*, namely the rehabilitation of the scale of employment in relation to the new dimensions of the productive system, providing not only better employment, but also efficient use of the labour force;
- *The function of increasing national income per inhabitant*. When labour force mobility does not take place or takes place in insufficient proportions, excess or deficit coexist, generating large tensions social, major loss of employment and production, slowing the pace of economic growth, etc.;
- *The demographic function*, explained by that the moving of the labour force from towns, counties and areas exceeding it to those where a deficit is recorded, not only leads to full employment and efficient use of labour force, but also to improving structure by age, the renewal of the population, the revitalization of natality in the administrative territorial units in which it recorded lower values. [1]

The factors that affect mobility can be grouped into three major categories:

- *Demographic factors* whose activity correlated with the activity of other factors determine mobility, including the territorial one. However, the inclination for mobility is different, depending on various demographic characteristics. Thus, men are more mobile than women, young people more than the elderly ones, the unmarried more than those married.
- *Economic factors* exert a decisive role on the labour force mobility. Thus, if the number of jobs in a city or county is smaller than that of labour force available, then the surplus should be subject to the flow of departure in other cities or counties.
- *Factors of the population's living standard*, which affect the mobility of the labour force in order to carry it out with the necessary fluidity. [1]

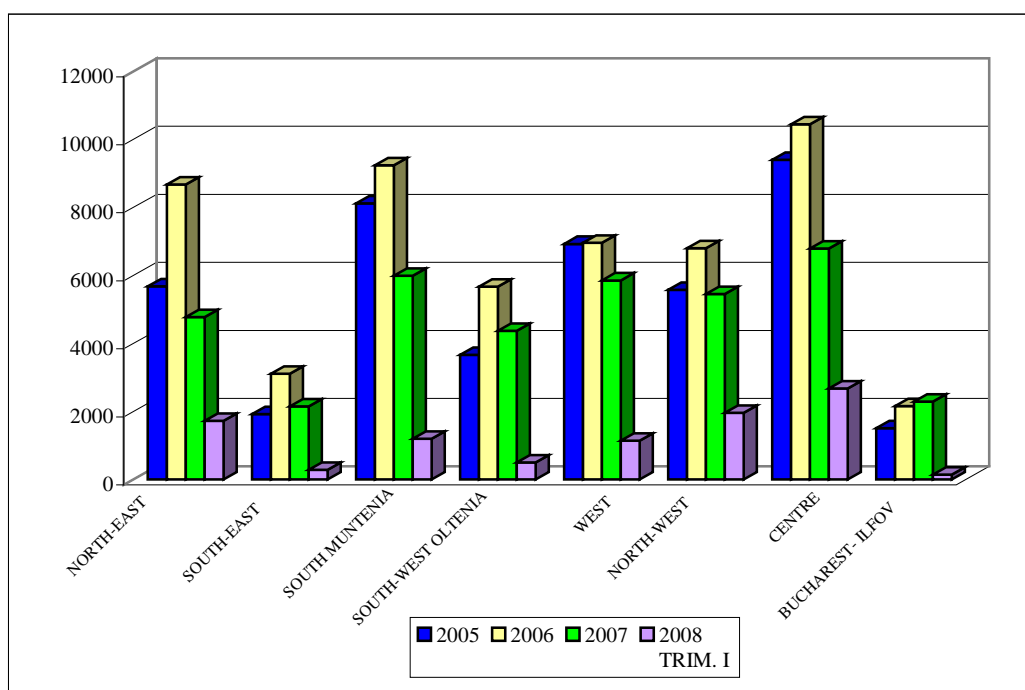
Labour force mobility involves a series of costs that are felt both at the individual and the community level. To reduce these a series of measures costs can be taken, from which we can mention:

- Increased flexibility of employment;
- Inclusion in the sphere of territorial mobility of a proportion as large as possible of young labour force;

- Encouragement of regional mobility without changing residence (in the form of daily or weekly commuting);
- Rationalization of regional labour force flows in the form of reducing crosses and travel distances;
- Promoting the establishment and development of economic activities in relation to the size and profile of localities;
- Providing a greater support for the development of agriculture and rural areas, offering new opportunities for employment of the population in these areas. [1]

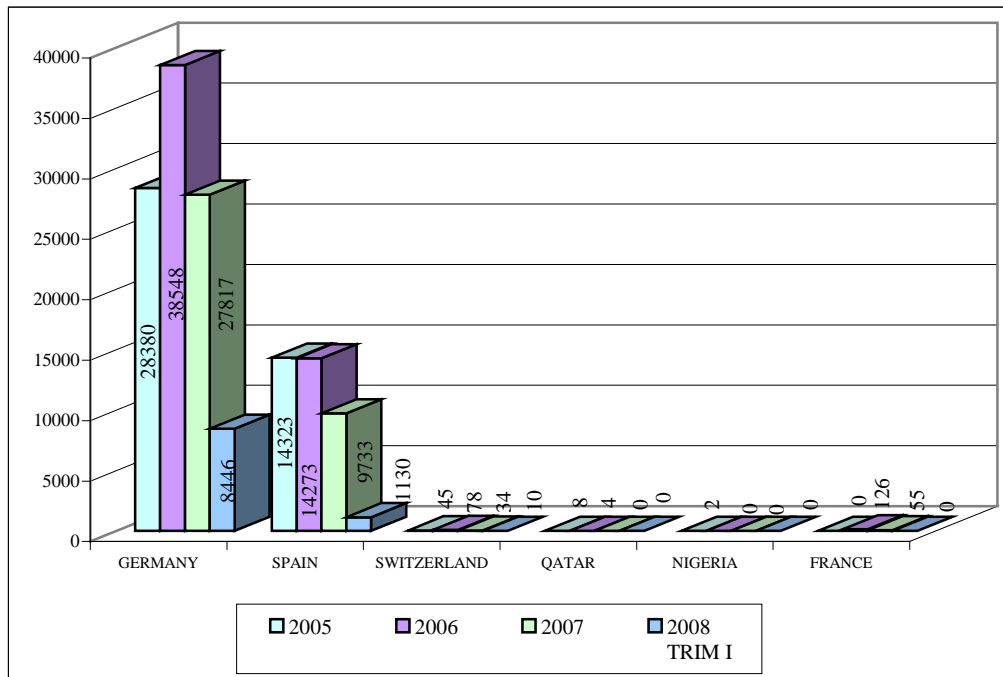
## 2. SITUATION OF WORKERS MEDIATED BY THE OFFICE FOR LABOUR FORCE MIGRATION BETWEEN 2005-2008 (1<sup>ST</sup> SEMESTER)

The migration of the labour force has gained a particularly great magnitude starting with 2005. As it can be seen in Figure 1, the largest exodus of labour force was recorded in 2006 (53.029 workers), with 19.37% more than in 2005 (42.758 employees) and 29.02% more compared to 2007 (37,639 employees).



**Figure 1.** Number of workers mediated by the Office for Labour Force Migration, by development regions from 2005 to 2008 (1<sup>st</sup> semester)

The Centre, South Muntenia and North- East development regions present the greatest loss of manpower in the period under review. On the opposite side are the Bucharest - Ilfov and South – East development regions.

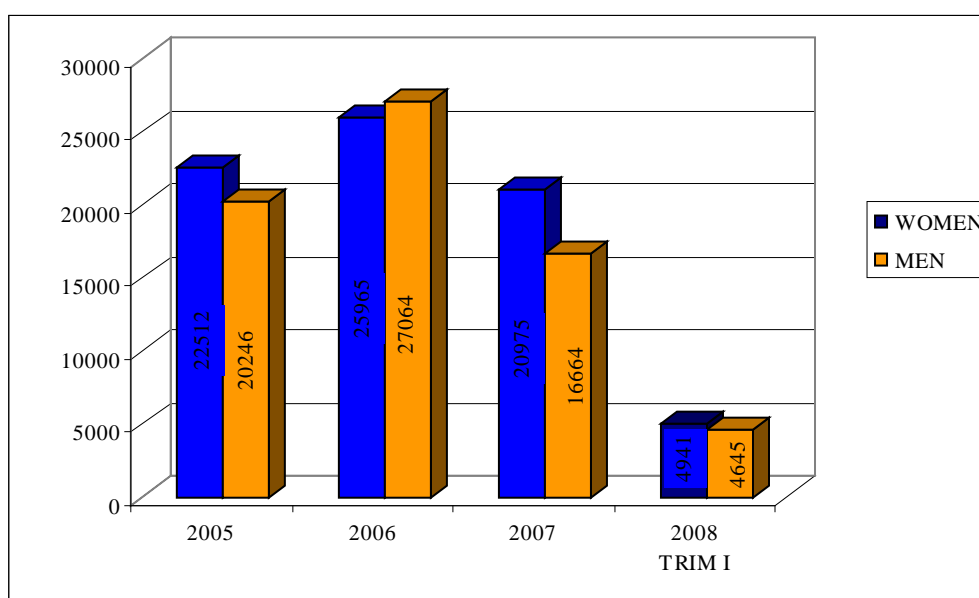


**Figure 2.** Number of workers mediated by the Office for Labour Force Migration, by destination countries from 2005 to 2008 (1<sup>st</sup> semester)

Regarding the preferred **destination countries** for workers, Germany distinguishes itself net as the country preferred by Romanian workers throughout the analysed period, followed by Spain, which is preferred by 37.15% of the Romanian workers. In 2006, the Office for Labour Force Migration has mediated a number of 38 548 contracts of employment for Romanian workers with destination Germany, increasing with 26.35% compared to 2005 (when it recorded a total of 28 390 employment contracts) and with 27.84% higher compared to 2007, when it recorded a number of 27 817 employment contracts.

In the first semester of 2008 a total of 8446 workers obtained contracts of employment for Germany through the Office for Labour Force Migration. For Spain, the highest number of employment contracts was recorded in the year 2005 (14 323 employment contracts). The number of applications for employment contracts for Spain fell slightly in 2006 from 14,323 to 14,273 (to 0.35%) and there was a significant decrease in 2007, reaching 9733 (with 32.05% less compared to 2005). In the first semester of 2008 there was recorded a number of 1130 employment contracts for Spain. At the other end of the spectrum there are countries such as Qatar where

there were 8 employment contracts in 2005 and 4 in 2006 and Nigeria where there were 2 employment contracts in 2005.

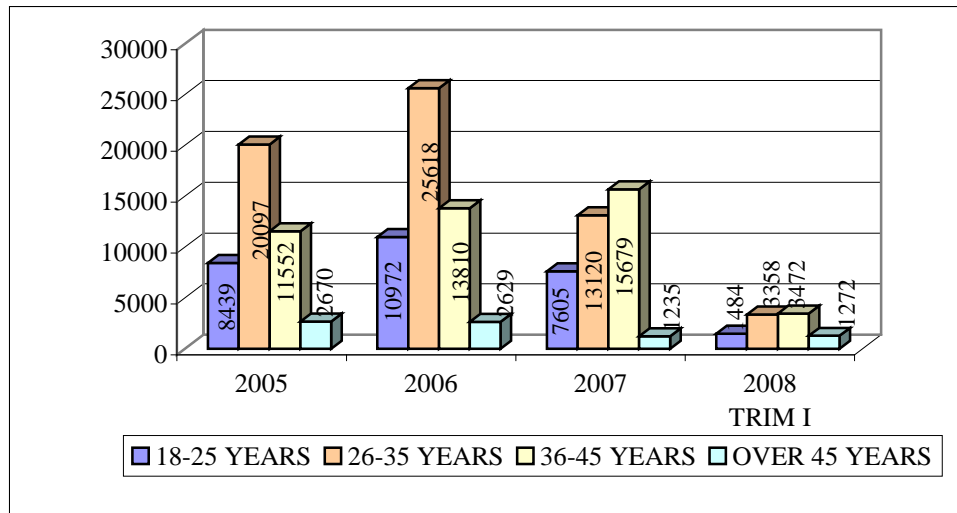


**Figure 3.** Number of workers mediated by the Office for Labour Force Migration, by sex from 2005 to 2008 (1<sup>st</sup> semester)

If we follow the gender distribution of workers mediated by the Office for Labour Force Migration in Figure 3, we may notice an interesting situation, namely: except for 2006 when the number of men exceeded that of women with 4.06%, in all the other years of the period considered the number of women travelling abroad to work is higher. Thus, in 2005 the difference was of 18.07%, in 2007 of 20.55% and in the first semester of 2008 it was of 5.99% in favour of women.

Regarding the age of the persons, who have an employment contract, it could be seen that a number of 15,679 employment contracts were obtained by people in the 36-45 years age group, representing a share of 58.34% of the total number of employment contracts, followed by age group between 26-35 years (34.85%).

In 2006 most employment contracts, namely 25,618, were obtained by people falling in the age group between 26-35 years, representing a share of 48.3% of the total number of work contracts obtained in this period, followed by those in the age group of 36-45 years (26.04%).



**Figure 4.** Number of workers mediated by the Office for Labour Force Migration, by age groups from 2005 to 2008 (1<sup>st</sup> semester)

### 3. CONCLUSIONS

Migration has always existed, even if migration flows were more or less intense, depending on the very different context or on the historical circumstances. It is a complex phenomenon with a multitude of effects. The phenomenon has important consequences in society at economic, social, cultural and political.

Migration affects an increasingly large number of states, so the problems it generates play an increasingly important role on the agenda of international organizations and governments worldwide. The European Union recognizes that legal migration can be a favouring factor for economic growth, provided that it is effectively managed and channelled to the sectors showing deficits.

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## **STUDY BETWEEN THE POOR AND THE RICH A CONSEQUENCE OF GLOBALISATION AND TRANSPASING OF EQUAL HUMAN RIGHTS**

**CRISTINA OTOVESCU-FRĂSIE \***

**ABSTRACT:** *During this study I have presented from the beginning the notion of globalisation emphasising more definitions given by the well known authors in the field. Then we discussed about the phenomenon of poverty at both international and national level. In Romania, we have discussed about the increase of the income before and after the EU accession.*

**KEY WORDS:** *globalisation, rich, poor, human rights, inequality*

### **1. INTRODUCTIVE NOTIONS ABOUT GLOBALISATION**

In the Economic Dictionary, globalisation is defined as being” the way or the approach system on long term of the big problems in today’s world determined by the interaction of the multiple processes and economical technical, social cultural, ecological problems and the way they should be solved on a larger scale by the international community. In such a global vision the assembly acquires proprieties which the components in themselves do not have” [6].

„Globalisation consists in the tendency of the company to establish production units in the entire world, meaning anywhere the market is big enough to allow savings on a large scale. This leads to increasing the number and the size of the multinational companies. The main characteristic of the globalisation is that the merchandise the services, the capital, the work and the ideas are transferred on the international level through the companies” [4].

Different researches indicate the fact that the globalisation has three main causes: technological, political and economical. These have started a process in which the geographical distance has become a non essential factor in supporting the

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transfrontalier connections of the economical political social and cultural international relationships called globalisation. The international range of the relationships and interconnections produces a decrease on demographic, ecological social and on safety scale as well as a series of effects such as changing the attitudes and the administrative structures [2].

At the Conference of the Third World Leaders from 24 of July from 1996 from Kuala Lumpur, Mathir Mohamad (the Prime Minister of Malaysia) has declared that „the developed countries interpret globalisation as a way to tear down borders in the way of exploitation. As a result each healthy country or poor country should have access to any other country in a mutual benefit. In reality globalisation leave the countries that are about to develop exposed and without the possibility to protect themselves”.

His word is added to a growing number of critics addressed to the globalisation coming from leaders of the South states. When the UNCTAD – IX edition conference from Madrid South Africa a few leaders of countries about to develop have described the way in the globalisation and free circulation have removed the local companies and their economies. Also they have showed how the liberalisation of the commerce or the opening of their economies, of the merchandises and of the foreign companies has often led to very bad results [2].

According to the opinion of the specialists which analyse the evolution of the human society, the globalisation process has a very big impact over the human rights and the public liberties.

## **2. POVERTY AND INEQUALITY AT WORLD WIDE LEVEL**

In Washington, in May 1996, at the Seminary organised by the *International Forum on Globalization*, different political and economical personalities both from the developed countries as well as those developing have met. The ones coming from the so called „South” have underlined the negative effects of liberalisation and globalisation showing their effect on poverty unemployment, lack of security for the jobs, social inequities and the destruction of the atmosphere.

The report over the Human Development lunched under the patronage of U.N. Program of Development (1996) contains interesting data which show that the globalisation favours a very small number of people, while more and more people have a hard time fighting tremendous inequities [5].

According to the U.N. stipulations the minimal age needed to develop a useful social activity has to be of 16 years. In most of the countries, the age of 65 is considered a retirement age while in other developed countries this age goes over 65 years.

Poverty is one of the most serious problems of humanity which is found in the entire continent and has dramatic effects on not respecting the rights for certain categories of people. In *World Development Report 2000-2001*, made by the World

Bank there is a very short and expressive formula:” Being poor means being hungry, not having clothes, a place to live, being sick not having access to medical assistance, having a poor level of education, being illiterate”. The poor man lives day by day has a short range of life and he is lowered to the biological condition of his being and so not being able to control its own life.

The analysts of this field treat or relate poverty with:

- economical underdevelopment,
- poor payment,
- malnutrition,
- unemployment,
- social exclusion,
- the use and the trade with drugs,
- demographic explosion,
- malnutrition,
- unemployment social exclusion school abandonment,
- over grow of the population illiteracy,
- social failure,
- the accent on the social disappearances,
- the narrow distance between the developed countries and the ones that are under developed,
- the lack of interest from the government,
- political instability,
- rural side,
- political domination in a forceful way,
- colonial inheritance,
- the war, including the civil one,
- the natural catastrofies,
- the black market,
- economical crisis,
- over populated cities,
- low life expectancy,
- source of the conflict between the different social categories.

The poverty phenomenon can be found not only in the underdeveloped countries but also in the ones that have a strong industry. In it's shown that *World Labour Report 2000: Income Security and Social Protection in a Changing World* is shown the number of people that live in extreme poverty has grown on the globe in the last five years with almost 200 millions.

Most of these live in regions like: Saharian South Africa, Central Asia, Eastern Europe and South Est Asia. Between 1987 and 1999, the population from the underdeveloped countries, the population which had a medium income less than one dollar per day was between 24 și 28% from the total population of those countries. Even sadder is that this report would maintain this report unchanged until the year 2015 according to the estimations about the predicted demographic increase [1].

At the beginning of our century the most higher level of poverty were recorded in 8 countries: Mali (72,8%), Nigeria (70,2%), African Central Republic(66,6%), Zambia (63,7%), Madagascar (63,4%), Niger (61,4%), Burkina Fasso (61,2%), Gambia (53,7%). If the level of the poverty would have been gone fewer than 2 dollars per day then the number of the countries touched by this social problem would have grown to 14. We meet them in west and East Africa as well as in the Central Asia and South Asia.

The problem of the poverty persists in countries of Latin America: Bolivia, Ecuador and Honduras, where over a half of the population lives with less than 2 dollars a day. The level of poverty for the average population was bigger than the hope of life:” So in Saharian South Africa where the average hope of life was in 2000 was of 52 years with 13 years less than the average recorded in the countries that are developing and with 25 years less than in the O.C.D.E.

The rate of infantile mortality is maintained at unacceptable high rates in Under Saharian Africa (90‰), in South Africa (77‰) in comparison with the average level of 6‰ recorded between 1990 and 2000 in the O.C.D.E. countries And these data offer information on the wide range of the negative effects on the social plan and on the plan of „human health and poverty” [1].

The phenomenon of poverty is also present in wealthy societies known for their economical and social progresses For example USA had in the year 2000 that leaved under the lowest level of poverty (out of a total population of 288 million habitants); „In Great Britain in all of the big urban zones there is a great gap between the rich and the poor and it get’s wider and wider” [1].

In spite of all this we have to admit that the developed societies dispose of efficient programs to fight against poverty as well as specialised institutions of social work. Certain authors notice the fact „that a fifth from the total population of the globe uses three quarters of the world’s riches and of the national resources.

This separation is generally done on geographic coordinates traditionally called the world of the industrialised countries and the” Third World” or North and South. This polarisation in it self is a source of instability which is seen eloquently in the phenomenon of massive migration from the last years in Europe and North America and mostly at the border zone between USA and Mexico and on the zone of South Europe” [1].

„In a world which produces enough food for each and everyone of us” said the report published by FAO at the end of year 2003-problem is not so much a lack of food, but a lack of political will” to stop” the critical state” of 842 million people from the entire world and specially from the underdeveloped countries which go to sleep hungry (a number which overpasses the population of Latin America).

In this total there are about 10 million people from the industrialised countries as well as 34 million from the countries in transition. In another report of UN published in March 2002 on the „Worldwide Day of the Water shows that on a planetary scale there is a crisis of water because only 3% of the quantity existing on Terra is drinkable (most of it being frozen or too deep down to be used).

Every year over 5 million habitants of the planet loose their life because of the diseases sent through the infested water and other ten million die of thirst. It's considered that until the year 2025, over 2.5 billion people would have to save the water and other 2.7 billion wouldn't have where to save it from because where they leave there isn't enough water for their daily needs.

In the year of 2000 the cumulated riches of the 225 most richest people on Terra was over 1 trillion of US dollars which represents the annual income of the half of globe's population and the wealthiness of the first three most rich people of the world overcomes the annual cumulated productivity of the most poor 48 countries [3].

*The Forbs* was presenting in the year of 2000 the fact that at that time there were 573 billion dollars. According to this ranking with a wealth of 60 billion dollars. Regarding the spectacular leaps realised since the year of 1999 to 2000 the magazine is presenting Larry Ellison (USA) who owned 9,5 billion dollars and in a short period of time he has reached at 47 billion dollars, Masayoshi Son (Japan) which from 6,4 billion dollars has reached at 19.4 billion dollars, Bernard Arnault (France) which advanced from 6 billion at 12,6 billion dollars, Leo Kirch (Germany) from 5 at 11,5bilions, Silvio Berlusconi from 8 billions at 12,8 billions in the year of 2000 also.

### **3. POVERTY AND INEQUALITY AT NATIONAL LEVEL**

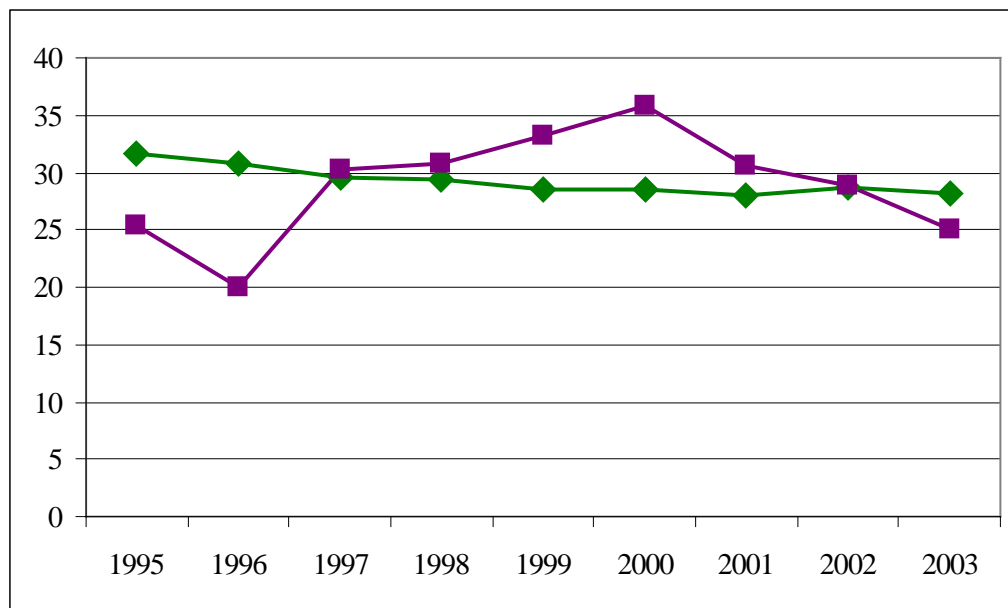
Romania has recorded in the first decade of the transition two periods of dynamic growth of poverty, 1991-1993 1997-2000. The maximum point was reached in 2000 with a poverty rate of 35,9 % and of severe poverty of 13,8. After the year of 2000 there were two years of abrupt decrease up to 25.1% in 2003 and of the severe poverty up to 8,6% a level that was not touched again after 1995/1996.

The analysis of World Bank (Assessment report of Poverty, 2003), using a conservative scenario over the economical growth overcome by the year 2004 with an economic growth of 8,5% compared to 4,9 as it was initially expected they were predicting a decrease of poverty up to the level of 16,8% in 2007. If we take into consideration the more accelerated economical growth and the expected positive social impact of some certain measures of social protection adopted lately like the decrease of poverty up to 15% and even below this level becomes a more realistic objective [7].

The studies over poverty in Romania have used different methods to measure the poverty in the first decade after the revolution. In 2001 the Commission against Poverty and promotion of Social Inclusion of the Romanian Government was made. The experts of this institution have Worked together to elaborate a certain methodology of measuring the poverty based on a expertise of the most relevant institution of the field: the World Bank the National Institute of Statistics, University of Bucharest, the Institute of Research for the Quality of Life.

This methodology of measuring poverty was applied in the year 2002 to calculate the poverty rates for the period 1995-2001. In 2003 World Bank and the experts of this institution have made a very large assessment report of the poverty

launched in the month of October 2003. The experts of this commission against poverty has taken the decision to use this method every year to calculate their poverty rates and their dynamics starting with 1995. Inequality based on how much people consume is low. In Romania even if the poverty was low (1995-1996, 2000-2001, 2002-2003), there is an increase of inequality [8].



**Figure 1.** Gini Coefficient and Poverty Rate

The level of the relative poverty which is another way to evaluate the poverty based on the incomes is considerably lower than in the liberal countries such as America or Japan which is more of the same and even less than in the EU nations and the candidates for EU. They were even taking in consideration the 70% rate of consume is considered the most high up rate of consume there is still a rate of poverty that is a little more lower then by measuring the poverty according to the absolute rate of poverty used in this analysis. Even so it is expected that the diminishing of poverty would lead to increasing inequalities in the absence of compensational social protection measures.

Before Romania entered EU in the year 2005, in this country there were the biggest payment growth and this was also the biggest payment from Europe but the medium income was still the same, very small. If we are to discuss the gender distribution the income comes very close to the average European income.

The average payment rate of the woman from Romania is 82,4% of the men's average payment according to the data offered by the report of European Institution for

Industrial Relationship As a difference from to other State members or candidates for EU the average salary is little smaller than 200 euro overcoming the 180 euro that the Bulgarians receive.

On the other side Romania has had the biggest salary increasement followed by Bulgaria. The average salary has grown in Romania with 22,5 % in absolute terms and with over 12% if we consider the inflation meaning 3 times more than the European average of 4,5%. The minimum wage has not grown in the same way. The inflation went down, the salary increasement was at the average of the European level of 3% and this has happened only because the exchange rate of euro has grown in favour of euro. From the point of view of absolute value the minimal wage Romania and Bulgaria distinguish themselves taking the last places. The minimal wage in Romania in 2004 was of only 70 euro per month compared to the 190 euro in Poland, 210 euro in Hungary and Czech Republic or of 490 euro in Slovenia. In Greece the minimal wage reaches up to 560 euro more than in Spain where it is just 490 euro. The Belgium, the Dutch and the French men have negotiated minimal wages of over 1200 euro [9].

After Romania has entered EU in 2008 the increase of the average salary has been accelerated in the month of June up to 24,4% compared with the similar period of 2007 so that it's value has reached 1.273 lei (about 360 euro) according with the data from the National Institute of Statistics. The highest values of the payment from June are maintained in intermediary financial activities (3.220 lei) and the smallest one in working with the wood except furniture (689lei).

In June growth of the payment has been noted because Romains received bonuses for holidays for public functionaries as well as for the people hired in public units of health. The payment increasement has led to feeding the excess of request. According to the last data published by Eurostat Romanians are leading at things they buy. In June Romania had recorded the highest growth of the retail commerce among the other states of EU if we are to compare with the month of May (4,1%) as well as if we take in consideration the last period of 2007 (23,3%) beyond the community level.

So the advance of 23,3% coming from retail sector goes 21% times more and the average of 1,1% is calculated at the level of 27 member states and the main danger for Romania would beat macroeconomic level the inflation that would make the deficit bigger. The annual growth of the retail commerce in Romania in June was 4 times bigger than the advance of 5,7 % noted in the country coming from the second place. Monthly up dated the growth rare is of 4,1% which means that it is 2,4 times stronger than the appreciation of 1,7 reported in Sweden [10].

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## **INNOVATION PROCESS MODELLING**

**ANETA PACHURA, MARIA NOWICKA-SKOWRON\***

**ABSTRACT:** *The process of constant change is the success factor in reaching the desired speed of products, processes and organisations development and thus in improving corporate potential. Modelling phenomena in accordance with the structural approach enables one to simplify the observed relations and to present the classification grounds. An example may be a model of organisational structure identifying the logical relations between particular units and presenting the division of authority, work.*

**KEY WORDS:** *corporate potential, innovation process, prognostic problem solving method*

### **1. INTRODUCTION**

The competitive advantage is the result of full adaptation actions for the changing demands of external and internal environments. It may be assumed that the process of shaping the basic success factors is determined by corporate activity in research and development, production, distribution and customer service. Integration of these actions demands constant market analyses as well as flexibility and organisational efficiency. The process of constant change is the success factor in reaching the desired speed of products, processes and organisations development and thus in improving corporate potential (technical, organizational, informational, economic and social). Modelling phenomena in accordance with the structural approach enables one to simplify the observed relations and to present the classification grounds. An example may be a model of organisational structure identifying the logical relations between particular units and presenting the division of authority, work, etc. Functional modelling is widely applied in organisation and management as it offers the possibility to present phenomena in a way facilitating their evaluation on the basis of the data introduced to the model.

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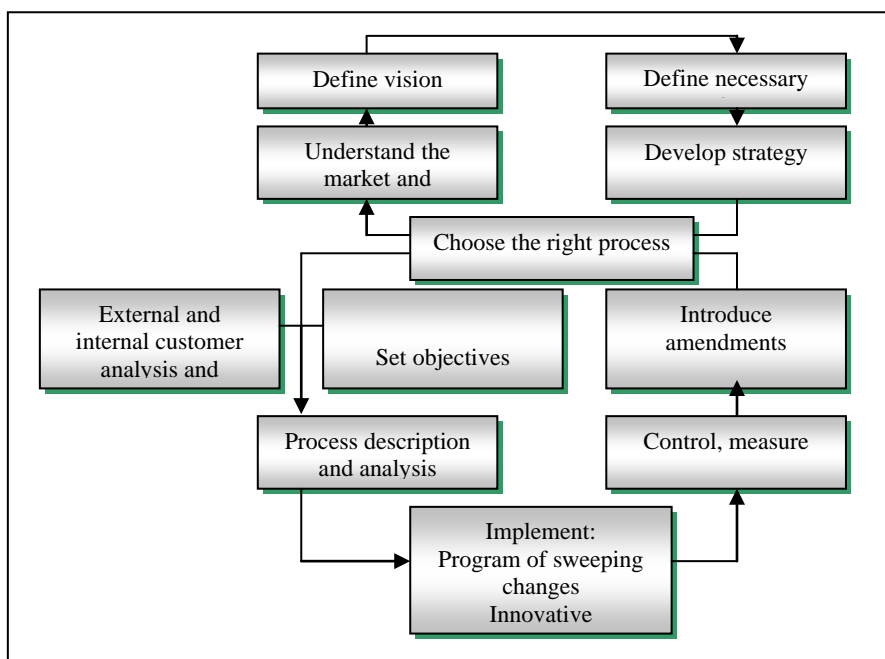
## **2. INNOVATION PROCESS**

The problem of technological innovations has not been considered a priority by the classic theorists [9]. Due to the fact, no special importance is ascribed to the innovation development theory, in spite of the fact that Smith, Ricardo, Marks, Marshall, Keynes and Solow are almost unanimous, stating that long-term efficiency growth is inextricably related with introduction and diffusion of technological and organisational innovations. Joseph Schumpeter has stressed the role of innovation by pointing to the special interdependence between economic development and innovation development observed in the process of qualitative and quantitative application of innovations in business practice. However, the neoclassical theory does not identify any special role of innovation development, as it focuses on removing market imperfections and return of price and wage flexibility [9]. Subsequent development of institutionalism has resulted in research on the existence, power and character of the correlation between economic development and innovation development. Interest in the process of learning in the light of economic results has changed the perception of the role of innovation.

This approach has enabled deep understanding of the sources and determinants of technological changes, thus enriching the classical approach focused on the impact of technology on economy [9]. Since that time, innovations have been considered to have major importance on socio – economic development. Researchers are now of the opinion that economy development does not depend on material, capital or human resources but mostly on modern technologies [12]. Nowadays, research and development lay at the basis of economic power and social welfare [8]. Innovative activity, especially in the field of goods and technology, may be considered a must in the global market conditions. Increased instability of the external environment influences the number and frequency of scientific and technical discoveries. Moreover, innovation is considered a special business tool, applied in order to introduce new business solutions or new services [5].

Today, innovation is understood as: introduction of new products or improvement of the already offered ones, introduction of new implementation methods or improvement of business processes (primary, auxiliary and management), introduction or improvement of a production system, including the production and management subsystems, introduction of a new organisational structure or improvement of the already existing one, with special stress put on hierarchical relations and dependencies in the sphere of information, competence, responsibility and decisions, introduction of new organisational and management culture or improving the already existing one. It is commonly believed that the character and intensity of the process of implementing innovations in the field of goods, processes or organisational structure depend on both corporate research and development initiatives and on transfer of technology and know-how from the external environment of the particular organisation. The complexity of business processes, focused primarily on managing knowledge, information, technology, staff, finance and marketing, results in

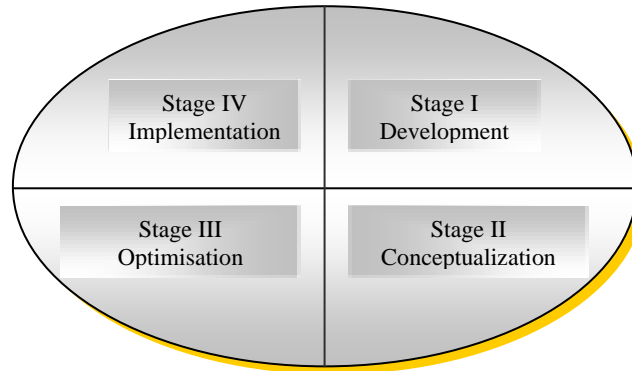
the fact that contemporary companies notice the necessity to transform the present business priority sectors (Figure 1).



**Figure 1.** Process facilitation model

Source: Adair Ch.B., Murray B.A., *Breakthrough process redesign: new pathways to customer value*, Wydawnictwo Naukowe PWN, Warszawa 2002, p. 40

One may thus state that management, including change management, applying the total organisational (social, material and financial) potential is the basic development paradigm. Customer value is conditioned by the synergy of process complexity and speed of innovative changes. Thorough reconstruction of processes aiming at restructuring an organisation may be achieved thanks to the application of the process approach and focus on continuous innovation introduction. One-time change aimed at the introduction of a new concept in the process of organisation management is frequently not sufficient to reach the desired objectives and implement strategic goals of a company of the future. Special importance is ascribed to the ability to identify the main processes – *megaprocesses*, taking into account resource limitations and reorganisation possibilities. It is most frequently observed that changes aimed at development or innovation should prevail in a well-managed enterprise. Innovation introduction is identified with the process of generating new solutions, conceptualization of projects, their optimisation and implementation (Figure 2). The basic objective of actions undertaken in this respect is better organisation and efficiency of an organisation, especially in the sphere of market service [10].



**Figure 2.** Stages of innovation development

Source: Basadur M., *The Power of Innovation. How to Make Innovation a Way of Life and Put Creative Solutions to Work*, Pitman Publishing, 1995, p. 34.

Complex approach to innovativeness enables one to compare innovative activity to the search for innovative ideas and solutions covering a complex process originating in research and finding its end in complete implementation of the particular innovation [6].

### 3. MODELLING OF INNOVATION PROCESS

Developmental cycle of an innovation, especially its scope, time and efficiency in reaching corporate goals influences directly not only the degree of innovativeness of the goods produced or services rendered but also of the whole company. Contemporary technological progress results in shortening development cycles and thus faster implementation of innovative solutions into business practice. From the point of view of retrospective analysis, the character of innovation processes has changed considerably, starting from the linear model up to network integration approach. There are five basic generations of innovation process models (Tab. 1).

In case of the four generations, the innovation process took the form of subsequent linear stages (Generation I / II). In Generation III, interactive relations between different factors (including feedback) were identified. The fourth Generation of the innovation process is a parallel model, taking into account the importance of key suppliers, customers and numerous interdependencies. “For most of the 20<sup>th</sup> century, the ‘closed innovation’ model worked well – internal R&D focus, product innovation orientation, self-reliance, tight control and generation of own ideas to develop, manufacture, market, distribute and service new products [3]. Another, fifth generation of the innovation process is characterised by erosion of the “closed innovation” phenomenon. Networks are created, tests and experiments are very popular in the sphere of new technological and organisational solutions.

**Table 1. Five generation of innovation process models**

Generation		Key features
I / II	1960's +	simple linear models – need pull, technology push
III	1970's +	coupling model, recognizing interaction between different elements and feedback loops between them
IV	1990's +	parallel model, integration within the firm, upstream with key suppliers and downstream with demanding and active customers, emphasis on linkages and alliances
V	2000 +	systems integration and extensive networking, flexible and customized response, continuous experimentation and testing

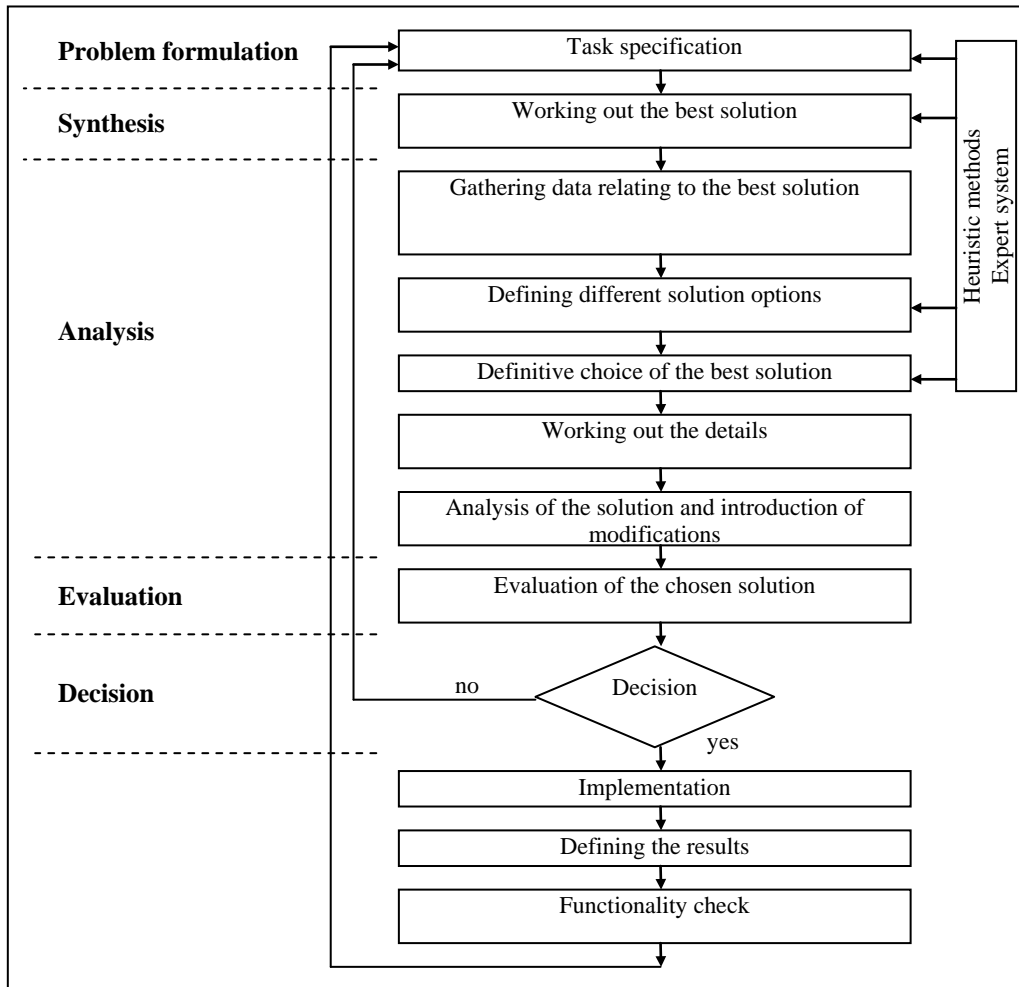
Source: Davenport T.H., Leibold M., Voelpel S., *Strategic Management in the Innovation Economy. Strategy Approaches and Tools for Dynamic Innovation Capabilities*, WILEY, Germany 2006, p. 131.

A model is commonly defined as a graphical, mathematic or physical representation of a particular phenomenon or action. In case of organisation and management, a model is a logical construct playing an instrumental role in organisation theory and practice. There may be two approaches distinguished: a structural approach, in which a model is defined as a construct reflecting the real object with the use of abstraction and a functional approach, in which a model is a construct substituting the real, original object in cognitive and empirical operations [10].

Modelling phenomena in accordance with the structural approach enables one to simplify the observed relations and to present the classification grounds. An example may be a model of organisational structure identifying the logical relations between particular units and presenting the division of authority, work, etc. Functional modelling is widely applied in organisation and management as it offers the possibility to present phenomena in a way facilitating their evaluation on the basis of the data introduced to the model. The degree of materialisation of the phenomena presented by a model, understood as a degree to which it reflects reality is most frequently dependent on the character and complexity of the described phenomenon and is a resultant of demands and competences of business entities. In organisation and management processes, modelling often takes the form of a research procedure characterised by various types of methodology of study. The following models are frequently enumerated among the discussed approaches: G. Nadler's models (Fig. 3), models based on Altszuler's deduction and models developed on the basis of the D. Buschardt's block method.

G. Nadler's method of ideal concept, identical with the IDEALS (Ideal Design of Effective and Logical Systems) concept consists in [7]: considering the designed (improved) object as a system whose constituents are: system functions: input and output, sequence of steps between input and output, system environment, physical catalysts and human beings, application of a design procedure consisting in the search for the ideal solution and idea materialisation during the implementation stage, dependence of the design procedure on the people involved in the process. This approach necessitates the adoption of a prognostic strategy in the process of problem

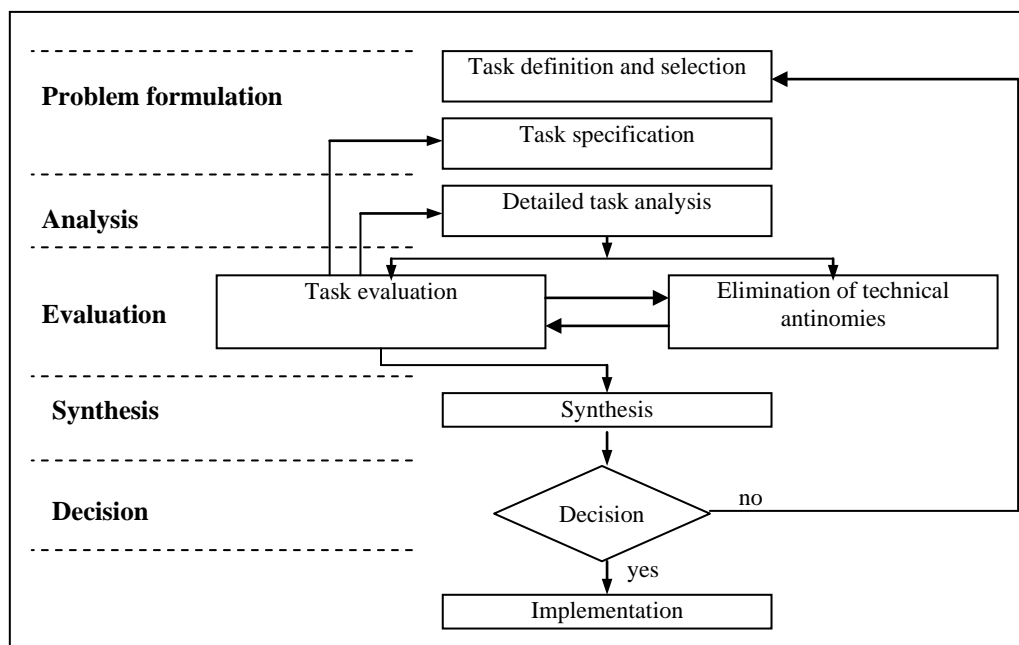
solving. The concept of search for the ideal is primarily focused on the synthesis of the best solution, working out the details of the one to be implemented and search for possible implementation problems (Fig. 3).



**Figure 3.** Nadler' algorithm (prognostic problem solving method)

Source: Durlik I., Restructuring Business Processes. Reengineering, Theory and Practice, Agencja Wydawnicza Placet, Warszawa 1998, p. 96

The process of modelling based on the Altszuler's concept approach identifies the necessity of problem definition. According to the above discussed procedure, a problem is identified and working hypotheses concerning its solution possibilities are tested. The Altszuler's implementation procedure covers the following stages (Fig. 4): problem formulation, search for potential solutions, evaluation of particular options, solution selection, implementation decision.



**Figure 4.** Altszuler's invention algorithm (diagnostic method of problem solving)

Source: Durlik I., *Restructuring Business Processes. Reengineering, Theory and Practice*, Agencja Wydawnicza Placet, Warszawa 1998, p. 95.

D. Buschardt's organisation method consists in the following stages [7]: arbitrary isolation of model subsystems and definition of relations between them, definition of tasks performed by subsystems and their local objectives, definition of agendas responsible for the implementation of particular tasks, graphic design of the model achieved by drafting a scheme of the designed subsystem elements, verification of the model's internal compatibility with regard to e.g. occurrence of all necessary blocks, supplies and carriers of information, solution correctness, definition of the aspects differing the designed model from the present state, practical implementation and verification. Complexity and variety of problems observed in enterprises, necessitate frequent application of prognostic methods of their solution. The demands of competitive markets and the possibilities offered by modern information technology necessitate transformations of the already existing structures and procedures. Due to the fact, one of the transformation option seems to be the application of methods consisting in creating ideal solutions.

#### 4. SUMMARY

Theoretical studies on innovations confirm the interest in the problem of innovative activity both among theorists and practitioners of organisation and

management sciences. Comparative approach to the innovation theory in classicism, neoclassicism and institutionalism may be the basis for considerations on the importance of innovative activity in the contemporary global economy. Implementation of organisational innovations conditions better coordination of actions undertaken by different elements of the organisational structure and is thus a factor facilitating efficient management. In contemporary business practice change is most frequently observed in the sphere of goods, processes, systems, organisational structures and recently in organisational culture and social capital. The question of innovation process modelling in practical business activities is important scientific challenge.

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## **STRATEGIC PLANNING OF SPREADING ACTIVITY ON THE BASIS OF ACCOUNTANCY INFORMATION**

**MONICA PĂTRUȚESCU \***

**ABSTRACT:** *Strategic planning of spreading refers to the allotment of long term resources, under the conditions when they are variable. Thus, providing finite products on for a developing market or for other market segments, the use of some new distribution channels or means of transport, are decisions that should be adopted at the level of strategic planning. The strategy within spreading domain is elaborated on the basis of some plans and programs that comprise the sales estimated for a certain time horizon. These estimations are realized on the basis of the information proceeded from the accountancy system and from exterior sources available for the marketing department.*

**KEY WORDS:** *strategic planning, optimum spreading stock, delivery, distribution, management of sales.*

The management of each enterprise requires the basic “raw material”, *the economic information* in order to find finalization within the decisional act. The informational system of accountancy presents a structure of dates and information easily accessible and relevant for the leadership and at the same time a control over the informational flows and circuits. Thus there are assured the necessary premises for exerting the functions of management at any level.

Due to their nature, information concerning stocks reflects that “*dynamic*” part of the productive activity in which the goods’ motions, transformation and the existence within the patrimony requires a continuous seeking of equilibrium and economic stability.

Decisions, especially the operative ones, are founded on this information, being connected to the environment through the acquisition and sale process and an internal circuit through the production activity.

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Through a better organization of the storing activity one can achieve the same attraction of customers with a reduction to 40% of investment in stocks. Such an analysis that should be in the management's attention and according to the data given through financial situations and the reports of acquisition and sale, can trace the strategies of financing the production with material assets in a sustained rhythm without useless immobilizations of funds.

The strategy within spreading domain is elaborated on the basis of some plans and programs that comprise the sales estimated for a certain time horizon. These estimations are realized on the basis of the information proceeded from the accountancy system and from exterior sources available for the marketing department.

The circuit of information regarding this activity should be integrated in the informational system of the enterprise, the connections of different activities having a basis in existence and movement of stocks. Doubling the real flows of materials with the flows of information requires organization and control on hierarchical levels and sectors of activity, establishing relational and functional reports among these.

The structure within "operational plans that deal with the problems of providing the stocks of finite products at the level of the request registered for a certain period, of programming the deliveries and the use of deposits consider each event and resources, according to the followed purposes"[3].

Strategic planning of spreading refers to allotting long term resources, under the conditions they are variable. It includes environmental scanning, strategy formulation, strategy implementation of evaluation and control.

Thus, providing finite products on for a developing market or for other market segments, the use of some new distribution channels or means of transport, are decisions that should be adopted at the level of strategic planning. Its role should be appreciated for the capacity to efficiently answer to the market and environment changes and generation of some information necessary in the assembly activity of the firm.

Spreading activity planning must contain a few steps:

A. *Detailed informing on the present situation*, which practically represents the evaluation of spreading activity in order to obtain a complete image of the present performances.

The necessary information refer to the production capacity, the volume of sales, medium production rhythm, the minimum and maximum accepted level of stocks of finite products, storage medium time. Processed data proceed from the evidences of accountant nature and they constitute a balance of the results of spreading activity, on the basis of which they establish an operational program.

B. *Definition of the objectives of spreading activity*, whose accomplishment should be realized in the specific known context, for the product and the market. The importance of this step consists in the fact that it furnishes

the data basis for the ulterior decisions. They will take into account the marketing and operational requirements, their full coordination within the planning activity.

In order to permanently harmonize the rhythm and dimensions, the fabrication structure with the requests of clients specified within the signed orders and contracts it is necessary to amply characterize the operative process of delivery-sale.

The effective transfer from producer to beneficiaries of finite products supposes activities concerning:

- Organization of some operations for the preparation of products for delivery;
- Formation of complete and complex delivery lots, according to the request;
- Realization of mailing documents;
- Development of the expedition of finite products.

Physical flow of sale commodities is doubled by the informational flow, so that it should be organized so thus it does not detain the activity and should exactly exemplify the movement of stocks toward the clients.

*C. Realization of spreading strategies* represents modalities through which the objectives can be reached. Normally, there are alternative strategic options, and one of the tasks of planning consists in identifying and evaluation of these alternatives.

In the case of products' spreading, the management should adopt a stocking policy connected to real and potential clients, considering [2]:

- Constant-continual presence of products in stocks, thus allowing the gratification of the purchasing requests of clients any time, no matter their measure. The implied risk is that of creation of some stocks of finite products that would not sell. In the situation of the enterprises from alimentary industry, with perishable products and limited stocking period, this strategy is not viable;
- Admittance of lack of products within the spreading stock at a certain moment or for a certain period of time. The reverse of this strategy is the loss of some clients or of a market segment, therefore reduction of sale incomes.

The analysis of these alternatives is motivated in finding the variant that should maximally satisfy the request of the market, under the condition of the smallest costs or compliance with the budget reserved for the spreading activity.

Contradictory elements that are taken into account refer to the following problems:

- Which are the costs and risks for the maintenance excess stocks in comparison to the losses of cashing and profit, through the lack of stock products?

- Which are the costs or risks connected to the change of the production volume, according to season mutations that manifest within sale requests in comparison to costs and risks of maintaining excess stocks within periods with low request?
- Which are the costs and risks connected to the cessation of some sales, due to the limitation of the production capacity, in comparison to its extension?

Thus, they should realize a model of optimization of spreading stocks taking into consideration the influence factors specific to the production character and of the production results.

The general model of establishing the optimum spreading stock is similar to the one used for production stocks, taking into account the order launching expenditures in order to assure the reintegration of the spreading stock (CI) and storage expenditures per unit of product and transaction period (Cs).

Calculus relation is the following:

$$S_d^* = \frac{\sqrt{2 \times V_d \times C_l}}{C_s} \quad (1)$$

where:  $V_d$  = the estimated volume of spreading for the transaction period taken into consideration.

In the case of a production with continual rhythm, with short production cycle and with daily activity, the calculus model of the optimal level of the spreading stock considers the medium rhythm of production per day and medium spreading for the same unity of time, thus the relation becoming [1]:

$$S_d^* = \frac{\sqrt{2 \times V_d \times C_l}}{C_s (1 - r_p / r_d)} \quad (2)$$

where:  $r_p$  = daily medium rhythm of production

$r_d$  = daily medium spreading rhythm

Strategic spreading plan focuses on the recognition of requirements for clients' satisfaction of the costs necessary for the delivery of these services to which the understanding of global firm's objectives add.

Thus, the connection between spreading activity and clients' serving strategies (that include details connected to stocks, transport, and client communication) should punctually be stipulated in the general spreading plan not only at strategic level, but also at operational level.

A detailed knowledge of the dynamics of the operations supposed by the distribution of finite products from the level of productive system until the one of spreading, create the advantage of anticipation and avoidance of the possible distortions.

*D. Surveillance and control of spreading activity*, as efficient evaluation means of realisation according to planning.

We consider that within this step we should supervise the way the clients are served not only from the point of view of performances, but also from the point of view of costs. It is necessary to establish and analyse the following aspects:

- Important categories of costs together with the other efforts made by the economic unity in order to serve the clients. Traditional accountant system cannot deliver the dates under the required form. Many general costs appeared within the spreading activity are interpreted as general overheads. As a consequence, it is necessary to separate the other costs and an analysis of the costs connected to client serving, in order to have a correct image of the performance of this activity;
- Identification of correlation of outcome dates. A correlation with the information from other sources are required, not only an appreciation of the clients' serving according to the realised incomes. Simplistic interpretation of the relation between sale incomes and quality of services cannot realistically inform on the state of the spreading system. It is necessary to consider elements as for example the life cycle of the order, the percentage of satisfied orders, the consistency of delivery steps of products and duration of the order cycle.
- Preparation of a set of measures in order to evaluate the spreading activity. Measurement of obtained information with the performance standards anterior established should reflect "variation and possibilities to reach a level of maximum efficiency, under the restrictive conditions of spreading costs in an established budget" [4].

Within practical activity a combination between prognosis tasks within the domain of sales, processing of orders and management of sales as a consequence of decision taking according to the market request is ascertained.

In this context there appears more than obvious the necessity of obtaining and chasing the information concerning the costs involved in the process of storage, their grouping on categories of costs that should confirm the degree in which they correspond to a normal level or they are just the result of some defective organizational decisions.

The administration accountancy taking over the information from the financial accountancy can offer detailed reports and situations concerning costs that are allocated to the activity of storage and that influence the economic – financial results.

Request management, as newly domain of the management furnishes information about the prognosis of sales on each elements, about order satisfaction, request according to bale delivery, about capacity in relation to request and stock creation.

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## **ROMANIA'S STRATEGY OF ATTRACTION OF FOREIGN INVESTMENTS**

**GHEORGHE PÎRVU, RAMONA GRUESCU, ROXANA NANU \***

**ABSTRACT:** *For Romania, who has limited resources of capital on internal plan, foreign investments represent more than a necessity, foreign capital, besides the contribution to supplementation of financial resources of the country, having support role for inevitable structural adjustments of Romanian economy. Analyzing strategies of attraction of foreign investments to Romania, the article underlines the essence of investments processes and surprises the interdependence which must exists between macroeconomic and structural politics and politics in the field of investments, fact which derives in the amplitude of consequences at level of the regions of the country and the entire national economy. In the context offered by the statute of member if the European Union, Romania must think again the entire politics of attraction of direct foreign investments, in conformity with regulations of communitarian acquis and engagements assumed in the field of concurrency and state aids. The article identifies the techniques and promotion strategies that Romania might use to become an investment destination, more attractive for multinational enterprises.*

**KEY WORDS:** *investments attraction, promotion strategy, business environment, concurrency.*

### **1. INTRODUCTION**

The development of contemporary national economies can not take place besides the international frame, the internal resources of each country being seldom insufficient to reach a high level of development and well being. The necessity to attract and use in an efficient manner foreign direct investment depend on the essence of the investments process, process that ensures, to a great extent, the social, political

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and economic prosperity of each country. The attraction of foreign investments becomes an important component of the economic politics of all states, especially the ones that raise the problem of taking again and acceleration of economical growth (Borensztein, E. & De Gregorio, J. & Lee, J-W., 1998).

The world experience mentions that, in many countries in process of development, the investments jump in the economy started once with the apparition of the foreign capital (Saggi, Kamal, 2000). By attraction of external financial resources, especially the non reimbursable economic assistance can be realized the support of the process of transformation of the internal economic structures and orientation of foreign capital to sectors that possess comparative advantage. The research of the problems of foreign investments is conditioned by the fact that foreign investments are one of the basic modalities of integration of national economies in world economy.

## **2. CREATING OF THE LEGAL AND INSTITUTIONAL FRAME OF DIRECT FOREIGN INVESTMENTS IN ROMANIA**

In 1990, at short time after the events from December 1989, was adopted an extremely important law which made the first real step towards market economy and business world, Law 31/1990 regarding the realization and functioning of the commercial societies. This law realized the freedom of physical and juridical persons to be associated under certain forms, the most known being the limited liabilities societies and joint stock companies and to realize investment in any field of activity, by respecting certain norms. Law 31/1990 foreseen in principle also the possibility of foreign physical and juridical persons to be associated and realize commercial societies that will be registered and develop activities in conformity with Romanian legislation, in Romania.

By this law was established the Romanian Agency of Development, as organ of central public administration, with main activity of issuing the necessary approval to realize foreign investments and promote them. The Romanian Agency of Development had as purpose to maximize the foreign investments in Romania, by ensuring the access of foreign investments to facilities of existent investments.

*Strategy of attraction of foreign investments* was approved by the Parliament of Romania (Strategy of economic – social reform, 1993) and contains:

- establishing the objectives – realization of a correct and credible image of Romania on international market, as potential market for foreign investments and realization of a comparative advantage for Romania from the activity of promotion of Romanian Agency of Development ;
- definition of the promotion techniques with accent on directional promotion, identification of sectors, regions of enterprises or projects proposed to foreign investors and selection of external markets and potential investors;
- strategy of general promotion, with support activities for directional promotion (marketing, advertise) and which prepares the field for ulterior launching of the campaign for directional promotion; it is realized of a program of construction of



- Romania's image (presentation of positive aspects, counteraction of the negative ones, accentuation of the specific advantages, etc), campaign in mass-media and with opinion formative, in general, and diffusions of specialized economic information about Romania (printing and promotion in the promotional literature, organization of seminars and promotion conferences, economic rapports, etc);
- strategy of directional promotion, through which are established priority sectors for attraction of foreign investments, that might lead to reduction of imports, increase of exports and delivery of vital intermediary products for the other sectors of the national economy (Negrițoiu M., 1996).

The Government intended that, with the aid of the agency, to maintain the control on some foreign investments, even if in theory, was liberalized the access of foreign capital in economy. Practically, by confirmation issued by the agency, was introduced a negative discrimination between Romanian and foreign investors. For registration of a commercial society in case of foreign investors it is necessary a supplementary notice.

Starting with 1991 and until June 1997, the Romanian Agency of Development analyzed the reliability of the investor, the field and modality in which was going to be realized the investment as well as the amount of the invested capital, issuing 50.000 notices. In fact, the activity of the agency should have been focused on promotion activities and attraction of foreign investments as was the case of homologous agencies from Hungary, Poland and Czech Republic. In the absence of a budget of representation of the measures of aspirations, without foreign representative abroad, the agency was transformed in a bureaucratic organism which aimed mainly the investments realized by physical persons in countries from Asia and Arabian countries. The main attraction was of the fiscal incentives granted in a generous manner by law to any investment of over 10.000 USD. Promotion activities were limited at brochures of the "Doing business in Romania" type and to the organization of a data basis with business opportunities.

In June 1997, at the pressure of UE but also as a result of evolutions registered on international plan in the field of foreign investment, the legal frame was modified in the sense of issuing the liability of obtaining the approval of the agency with the purpose of realizing an investment in Romania. This liability was maintained only for investments in which the contribution of the foreign investor exceeded 350.000 American dollar or 1.000.000 American dollars in case of privatization and only with the purpose of obtaining a fiscal facility.

The instability of the legal frame and the existence of an agency in other sense than during year 1998 this functioned as a department as part of Privatization Minister. In 1999, by cancellation of this minister, the agency become again an independent organism but, as follows, without an adequate budget, so that its activity in the field of promoting foreign investment remained limited at some publications and publishing some brochures dedicated to business environment and the statistics from the field of

direct foreign investments. The attributions of the agency have been completed with diverse responsibilities in the field of regional development, restructuring plans of the state companies, practice without connection with foreign investments.

This ambiguous situation ended in the year 2000, when the agency was cancelled *de jure*, creating a department for foreign investors as part of Government of Romania. In conditions in which all countries of Central and Eastern Europe had an independent development agency, and in Romania was established, again, in 2003 a development agency (Romanian Agency for Foreign Investments – ARIS) having as object of activity dedicated exclusively to promotion and attraction of foreign investments (Gazette no. 443 from 24 June 2002, Law no.390 from 13 June 2002). ARIS did not bring news connected with the activity of promotion of ISD in Romania. The same insufficient budget and the lack of political visibility positioned the agency in a place of shadow, transforming it in a passive and bureaucratic organism which issues certificates to those investors aiming to obtain long time stay permit in Romania.

The creation of the *Romanian Agency for Foreign Investments - ARIS* is, in fact, a first element of the Romanian strategy, to improve the image of the country in the eyes of the foreign investors but also the foreign investors in the eyes of the population. Romania, through ARIS, must make an inventory of the foreign investments opportunities for developed countries, as well as the investments climate in each district and development region and to make them known through other penetrating communication methods (internet, brochures, organization of symposiums, international fairs, round tables etc). To promote the foreign investment, an important role might have the *business clubs*, where, due to the presence of some personalities in political, diplomatic, business and scientific life, might describe the investments climate and the opportunities of Romania. The effects of promotion strategy of the image of Romania in the eyes of foreign investors can be evaluated in conformity with the method conceived for the development of a creative partnership of wellbeing (Bulz N., Stoica M, 2004).

### **3. CONFIGURATION OF THE STRATEGIES OF ATTRACTION OF DIRECT FOREIGN INVESTMENTS IN ROMANIA**

Elaboration of the attraction strategies of foreign investments is conceived, with the selection of the following four groups of influence factors:

- fiscal facilities and incentives;
- development of business environment at European and world level;
- incentives that proved the great efficiency in attraction of foreign investments;
- application of procedures methods of continuous perfection of foreign investments.

In this sense, Romania recognizes and appreciates the importance of foreign investments, as being one of the sources for development of modern economy, dynamic,

based on knowledge. The experience of European Union demonstrates that foreign investments can have a substantial contribution to the realization of gross development product, to create new working places and to stimulate the increase of exports.

Foreign investments, realized in Romanian enterprises, make that this ability to respond in a flexible manner to a powerful competitive market and to adapt rapidly to structural and cyclic changes of the world economy. A well developed sector of industry can support the stability and macro-economic increase.

The strategy of Romania must take into account the harmonization of the autochthon legislation with the provisions of the communitarian *acquis* that is specific to the internal market, the introduction of measures for counteraction of the administrative and technical barriers, the development of a coherent institutional frame for elaboration and implementation of specific politics for improvement of the dialogue between governmental institutions, social partners and representation structures of the interests of enterprises to maximize their development efforts. In plus, the government of Romania must ensure the correlation of a political frame, the institutional arrangements and consultation mechanisms with the best practices and to create a platform for the efficient absorption of the communitarian funds, when it is the case.

Still, Romania must take those measures that must simplify the procedures of registration and authorization of enterprising persons, to reduce the negative impact of the legislation and regulations in the development of business and to improve the access to information services.

In Romania it is necessary the simplification of the procedures of fiscal report, the reduction of the number and frequency of controls, alienation of any type of barriers to create favorable conditions to grant main liberty of the internal market. For *passage to the informational society*, will be focused efforts to take over communitarian initiatives regarding the use of IT in the relationship of the enterprises with public administration and to facilitate their access to public information connected to the business development. Romania must continue efforts in the development of on-line services to encounter the needs of the enterprises (as for example, the fill in of the administrative forms or to obtain on-line information, faster and cheaper, having as purpose the degeneration of their activity).

The constitution of the Romanian Agency for Foreign Investments (ARIS) represented a positive sign for international business environment regarding the clear and firm engagement of the Government of Romania to put into practice the objectives established as part of the politics of attraction of foreign investments in Romania, signal appreciated by diplomatic representatives at Bucharest and the Board of Foreign Investors and the Association of Foreign Investors. Business environment in Romania, as well as the international ones considers that in the present, the Romanian Agency for Foreign Investments is a serious and competent partner in discussions, interested by the promotion of investments projects and assisting the investors in Romania, for the initiation of some project and solving problems that appear in the development of some projects that are already realized.

The Romanian Agency for Foreign Investments has a clearly stipulated mandate in art. 1 from Law no. 390/2002 of foundation, being responsible of the application of the Government to promote and attract direct foreign investments. For professional promotion, proactive of ISD and improvements efforts of the investments climate, the purpose of ARIS is to increase the foreign capital attracted in economy. The Agency can employ personnel from private sector as well as from public one and can authorize necessary expenses influencing better, at least from theoretical point of view, through lobby, the improvement of business environment. This independent structure was used by the most successful agencies of promotion of investments.

At the same manner will be created the Romanian Agency for Investments, by reorganization of the Romanian Agency for Foreign Investments, which, besides, the administrative responsibility (of practical implementation of the legal provisions), has also the role of contact point, coordination and promotion of politics in the field of investments. A change brought by this project is represented by the settlements of the investments contract, which is defined as the juridical document concluded between the investor and supplier of state aid, which ensured at the local level the fulfillment of the rights and liabilities which results from application of facilities granted on the basis of the law (*National Program of Reforms*).

Romania simplified the procedures to obtain construction certificates and establishment of a unique center for processing the applications. Also, Romania adopted a new regulation of the work market which allows the extension of the contractual terms at 6 years. Still, it was simplified the legislation in the field of external commerce, so that the necessary time for merchants to realize customs requirements was halved with 14 days, and the number of the exportation documents decreased to 4, maintaining so the limit from the European Union.

The improvement of business environment, effects of introduction of the unique quote of taxation and the positive attitude of the foreign partners in comparison with Romania brought to attraction of a volume of direct foreign investments in the amount of 5,2 milliards Euro in the year 2005 and 9,1 in 2006 in conformity with the National Bank of Romania/ So, the year 2006 represents the absolute record in which concerns the direct foreign investments attracted by Romania. In the first semester 2007, in conformity with the National Bank of Romania, the direct foreign investments reached the value of 3 milliards euros.

Other solutions that are imposed for the improvement of the promotion activity of foreign investments in Romania might be:

- the necessity of a specific mandate granted to the agency of promotion of foreign investments by the government - mandate from which might result in detail the strategy, attributions and functions of the agency;
- solving the problem of financing, including under the aspect of insurance of the specialty personnel, by combination of the participation of the state budget with the involvement of the private sector and the programs of international assistance;

- organization of the agency of promoting foreign investments in a closer form to the business world towards which this performs services;
- the necessity of development of some internal promotion programs through which will be explained the decision factors from the country about the importance and the specific of the activity of attraction of foreign investments;
- focus on direct approaches of foreign investment by presentation of specific offers of investment projects;
- promotional activity can be focused on project at level of economic branch or even of product.

Foreign investors will always be attracted by the countries granting their rights, no matter the juridical form that will create in that country. These rights lie from the property right that can obtain on goods that they want to invest, until protection as part of the arbitrage system that the legislation of that country allows (Alec T., 2005). The improvements of the competition system has as effect the equality of chances of investments and the penetration on the market for investors, being advantageous for economy as new investors have chances of penetration on Romanian market, in sectors where powerful firms operate, possessing important market segments.

For stimulation of real and correct competition between investors, it is very interesting the modality in which capable institutions, like the Council of Concurrence, attend the application of regulations in force and give instructions and directions to respect these rules. The possibility to co finance by the Romanian state increases the interest of foreign investors to bring new capitals, to create new investments. In any modern economy, the state contributes to important projects, grants incentives to support interest areas, projects with major impact on the population in an area. These characteristics can be obtained by legislative regulation and creation of state structures, which will attend the application of the realized regulations.

#### 4. CONCLUSIONS

To attract foreign investors, Romanian economy should achieve characteristics like:

- *Improvement of the system of protection of investors. Here might enter the adoption of a flexible system of negotiation of interests practiced at banking loans, especially once with the adhesion of Romania to UE, the rate of interest will observe a significant reduction in comparison with the rates of interest practiced until now;*
- *Perfecting a system of putting at disposal some funds for co financing of the investments. At present moment there is a series of legal regulations which offer the possibility of the commercial societies having exports, of the SME to take advantage of some nonrefundable funds, but the legislation in the field*

can be hardly understood by taxpayers, the process of taking advantage of these mounts being difficult. In first place there lacks an easy system of information of the public on the possibility to beneficiate of such financing resources;

- *Improvement of competition system.* Starting with year 2007, there are a series of non reimbursable funds that the investors can take advantage. There should be taken measures for the increase of the transparency of granting these funds, so that economic agents that are present in Romania be aware of the modality in which can be used such funds for the development of their investments.

Such a strategy of attraction of direct foreign investments must have the explicit support of government under the form of a political statement of support, encouragement and recognition of the contribution that direct foreign investment have in reaching commercial objectives of the country. Still, the Strategy must be applied and aimed, in all its details, by a specialized institution, organized in conformity with international standards, framed with quality personnel and invested by government with necessary authority.

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## **SOME THEORETICAL ASPECTS CONCERNING THE STRATEGIES' DEFINITION AND TYPOLOGY**

**CARMEN PUIU, MARIETA STANCIU \***

**ABSTRACT:** *In the present economic conjuncture, the elaboration and implementing of a strategical orientation can not be considered anymore the prerogative of certain entrepreneurs, but a necessity of any businessman who wants to prosper on the market and assure his long term viability. The enterprises' activity is permanently influenced by a multitude of forces that are continuously changing and upon which the above mentioned have very little influence if any. The rapid development of science and technology in all the domains of the economic life rise a number of problems to the managers that must adopt new methods, organizational and leadership techniques within the units and structures they manage in order to solve them.*

**KEY WORDS:** *strategy, objectives, competitive advantage, strategical degrees of liberty, strategical alternative*

### **1. INTRODUCTION IN THE THEORY OF STRATEGY**

The term of strategy comes from ancient Greek where it had pure military significance. From the economic point of view, the strategy is defined as a correlated assembly of the firm's mission, finality and/or domains or activity of interest for the achievement of the targets. If at the beginning it was considered enough to establish a set of objectives, in time the managers comprehended that strategy also means to define clearly the firm's mission and directions of activity so to achieve these objectives.

Once it became obvious that the modern enterprise can not develop its activity unless it has a well structured strategy, a lot of studies were dedicated to strategy and its principal characteristics. One of the first specialists that acknowledged the importance of defining a firm's strategy was Peter Drucker by showing that for the

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initialization of any activity we must consider the following questions: in what consists the business? and which should be the firm's object of activity? [3].

The theme of the strategy of enterprise has preoccupied a series of the management gurus. So, even in 1963, Igor Ansoff formulated this concept saying that strategy was the common axis of firms' activities and products/markets and identifying four concepts of the strategy: the domain product/market, the vector of growth, the competitive advantage and the synergy. The author has searched continuously to develop practical methods for the managers to use in the decision taking process. He points out that the strategical decisions initiate from the most adequate answers to these questions:

- *Which are the objectives and targets of the enterprise?*
- *In what domains and with which intensity the enterprise will attempt to diversify its activity?*
- *How can the enterprise develop and capitalize on its present position in choosing the domain product/market?* [1].

Another pioneer of the researches about strategy is Alfred Chandler whose paper *Strategy and Structure* has influenced many enterprises in their attempt to restructure. Chandler was the first one to understand the importance of decentralizing the large enterprises, this principle being used greatly during the restructuring of the giant General Motors by Alfred P. Sloan. In the paper mentioned above, Chandler defines strategy to be the identification of the long term objectives and targets, and also the means to act and allocate the necessary resources [2]. He also pointed out the importance of a global strategy in the enterprises' long term evolution, but correlated with independent tactics adequate to each subdivision.

We must not forget the Japanese author Kenichi Ohmae who brought the Japanese perspective in the strategical thinking. He proved that the target of Japanese firms is to achieve long term profit and therefore the strategies are adapted to this target (in opposition with the occidental firms that targeted immediate profits). His opinion is that a strategy's object is to obtain a competitive advantage that can be achieved by the mean of four types of strategies:

- *the strategy focused on the key factors*, based on the enterprise's capacity to rise up/increase its share of the market and profitability;
- *the strategy based on the exploiting of any relative superiority*;
- *the strategy based on aggressive initiatives*;
- *the strategy based on the strategical degrees of liberty* [5]. The term of *strategical degree of liberty delimits* the axles along which the strategy can produce the desired results.

This preview of the main contributions to the study of strategy cannot be complete without mentioning the American professor Michael Porter, probably the worldwide specialist in strategy of our time. He studied the strategies of the firm especially in raport to competitiveness: „*Creating a strategy towards the competitors consists essentially in developing a general line which will indicate the manner a*



*enterprise will confront its competitors, which will be its objectives and what measures must be taken in order to achieve the objectives” [7].*

Michael Porter has also elaborated the theory of competitive advantage which means the creation of products or services that are superior to the ones offered by the large majority of the competitors. His opinion is that an enterprise obtains a competitive advantage if holds activities of strategical importance at the lowest cost and in a better manner than its competitors.

In order to maintain a firm competitive, Michael Porter makes a set of strategical suggestions:

- sell to the most pretentious clients so to set a higher standard for your firm;
- find the clients with the most complex needs in order to stimulate your capacity of innovation and the research-development programme;
- buy in from the best suppliers because the ones having the competitive advantage themselves will also keep your enterprise competitive;
- give the employees the impression they are permanently integrated within the enterprise;
- motivate yourself by monitoring/ observing the competitors.

So no matter the vision characteristic to each specialist on the concept of strategy, there are some common points between all these definitions.

We understand on one hand by *strategy the assembly of the firm's major objectives concerning the long term organization, the main modalities to achieve them, considering the resources it holds or can attract in order to achieve the firm's mission.*

On the other hand, the same principal features result from all the opinions on strategy:

- the strategy is the process setting the direction towards which the firm's efforts to achieve its mission and objectives must turn to;
- the strategy refers to future periods in the firm's life, most often between 3-5 years;
- the strategy includes the entire assembly of the enterprise, but also its component parts. In this situation, each unit should define its specific mission within the target of the organization to which it belongs.
- The elaboration of a successful strategy means the correlation of the enterprise's requests with the environment where the activity is hold. For this reason, a profound acknowledgement of the external (a.k.a. opportunities and risks) but also of the internal environment, of the enterprise's soft and strong points must be made.
- A performant strategy can determine a long term competitive behaviour for the enterprise, bringing up positive changes in the attitude of the participants to the enterprise's activities;
- the strategy chose by the enterprise take most frequently the form of plans and programmes that will support the line of action selected. So, if an enterprise aims to achieve the supremacy in the domain of technology, the programmes created will target the consolidation of the research-

development department, designing hi-tech products, stimulating an innovative behaviour, bringing in specialists s.a.

Only the comprehension of all these absolutely necessary features(to which some other, unmentioned here, specific to each particular situation, can be added) allows the elaboration of performant strategies and their successfully implementation by the enterprise.

## **2. THE TYPOLOGY OF STRATEGIES. STRATEGICAL ALTERNATIVES ON THE MARKET**

The great variety of particular situations an enterprise might run into, as well as the diversity of the enterprises' organizational forms and of the internal/external factors influencing them have determined the specialists to identify a large number of strategies for each specific situation. It is obvious that tendencies to group those strategies in a form as synthetic as possible existed and are still manifested.

Though there are, as we have already presented above, a lot of possible strategies, we present the Michael Porter's model that identified three types of strategies that give the enterprise the possibility to defeat its competitors [7]:

1. *the strategy of the lowest total costs(or of the global domination through costs)* – strategy adopted by the enterprise that has an activity comparable to the one of its competitors but at undefeatable costs having therefore the chance to gain a larger share of the market. The risk of adopting this strategy is the emergence on the market of other enterprises with products to even lower costs;

2. *the strategy of differentiating from the others* – by its mean the enterprises aims to obtain superior performances regarding the products/services given to the clients – higher quality, image, post-sell services etc. For example, it is not possible to be the only car producer, but you can create an assembly *product- trademark-image-service* that will be perceived as unique in that domain by the market segment you target on;

3. *the strategy of focusing (or of the focused efforts)* is referring to one or more narrow , but well defined, segments of the market. This strategy targets to focus the firm's efforts on a specific clientele or on a special product and getting to know them in the smallest details so to be able afterwards to choose one of the previous strategies, by promoting either a low cost or a differentiated product. The basic idea is that the competitors will be kept away by offering products and /or services of the best quality.

These strategies are individual and alternative; each one needs organizational methods, human typologies, different ways of supervision and stimulation. The choice of a certain strategy must take into account the specific factors influencing each enterprise's activity so to not get tied up in a middle muddy way that will lead to a low profitability.

The most numerous studies in this domain were related to the market strategies as one of the most important component of the global strategy of the enterprise. The complexity of the market strategies has determined various approaches of those, depending on more criteria.

The strategies meant for the enterprise as an assembly are grouped in market fields strategies and areal strategies [6]. The market fields strategies establish at the level of the enterprise in which strategical fields of activity the enterprise will operate in the future, developing more strategical alternatives, like:

1. the strategy of penetrating the market;
2. the strategy of developing the market;
3. the strategy of developing the products;
4. the strategy of diversification.

The areal strategies characterizes the geographical area of the enterprise's activity and can include, depending on the enterprise's policy of launching products on the international markets, *national* and *international territorial strategies*.

Among the Romanian authors, Petre Mâlcomete offers the following structure of strategical alternatives [4]:

a) *positional alternatives* which define the position the enterprise has on the market through the products and services offered. The enterprises aim to set a certain position on the market for themselves that will bring them advantages against the competitors. The enterprise has three strategical alternatives for this objective: undifferentiating strategy, differentiating strategy and the focused efforts strategy we already mentioned;

b) *behavioural alternatives* that reflect the enterprise's attitude reported to the dynamics of the environment. From this point of view, there are three alternatives of behaviour - passive, anticipative and active:

- the passive (adaptive) behaviour – the enterprise adjust its actions to the environment's changes, without having no active influence upon it;
- the anticipative behaviour – the enterprise should anticipate the environment's changes and the decisions taken should have a corrective character, meaning to permanently modify the strategy before these changes even happen;
- active (innovative) behaviour is the most aggressive and requires all the resources of the enterprise. In this case, the enterprise not only acknowledge the situations on the market, it also makes permanent researches, expresses predictions on the evolution of the phenomena present on the market and, the most important thing, it tries to influence them , to modify them in the manner it is necessary for it.

c) *development alternatives* that depend mainly on the enterprise's potential and the situation existent on the market on which it is represented. Considering the development directions targeted by the enterprise, one of the following alternatives might be taken into account:

- the strategy of diversified development when the enterprise decide to extend its activity toward new sectors, unapproached in the present, as a consequence of the quantitative and qualitative changes of the environment. The diversification strategy does not mean the rise of the enterprise's dimensions as well in most of the cases. Indifferent of the solution adopted for the diversification, the main objective of the enterprise must remain a higher profitability;
- the strategy of undiversified development that aims the growth of sales for the existing products either by finding new clients or determining the present ones to increase their consume or by identifying new uses for the respective products (the most difficult task). It targets a growth of the market rate;
- the penetration strategy when the enterprise focus all its efforts in order to improve its position on the market or to rise its business total sum.

All these strategical alternatives prove the variety of situation an enterprise might find itself in on the market at a certain moment in time. Choosing a certain strategy must start from establishing with clarity the individual situation in which the enterprise is, from the discovery of opportunities the enterprise can benefit from, considering its resources or the ones it can attract or from other internal or external factors. The enterprise can use more strategies or a combination of these strategies, of course, for example, an active strategy of diversified development, more precisely of horizontal diversification based on new technologies.

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## **K - ORGANIZATIONS ACCOUNTING IN ROMANIA – A FIELD STUDY PERSPECTIVE**

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**ABSTRACT:** *In the elaboration of this paper we started from the idea of growing the importance of a new type of organization – the knowledge organization. In this context we try to identify what change determines these organizations in accounting. Can we determine any new type of added value generating asset? Can it be included in any existent category? Is any preoccupation in Romania for this field?*

**KEY WORDS:** *K-Organizations, knowledge based economy, intangible assets, evaluation, added value generating asset*

### **1. KNOWLEDGE BASED ORGANIZATIONS: A NEW ECONOMIC REALITY**

In the last decades we may observe a major transformation of human society as a whole, as shown by changes in social plan, as well as on economic plan, which led to virtually emergence of a new economy - knowledge based economy.

In 1992, Byrne and Brandt identify the main features of the new model company. Switching to digital products has changed the whole economic theory about the creation of value added, manufacturing, communications, service and distribution. On the other hand, consumer requirements have created new dimensions as informing, communication, the ability to choose and experience.

For example, Nike offers customers the opportunity to create their own shoes by choosing the desired model, the size, a combination of colors and by adding some personified elements. The customer can track the three-dimensional outcome. Also Levi-Strauss offers a similar service. These changes were accompanied by the need for internationalization of organizations (Walters D., Buchnanan J, 2001). Maintaining

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competitive advantage is conditioned of the ability of informing and strategic alliances between companies (Davidow & Malone, 1992).

The company's image has become a strategic factor for increasing competitive advantage. Thus, increasing the competitiveness, the new information technologies, and the emergence of the knowledge based economy and globalization has determined a large number of companies to experiment new forms of organization more flexible, more intelligent, integrated, such as the network, virtual organizations, and horizontal organization or projects based organization.

Thus, knowledge based theory deals the company as a market structure, whose knowledge is a resource, the principal activities focusing on the creation, acquisition, protection, use, learning, sharing, integration and their use, in order to obtain economic and social performance.

The main characteristics of the k-organizations outlined by Professor O. Nicolescu are:

- increasing the proportion of immaterial assets, with the development of internal knowledge base and expanding links with customers, suppliers and external human resources;
- outsourcing activities which are not essential for the firm, in parallel with the internalization of those who are, or are strongly complementary to basic knowledge of the organization;
- appealing the staff from outside the company for trading activities less important, for the maintenance;
- strategic development of the company based on increasing in depth and/or breadth of company knowledge;
- model for internal organizing of company based on knowledge similar to the human cognitive model, characterized by less structured networks, semiautomatic teams, consisting of persons in possession of knowledge, organizational and individual availability for learning;
- using work teams to increase effectiveness and efficiency;
- remodeling managerial and economic capabilities of the company, to put forward their knowledge, by choices, decisions and actions they practice;
- investing in training the labor force, learning throughout life;
- develop an open culture, the company inviting its customers and suppliers and other categories of stakeholder
- use of multiple forms of collaboration with other companies, in terms of convenience, time and costs better;
- reduction of barriers between different categories of human resources, the work within the company and work from home, between individual and organization;
- protect and exploit intellectual capital.

It is possible that the appearance of the k-organizations to generate a major change in accounting? Can appear new economic elements developed by such companies, which would lead to the emergence of new accounts?

## **2. CONSEQUENCES OF K-ORGANIZATION APPEARANCE**

At the enterprise level is manifested a significant change as a result of the increase of immaterial assets importance. If until recently attention was drawn to organizing the material assets, to whose effectiveness it was up company development, today we can't analyze the company and its future without prejudice discussed immateriality. As a result, the market value of the enterprise is increasingly influenced by intangible assets and default on the intellectual capital that it owns.

In the context of new realities, most of the states of the world are engaged, with different intensity and results, in promoting knowledge based development process; in the most advanced of these, about knowledge based society there is at present time.

Accounting may not yet reflect the true immaterial assets of an enterprise. Evaluation criteria are based on cost concept and not on its economic value, given by the current value of future flows of treasury. Patrik Epingard specialist in intangible assets in the National Institute of France Telecom quotes in this sense, the case of the investor Bouygues who bought a company whose asset was evaluated at 300 million francs by the amount of 3 billion francs. The price difference was explained by intangible assets and namely: the teams experience, the capital trust accumulated, effectiveness of the organization, and the portfolio of audience (Epingard P, 1999).

At the same time, the k-organization is seen as a complex mechanism in which mutations yield determinant on the performance, such as:

- targeting essential supply to meet market demand, the requirements made by beneficiaries of products or services offered;
- adaptability based on constant innovation;
- internal structures to give the organization greater flexibility;
- minimizing the number of hierarchical levels by flattening organizational structures;
- accentuated the employees satisfaction and gratitude, so to work with pleasure and be so devoted firm.

If worldwide manifest attempts to resolve the problems so controversial of accounting immaterial assets, Romania has tried to harmonization of accounting regulations of IV<sup>th</sup> Directive of the European Economic Community and the International Accounting Standards. But, while it believed that the new regulations will eliminate any difficulty in interpreting asset and will bring this concept to acceptance recognized in most countries of the world, it brings a contradiction, determined by the adoption in the same reference, two very different approaches: a continental, existing in our country, legal and economic (in which the assets is defined as that item that has a positive economic value) and an Anglo-Saxon, based on the prevalence of revenue on legal, an approach at the international level (Feleaga N., 2000).

The problem that raises the immaterial assets is that they are difficult to identify, and future benefits they generate are much more uncertain than for tangible assets. Current accounting treatment of immaterial assets, by immediate passage of the

spending of that period, it is often argued by prudence. Prudence requires that the income and assets are not overstated and liabilities and expenses may not be sub evaluating (M. Ristea, 2005). The results of the principle of prudence aim to slow trends of the leadership to present a better image as a company.

Romanian economic mechanisms present, from this point of view, in this regard a high rigidity in the concepts and principles of accounting. For us, the most acute problem would be applying international standards and European regulations as they are, but obviously with the minimum necessary adjustments arising from the legislative progress. Practical applications of big companies, especially banks and insurance companies, and gained successes prove that this is possible and beneficial. Would then similar applications in public institutions where the process is "difficult and slow" - at least what has been classified by the College Board of Accounting. In a next step will be to develop our own standards and norms, corresponding needs and specificity of the Romanian economy (Dragan C.M, 2007).

Applying this solution implies, however, a very good knowledge of IFRS and legislative activity prior to preparing the necessary opening scope and unimpeded manifestation of these principles. National standards should be developed so to ensure full convergence with IFRS (Feleaga L. Feleaga N., 2006). This way of access to IFRS ensure a better match between principles and rules and can satisfy better the relationship that should exist between accounting and finance.

Since the main factors creators of value are not presented in the financial statements, k-organizations are facing difficulty finding the means of financing their activities or get in less favorable conditions. Disclaimer immaterial elements as asset affect quality of the information provided by the balance sheet. But even more serious is the effect on the outcome. Connecting the expenditure to the revenue is distorted by the immediate passage to spending of the immaterial and recording revenue in subsequent periods unaffected by the corresponding costs.

If most of the elements that compose immaterial assets are not reflected in the balance sheet, investments in such items being passed on the costs, means that company profits and the value of the shares are sub evaluate because current accounting system. For this reason, investors and managers find it virtually impossible to (B. Lev, 2002):

- determine the return rate of immaterial investments and the change in time, of efficiency of business investment of the company;
- assess changes in the immaterial investment features (the transition from research on long-term development to short-term, or from investment for product development research for reducing costs);
- determine the immaterial capital of the company and the duration of the useful life of such items.

Even more, because the existence of immaterial resources is difficult to verify, they could be used to manage or even manipulate the outcome.



The absence of standardization of measurements made in this area, of qualitative factors of performance will affect mainly the managers of portfolios, lack of processed information in a uniform manner making it difficult, if not impossible to compare the performance, of qualitative nature obtained by various companies.

Existing concerns for the creation of new indicators for measuring the qualitative factors of the performance benefits the managers of firms, providing them with a variety of management tools for performance of the company.

At present none of the accounting normalization bodies (FASB, ASB or IASC) provide the opportunity to capitalize immaterial elements, listed initial on expenses when they meet the conditions to be recognized as assets.

Through all this it reach to a situation in which the market value of such companies to be much higher than its accounting value. This trend will increase in future and there is a danger that traditional financial statement to become mostly useless for accounting statements users. Nor international body of normalization account, by the model provided by Standard IAS 38, can not deal with the realities of economic immaterial investment. The proposed rule it simply leave out of balance an important part of it.

As a conclusion, one can say that puts increasingly more of a revision of the standard. Although it has a wide spread of immaterial assets, as well as research in this area, the problem of identification and accounting is not far from resolved.

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## **A STRUCTURAL EQUATION MODEL: INDIA'S INTERNATIONAL TOURISM DEMAND FOR TOURIST DESTINATION**

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PRASERT CHAITIP \***

**ABSTRACT:** *Structural equation modeling (LISREL 8) was used to test the causal relationships between tourist travel motivations (travel cost satisfaction) and tourist destination (tourism product, tourism product attributes, and tourism product management). A survey containing Likert-type scales was used in collecting data from 100 international tourists who had traveled to India. Using factor analysis, dimensions were identified for scales used in the study: travel cost satisfaction, tourism product, tourism product attributes, and tourism product management. Results indicated that the travel cost satisfaction of international tourists had a positive influence on tourism product at 0.33 ( $t=2.38$ ) with statistics significant at the level of 0.05. Also the travel cost satisfaction had a positive influence on tourism product attributes at 0.30 ( $t=2.17$ ) with statistics significant at the level of 0.05. The results of the research suggested that if the tourist destinations in India are maintained good management of tourist destinations in India. Such as maintaining the amenities of the tourism products, keeping good accessibility to the tourism products, keep a good image of tourism products, keeping the right price of tourism products and keeping the competitiveness of tourism products. Then not only will international tourist revisit India but also the numbers of tourists traveling to India will increase.*

**KEY WORDS:** *India; international tourism demand; tourist destination; SEM model*

### **1. INTRODUCTION**

Tourism is one of the world's most significant and dynamic socioeconomic sectors. It generates approximately 11% of global gross domestic product (GDP) and provides direct employment to more than 200 million people (ADB Mekong Tourism

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Development Project (2002)). Global, regional and sub regional tourism trends continue to be a fast growing, and powerful industry. This is an industry which makes rapid, deep, and wide contributions to socio-economic development, especially contributes to poverty reduction (ADB Draft Final Report for GMS Tourism Sector Strategy (2005)). More, tourism is an important part of the economy in many developing countries. According to the world Trade Organization (WTO), India, Sri Lanka, Indonesia, and Thailand combined make up 3% of the world's tourism market, and Asia Pacific was the world's fastest growing tourism region in 2004 (Crey, 2005; Pimtong et. al, 2007). Therefore, tourism significantly contributes to economic growth and remains one of the best opportunities to generate income and empowerment for countries at various stages of development (Indian Institute of Tourism & Travel Management, 2007).

According to the Annual Report 2004-05 prepared by the Ministry of Tourism, the year 2005 saw tourism in India emerging as a major sector of the Indian economy. International tourist arrivals grew at 13.2 percent over that of the previous year, with real boom taking place in the first half of the year (Indian tourism statistics department, 2005). The estimated foreign exchange earnings during the year touched the level of US \$5,731 million during 2005 against US \$ 4,769 million during 2004 a growth of about US \$960 million in one year. In absolute rupee terms, the increase in foreign exchange earnings during the year was to the tune of Rs.3,570 crores (Reserve Bank of India, 2006). Another important feature of India tourism during 2005 was the per tourist earnings in India. It was observed that on an average, per tourist foreign exchange earnings in India was about US \$1462 against the estimated world average of US \$844. Even when the average earnings per tourists are compared with those of the top world tourist generating countries or with countries in India's neighborhood, it was highest in India with an exception of USA (World Tourism Organization, 2005)

From above information showed that international tourism industry would be more importance impact on India's Economy as well as if the number of international tourist arrivals to India increase every year then the earning of international tourism industry also will increase. In this research design the tourist destination must consist of three parts: 1) tourism product, 2) tourism product attribute, and 3) tourism product management (Prasert, Chukiat, Rangaswamy, Siriporn, 2007). If these three parts are continually developed following international tourist demand then not only will international tourist revisit India but also the number of international tourists traveling to India will increase (Yau and Chan (1990), Rittichainuwat et al. (2001), Pimtong, Qu and Ryan (2007), Siriporn and Wang, 2007)). Therefore, this study focuses on India's international tourism demand for tourist destination in India based on a structural equation model approach (LISREL 8).

## **2. RESEARCH AIM AND OBJECTIVE**

This research has the aim and objective of seeking to know and develop a structural equation mode of India's international tourism demand as well as to use this model to explain international tourist behavior in India.

### 3. SCOPE OF THE RESEARCH

The scope of this research is the period 2007(Q2)-2007(Q4) and mostly the data was primary data. This data was collected from international tourist arrivals to India in this period by survey and the total number of questionnaires used for this method was 100. The countries used for analysis in this research were the major countries for the international tourism industry of India, namely England, America, Canada, France, Germany, Japan, Malaysia, Australia, Singapore and Korea. Almost all of them had an influence on the income of the international tourism industry of India in the same period (source: India's tourism organization). The areas used to collect data were Karnataka (Bangalore), Goa (Panaji) and Maharashtra (Mumbai).

### 4. LITERATURE REVIEW

#### 4.1 The Concept Background of the International Tourism Demand Model

The concept of the theory has been used in international tourist demand since 1950 but the estimation in international tourist demand by econometric method was used for the first time by Artus (1972). After that a lot of research about international tourist demand function used the econometric method. The researcher studied research such as Archer (1976), Crouch (1994), Walsh (1996), Lim (1997), Inclair (1998), Lise & Tol (2002), McAleer (2001,2003) Resina and Aruna (2004). Growth in international tourism is closely aligned to economic variables, which at a microeconomic level influence the consumer's decision to undertake overseas travel. Empirical research on international tourism demand has overwhelmingly been based on aggregate time series data which permits estimation of income and price elasticity on inbound tourism (see Lim, 1997 and McAleer (2001, 2003)). A simple origin-destination demand model for international tourism can be written as: (equation number (1))

$$D_t = f ( Y_t \ TC_t \ P_t ) \tag{1}$$

where:

$D_t$  - is a measure of travel demand at time  $t$  ;

$Y_t$  - is a measure of income of the tourist-generating or origin country at time  $t$  ;

$TC_t$  - is a measure of transportation costs from the origin to destination country at time  $t$  ;

$P_t$  - is a measure of tourism price of goods and services at time  $t$  in destination country.

And assume that  $( + Y_t )$ ,  $( -TC_t )$ ,  $( - P_t )$  and explain that when income at time  $t$  is increasing then the demand for international tourism is increasing simultaneously. When the measure of transportation costs from the origin to destination country at time  $t$  is increasing then the demand for international tourism decreases. And when the measure of tourism price of goods and services is increasing then the demand for international tourism is decreasing. Moreover in term of  $( - P_t )$  explain that when the measure of tourism price of goods and service is decreasing then the satisfaction of

tourist for goods and service is increasing (Yi, 1990) (see more detail in topic of Customer Satisfaction). Based on a review of the literature above in terms of international tourism demand model, all of them have already been referred to again from Chukiat et al (2006). This research also expects higher travel cost satisfaction status to have a positive impact on total expenditure due to preference for tourism product or tourism destination.

#### **4.2 Customer Satisfaction and Travel Cost Satisfaction**

It is indicated that those factor such as personality, expectation, motivation, decision making, accommodation, and activities influence tourists' behavior and determine the level of satisfaction (Jafar Jafari, 2000). Customer satisfaction is a central concept in marketing because it is crucial to meeting the needs and wants of customers (Spreng et al., 1996; Yi, 1990). Firms deliver a product as well as satisfaction to customer, and obtain profits in return (Yi, 1990). While customer satisfaction has been defined in many ways, researchers generally agree that an evaluation process is an essential element underlying customer satisfaction (Yi, 1990). Hunt (1997) defined satisfaction as "an evaluation rendered that the consumption experience was at least as good as it was supposed to be" (p.459). Based on previous theoretical and empirical evidence, Engel and Blackwell (1982) conceptualized satisfaction as "an evaluation that the chosen alternative is consistent with prior beliefs with respect to that alternative" (p. 501). In term of economics cost can be regarded as monetary service price and service time during which a service is provide (Murphy and Enis, 1986). The effect of price is called price sensitivity, which is similar to price elasticity, which influences customers' purchase intention and behavior (Dodds et al., 1991; Monroe, 1990; Zeithaml, 1988). Based on the comparison among benefits and costs, if the cost is higher than the benefit, customers may lose their purchasing intention and shift from the present service firm to another (Lee & Cunningham, 2001). According to a review of the literature above the travel cost satisfaction of tourists is higher when the cost of travel is lower. On the other hand, if the travel cost satisfaction of tourist is lower then it is depict that the cost of tourist' travel is higher. One again this research also expected higher travel cost satisfaction status to have a positive impact on total expenditure due to preference for tourism product or tourism destination.

#### **4.3 Tourism Product, Tourism Product Attributes and Tourism Product Management**

The tourism product is the synergistically perceived experience of an attraction, facilitated by a number of heterogeneous services. Apart from the attraction, the key services are transport, accommodation and hospitality (Gnoth, 2005). The tourism product such as support services and attraction and tourist resources with one day's return travel time (WTO, 2002). Brass (1997) suggests that tourism products can

be classified into two main components: attractions and facilities. Attractions are those natural and human-made features and events that stimulate people to visit a destination. Together, the mix of destination attractions and facilities create a set of intangible “subjective experiences” for tourists known as a tourism product (Tourism Research Group, 1992).

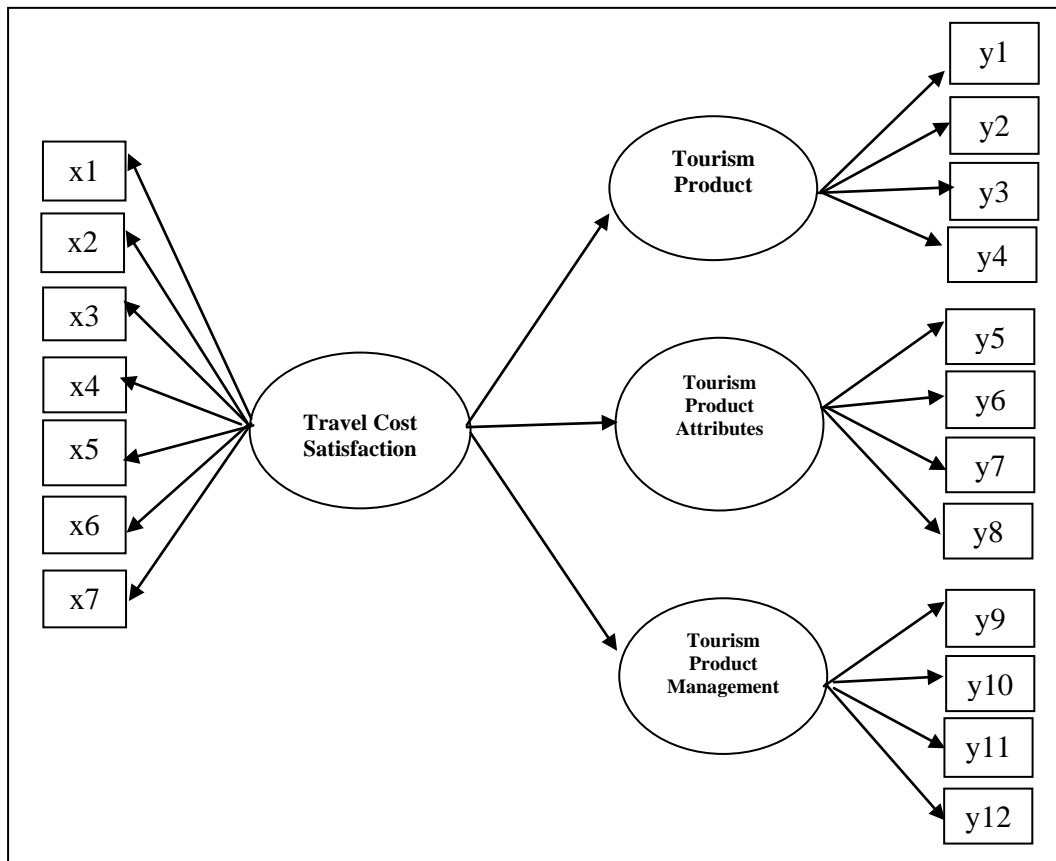
The tourism product includes physical goods, services, experiences, events, persons, places, properties, organizations, information and ideas contribute to the satisfaction of travelers. (Smith, 2001; Kother, 2001). The tourism products from the industry stance can be apprehended on two levels: a) The total tourism product, consisting of a combination of all the service elements consumed by the tourist from the time he/she sets off from home, to the time of return. This product can be an idea, an expectation, or a frame of mind, at the point of sale. b) The explicit products such as attractions, accommodation, transport and other facilities, are elements of the total tourist product. The product attributes refer to the various characteristics of product that influence a customer's decision to purchase or not to purchase the product (Swanson and Horridge, 2004). Also based on the definition of the product attributes above in term of tourism product attributes is the various characteristics of tourism product that influence a tourists's decision to purchase or not to purchase the tourism product. The various characteristics of tourism product such as cleanliness, beauty, safety and environmentally friendly. The tourism product management or the tourism destination management (Ritchie, 2003), consists of three part:1) destination competitiveness is the competitiveness of one destination relative to other destinations. 2) destination performance such as economic measures, sustainability measures, visitor satisfaction measures, quality of management action measures. 3) successful goal achievement with respect to goals set by destination stakeholders. The destination management or tourism product management can be defined as “a system of managerial skills and activities used for coordinated planning and organizing of tourism for a particular destination” (Jane ková & Vašítková 1999).

The destination management or tourism product management must address: a) Attractions: the motivators for the visit: (built (e.g. cathedrals/monuments), cultural (e.g. museums) and emotional or experiential triggers. b) Amenities: basic infrastructure such as utilities and roads direct services, accommodation, visitor information, catering and shopping facilities. c) Accessibility, d) Image and c) Price: (the cost of transport to and from the destination, accommodation, attractions, food and tour services) (Carter and Fabricius, 2007). The destination management or tourism product management is creating competitive advantage for your destination in long term also is advancing sustainable development of competitive tourism in your destination (Lengyel, 2007). In this research focus on the destination management or tourism product management is the attraction of the tourism product, the amenities of the tourism product, the accessibility to the tourism product, the image of the tourism product, the price of the tourism product and the competitiveness of the tourism product. This research also expected both higher travel cost satisfaction and tourist demographics status to have a positive impact on total expenditure due to preference

for tourism destination (tourism product, tourism product attributes and tourism product management).

## 5. CONCEPTUAL FRAMEWORK

Based on the literature review and research model (see Figure 1), this research sought the relationship among travel cost satisfaction, tourism product, tourism product attributes and tourism product management in a structure equation model of India's international tourism demand for tourist destination. The one hypotheses tested in this research are presented below:



**Figure 1.** Hypothesized relationships between independent variables (Travel Cost ) and dependent variables (Tourism Product, Tourism Product Attributes and Tourism Product Management)

Source from: Chukiat, Prasert and N. Rangaswamy (2007)



Hypothesis 1: Travel cost satisfaction will have a positive influence on tourism destination (tourism product, tourism product attributes and tourism product management)

## 6. RESEARCH METHODOLOGY

Jöreskog and Sörbom (1982) developed the LISREL Model Approach for creating structural equation models with confirmatory factor analysis (Jöreskog & Sörbom, 1989). This approach is also very famous for use for data analysis in both social research and economics research (Nongrak, 1992). The LISREL model (Jöreskog, Karl and Sörbom, 2001), in its most general form, consists of a set of linear structural equations. Variables in the equation system may be either directly observed variables or unmeasured latent (theoretical) variables that are not observed but relate to observed variables. It is assumed in the model that there is a causal structure among a set of latent variables, and that the observed variables are indicators of the latent variables. The model consists of two parts, the measurement model and the structural equation model:

- The measurement model specifies how latent variables or hypothetical constructs depend upon or are indicated by the observed variables. It describes the measurement properties (reliabilities and validities) of the observed variables.
- The structural equation model specifies the causal relationships among the latent variables, describes the causal effects, and assigns the explained and unexplained variance.
- The LISREL method estimates the unknown coefficients of the set of linear structural equations. It is particularly designed to accommodate models that include latent variables, measurement errors in both dependent and independent variables, reciprocal causation, simultaneity, and interdependence.

The method includes as special cases such procedures as:

- Confirmatory factor analysis,
- Multiple regression analysis,
- Path analysis,
- Economic models for time-dependent data,
- Recursive and non-recursive models for cross-sectional / longitudinal data,
- Covariance structure models and
- Multi-sample analysis.

**Description of the Model.** The full LISREL model for single samples is defined, for deviations about the means, by the following three equations.

The structural equation model:  $\mathbf{h} = \mathbf{B}\mathbf{h} + \mathbf{G}\mathbf{x} + \mathbf{z}$

The measurement model for  $\mathbf{y}$ :  $\mathbf{y} = \mathbf{L}_y\mathbf{h} + \mathbf{e}$

The measurement model for  $\mathbf{x}$ :  $\mathbf{x} = \mathbf{L}_x\mathbf{x} + \mathbf{d}$

The terms in these models are defined as follows:

- $\mathbf{h}$  is a  $m \times 1$  random vector of latent dependent, or endogenous, variables

- $\mathbf{x}$  is a  $n \times 1$  random vector of latent independent, or exogenous, variables
- $\mathbf{y}$  is a  $p \times 1$  vector of observed indicators of the dependent latent variables  $\mathbf{h}$
- $\mathbf{x}$  is a  $q \times 1$  vector of observed indicators of the independent latent variables  $\mathbf{x}$
- $\mathbf{e}$  is a  $p \times 1$  vector of measurement errors in  $\mathbf{y}$
- $\mathbf{d}$  is a  $q \times 1$  vector of measurement errors in  $\mathbf{x}$
- $\mathbf{L}_y$  is a  $p \times m$  matrix of coefficients of the regression of  $\mathbf{y}$  on  $\mathbf{h}$
- $\mathbf{L}_x$  is a  $q \times n$  matrix of coefficients of the regression of  $\mathbf{x}$  on  $\mathbf{h}$
- $\mathbf{G}$  is a  $m \times n$  matrix of coefficients of the  $x$ -variables in the structural relationship
- $\mathbf{B}$  is a  $m \times m$  matrix of coefficients of the  $h$ -variables in the structural relationship. ( $\mathbf{B}$  has zeros in the diagonal, and  $\mathbf{I} - \mathbf{B}$  is required to be non-singular)
- $\mathbf{z}$  is a  $m \times 1$  vector of equation errors (random disturbances) in the structural relationship between  $\mathbf{h}$  and  $\mathbf{x}$

**Assumptions.** The random components in the LISREL model are assumed to satisfy the following minimal assumptions:

- $\mathbf{e}$  is uncorrelated with  $\mathbf{h}$
- $\mathbf{d}$  is uncorrelated with  $\mathbf{x}$
- $\mathbf{z}$  is uncorrelated with  $\mathbf{x}$
- $\mathbf{z}$  is uncorrelated with  $\mathbf{e}$  and  $\mathbf{d}$ .

**Covariance Matrices.**

- $\text{Cov}(\mathbf{x}) = \mathbf{F}$  ( $n \times n$ )
- $\text{Cov}(\mathbf{e}) = \mathbf{Q}_e$  ( $p \times p$ )
- $\text{Cov}(\mathbf{z}) = \mathbf{Y}$  ( $m \times m$ )
- $\text{Cov}(\mathbf{d}) = \mathbf{Q}_d$  ( $q \times q$ )

**Implied Covariance Matrix.** The assumptions in the previous section imply the following form for the covariance matrix of the observed variables:

$$\Sigma = \begin{pmatrix} \mathbf{A}_y \mathbf{A} (\mathbf{\Gamma} \mathbf{\Phi} \mathbf{\Gamma}' + \mathbf{\Psi}) \mathbf{A}' \mathbf{A}_y' + \mathbf{\Theta}_e & \mathbf{A}_y \mathbf{A} \mathbf{\Gamma} \mathbf{\Phi} \mathbf{A}_x' \\ \mathbf{A}_x \mathbf{\Phi} \mathbf{\Gamma}' \mathbf{A}' \mathbf{A}_y' & \mathbf{A}_x \mathbf{\Phi} \mathbf{A}_x' + \mathbf{\Theta}_d \end{pmatrix}$$

where  $\mathbf{A}$  is inverse( $\mathbf{I} - \mathbf{B}$ ).

**Fixed, Free and Constrained Parameters.** The general LISREL model is specialized by fixing and constraining the parameters that compromise the elements in  $\mathbf{L}_y$ ,  $\mathbf{L}_x$ ,  $\mathbf{B}$ ,  $\mathbf{G}$ ,  $\mathbf{Y}$ ,  $\mathbf{F}$  and  $\mathbf{Q}_d$ . The elements are of three kinds:

- Fixed parameters - assigned specific values
- Constrained parameters - unknown but equal to a function of one or more other unknown parameters
- Free parameters - unknown and not constrained to be equal to other parameters

## **7. THE RESULTS OF THE RESEARCH**

### **7.1 International Tourist Profile Based on Surveying Method**

A survey was conducted among international tourists to India in the tourist areas of Karnataka (Bangalore), Goa (Panaji) and Maharashtra (Mumbai). These states are famous for international tourist arrivals to India (Source: India's Tourism Organization).

Table 1 (see more detail in appendix A) shows descriptive statistics of India's international tourists in terms of both their socio-economics and their demographics. Out of the 100 respondents, 56% were male, 44% were female. About 49% were between the ages of 21 to 30, 16% were between the ages of 31 to 40, 11% were between the ages of 41 to 50, 8% were over 50, 5% were under 20 and 19% did not state their age.

About 70% were single, 30% were married. About 37% held a bachelor's degree, 16% held a diploma degree, 36% held a degree higher than a bachelor's degree, 11% had not completed grade 12 high school. About 7% of respondents were company officers, 43% were students, 11% were general employees, 9% were involved in commerce or private businesses, 6% were in the government service or staff of state enterprises, 2% were housewives/husbands, 21% were otherwise and 1% did not state their occupation or profession.

About 36% of respondents reported an average income per month under \$1,000, 19% of respondents reported an average income per month between \$2,001-\$3,000, 13% between \$1,001-\$2,000, 7% between \$3,001-\$4,000, 12% over \$4,000 and 13% did not report their average income per month.

About 36% of respondents reported average total spending per visit to India of between \$501-\$1,000, 14% over \$2,000, 17% of respondents reported average total spending per visit to India under \$500, 20% of respondents reported average total spending per visit to India between \$1,001-\$1,500, 7% between \$1,501-\$2,000 and 6% did not state their average total spending per visit to India.

About 19% of respondents reported that no body came with them to India, 28% of respondents reported that only one person, 10% of respondents reported two people, 43% of respondents reported three or more people that came with them to India.

In terms of the purposes of international tourists' visits to India, the survey showed that about 27% came for relaxation, 37% to find out about the culture/traditions, 3% for seminars, 25% did not state their purpose, 13% for personal business, 5% to visit relatives, 12% to see heritage buildings, 27% for their education and 2% for sport.

Table 2 (see more details in appendix A) shows descriptive statistics of India's international tourists in terms of their travel behavior. About 49% of respondents reported that they came to India because of word of mouth, 42% of respondents reported that guide books influenced them, 38% of respondents reported internet

advertisements, 20% of respondents reported magazines, 14% of respondents reported newspapers, 19% of respondents reported television programs, 5% of respondents reported brochures by tour-operators, 6% of respondents reported television advertisements and 18% of respondents reported none of the above influenced them to come to India.

About 33% of respondents reported that they are likely to come back to India again, 23% of respondents reported that they are very likely to come back to India again, 20% of respondents reported that they will certainly come back to India again, 19% of respondents reported that they are somewhat likely to come to India again, 4% of respondents reported that they are unlikely to come back to India again and 1% did not state whether they will come to India again or not.

About 23% of respondents reported that pre-trip planning is important when coming to India, 35% of respondents reported that it is somewhat important, 21% of respondents reported that it is very important, 15% of respondents reported that it is not important and 6% of respondents reported that it is extremely important.

About 19% of respondents reported that they stayed in India over 10 days, 11% of respondents reported 7-10 days, 9% of respondents reported 4-6 days and 2% of respondents reported 1-3 days.

About 56% of respondents reported that they were visiting India for the first time, 19% of respondents reported that they had visited more two times, 18% of respondents reported that they were visiting for the second time and 7% of respondents reported that they were visiting for the third time.

About 58% of respondents reported their travel arrangements for this trip as individual tour, 20% of respondents reported an organized group tour and 22% of respondents reported other travel arrangements for this trip. About 26% of respondents reported that the total cost of their travel to India was not expensive, 38% of respondents reported that it was somewhat expensive, 24% of respondents reported that that it was expensive, 11% of respondents reported that it was very expensive and 1% of respondents reported that it was high very expensive.

About 22% of respondents reported that the cost of air travel in India was not expensive, 39% of respondents reported that it was somewhat expensive, 26% of respondents reported that it was expensive, 8% of respondents reported that it was very expensive, 3% of respondents reported that it was high very expensive and 2% did not state that cost of air travel in India was expensive or not.

About 45% of respondents reported that the shipping cost of their travel in India was not expensive, 28% of respondents reported that it was somewhat expensive, 10% of respondents reported that it was expensive, 2% of respondents reported that it was very expensive and 15% did not state that cost of their travel in India was expensive or not.

About 70% of respondents reported that the cost of public service vehicles on their travels in India was not expensive, 20% of respondents reported that it was somewhat expensive, 4% of respondents reported that it was expensive, 3% of respondents reported that it was very expensive, 1% of respondents reported that it was

high very expensive and 2% did not state that cost of public service vehicles on their travel in India was expensive or not.

About 48% of respondents reported that the cost of hotels and guesthouses on their trip to India was not expensive, 33% of respondents reported that it was somewhat expensive, 11% of respondents reported that it was expensive, 3% of respondents reported that it was very expensive, 4% of respondents reported that it was high very expensive and 1% did not state that cost of hotels and guesthouses on their trip to India was expensive or not.

About 52% of respondents reported that the cost of goods and services purchased in India on their trip were not expensive, 33% of respondents reported that they were somewhat expensive, 8% of respondents reported that they were expensive, 4% of respondents reported that they were very expensive, 1% of respondents reported that they were high very expensive and 2% did not state that cost of goods and services purchased in India was expensive or not.

About 29% of respondents reported that the total cost of their trip to India was not expensive, 44% of respondents reported that it was somewhat expensive, 20% of respondents reported that it was expensive, 6% of respondents reported that it was very expensive and 1% of respondents reported that it was high very expensive.

Table 3 (see more detail in appendix A) shows descriptive statistics of India's international tourists in term of their opinions on tourism products or tourist destinations in India. About 41.9% of respondents reported that they agreed with the quality of tourist destinations (Mountain or Eco-tourism), 40.9% of respondents reported that they neither agreed nor disagreed with the quality of tourist destinations, 7.5% of respondents reported that they strongly agreed with the quality of tourist destinations, 8.6% of respondents reported that they disagreed with the quality of tourist destinations and 1.1% of respondents reported that they strongly disagreed with the quality of tourist destinations.

About 48% of respondents reported that they agreed with the quality of tourist destinations (Cities, Hotels, Guesthouses, Department stores, Market place and Restaurants), 25% of respondents reported that they neither agreed nor disagreed with the quality of tourist destinations, 4% of respondents reported that they strongly agreed with the quality of tourist destinations, 18% of respondents reported that they disagreed with the quality of tourist destinations and 5% of respondents reported that they strongly disagreed with the quality of tourist destinations.

About 41.1% of respondents reported that they agreed with the quality of tourist destinations (Rural areas, Resorts in rural areas and Home stays), 40.2% of respondents reported that they neither agreed nor disagreed with the quality of tourist destinations, 6.2% of respondents reported that they disagreed with the quality of tourist destinations, 10.3% of respondents reported that they strongly agreed with the quality of tourist destinations and 2.1% of respondents reported that they strongly disagreed with the quality of tourist destinations.

About 39.6% of respondents reported that they agreed with the quality of tourist destinations (Sea, Beaches, Resorts on beaches and Islands), 31.3% of

respondents reported that they neither agreed nor disagreed with the quality of tourist destinations, 8.3% of respondents reported that they strongly agreed with the quality of tourist destinations, 17.7% of respondents reported that they disagreed with the quality of tourist destinations and 3.1% of respondents reported that they strongly disagreed with the quality of tourist destinations.

About 53% of respondents reported that they agreed with the quality of tourist destinations (Culture, traditions, India lifestyle and India service), 16% of respondents reported that they strongly agreed with the quality of tourist destinations, 18% of respondents reported that they neither agreed nor disagreed with the quality of tourist destinations, 11% of respondents reported that they disagreed with the quality of tourist destinations and 2% of respondents reported that they strongly disagreed with the quality of tourist destinations.

About 50% of respondents reported that they agreed with the quality of tourist destinations (India food, India souvenirs and India Health or Medical tourism), 18% of respondents reported that they neither agreed nor disagreed with the quality of tourist destinations, 16% of respondents reported that they disagreed with the quality of tourist destinations, 2% of respondents reported that they strongly disagreed with the quality of tourist destinations and 14% of respondents reported that they strongly agreed with the quality of tourist destinations.

About 51.5% of respondents reported that they agreed with the quality of tourist destinations (Heritage buildings or Traditional buildings), 27.3% of respondents reported that they neither agreed nor disagreed with the quality of tourist destinations, 16.2% of respondents reported that they strongly agreed with the quality of tourist destinations, 3% of respondents reported that they disagreed with the quality of tourist destinations and 2% of respondents reported that they strongly disagreed with the quality of tourist destinations.

About 56% of respondents reported that they agreed with the quality of the tourist destinations and that they would come back to those tourist destinations again, 23% reported that they strongly agreed with the quality of the tourist destinations and that they would come back to those tourist destinations again, 14% reported that they neither agreed nor disagreed with the quality of the tourist destinations and maybe they would come back to those tourist destinations again, 3% reported that they strongly disagreed with the quality of the tourist destinations and that they would not come back to those tourist destination again and 4% reported that they disagreed with the quality of the tourist destinations as well as that they did not want to come back to those tourist destinations again.

Table 4 (see more detail in appendix A) shows descriptive statistics of India's international tourists in term of their opinions on tourism products attributes or tourist destinations attributes in India. About 28.7% of respondents reported that they agreed with the attributes of tourist destinations (Mountain or Eco-tourism: Clean, Beautiful, Safe and not destroying the environment), 40.4% of respondents reported that they neither agreed nor disagreed with the attributes of tourist destinations, 8.5% of respondents reported that they strongly agreed with the attributes of tourist

destinations, 13.8% of respondents reported that they disagreed with the attributes of tourist destinations and 8.5% of respondents reported that they strongly disagreed with the attributes of tourist destinations.

About 37% of respondents reported that they agreed with the attributes of tourist destinations (Cities, Hotels, Guesthouses, Department stores, Market places and Restaurants: Clean, Beautiful, Safe and Not destroying the environment), 30% of respondents reported that they neither agreed nor disagreed with the attributes of tourist destinations, 19% of respondents reported that they disagreed with the attributes of tourist destinations, 5% of respondents reported that they strongly agreed with the attributes of tourist destinations and 9% of respondents reported that they strongly disagreed with the attributes of tourist destinations.

About 40.8% of respondents reported that they agreed with the attributes of tourist destinations (Rural areas, Resorts in rural areas and Home stays: Clean, Beautiful, Safe and Not destroying the environment), 33.7% of respondents reported that they neither agreed nor disagreed with the attributes of tourist destinations, 20.4% of respondents reported that they disagreed with the attributes of tourist destinations, 3.1% of respondents reported that they strongly agreed with the attributes of tourist destinations and 2% of respondents reported that they strongly disagreed with the attributes of tourist destinations.

About 25% of respondents reported that they agreed with the attributes of tourist destinations (Sea, Beaches, Resorts on beaches and Islands: Clean, Beautiful, Safe and Not destroying the environment), 38.5% of respondents reported that they neither agreed nor disagreed with the attributes of tourist destinations, 7.3% of respondents reported that they strongly agreed with the attributes of tourist destinations, 19.8% of respondents reported that they disagreed with the attributes of tourist destinations and 9.4% of respondents reported that they strongly disagreed with the attributes of tourist destinations.

About 43% of respondents reported that they agreed with the attributes of tourist destinations (Heritage building or Traditional building : Clean, Beautiful, Safety and Not destroying the environment), 28% of respondents reported that they neither agreed nor disagreed with the attributes of tourist destinations, 9% of respondents reported that they strongly agreed with the attributes of tourist destinations, 17% of respondents reported that they disagreed with the attributes of tourist destinations and 3% of respondents reported that they strongly disagreed with the attributes of tourist destinations.

From table 5 (see more detail in appendix A) give descriptive statistics of India's international tourists in term of their opinions on tourism products management or tourist destinations management in India. About 37.6% of respondents reported that they agreed with the management of tourist destinations (Mountain or Eco-tourism), 40.9% of respondents reported that they neither agreed nor disagreed with the management of tourist destinations, 3.2% of respondents reported that they strongly agreed with the management of tourist destinations, 15.1% of respondents reported that

they disagreed with the management of tourist destinations and 3.2% of respondents reported that they strongly disagreed with the management of tourist destinations.

About 48% of respondents reported that they agreed with the management of tourist destination (Cities, Hotels, Guesthouses, Department stores, Market place and Restaurants), 25% of respondents reported that they neither agreed nor disagreed with the management of tourist destinations, 5% of respondents reported that they strongly agreed with the management of tourist destinations, 3% of respondents reported that they disagreed with the management of tourist destinations and 19% of respondents reported that they strongly disagreed with the management of tourist destinations.

About 37.4% of respondents reported that they agreed with the management of tourist destinations (Rural areas, Resorts in rural areas, Home stays), 40.4% of respondents reported that they neither agreed nor disagreed with the management of tourist destinations, 2% of respondents reported that they strongly agreed with the management of tourist destinations, 18.2% of respondents reported that they disagreed with the management of tourist destinations and 2% of respondents reported that they strongly disagreed with the management of tourist destinations.

About 33.3% of respondents reported that they agreed with the management of tourist destinations (Sea, Beaches, Resorts on beaches and Islands), 39.6% of respondents reported that they neither agreed nor disagreed with the management of tourist destinations, 6.3% of respondents reported that they strongly agreed with the management of tourist destinations, 15.6% of respondents reported that they disagreed with the management of tourist destinations and 5.2% of respondents reported that they strongly disagreed with the management of tourist destinations.

About 36.7% of respondents reported that they agreed with the management of the India tourism industry, 34.7% of respondents reported that they neither agreed nor disagreed with the management of the India tourism industry, 2% of respondents reported that they strongly agreed with the management of the India tourism industry, 23.5% of respondents reported that they disagreed with the management of the India tourism industry and 3.1% of respondents reported that they strongly disagreed with the management of the India tourism industry.

About 39.4% of respondents reported that they agreed with the management of heritage buildings in India, 36.4% of respondents reported that they neither agreed nor disagreed with the management of heritage buildings in India, 4% of respondents reported that they strongly agreed with the management of heritage buildings in India, 2% of respondents reported that they strongly disagreed with the management of heritage buildings in India and 18.2% of respondents reported that they disagreed with the management of heritage buildings in India.

About 33.3% of respondents reported that they agreed with the management of private company's impact on India's tourism industry, 41.4% of respondents reported that they neither agreed nor disagreed with the management of private company's impact on India's tourism industry, 2% of respondents reported that they strongly agreed with the management of private company's impact on India's tourism industry, 20.2% of respondents reported that they have disagreed with the management of



private company's impact on India's tourism industry and 3% of respondents reported that they strongly disagreed with the management of private company's impact on India's tourism industry.

About 35.4% of respondents reported that they agreed with the management of the India government's impact on India's tourism industry, 40.4% of respondents reported that they neither agreed nor disagreed with the management of the India government's impact on India's tourism industry, 2% of respondents reported that they strongly agreed with the management of the India government's impact on India's tourism industry, 18.2% of respondents reported that they have disagreed with the management of the India government's impact on India's tourism industry and 4% of respondents reported that they strongly disagreed with the management of the India government's impact on India's tourism industry.

## **7.2 Results of a Structural Equation Model for India's International Tourism Demand for Tourist Destinations Based on the LISREL Model Approach**

Each of the observable variables was measured by several questions and the items for each variable were checked for construct validity and reliability using SPSS (see more details in Appendix B, Table 6 and Table 7). Construct validity was established by checking the result of the factor analysis, with all the items representing one factor accounting for about at least 44% of variance. Reliability refers to the degree of stability of the scale (Jackson et al., 1997). Reliability of the construct is demonstrated by checking the Cronbach alpha for the items for each construct and the correlation among the items for the construct. Typically, a scale is said to be reliable if alpha is 0.70 or higher (Sim, Mak and Jone, 2006). Table 7 gives the validity and reliability indices for the questionnaire items for each variable. All the items had reliability coefficients higher than 0.70 except the items of tourism product had reliability coefficients lower 0.70.

To test hypotheses 1 for causal relationships, the LISREL 8 program was used (for details concerning LISREL 8.53, see Jöreskog and Sörbom 2001). The LISREL model consists of a measurement model and a structural model (Jöreskog and Sörbom 2001). Figure 1 illustrates how latent variables-tourism products, tourism product attributes, tourism product management and travel cost satisfaction were measured (the measurement model) and how the latent variables were proposed to relate among one another (the structural equation model). According to Diamantopoulos and Siguaw (2000), the measurement model (1) specifies how the latent variables are measured in terms of the observed variables and (2) describes measurement properties (validities and reliabilities) of the observed variables. The structural equation model (1) specifies the causal relationships among the latent variables and (2) describes the causal effects and amount of unexplained variances (Diamantopoulos and Siguaw 2000; Jöreskog and Sörbom 2001, Prasert, Chukiat, Siriporn 2007).

This research tested the model in Figure 1 and the final model is given in Figure 2 (see more detail at appendix c). Significant relationships in the model are

indicated by solid arrows and insignificant relationships are indicated by dotted arrows. The chi-square statistic test whether the observed data fit the hypothesis if the proposed model, and a smaller chi-square value indicates a better fit (Sim, Mak and Jones, 2006). However, for a small sample size that might have slightly departed from normality, the chi-squares are not good model fit indicators (Sim, Mak and Jones, 2006). The chi-value in Figure 2 is significant ( $X^2$  with 149 degree of freedom = 323.77 ( $p < 0.05$ )). Other measures of fit include the goodness of fit index (GFI) and normed fit index (NFI). Both the GFI and NFI are always between zero and one, with one indicating a perfect fit while any value above 0.9 suggesting a good fit (Bentler & Bonett, 1990). The model has a GFI of 0.75 and a NFI of 0.50. This shows a good fit and the adjusted goodness of fit (AGFI) is 0.70 also this again shows a good fit. Similarly, the non-normed fit index (NNFI) and the comparative fit index (CFI) are two additional measures ranging from 0 to 1, where values close to or greater than 0.9 represent a reasonable model fit (Sim, Mak and Jones, 2006). The NNFI and CFI for the model are 0.60 and 0.60, respectively and finally, the root-mean squared residual (RMSR) shows the proportion of the variance not explained by the model. In general, a root mean squared residual of 0.08 or below indicates a reasonable model fit (Sim, Mak and Jones, 2006). The model has a RMSR of 0.10 also overall speaking, the GFI, AGFI, NFI, NNFI, CFI, and RMSR all indicate that the model has a good fit.

In the hypothesis 1 testing, the model showed that travel cost satisfaction has a positive influence on tourism product attributes at 0.33 ( $t=2.38$ ) with statistical significance at the level of 0.05 (see more details in Figure 2). Also, the model showed that travel cost satisfaction has a positive influence on tourism product attributes at 0.30 ( $t=2.17$ ) with statistical significance at the level of 0.05 (see more detail Figure 2).

## **8. CONCLUSION AND IMPLICATIONS**

This study attempted to determine the relationships between travel motivation (travel cost satisfaction) and tourist destinations in India (tourism product, tourism product attributes, and tourism product management). To test the causal relationships between these variables, a LISREL model incorporating measurement and structural equation modeling was developed and tested. In our sample of 100 international tourists, a positive effect was found between travel cost satisfaction and tourist destinations (tourism product and tourism product attributes).

The conclusions and recommendations that emerge from the empirical analysis based on LISREL Model Approach ((Jöreskog and Sörbom (1982)), (Jöreskog & Sörbom (1989) and (Jöreskog, Karl and Sörbom (2001))). The travel cost satisfaction has a positive influence on tourism product at 0.33 ( $t=2.38$ ) with statistical significance at the level of 0.05 (see more details in Figure 2). Also travel cost satisfaction has a positive influence on tourism product attributes at 0.30 ( $t=2.17$ ) with statistical significance at the level of 0.05 (see more details in Figure 2). If a generalization can be made for future years, then it suggests that both the private tourism sector and the India government tourism sector should maintain good management of tourist

destinations in India. Such as maintaining the amenities of the tourism products, keeping good accessibility to the tourism products, keep a good image of tourism products, keeping the right price of tourism products and keeping the competitiveness of tourism products. Also this result was similar with the results of previous empirical studies of tourist destinations in India such as Pheba Chacko (2006) said that *“Basic amenities in India are not up to international standards, especially air connectivity, road links, conveyance services and Internet connectivity. This gives a poor image of the country to health travelers, and also raises doubts about the quality of healthcare facilities. The state of basic amenities in a country has a considerable impact on the choice of destination for health travelers. Basic amenities need to be upgraded and made hassle free”* and Poonam Munjal, K.A. Siddiqui and Rajesh Shukla (2006) conclusion that *“With such prominence, it is a clear indication to the policy makers to be more liberal when it comes to enhance tourism in India. For instance, an open air policy would boost tourism as more and more airlines would be able to operate from the country. Having much more international airports of best infrastructure standards is the need of the hour. Infrastructure should be improved for two main reasons – one to have an aesthetic atmosphere and two in order to accommodate growing tourists in India. More space should be created for accommodation and other facilities”*.

If the tourist destinations in India are maintained good management of tourist destinations in India. Such as maintaining the amenities of the tourism products, keeping good accessibility to the tourism products, keep a good image of tourism products, keeping the right price of tourism products and keeping the competitiveness of tourism products. Then not only will international tourist revisit India but also the numbers of tourists traveling to India will increase.

## **9. LIMITATIONS AND FUTURE RESEARCH**

Firstly, this study collected data from 100 international tourist during the period 2007(Q1) to 2007(Q4). This number of respondents may not be sufficient to ascertain the overall trends of tourist. Future research should collect data from a sample of at least 1,000 people.

Secondly, this study collected data from tourist areas in some state only, namely Karnataka (Bangalore), Goa (Panaji) and Maharashtra (Mumbai). However, may be not enough to accurately represent the image of all tourist destinations in India. Future research should extent the data collection area to state such as Kerala, Gujarat, Tamilnadu and Delhi.

And thirdly, this study investigated destination image perception only from an international tourist's perspective. Future research should examine the point of view of travel agents and tour operators. These groups have an influence on the perceived image of a particular destination because they create the tour packaging and marketing campaigns (Balogu & Mangalolu, 2001) and (Prasert, Chukiat, and Siriporn, 2007).

**Appendix A.**

**The summary data of tourists international arrival to India by surveying method in during period 2007 (Q1) – 2007(Q4)**

**Table 1. Demographic Summary of the Research Sample**

*From: computed*

Characteristics	Categories	Respondents (%)
Gender	Male	56.00
	Female	54.00
Age group	Under 20 years	19.0
	21-30 years	49.0
	31-40 years	16.0
	41-50 years	11.0
	Over 50 year	5.0
Marital status	Single	70.0
	Married	30.0
Education	Less than grade 12	11.0
	Diploma or equivalent	16.0
	Bachelor's degree	37.0
	Higher than Bachelor's degree	36.0
Occupation or Professional	Student	43.0
	Company officer	7.0
	Government service/State enterprise	6.0
	House husband/House wife	2.0
	General employee	11.0
	Commerce/Personal business	9.0
	Unemployed	-
	Farmer	-
	Otherwise	21.0
	Did not respond	1.0
Average income per month (US dollar)	Under 1,000	36.0
	1,001-2,000	13.0
	2,001-3,000	19.0
	3,001-4,000	7.0
	Over 4,000	12.0
	Did not respond	13.0
Average total spending per visit to India (US dollar)	Under 500	17.0
	501 - 1,000	36.0
	1,001-1,500	20.0
	1,501-2,000	7.0
	Over 2,000	14.0
Did not respond	6.0	
Totally of people are traveling to India with you	None	19.0
	One person	28.0
	Two person	10.0
	More than three persons	43.0
The purpose of your visit to India	Relaxation	27.0
	Education	27.0
	Personal Business	13.0
	Seminar	3.0
	Sport	2.0
	Visit relatives	5.0
	Get know culture/tradition	37.0
	To see heritage building	12.0
	Otherwise	25.0

**Table 2. Travel Behavior Summary of the Research Sample***From: computed*

<b>Characteristics</b>	<b>Categories</b>	<b>Respondents (%)</b>
The Information suggested you come to India	Newspapers	14.0
	Magazines	20.0
	TV programs	19.0
	Internet advertisements	38.0
	TV advertisements	6.0
	Guide Books	42.0
	Brochures of tour-operators	5.0
	Word of mouth	49.0
The chance that you will travel to India again	Otherwise	18.0
	Unlikely	4.0
	Somewhat likely	19.0
	Likely	33.0
	Very likely	23.0
	Certain	20.0
The level of importance was your pre-trip planning when coming to India	Did not respond	1.0
	Not important	15.0
	Somewhat important	35.0
	Important	23.0
	Very important	21.0
Your time stay in India in total on this trip	Extremely important	6.0
	1-3 days	2.0
	4-6 days	9.0
	7-10 days	11.0
How many time had you visited India before this trip	Over 10 days	78.0
	None	56.0
	Once	18.0
	Twice	7.0
The description of your travel arrangements for this trip	More than twice	19.0
	Organized group tour	20.0
	Individual tour	58.0
Total cost of your travel to India	Otherwise	22.0
	Not expensive	26.0
	Somewhat expensive	38.0
	Expensive	24.0
	Very expensive	11.0
Airline costs in India	High very expensive	1.0
	Not expensive	22.0
	Somewhat expensive	39.0
	Expensive	26.0
	Very expensive	8.0
	High very expensive	3.0
Shipping costs in India	Did not respond	2.0
	Not expensive	45.0
	Somewhat expensive	28.0
	Expensive	10.0
	Very expensive	2.0
	High very expensive	-
Did not respond	15.0	

Public service vehicle costs in India	Not expensive	70.0
	Somewhat expensive	20.0
	Expensive	4.0
	Very expensive	3.0
	High very expensive	1.0
	Did not respond	2.0
Hotel cost and guesthouse costs for your trip	Not expensive	48.0
	Somewhat expensive	33.0
	Expensive	11.0
	Very expensive	3.0
	High very expensive	4.0
	Did not respond	1.0
Total cost of good and service purchased in India	Not expensive	52.0
	Somewhat expensive	33.0
	Expensive	8.0
	Very expensive	4.0
	High very expensive	1.0
	Did not respond	2.0
Total cost of your trip in India	Not expensive	29.0
	Somewhat expensive	44.0
	Expensive	20.0
	Very expensive	6.0
	High very expensive	1.0

**Table 3. Summary of International Tourist's Opinions on Tourism Products or Tourist Destinations in India**

*From: computed*

Characteristics	Categories	Respondents (%)
I was satisfied with the quality of tourist destinations: Mountain or Eco-tourism.	Strongly Disagree	1.1
	Disagree	8.6
	Neither Agree nor Disagree	40.9
	Agree	41.9
	Strongly Agree	7.5
I was satisfied with the quality of tourist destinations: Cities, Hotels, Guesthouses, Department stores, Market place and Restaurants.	Strongly Disagree	5.0
	Disagree	18.0
	Neither Agree nor Disagree	25.0
	Agree	48.0
	Strongly Agree	4.0
I was satisfied with the quality of tourist destinations: Rural areas, Resorts in rural areas, Home stays.	Strongly Disagree	2.1
	Disagree	6.2
	Neither Agree nor Disagree	40.2
	Agree	41.2
	Strongly Agree	10.3
I was satisfied with the quality of tourist destinations: Sea, Beaches, Resorts on beaches and Islands.	Strongly Disagree	3.1
	Disagree	17.7
	Neither Agree nor Disagree	31.3
	Agree	39.6
	Strongly Agree	8.3

I was satisfied with the quality of tourist destinations: culture, traditions, India people's life style and India people's service.	Strongly Disagree	2.0
	Disagree	11.0
	Neither Agree nor Disagree	18.0
	Agree	53.0
	Strongly Agree	16.0
I was satisfied with the quality of tourist destinations: India food, A souvenirs of India and Health or Medical tourism of India.	Strongly Disagree	2.0
	Disagree	16.0
	Neither Agree nor Disagree	18.0
	Agree	50.0
	Strongly Agree	14.0
I was satisfied with the quality of tourist destinations: Heritage building or Traditional building.	Strongly Disagree	2.0
	Disagree	3.0
	Neither Agree nor Disagree	27.3
	Agree	51.5
	Strongly Agree	16.2
In light of the above, I will come to India again.	Strongly Disagree	3.0
	Disagree	4.0
	Neither Agree nor Disagree	14.0
	Agree	56.0
	Strongly Agree	23.0

**Table 4. Summary of International Tourist's Opinions on Tourist Products Attributes or Tourist Destinations Attributes in India**

*From: computed*

Characteristics	Categories	Respondents (%)
I was satisfied with the attributes of tourist destinations: Mountain or Eco-tourism.(Clean, Beautiful, Safety and Not destroying the environment)	Strongly Disagree	8.5
	Disagree	13.8
	Neither Agree nor Disagree	40.4
	Agree	28.7
	Strongly Agree	8.5
I was satisfied with the attributes of tourist destinations: Cities, Hotels, Guesthouses, Department stores, Market place and Restaurants.(Clean, Beautiful, Safety and Not destroying the environment)	Strongly Disagree	9.0
	Disagree	19.0
	Neither Agree nor Disagree	30.0
	Agree	37.0
	Strongly Agree	5.0
I was satisfied with the attributes of tourist destinations: Rural areas, Resorts in rural areas, Home stays. (Clean, Beautiful, Safety and Not destroying the environment)	Strongly Disagree	2.0
	Disagree	20.4
	Neither Agree nor Disagree	33.7
	Agree	40.8
	Strongly Agree	3.1
I was satisfied with the attributes of tourist destinations: Sea, Beaches, Resorts on beaches and Islands. (Clean, Beautiful, Safety and Not destroying the environment)	Strongly Disagree	9.4
	Disagree	19.8
	Neither Agree nor Disagree	38.5
	Agree	25.0
	Strongly Agree	7.3
I was satisfied with the attributes of tourist destinations: Heritage building or Traditional building. (Clean, Beautiful, Safety and Not destroying the environment)	Strongly Disagree	3.0
	Disagree	17.0
	Neither Agree nor Disagree	28.0
	Agree	43.0
	Strongly Agree	9.0

**Table 5. Summary of International Tourist's Opinions on Tourism Product Management or Tourist Destinations Management in India***From: computed*

Characteristics	Categories	Respondents (%)
I was satisfied with the management of tourist destinations: Mountain or Eco-tourism.( Attraction, Amenities, Accessibility, Image, Price and Competitive).	Strongly Disagree	3.2
	Disagree	15.1
	Neither Agree nor Disagree	40.9
	Agree	37.6
	Strongly Agree	3.2
I was satisfied with the management of tourist destinations: Cities, Hotels, Guesthouses, Department stores, Market place and Restaurants. ( Attraction, Amenities, Accessibility, Image, Price and Competitive).	Strongly Disagree	3.0
	Disagree	19.0
	Neither Agree nor Disagree	25.0
	Agree	48.0
	Strongly Agree	5.0
I was satisfied with the management of tourist destinations: Rural areas, Resorts in rural areas, Home stays.( Attraction, Amenities, Accessibility, Image, Price and Competitive).	Strongly Disagree	2.0
	Disagree	18.2
	Neither Agree nor Disagree	40.4
	Agree	37.4
	Strongly Agree	2.0
I was satisfied with the management of tourist destinations: Sea, Beaches, Resorts on beaches and Islands.( Attraction, Amenities, Accessibility, Image, Price and Competitive).	Strongly Disagree	5.2
	Disagree	15.6
	Neither Agree nor Disagree	39.6
	Agree	33.3
	Strongly Agree	6.3
I was satisfied with the management of India's tourism industry.( Attraction, Amenities, Accessibility, Image, Price and Competitive).	Strongly Disagree	3.1
	Disagree	23.5
	Neither Agree nor Disagree	34.7
	Agree	36.7
	Strongly Agree	2.0
I was satisfied with the management of Heritage building in India (Attraction, Amenities, Accessibility, Image, Price and Competitive).	Strongly Disagree	2.0
	Disagree	18.2
	Neither Agree nor Disagree	36.4
	Agree	39.4
	Strongly Agree	4.0
I was satisfied with the management of private company's impact on India's tourism industry ( Attraction, Amenities, Accessibility, Image, Price and Competitive).	Strongly Disagree	3.0
	Disagree	20.2
	Neither Agree nor Disagree	41.4
	Agree	33.3
	Strongly Agree	2.0
I was satisfied with the management of India government's impact on India's tourism industry (Attraction, Amenities, Accessibility, Image, Price and Competitive).	Strongly Disagree	4.0
	Disagree	18.2
	Neither Agree nor Disagree	40.4
	Agree	35.4
	Strongly Agree	2.0



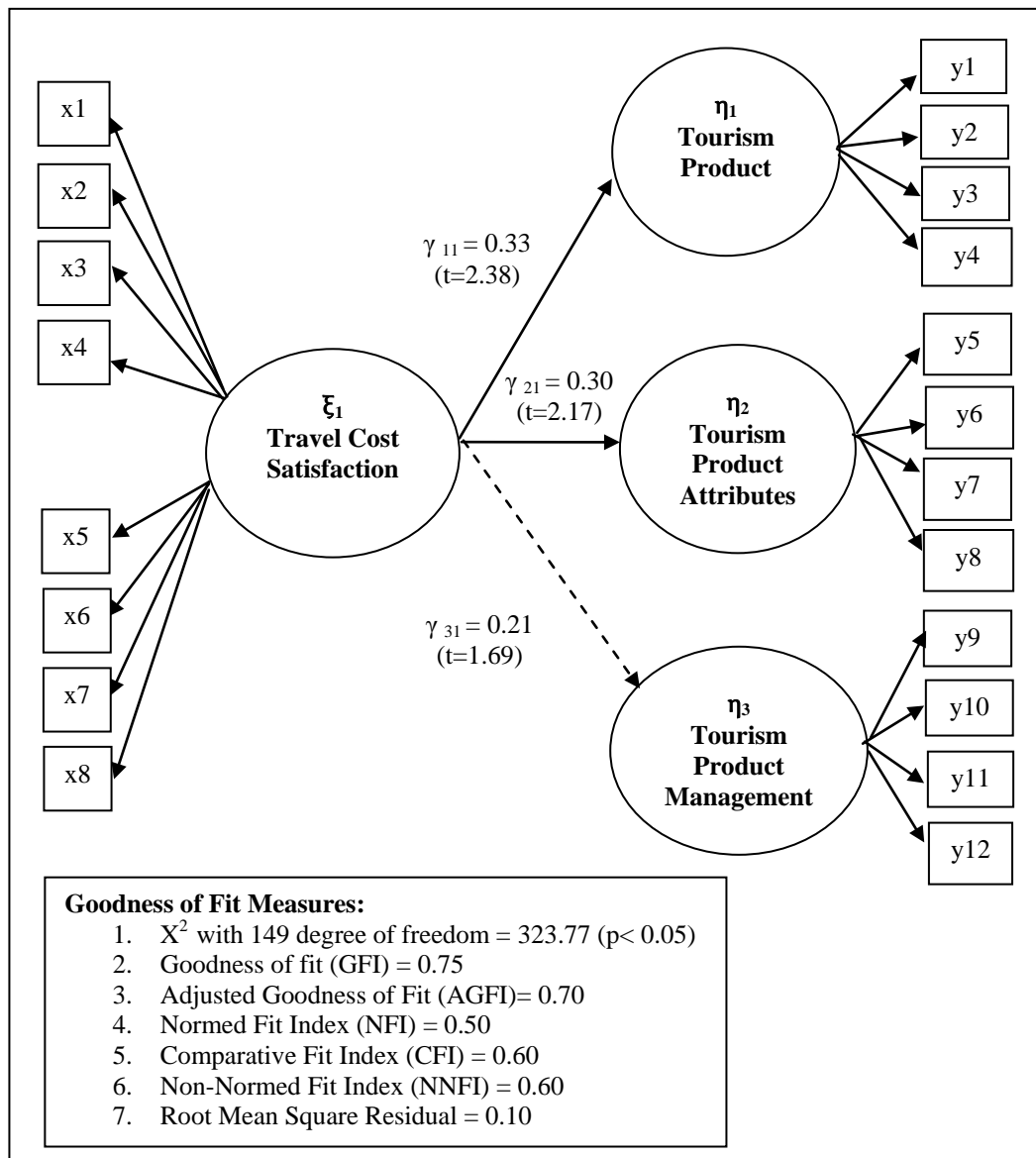
**Appendix B****The Item within the Questionnaire and Reliability and Validity of the Items in the Model****Table 6. The items within the questionnaire were used in a structure model**

<b>Variable</b>	<b>Item</b>	<b>Questions</b>
Tourism Product	PRODUCT 1 (y1)	I was satisfied with the quality of tourist destinations: Mountain or Eco-tourism.
	PRODUCT 2 (y2)	I was satisfied with the quality of tourist destinations: Cities, Hotels, Guesthouses, Department stores, Market place and Restaurants.
	PRODUCT 3 (y3)	I was satisfied with the quality of tourist destinations: rural areas, resorts in rural areas, home stays.
	PRODUCT 4 (y4)	I was satisfied with the quality of tourist destinations: sea, beaches, resorts on beaches and Islands.
Tourism Product Attributes	ATTRIBU1 (y5)	I was satisfied with the attributes of tourist destinations: Mountain or Eco-tourism (Clean, Beautiful, Safety and Not destroying the environment).
	ATTRIBU2 (y6)	I was satisfied with the attributes of tourist destinations: Cities, Hotels, Guesthouses, Department stores, Market place and Restaurants (Clean, Beautiful, Safety and Not destroying the environment).
	ATTRIBU4 (y7)	I was satisfied with the attributes of tourist destinations: Sea, Beaches, Resorts on beaches and Islands. (Clean, Beautiful, Safety and Not destroying the environment).
	ATTRIBU5 (y8)	I was satisfied with the attributes of tourist destinations: Heritage building or Traditional building. (Clean, Beautiful, Safety and Not destroying the environment).
Tourism Product management	MANAGE1(y9)	I was satisfied with the management of tourist destinations: Mountain or Eco-tourism (Attraction, Amenities, Accessibility, Image, Price and Competitive)
	MANAGE2 (y10)	I was satisfied with the management of tourist destinations: Cities, Hotels, Guesthouses, Department stores, Market place and Restaurants (Attraction, Amenities, Accessibility, Image, Price and Competitive).
	MANAGE4 (y11)	I was satisfied with the management of tourist destinations: Sea, Beaches, Resorts on beaches and Islands (Attraction, Amenities, Accessibility, Image, Price and Competitive).
	MANAGE6 (y12)	I was satisfied with the management of Heritage building in India.
Travel Cost Satisfaction	COST1 (x1)	Total cost of your travel to India.
	COST2 (x2)	Airline costs in India.
	COST3 (x3)	Shipping costs in India
	COST4 (x4)	Public service vehicle costs in India
	COST 5(x5)	Hotel cost and guesthouse costs for your trip.
	COST6(x6)	Total cost of goods and services purchased in India.
	COST 7(x7)	Total of your trip in India

**Table 7. The reliability and validity of the items were used in a structure model**

Variable	Item	Corrected item Total Correlation	Factor Loading
Tourism Product	PRODUCT 1	0.35	0.50
	PRODUCT 2	0.36	0.53
	PRODUCT 3	0.43	0.60
	PRODUCT 4	0.41	0.60
	Alpha = 0.61		1 factor 46% of variance
Tourism Product Attributes	ATTRIBU1	0.47	0.60
	ATTRIBU2	0.45	0.60
	ATTRIBU4	0.48	0.62
	ATTRIBU5	0.45	0.60
	Alpha = 0.70		1 factor 51% of variance
Tourism Product management	MANAGE1	0.70	0.50
	MANAGE2	0.52	0.65
	MANAGE4	0.50	0.55
	MANAGE6	0.45	0.50
	Alpha = 0.73		1 factor 57% of variance
Travel Cost Satisfaction	COST1	0.37	0.37
	COST2	0.50	0.57
	COST3	0.41	0.47
	COST4	0.50	0.50
	COST5	0.62	0.73
	COST6	0.53	0.64
	COST7	0.63	0.75
	Alpha = 0.78		1 factor 44 % of variance

**Appendix C**  
**A Structural Model for India's International Tourism Demand**



**Figure 2.** Final Model for Relationship among Travel Cost Satisfaction, Tourists Demographics, Tourism Product, Tourism Product Attributes and Tourism Product Management\*

\* Significant relationships are denoted as solid arrow and insignificant relationship re denoted as dotted arrow.

**Table 8. LISREL estimates for measurement model (Relations of indicator variables to latent variables)**

Construct	Indicator	Path	LISREL Estimates <sup>a</sup>	T-value	Residual	LISREL Estimates <sup>a</sup>	T-value
$\eta_1$ Tourism Product	y1	$\lambda_{11}$	0.27	2.83	$\epsilon_1$	0.57	6.66
	y2	$\lambda_{21}$	0.39	3.36	$\epsilon_2$	0.81	6.48
	y3	$\lambda_{31}$	0.60	5.65	$\epsilon_3$	0.34	3.34
	y4	$\lambda_{41}$	0.67	5.51	$\epsilon_4$	0.50	3.79
$\eta_2$ Tourism Product Attributes	y5	$\lambda_{52}$	0.88	5.02	$\epsilon_5$	1.48	5.32
	y6	$\lambda_{62}$	0.57	4.58	$\epsilon_6$	0.80	5.73
	y7	$\lambda_{72}$	0.69	5.54	$\epsilon_7$	0.65	4.61
	y8	$\lambda_{82}$	0.56	4.95	$\epsilon_8$	0.63	5.39
$\eta_3$ Tourism Product Management	y9	$\lambda_{93}$	0.75	8.62	$\epsilon_9$	0.17	2.05
	y10	$\lambda_{10,3}$	0.54	5.57	$\epsilon_{10}$	0.59	6.13
	y11	$\lambda_{11,3}$	0.55	5.55	$\epsilon_{11}$	0.62	6.15
	y12	$\lambda_{12,3}$	0.52	5.84	$\epsilon_{12}$	0.48	5.98
$\xi_1$ Travel Cost	x1	$\lambda_{11}$	0.35	3.32	$\delta_1$	0.85	3.32
	x2	$\lambda_{21}$	0.48	5.53	$\delta_2$	0.79	4.53
	x3	$\lambda_{31}$	0.41	5.08	$\delta_3$	0.44	5.08
	x4	$\lambda_{41}$	0.52	6.49	$\delta_4$	0.37	6.49
	x5	$\lambda_{51}$	0.75	7.60	$\delta_5$	0.50	7.60
	x6	$\lambda_{61}$	0.55	6.37	$\delta_6$	0.45	6.37
	x7	$\lambda_{71}$	0.60	6.69	$\delta_7$	0.47	6.69

a = LISREL estimates significant,  $p < 0.05$ ; t values are in parentheses.

b = LISREL estimates insignificant

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## **THE GROUNDS OF THE DECISION OF FINANCING A COMPANY**

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**ABSTRACT:** *The decision of financing a company through a bank loan is based on a complex analysis. The bank analyzes the information provided by the company's annual financial statements and assesses the ability of the company to generate cash or cash equivalent, which is necessary to pay maturing debts. The indicators used are indicators of structure and performance indicators.*

**KEY WORDS:** *the financing decision, indicators of structure, performance indicators, liquidity, solvency, profitability*

The analyzed company is called SORFED LINE LTD. and has been constituted according to the legal stipulations in force, namely chapter III of Law no. 31/1990 regarding limited responsibility companies. The company's decision of financing is to resort to a non-governmental banking financing, namely to a foreign currency credit line meant to cover the temporary needs of material resources in order to provide raw materials. Accordingly, the general manager and the economic manager of the company have had talks with the representatives of the Bank regarding the terms that should be observed by the company with a view of contracting a foreign currency credit line of a revolving financing type. As a result of a credit opening, the bank engages itself, according to a credit contract, to loan its client, during a certain period of time, funds that can be successively used depending on the client's needs and within the limits of a global level of credit, with the possibility of repeatedly prolonging it during new periods of crediting in case the terms stipulated by the contract are accomplished. As a result of the discussions with the representatives of the Bank and after analyzing the necessary financing, the company has taken the decision to request a foreign currency credit line of 100 000 euro, given for a period of 12 months with the opportunity of prolonging it during another 12 months.

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Out of the analysis of the company's non-financial aspects, the following data emerged:

• *Strong points:*

- The company has a good position on the specific market of the district of Hunedoara and an average position on the market of certain countries belonging to the European Union;
- Both the suppliers and the beneficiaries can be substituted, a fact that implies an increased functional independence of the company;
- The existence of propriety titles of the areas where the buildings that belong to the company are situated represents a real guarantee of a mortgage type;
- The company detains production technological lines having good equipments and is accordingly able to provide production's needed level;
- The employees are skilled and real professionals;
- The managerial team is active and has initiative.

• *Weak points:*

- The employees are not always enough motivated and stimulated; the company pays salaries 30% lower than the remuneration paid by the concurrent companies; hence the risk that the employees give up their present jobs in order to get a job within one of the concurrent companies that give higher salaries;
- The company's profile is not varied; the company could also manufacture footwear meant for other categories of clients, such as women and children, although this would mean supplemental investments; yet, on a long term, the company would retrieve the investment and would also considerably increase its profits, taking into account the important demand for such goods on the market.
- The company manufactures high quality products that sometimes have higher prices as they have been manufactured at high costs; accordingly, the company has to face the entering, on the market, of less expensive offers of certain new companies sharing the branch;
- The market the company acts on is highly developed and strongly competition both at a local and national level; accordingly, the company is quite often forced to adopt price strategies targeting quality and concurrence in order to face tremendous competition.

The complex character of economic phenomena and processes as well as the changes that occur within the company from one period to another determine economic and financial analysis as a stringent need that might lead to the drawing out of a diagnosis regarding the activity deployed by the company. As a result, the activities and phenomena are analyzed from an economic perspective through the economic and financial analysis in order to emphasize the relations cause – effect as well as those having a structural and functional character. According to the documentation required by the credit officers of the Bank and given to them by the entity demanding a financing, in our case the company SORFED LINE LTD., the Bank is going to analyze the activity deployed by the company in order to found its crediting decision upon. The documents at the disposal of the Bank should give a clear image of the company's



financial condition and performance as well as relevant and credible data. The Bank analyzes the information supplied by the financial yearly reports of the company evaluating its capacity of generating cash money or equivalents of cash money needed in order to pay the employees and the suppliers, to pay back the credits and pay the interests.

The indices used by the Bank in analyzing the company's financial condition are structure indices and performance indices.

- *Structure indices* are determined according to the data taken out of the processed balance sheet and the profit and loss account as follows:

a) Liquidity regards the capacity of patrimonial elements to change into money. The use of liquidity has as a main goal the measuring of the company's capacity of facing short term financial contracts and the degree the company covers its current obligations out of current resources. The Bank considers as important the capacity of the company to change its circulating assets into cash money in order to pay its short term debts in due time. Employing such indices that measure how quickly the companies can transform their circulating assets into liquid assets, a cautious bank should eliminate those assets that cannot rapidly change into cash at a pre-established value.

Liquidity calculation is done according to the following indices: Current liquidity reflects the degree of covering the current debts of the company (due debts < 1 year) according to current assets (potential liquidities).

$$\begin{aligned} \text{Current liquidity (\% at the end of 2005)} &= \\ &= \frac{\text{circulant assets} - \text{stocks not turned to good account} - \text{uncertain clients}}{\text{due debts} < 1 \text{ YEAR}} \times 100 = \\ &= \frac{10449 - 126}{8968} \times 100 = 110.70\% \end{aligned}$$

Immediate liquidity or the immediate paying capacity reflects the degree of covering short term eligible debts according to the most liquid assets (money).

$$\begin{aligned} \text{Immediate liquidity (\% at the end of 2005)} &= \\ &= \frac{\text{circulant assets} - \text{stocks} - \text{uncertain clients}}{\text{due debts} < 1 \text{ YEAR}} \times 100 = \\ &= \frac{10449 - 8403 - 126}{8968} \times 100 = 82.35\% \end{aligned}$$

Out of the dynamics of the indices during the analyzed period (2005 – 2006) one can notice that current liquidity is decreasing from 28.35% in 2006 (110.70%) as compared with 2005 (82.35%); in February 2007 a value of 41.33% was registered which, in real terms, would mean a decreasing of 41.02%.

Liquidity has been influenced by the trading policy and by the relation the company has with its clients; accordingly, one can notice that, during the last three years, the company has tended to decrease the paying term of its suppliers' invoices and to increase the receiving term with 17 days; this fact determined a diminishing of the supply credit. The change of liquidity indices towards their diminishing was mainly due to the company's trading policy; the calculation of these liquidity indices shows that the company cannot cover its current obligations out of current resources.

According to the Bank's analysis standards the manner of interpreting liquidity is the following one: during the period 31.12.2005, liquidity ranged between 100 and 120%, so it can be considered as having a proper level; during the period 31.12.2006, liquidity was less than 100%, the bank considering it as improper; during the period 29.02.2007, liquidity was less than 100%, the bank considering it as being improper.

b) Solvability shows the company's potential of payment in due time employing all the resources it detains. Solvability also reflects the company's general capacity of changing all its assets into cash money in order to pay its debts; this analysis allows the bank to survey the share of the associates own contribution to the financing of debts as compared with third parties' participation (including the bank). Current solvability reflects the degree of covering total debts, current debts plus medium and long term loans according to total assets.

Solvability is calculated according to the following formula:

$$\begin{aligned} \text{Current solvability (\% at the end of 2005)} &= \\ &= \frac{\text{total assets} - \text{stocks not turned to good account} - \text{uncertain clients}}{\text{total debts} - \text{conversion differences passive}} \times 100 = \\ &= \frac{32867 - 126 - 1545}{18538 - 404} \times 100 = 175.31\% \end{aligned}$$

Solvability index's dynamics has witnessed an oscillating evolution, so that in 2005 it represented 175.31%, in 2006, 285.39%, changing with 110.08%, and in February 2007 it represented 248.88%, diminishing with 36.51% as compared with 2006. According to the Bank's analysis standards, current solvability is positive, the company managing to finance its payments out of its own resources.

c) Circulating assets fund (CAF)

Circulating assets fund represents a concept frequently used by financial analysts as it allows the measuring of the terms of financial balance resulting from comparing the period necessary in order to transform assets into money and resources eligibility. Circulating assets fund reflects the safety margin of the company taking into account the differences appearing between the moment of collecting the debts from the clients and the moment of paying suppliers and creditors. Circulating assets fund reflects the permanent exceeding of capital as compared with fixed assets; the exceeding capital is used to financially cover circulating assets and is determined according to the following formula: Circulating assets fund represents an index of the

company's financial balance that measures the present and future solvability degree of the company. Circulating assets fund is determined according to the following formula:

$$\begin{aligned} \text{Circulating assets (2005)} &= \\ &= \text{Long term passives} - \text{Fixed assets} = 23542 - 21446 = 2096 \text{ lei} \end{aligned}$$

As the dynamics of the calculated index shows, circulating assets fund diminishes from one period to another; it represented 2096 lei in 2005, -747 lei in 2006, and -4287 lei in February 2007. The growth rhythm of fixed assets and, as a result, of permanent assets surpassed the growth rhythm of permanent capital (that does not manage to completely finance permanent allocations) determining the calculation of negative circulating assets funds. According to the Bank's analysis standards, the index of circulating assets fund was positive in 2005 and negative in 2006 and 2007.

d) Needed circulating assets fund (NCAF)

Needed circulating assets fund represents the part of the permanent capital a company should use besides the part allocated to the financing of fixed assets, in order to get a normal functioning. Needed circulating assets fund represents an active element and is made of the circulating assets that should be financed out of the circulating assets fund. This index is determined according to the following formula:

$$\begin{aligned} \text{Needed circulating assets fund (2005)} &= \\ &= \text{Achieving assets} - \text{Current debts} < 1 \text{ year} = 1092 - 8968 = 1952 \text{ lei} \end{aligned}$$

As the dynamics of the index shows, needed circulating assets fund witnessed a diminishing, from 1952 lei in 2005 to 490 lei in 2006, that is 1462 lei less than during the first year taken into consideration; in 2007 it registered a negative value (-3309 lei), that is 2900 lei less than in 2006. The trend of needed circulating assets fund has been influenced by the increase of the stocking duration of finite products (expressed in days) and of the stocking duration of production in course of manufacturing (expressed in days). According to the Bank's standards, needed circulating assets fund is positive in 2005 and negative in 2006 and 2007.

e) Net treasury (NT)

Net treasury or cash money is that part of the circulating assets fund that surpasses the needed circulating assets fund; it represents liquid circulating assets that are stationary between two rotations. Net treasury or treasury at a certain moment allows the determining of the financial balance between the circulating assets fund and the needed circulating assets fund.

Net treasury is determined according to the following formula:

$$\begin{aligned} \text{Net treasury} &= \text{Circulating assets fund} - \text{needed circulating assets fund} = \\ &= 2096 - 1952 = 144 \text{ lei} \end{aligned}$$

Accordingly, the index has been calculated for the period 31.12.2006 – 29.02.2007; the tendency of the index of net treasury over the last two years was

negative; it scored – 123 lei in 2006 and -978 lei in February 2007. The changing of net treasury is due to the influence of the needed circulating assets fund that has registered a negative evolution and has determined an increase of the need of financing in order to allow the company use liquidities to repay debts. According to the analysis standards of the Bank, net treasury is positive in 2005 and negative in 2006 and 2007.

f) Financial result

The financial result represents the sum of all incomes resulting out of supplying goods, services, and other exploitations incomes excepting price diminishing, remissions, and other discounts given to the clients.

The financial result is calculated according to the following formula:

$$\begin{aligned} \text{Financial result (2005)} &= \text{Goods sales} + \text{Sold production} = \\ &= 104675 + 180 = 104855 \text{ lei} \end{aligned}$$

Accordingly, the index for the period 31.12.2006 – 29.02.2007 has been calculated. When analyzing the dynamics of the financial result one can notice that it has a decreasing tendency from one year to another; the financial result represented 104 855 lei in 2005, 67 940 lei in 2006 that is a 36 915 lei decrease; in 2007 sales represented 15 704 lei that is 89 151 lei less than in 2006. This decrease of the financial result was mainly due to the decrease of sold production during the analyzed financial periods. According to the analysis standards of the Romanian Commercial Bank, in order to consider a client viable, with clear development opportunities, the evolution of the financial result of the client should be ascendant.

• *The determined performance indices* that represent the grounds of the financing decision are the following ones:

a) The rate of added value:

Added value is an extremely important index allowing the precise determining of the company's own contribution. It accurately expresses the efficiency of the management acting starting with the phase of products conceiving up to the phase of their turning to good account as commodities; it also more accurately shows the company's contribution to its productive processes. The rate of added value represents the share of the newly created value of the company within the company's total activity and can be determined according to the following formula:

$$\begin{aligned} \text{The rate of added value (afferent to the financial result) \% (2005)} &= \\ &= \frac{\text{added value}}{\text{financial result}} \times 100 = \frac{94285}{104855} \times 100 = 89.92\% \end{aligned}$$

$$\begin{aligned} \text{Added value} &= \text{Employee expenditures} + \text{Financial expenditures} + \text{Taxes,} \\ &\text{contributions} - \text{Added result} + \text{Total amortizations/provisions} = 65815 + 1914 + \\ &14138 - 2721 + 15139 = 94285 \text{ lei} \end{aligned}$$

$$\begin{aligned} & \text{The rate of added value (affherent to goods sales+ production of the period) \% (2005) =} \\ & = \frac{\text{added value}}{\text{goods sales + production of the period}} \times 100 = \frac{94285}{117684} \times 100 = 80.12\% \end{aligned}$$

The dynamics of the rate of added value affherent to the financial result shows that this is oscillating; in 2005 it represented 89.92%, in 2006 it represented 58.66% that is a negative change of 31.26%; in 2007 it represented 64.39% registering an increase of 5.73% as compared with 2006.

At the same time, the dynamics of the rate of added value affherent to goods sales and production of the period decreased from one to another.

The change of the rate of added value was due to the decrease of the financial result and production of the period that determined the diminishing of the new value obtained by the company within the total amount of its activity. According to the Bank's analysis standards the rate of added value is considered to be positive as the value of this index increased in 2007 as compared with 2006.

Profitableness indices are determined according to the data given by the profit and loss account and are grouped as follows: net and gross exploitation profitableness, economic profitableness, financial profitableness

b) Exploitation profitableness

Exploitation profitableness clearly shows the company's own efforts regarding raw materials and materials supply, production, and the retail of finite products; the whole management policy with its positive and negative characteristics is to be displayed by this result. Exploiting profitableness expresses the capacity of a company to get a profit out of its activity and can be determined as follows:

b.1. Gross exploitation profitableness

$$\begin{aligned} & \text{Gross exploitation profitableness \% (2005) =} \\ & = \frac{\text{exploitation gross excedent}}{\text{production of the period}} \times 100 = \frac{16783}{117504} \times 100 = 14.28\% \end{aligned}$$

b.2. Net exploitation profitableness

$$\begin{aligned} & \text{Net exploitation profitableness \% (2005)=} \\ & = \frac{\text{exploitation result}}{\text{financial result}} \times 100 = \frac{4907}{104855} \times 100 = 4.68\% \end{aligned}$$

As the dynamics of the indices shows, gross exploitation profitableness has been oscillating as it registered a 7.99% decrease in 2006 and a 1.98% increase in 2007 as compared with 2006. This change of gross exploitation profitableness has been influenced by a 102 781 lei decrease of the period's production beginning with 2005 until February 2007. The dynamics of the net exploitation profitableness shows that it registers an oscillating evolution, from 4.68% in 2005 to 9.12% in 2006; in 2007 it dropped to 5.83%. The change of exploitation profitableness was due to the decrease of

the financial result through the company's re-structuring that implied a diminishing of its activity as follows: in 2005 the company manufactured 5000 pairs of footwear with 400 employees and in 2007 it manufactured 10.000 pairs with 300 employees.

c) Economic profitableness

Economic profitableness expresses the company's capacity of getting a profit out of its entire economic and financial activity. Among the indices showing economic profitableness we are going to display the following ones:

c.1. Economic profitableness

$$\begin{aligned} & \text{Economic profitableness \% (2005)} = \\ & = \frac{\text{current gross excedent}}{\text{total balance sheet}} \times 100 = \frac{16810}{32867} \times 100 = 51.15\% \end{aligned}$$

$$\begin{aligned} & \text{Economic profitableness \% (2005)} = \\ & = \frac{\text{current result}}{\text{total balance sheet}} \times 100 = \frac{4934}{32867} \times 100 = 15.01\% \end{aligned}$$

$$\begin{aligned} & \text{Economic profitableness \% (2005)} = \\ & = \frac{\text{selffinancing capacity}}{\text{total balance sheet}} \times 100 = \frac{21136}{32867} \times 100 = 64.31\% \end{aligned}$$

$$\begin{aligned} & \text{Economic profitableness \% (2005)} = \\ & = \frac{\text{net result of the period}}{\text{total balance sheet}} \times 100 = \frac{6024}{32867} \times 100 = 18.33\% \end{aligned}$$

As the dynamics of the analyzed indices shows economic profitableness expressed in percents is decreasing, witnessing values of 51.15% in 2005, 4.47% in 2006, and 2.56% in 2007. This change has been influenced by the decrease of exploitation and financial incomes that are part of the current result of the period. According to the Romanian Commercial Bank standards of analysis the more such indices get a higher value the more profitableness is positive.

d) Financial profitableness:

Financial profitableness expresses the capacity of invested capital to determine profit. The indices showing capital profitableness are the following ones:

$$\begin{aligned} & \text{Financial profitableness \% (2005)} = \\ & = \frac{\text{net result of the period}}{\text{company's own capital}} \times 100 = \frac{6024}{10639} \times 100 = 56.62\% \end{aligned}$$

As the dynamics of the analyzed indices shows financial profitableness (%) is decreasing from 56.62% in 2005, to 8.06% in 2006, and 1.40% in 2007. This change

has been influenced by the decrease of financial and extraordinary incomes that are part of the net result of the period.

• *Indices of financial risk*

Financial risk appears when the company resorts to credits in order to complete the financing sources of a certain activity. The fundamental premise for a company to increase its financial profitability under the circumstances of resorting to credits is that economic profitability should surpass the rate of the interest.

a) *Obligation degree*

It expresses the ratio between debts and the company's own capital and should provide the efficient use of contractual credits and the meeting of the conditions that enables the repay, in due time, of installments and their afferent interest. The degree of general obligation is very important for the bank, especially for credit giving under retrieving insuring conditions. The excessive resorting to obligations endangers the survival of a company, the debts determining expenditures with interests and capital repayments. The indices showing the degree of obligation are calculated according to the following formula:

$$\begin{aligned} & \text{The degree of general obligation \% (2005) =} \\ & = \frac{\text{total debts}}{\text{company's own capital}} \times 100 = \frac{18538}{10639} \times 100 = 170.45\% \end{aligned}$$

$$\begin{aligned} & \text{Degree of financial obligation \% (2005) =} \\ & = \frac{\text{total financial debts}}{\text{company's own capital}} \times 100 = \frac{357}{10639} \times 100 = 3.36\% \end{aligned}$$

As the dynamics of the analyzed indices shows we can state the degree of obligation has an oscillating evolution from one period to another as it has registered the following values: 170.45% in 2005, dropping to 60.05% in 2006, and increasing again to 135.54% in 2007. This change has been influenced by the evolution of total debts that also oscillated from one period to another.

According to the analysis standards of the Bank, the degree of obligation is evaluated as follows: the degree of general obligation in 2005 is over 100% - inadequate, 2006 between 60 and 100% - satisfactory, 2007 over 100% - inadequate; the degree of financial obligation in 2005 good up to 30%, 2006 good up to 30%, 2007 good up to 30%. Rotation speed of circulating assets is a synthetic qualitative index of efficiency that reflects all the changes within the company's exploitation and performance activity. In order to evaluate the rotation speed of circulating assets the following indices are used:

b) *Rotation of circulating assets*

$$\begin{aligned} & \text{Rotation of circulating assets (no. of rotations) 2005} \\ & = \frac{\text{financial result}}{\text{circulating assets}} = \frac{104855}{10449} = 10.03 \end{aligned}$$

As the dynamics of the index shows, the rotation of circulating assets is oscillating; in 2005 it comprised 10.03 rotations, in 2006 it increased to 19.19 rotations (that is 9.16 rotations more than during the previous period), and in February 2007 it decreased to 5.18 rotations. The rotation of circulating assets has been influenced by commercial policy and the relation the company has with its clients. Accordingly, one can notice the company's tendency, during the last three years, to diminish the payment term of suppliers' invoices and to increase the receiving term with 17 days; all these have resulted in a diminishing of the supplying credit.

c) Interest covering

Financial risk is expressed by the index of interest covering that shows the company's capacity of paying the interest of the engaged credits. Interest covering is determined according to the following formula:

$$\text{Interest covering (2005)} = \frac{\text{result before payment and interest and profit import}}{\text{interest expenditures}} = \frac{8581}{106} = 80.95$$

As the dynamics of the index shows interest covering is oscillating: it drops from 80.95% in 2005 to 57.38% in 2006; in February 2007 it grows to 125.00%. The change of this index has been influenced by financial expenditures with interests that registered a diminishing of 99 lei during the period 2005 -2007.

Within the process of analyzing financial risk, other indices can also be used:  $\frac{\text{interest expenditures}}{\text{financial result}} \times 100$ . This index represents the share of interest expenditures

within the financial result of the client:  $\frac{\text{total financial debts}}{\text{total gross exceedingsum}} \times 100$ .

The lower the indices values the more rapidly debts payment is accomplished. According to the cash flow analysis made by the company's administrator who is given the authority to represent to company in its relations with the bank, the resources needs afferent to each analyzed period have shown the necessity of resorting to a bank credit. This financing need of a bank credit can be perceived when one views the total incomings out of the exploitation activity that represented 1 641 488 euro and the total payments that represented 1 731 808 euro; the facts show that the company had more payments than incomings, the result determining a lack of resources. In order to cover the need of resources, the company has decided to resort to a bank credit of the type of a foreign currency revolving credit line. In order to estimate the credit line, the bank employs the following mathematical formula:

$$\text{Uses of credit openings} = \frac{\text{financial result / crediting result} \times \text{average duration of clients' incomings}}{\text{crediting period in days}} =$$



$$= \frac{15.704 \times 59 \text{ days}}{360} = 2574 \text{ lei}$$

The maximum credit line a bank can give to SORFED LINE LTD. is determined as follows:

$$2574 \times 40745 \text{ lei} / 1 \text{ €} = 63\,000 \text{ €}$$

According to the bank's manner of calculation the company can receive a foreign currency credit line of maximum 63 000 €. On the basis of the data displayed by the company regarding the amount and the destination of the credit, the credit officers should know whether for that type of credit there is an available limit at the level it is administered. According to the available limit, the credit officers are going to exhibit to the company the general and specific terms that it should observe in order to contract the credit. In case such terms are accomplished, the credit officers will inform themselves upon the financial condition of the solicitant in order to establish whether there are real opportunities of the credit's repayment and guarantee. The credit demand and the rest of the documents are registered within the register of documents' incomings and are distributed to the credit department in order to be checked and analyzed. According to the documents and data provided by the solicitants, the bank will draw out the scoring; it shows whether the solicitant is capable of providing the credit's repayment and its guarantee as well as that of afferent interests.

After the analysis made by the credit officer, the following conclusions are to be drawn: the company accomplishes most of nonfinancial criteria and it might improve some of them in the future; although the activity of the company diminished, determining the decrease of its financial result, it has, nevertheless, managed to increase the productivity of the exploitation activity; as regards solvability indices, most of those analyzed by the bank range within the limits required by the management of the bank; the material guarantee proposed by the company accomplished the pre-selection and value terms of the bank. According to the analyses and to the favorable conclusion resulted, the credit officers determine the amount of the given credit, the maximum term of repayment and the crediting period. Accordingly, they are going to draw out the credit paper that should display the following: the solicitant's identification data, the amount of the credit proposed to be approved and its destination; the sources and capacity of repayment; significant details regarding the credit; guarantees to be accomplished; the substantiation of liquidities flux; the determining of financial risk; the credit officer's opinions regarding the analysis of the main indices of the client's solvability; approval competence.

Credit paper, together with all the other documents, are handed in to the chief of the credit department who is obliged to check the observation of the terms and criteria stipulated by the processing and to sign the paper. The chief of the credit department hands the paper in to the manager of the bank who coordinates the crediting activity; the latter one approves its including on the agenda of the board of directors. Taking into account the above mentioned data, the credit officer submits to

the Board of Directors of the Bank's branch the approval of a credit line of 63 000 € needed in order to buy import raw materials. One should mention the fact that the bank diminished the solicitation of a 100 000 € line credit to a 63 000 € line credit, mainly due to the amount of the activity of the company during the previous period, a phenomenon envisaged also for the next period. After the credit's approval, the credit officers draw out the limit report. Its two copies are transmitted to the chief of "Accounts and Transfers" department with a view of opening the credit account according to its destination. A copy is transmitted to the credits department when the limit is spent or when the limit's availability period expires; it bears the approval of the chief of the "Accounts and Transfers" department; the second copy is kept by the operative department in order to make payments. Non-financial and financial aspects as well as those that regard the guarantee are included within the credit report which, in the case of the credit line we refer to, ended in a proposal of crediting. Credit documents and the credit report drawn by the credit officer are submitted to the approval of the Board of Directors during the 15 March 2005 meeting.

During the meeting held in the council hall of the Romanian Commercial Bank by the Board of Directors including five members, with a simple majority of three out of the five members of the board, the bank validated the demand made by SORFED LINE LTD. in order to get a foreign currency credit line. The terms of giving the credit line are the following ones: the bank accepts the giving of a credit line of 63 000 € in foreign currency; the crediting period is 12 months with the opportunity of prolonging it with another 12 months; current interest represents 9%, and can be increased to 11% in case the company registers debts older than 30 days; no credit payment is to be done until the material guarantee is not constituted that is until the mortgage contract between the bank and the credited company is not drawn out. Finally, the bank and the credited company will conclude the credit contract. The credit contract represents the act drawn out between the bank and the credited company that implements their mutual agreement; it is elaborated by the credit officers together with the law adviser observing legal stipulations. The obligation of analyzing and observing the destination mentioned by the contract as well as the framing of the credit payments within the approved limit is the responsibility of the credit department.

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## ROMANIA'S CAPITAL MARKET

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**ABSTRACT:** *The book presents the features and the evolution of the capital market in Romania and also presents its role and efficiency in financing the economy. Also the book presents the participants in the capital market, which are defined as regulated entities, investors and issuers.*

**KEY WORDS:** *capital market, NASDAQ, RASDAQ, evolution, legislative frame, financial instruments*

### 1. EVOLUTION – CHARACTERISTICS OF ITS FOUNDATION AND DEVELOPMENT, COMPONENT INSTITUTIONS

The existence of the capital market is determined by the capital demand for treasury and investment current needs; it is also determined by a real process of saving as a foundation of capital offer. Capital offer connects the emitters of mobile assets and other financial instruments with individual and institutional investors through financial investments companies. Capital market functions accordingly as a connecting mechanism between those entities witnessing a surplus of capital (investors) and those entities requiring capital (emitters).

*Capital market represents the group of relations and mechanisms through which available and dispersed capitals of the economy are directed towards whatever public and private entity requiring funds.*

Nevertheless the concept of capital market has deeper connotations that emerge of the allocation relations of available resources with a view of their turning to good account and of satisfying the capital demand of an economy. From the point of view of its content, specialized works structured two conceptions regarding capital market: the *Anglo-Saxon conception* and the *European continental conception (of French origin)*. According to the Anglo-Saxon conception, capital market makes,

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together with monetary market and the market of insurances, the all inclusive financial market. According to the classic European – continental conception, capital market has a complex structure that includes monetary market, mortgage market, and financial market. According to this conception, monetary market represents the short and medium term capital market, being represented by inter-banking market and the market of negotiable titles; financial market represents the long term capital market where mobile assets are emitted and transacted that are the foundation of capital exchanges. Mortgage market is a market specific to financing home building.

Romania's practice emphasizes the option for the Anglo-Saxon conception according to which capital market is a component of financial market. Capital market is displayed as a connecting mechanism between investors and emitters whose investment decision is determined by two complementary goals, namely: efficiency, that is a high level of fructifying capitals, and liquidity, that is the most operative retrieving of invested capital.

Regarded from the point of view of producing and trading mobile assets, capital market comprises two segments, namely: primary market which is the market where the new emissions of financial instruments are negotiated for the first time, and secondary market, which is the market where all financial instruments in circulation are traded. The premises of the foundation of capital market in Romania have been determined by the promulgation of Law no. 31/1990 regarding companies that provided the legal frame needed in order to found and develop share companies as well as the clear grounds of the main products used by capital market: shares and bonds. According to this law, share companies appealed to the public's savings for financing or in order to increase their social capital. Accordingly, one can define year 1990 as the moment of the foundation of the primary capital market. Afterwards, an important moment was the adoption of Law no. 58/1991 regarding companies privatizing that emphasized the need of a secondary market as it introduced on financial market massive amounts of bearer bonds which, although were not considered mobile assets, made the public familiar with bonds.

In 1992, bonds were emitted and distributed to bearers. The already mentioned year was the moment of displaying the first public offer of shares in exchange of cash money within the process of privatizing which was initiated by the National Agency for Privatizing and the Romanian Bank for Development with the support of a British consulting company; the offer had an extremely vast audience. Towards the end of 1992, the National Bond Agency was founded as a department of the Ministry of Finance; at the same time, the Center of Planning and implementing Capital Markets was founded within the National Bank of Romania; it has become the "embryo" of the future Stock Exchange in Bucharest, the latter one coming out only after 1989; nevertheless Romania had a mobile assets stock exchange during the 19th century, namely during the inter-war period. The need of a market distinct from the banking one has been obvious as the lack of investment alternatives has determined the proliferation of pyramidal games; their toleration by authorities, followed by their failure confused individual investors.

With the coming out of Order no. 18/1993 regarding the settling of non-stock exchange transactions with mobile assets and the foundation of certain intermediary institutions the Agency of Mobile Assets has been founded through transforming the National Bond Agency. This entity, founded at the time as a general department of the Ministry of Finances, determined the minimal needed legal frame of regulating the beginning of capital market in Romania; it did so through elaborating the Regulations regarding the public offer of mobile assets selling and the Regulations regarding the authorizing of the companies intermediating mobile assets and of the agents of mobile assets, approved by the Government Decision no. 788/1993. In 1994, Law no. 52 was adopted; it regarded mobile assets and stock exchanges and determined the foundation of new institution on the market: the National Commission for Mobile Assets (CNVM) as an autonomous administrative authority subordinated to the Parliament, through transforming the Agency of Mobile Assets. The beginning of economic growth in 2000, the stabilizing of the main macro-economic indices, and the support of the process of de-inflation that was followed by the decrease of the passive interests perceived by the banking system, have determined a re-orientation of a part of the available funds towards the capital market as well as an increase on investors' interest.

2002 meant the change of legislative frame owing to the elaboration, approval, and functioning of a legislative package that comprised stipulations regarding the statute of the National Commission for Mobile Assets, the organisms of collective investment, stipulations regarding regulated merchandise markets and derived instruments, laws regarding mobile assets, financial investments services and regulated markets. The change of existent legislation has had a positive impact upon the market whose revitalizing was marked by the increase of investors' interest in mobile assets emitted by Romanian companies. In 2003 a new beginning started namely the listing and transacting of the first emission of corporative bonds. Under the circumstances of Romania's adhering negotiations to the European Union, CNVM contributed, during the first half of 2003 to the elaboration of the Complementary Condition Document for chapter 3, „free circulation of services”, a document that stipulated measures of implementing community “acquis” within the financial field; the measures included the elaboration and adoption of the new law of capital market as well as the corresponding secondary legislation. Consequently, during the middle of 2004, a new specific legislation was promulgated, namely Law no. 227/2004 regarding capital market that abrogates the specific legislation adopted in 2002, except for the Statute of CNVM which was changed only regarding certain stipulations referring to the functioning of the authority of the market according to European standards.

## **2. THE FUNDAMENTAL INSTITUTION OF SECONDARY CAPITAL MARKET IS THE MOBILE ASSETS STOCK EXCHANGE**

Having as a background over 70 years tradition of commodities stocks that functioned according to the Western European ones, Romania's history reports the foundation of the first stock exchange in 1881. Such a fact was due to the adoption of

Stock Exchanges, Exchanges Intermediaries, and Commodities Intermediary Law. Founded according to a French model, this law regulates the coming out, through a royal decree, of the stock exchange and stock commodities. The opening of the first stock exchange in Bucharest as a result of adopting the already mentioned law, took place on December the 1st, 1992, in the building of the Trading Chamber located in Doamnei Street; the Official Monitor of Romania published, in 1882, the stock exchange listing of the first transacted Romanian companies. The evolution of the norm frame in the field of capital market was marked by the following stages: 1904 – a new stock exchange law that clarified stock exchange operations; as a consequence, the public was more and more convinced of the efficiency of bond investments; 1929 brought stock exchange law, known as “Madgearu Law” that represented the legislative unifying of the system of stock exchange in Romania, an a modern approach of the act. After the end of the 1929 – 1933 economic crises, simultaneously with the economic recovery, the “Effects, Shares, and Exchange Stock” also witnessed an ascendant course, 1939 representing the climax of inter-war period. One should also mention that, in 1939, only 56 titles belonging to the banking field of transport and insurances were transacted. One should also notice that in 1939 only 56 shares belonging to the banking field of transports and insurances were transacted.

The end of World War II, with its entire political repercussions upon Romania, also meant the end of the capital market and of stock exchange. The final blow upon this extremely dynamic economic field was the 1948 process of nationalizing the economy that determined the instauration of State propriety the disappearance of specific products such as: shares, corporatist bonds, native and external State bonds ( with lei/gold equivalent). The 1989 revolution that represented an important turning point of Romania’s history, emphasized by the reforming program that followed and by the need of re-building capital market and its institutions, among which that of the Stock Exchange in Bucharest. A group of specialists belonging to various economic fields have had the opportunity, sometimes unique during a man’s life, to re-build this market that starts again in 1992. The process of re-building wasn’t easy at all, and regarded all aspects, beginning with the legislative one – two years were necessary in order to adopt Law 5/1994 regarding mobile assets and stock exchanges – and continuing with that of educating the public. This process still continues today and all those implied daily learn; the Stock Exchange is an essential institution of market economy, and its presence within the economic environment gives a supplemental coherent element to the course Romanian economy follows after the 90s’.

In Romania, the reason that determined the foundation of stock exchange market was that of creating a market capable to match the needs of Romanian and foreign investors regarding their investments; at the same time it played an important part in the process of re-structuring and privatizing. The fact that Romania has not benefitted from a stock exchange market for half a century determined the development process to begin from nothing with no benefits from its own experience in the field. In order to create the stock exchange, Romania has started from the experience and practice of developed states, and has also benefitted from the help of certain international organisms in the U.S.A., Canada, Great Britain, and European Union. Stock exchange, as a basic component of the capital market in Romania, was re-started in 1995 and was initially financed by the State budget, on condition that,

within three years from its foundation, it pays back the sum required by its foundation out of the commission applied upon each transaction. 1996 brought the foundation of a new type of market, namely NASDAQ (coming from the U.S.A.) called the *Romanian Association of Securities Dealers Automated Quotation (RASDAQ)* whose electronic transacting system employs an adapted variant of the program NASDAQ-PORTAL. The market was officially opened in order to operate on September 27th, 1996; during its first transaction day, on November the 1st, 1996, operations with the actions of three companies took place. The main component of the market founded in 1996 in order to provide the transaction of the shares emitted by over 5000 companies resulting out of the Program of Mass Privatizing, is RASDAQ technological support company which is, in fact, an electronic system that connects intermediaries in order to display transactions on behalf of their clients or for themselves.

Initially constituted as a technical structure affiliated to the National Association of Mobile Assets Companies (CNVM), RASDAQ technological support company is a commercial share company whose activity consists in operating and maintaining the system of transaction of RASDAQ Electronic Stock Exchange. The basic characteristic of the transacting system is diffusion, namely the lack of their location; the system could be accessed by the participants through a computerized personal interface, according to the network module or through certain connecting lines meant belonging to specialized cable companies. Authorized intermediaries can create a market for certain emissions and can announce their quotations or the other participants' quotations; they can also register or withdraw an authorized emission, they can introduce or up-date a quotation for a single emission. In case an intermediary concluded with RASDAQ S.A. a contract meant only for visual accessing, then it will be able to access the system, but will only use a few of its functions.

The electronic system of market transacting provides the functioning of a geographically distributed market whose participants are inter-connected through a data network. This system allows the participation of local and international subscribers and accepts mobile assets (shares, obligations, derived titles, etc) of world wide emitters. The market is created by the intermediaries of mobile assets in competition. The data regarding the market can be distributed in real time to institutional investors and to other interested parts due to the system of visual access which, owing to its functioning, provides all the citizens the opportunity of selling and buying shares or other mobile assets admitted by the system, at a correct price, irrespective of the place they are, of their capacity of assimilating information or of their economic power. The system is operational not only on the primary market but also on the secondary one. On the primary market, leading managers can use initial amounts of distribution of mobile assets; later they are able to determine final allocations of secondary offers; any information regarding these shares and their distribution is going to be known through the use of RASDAQ system; on the secondary market, the system offers quoted price for dealers and market founders;

quotations could be firm or indicative, and they also can be up-dated according to the system's electronic display.

The main characteristics of RASDAQ system are the following: listing capacity, capacity of processing transactions, obtainment of price, transparency, surveillance, license rights, distance access, flexibility, etc. On RASDAQ market mobile assets non-included by the quotations of the Stock Exchange in Bucharest (BVB) were initially transacted: the shares of the companies resulting out of the Program of Mass Privatizing ended in 1996, the shares of Romanian companies already distributed through initial public offers or through privatizing programs that were the target of the system of periodical supply of CNVM financial data which are not quoted by the stock exchange and any other mobile assets whose including in the system is to be decided by the market authority. Until 2005, RASDAQ Electronic Stock Exchange functioned as an independent juridical entity. During the period 2002 – 2004, the opportunity of merging B.V.B. and RASDAQ S.A. was taken into consideration; the process that ultimately was accomplished through absorbing RASDDAQ S.A. by B.V.B. ended in the autumn of 2005. RASDAQ market has disappeared from a juridical point of view as it has merged with the Stock Exchange in Bucharest, according to the decisions of the two general meetings – the share holders of the Stock Exchange and the share holders of RASDAQ. RASDAQ market has lasted for nine years, one month, and four days (the first transactions were operated by RASDAQ on October 26th, 1996).

The first stock exchange in Romania authorized to organize and administrate markets in order to transact derived financial instruments is the *Monetary, Financial, and Commodities Stock Exchange in Sibiu (BMFMS)*. The stock exchanges of derived financial instruments, including those dealing with commodities, are regulated, authorized, supervised and controlled by the National Commission of Mobile Assets, as the other stock exchanges. The market of derived financial instruments administered by the stock exchange company called BMFMS S.A. has continually developed; accordingly, in 2004, term market transacted 16 futures contracts and 16 option contracts having as a ground futures contracts. Futures contracts and option contracts address to investors both as instruments of risk covering in case of a unfavorable evolution of the price of the support assets and with a view of getting profits through speculating the prices of liquid assets for transacting. Derived financial instruments are transacted according to an electronic platform that allows distance transactions and offers the opportunity of compensating and evaluating the investors' risk of position in real time. At the same time, qualified investors have direct access, watching in real time prices evolution. The Monetary, Financial, and Commodities Stock Exchange in Sibiu is the only stock exchange in Romania where futures contracts and option contracts are transacted; they have as a ground listed shares on spot market. The special interest for such instruments materialized in an amount of over 3000000 contracts registered during the first 10 months of 2006. These circumstances determined the diversification of existing instruments and the creation of new opportunities owing to the new products of the stock exchange that can be successfully



used by transacting strategies. B.M.F.M. SA SIBIU has been founded as a juridical person of private law and functions as a share company according to Law no.31/1990; it has as an object of activity "the administration of financial markets" – CAEN code 6711. BMFM SA SIBIU is authorized as market operator by the National Commission of Mobile Assets in Romania, according to decision no.356/31.01.2006, being registered within NCMA Register at section 11 – Market operators having the no. PJR11OPPR/320002. The regulations of BMFM SA SIBIU and of BMFMS are approved by CNVM according to the decisions no. 357/31.01.2006 and 358/31.01.2006. The regulating frame that can be applied regarding the activity of BMFM SA SIBIU and BMFMS includes Law no. 31/1990 regarding commercial companies, Law no. 297/2004 regarding capital market, CNVM regulations and their own regulations. BMFM SA SIBIU social capital represents 3254000 RON distributed according to 16270 shares having a nominal value of 200 RON/share. A shareholder cannot detain, either directly or through implied or affiliated persons, more than 5% of the total amount of the voting rights in the general meeting of the company's shareholders. The specific characteristic of the company is the organizing of social capital as "stock exchange books" (or member books"; the same system can be encountered in the U.S.A. at the most important stock exchanges of derived instruments (Chicago Mercantile Exchange and Chicago Board of Trade). At present the social capital of BMFM SA SIBIU is divided in 373 stock exchange books, out of which 81 small books (a package of 20 shares) and 293 large books (a package of 50 shares) that confer their holders the right of transacting on the markets developed by BMFMS and free access to the electronic ELTRANS platform of transactions.

Romania's capital market offers to the shareholders detaining cash assets the opportunity of making investments in the funds of investments and other organisms of collective investment. According to European standards and practice, the market of the organisms of collective investment includes: the organisms of collective investment in mobile assets (open investments funds and investments companies in accordance with the stipulations of the European Union); organisms of collective investment other than those of mobile assets investments (called AOPC) that include both closed investments funds and closed investments companies to which SIFs also belong. Market surveillance is done by CNVM – the National Commission of Mobile Assets that monitors transactions in order to Discovery possible violations of transacting rules; ANSVM investigates the complaints connected with a supposed violation of the rules or with an improper use of the system irrespective of the complaint's source.

The National Commission of Mobile Assets (CNVM) represents the native administrative authority, being a juridical person, which regulates and supervises capital market as well as its specific institutions and operations. Owing to its regulating, surveillance, and control activity CNVM settles and improves the needed norm frame according to the legislative standards of the E.U. The part played by CNVM as market authority mainly targets two aspects:b1) the support of capital market through: establishing and maintaining the grounds needed to develop regulated markets; providing and maintaining the fundamental characteristics of regulated

markets: transparency, correctness, equality in treating and informing all the market participants (emitters, investors, intermediaries); promoting trust within regulated markets and the financial instruments investments; creating the needed grounds for the proper, efficient, and transparent functioning of regulated markets 2) investors' and other market participants' protection through: insuring them against untruthful, abusive, and fraud practices; preventing fraud, market manipulation, and providing the integrity of regulated markets; settling the standards of financial firmness and honest practice; adopting the necessary measures to avoid the occurrence of systemic risk on the market; preventing the affecting of investors' information and treatment equality or of their interests.

The accomplishing of the part played by the authority of capital market implies the achievement of certain fundamental goals and acting with a view of their accomplishment according to certain specific means. The most important goals are: the accomplishment of a unitary frame in order to provide investment services, the accomplishment of a competition market within the context of integrating the European Union, providing the transparency of the emitters of the financial instruments transacted on regulated markets, the increase of investors' trust into CNVM's capacity of market surveillance in order to prevent and detect market abuse.

### **3. PRESENT LEGISLATIVE FRAME**

The present legislative frame is given by a well-determined legislative package; the most significant law is Law no. 297/2004 regarding the market (published in the Official Monitor no. 571/29.06.2004) that regulated the foundation and functioning of financial instruments markets and their specific operations and institutions as well as of the organisms of collective investment with a view of mobilizing financial liquidities through financial instruments investments; Law no. 208/2005 that changes article 285 of Law no. 297/2004; Government Order no. 41/2005 regarding the regulation of certain financial measures – published by Romania's Official Monitor no. 677/2005; Law no. 97/2006 that approves Government Order no. 41/2005 regarding the regulation of certain financial measures, published by Romania's Official Monitor no. 25/2002 regarding the statute of CNVM, Law no. 514/2002 that approves Government Order no. 25. The change of the legislative frame specific to capital market in 2004 was determined by the need to observe the stipulations of the European Union and of the member states regarding the regulation, organizing, functioning, and surveillance of the activities deployed by capital market. According to the new legislation they target the foundation of a unique regulating frame of capital market according to the union's "acquis" with a view of developing Romanian market, of inter-connecting with the systems of European transacting and compensation-deduction, of strengthening the institutional capacity of CNVM in order to establish collaborations and information exchanges with similar competent authorities in the member or non-member states.

Law no. 297/2004 regarding capital market adapts to the national level the stipulations of the European Union in force at the end of 2003, and, beginning with January the 1st, 2007, all the other European laws and stipulations as, starting from that moment, Romania became a member state of the EU, with full rights. The need of including such stipulations was determined by the implementation of the engagements Romania assumed according to the 2nd complementary Document of position afferent to chapter 3 – „The free circulation of services”, chapter 4 – „The free circulation of capitals”, and chapter 11 – „Economic and monetary union”. The law regarding capital market includes stipulations referring to intermediaries, organisms of collective investment, markets regulated by financial instruments and central depository, market operations, emitters, market abuse, financial audit, investment consultants, measures of special administration, and administrative liquidation. For example, the main new elements of the law regarding intermediaries and the services of financial investments, refer to the fact that the law allows intermediaries – companies providing services of financial investments, credit institutions and their equivalent in the member or non-member states – to provide this type of services of financial intermediation according to an authorization given by CNVM or by BNR, in case of credit institutions, and by competent authorities of the origin countries, with any of the financial instruments defined according to the stipulations of the union's legislation. At the same time, the services of financial investments, main or connected, can be provided only in case the demands connected with the initial capital are accomplished. The intermediaries that provide such services should detain, as the stipulation says, an initial capital ranging between 125000 euro and 730000 euro, according to the services they are authorized to provide. In case of the intermediaries that are not authorized to detain the funds or the financial instruments of their clients, initial capital represents 50000 euro. In order to attain such levels the law has stipulated a gradual schedule of increasing the value of the initial capital until the end of 2006.

Both the credit institution authorized by NBR and the intermediaries providing services of financial investments authorized by CNVM should observe the rules of prudence and conduct as well as the rules regarding the prevention of market abuse settled according to the law and to the stipulations that are going to be emitted when applying the law. Intermediaries are obliged to observe conformity terms of the capital throughout the whole duration of their activity of providing services of financial investments settled according to the stipulations made by CNVM on the basis of the union's legislation. As regards the fund of compensating the investors, the law says that such a fund targets the compensation of the investors, except for qualified investors, under the stipulations of the present law and the regulations made by CNVM, in case the intermediary is incapable to pay back the money or the financial instruments it owes or that belong to the investors and that have been administered on their behalf according to the providing of services of financial investments.

In case of the emitters, the law stipulates the minimal conditions that should be observed by an emitter in order to admit mobile assets being transacted on regulated market such as the increase of social capital, dispersion, and the minimal period of

functioning. Besides yearly and semester reports, the companies whose mobile assets are admitted for transactions on a regulated market are also obliged to put at the disposal of the public trimester reports. At the same time, the law stipulates clear rules regarding the deployment of public selling or buying offers and within them of taking over offers. As regards abuse, market abuse refers to all financial instruments as they are defined by the union's legislation; the rules imposed by law are applied to any participant to the market, irrespective of it being or not a person authorized by CNVM. The activity of preventing and detecting market abuse is closely connected with the market entities; investigation and the punishment of those who are guilty of market abuse are done with the help of certain institutions of the State.

#### **4. THE EFFICIENCY OF CAPITAL MARKET AND ITS PART IN FINANCING THE ECONOMY**

An efficient financial market is that market that lacks the opportunities of arbitrating the differences between the market price and the present (intrinsic) value of the investment when buying the financial title. Two fundamental terms should also be observed: on the one side, no investor can get abnormal systematic gains to the prejudice of other agents, and, on the other side, financial titles should be correctly evaluated on the market.

In order that this concept becomes operational, the implied parts should observe certain hypotheses regarding: the rational behavior of companies; the similar negotiation of all agents (most of the time appreciated through investors atomicity); agents' characterization according to the same utility function; information availability and free character; information symmetry among agents; identical manner of interpreting the data available on the market; absence of transaction and fiscal costs. The extent to which financial market comes closer to such hypotheses determines the various types of efficiency: allocation, operational, and informational. Under such circumstances, market price reflects the intrinsic value of titles, namely it correctly reflects the two components of value: the time price of money and the assumed risk prime. Only under such circumstances price becomes the correct „standard” of value, and the signal given by the price is going to determine optimum allocation decisions of resources (of capitals in our case).

The best conceptually and methodologically delimited item is the informational efficiency of the market where price integrates and immediately reflects, completely and correctly, any available information about the title's emitter and its economic environment. According to the efficient market hypothesis investors trust market price as it reflects the correct value and offers equitable conditions during the transacting process of financial titles. The forms of poor, semi-forte, and forte informational efficiency outline, in fact, the degree of „grasping” unknown information about the emitter and its environment. Poor efficiency displays in the price all past information; semi-forte efficiency also emphasize the present ones while forte efficiency focuses upon information having a private character available only for the

company's superior staff (managers, shareholders). The industry of searching new data, still undiscovered by the companies, becomes more and more efficient determining costs of collecting and processing the information that could hardly be covered out of selling the new data. Nevertheless, on an efficient informational market, assets' price tends towards their market value.

As regards the efficiency of Romanian financial market, the results of the researches are not convergent; certain studies state that it shows a poor efficiency while others affirm the existence of any type of efficiency. Starting from the Anglo-Saxon conception according to which capital market is a component of financial market, a conception used in our paper too, the study of the efficiency of financial market, even at an elementary level, is compulsory for any natural or juridical person who wants to take part, as an investor, in this market or in any of its components. Besides the numberless parts it plays, capital market has another very important part, namely economy financing.

The advantages of economy financing owing to capital markets can be analyzed from, at least, two points of view: 1) banks benefit from a permanent funds source without requiring fix payments or interests. Financing owing to shares can determine the accumulation of the larger funds of payment necessary in order to pay back obligations; 2) companies benefit from risk decrease and from the needed capital in order to start and operate certain businesses. There certain major contributions capital markets can have upon economic development: efficiency, and solvency of financial field; mobilization of financial savings; efficiency of allocating investments; solvency of the companies field; de-centralization of property and wealth distribution; the access of new and under foundation companied to financing owing to shares.

A market's efficiency generally materializes into its capacity to serve the goal according to which it functions. In case of financial market, this goal is the transfer of capitals from the owners of temporarily available funds towards those who need them in order to implement investments projects that imply the engagement of external financing sources. An efficient financial market will be able to accomplish funds allocation towards those investment projects that provide a maximum efficiency at the level of implied risk; accordingly, the price of assets will completely and instantly incorporate existent data that represent signals upon future perspectives and adjust according to the risk induced by these new items of information upon the titles. A market's efficiency can be structured in: allocating efficiency of "paretian" type; operational efficiency; informational efficiency. Each of these three types of efficiency has as an individual effect the facilitating of the accomplishment of the market general goal; they are included within the perfect market concept.

The concept of perfect market is a larger concept that implies the accomplishment of four conditions. The first condition is that of a perfect competition; it has as a consequence upon the goods and services market the fact that price is pre-determined by the market, and producers supply goods and services at a minimal average cost equaling marginal cost with the average cost at the level of the market price. This condition is to be found within the concept of allocating efficiency defined

according to the situation that does not allow a market allocation that can bring for an operator an increase of its wealth without affecting another operator that witnesses the decrease of its wealth; within the context of financial market allocating efficiency implies the fact that the price of assets transmits correct signals upon their risks, incorporating adequate risk primes and determining a correct allocation towards the most efficient projects under the circumstances of an identical risk; this fact shows that on a allocating efficient market marginal efficiency rates are adjusted according to the risk. The second condition implies the lack of the so-called “friction forces”; it means that all the assets on the market are perfectly divisible and transacting; transacting and fiscal costs are inexistent; there are no stipulations that would complicate operators’ access on the market or restrict free competition. The third condition is that of transparency. Transparency is equivalent to informational efficiency implying the immediate reflection of all available data on financial market by the price of assets. Transparency implies the equality of all market operators regarding their access to information, which is simultaneous with the occurrence of the event that represents its content; information is also free.

The rationality of market operators, under the circumstances according to which they have as a goal the maximizing of consume efficiency, on the goods and services market, or the maximizing of their total wealth efficiency, on capital market, represents the fourth condition of a perfect market.

## **5. PARTICIPANTS TO CAPITAL MARKET**

The participants to the capital market are natural or juridical persons or entities without juridical person accordingly qualified by the law and by the stipulations of CNVM. They have the right of access to capital market either in order to emit mobile assets (emitters), or in order to do transactions with mobile assets (investors) or to intermediate market’s infra-structure (regulating entities). The participants to the capital market are not the same with the participants in the systems of payments and deductions of the operations with mobile assets and other financial instruments. The latter ones are accordingly called by Law no. 297/2004 while the participants to the capital market are generally defined as regulating entities, investors, and emitters. The legislation of mobile assets defines the emitter as an entity with or without juridical personality that has emitted, emitters or intends to emit financial instruments [art. 2 paragraph (1) point 4 of Law no. 297/2004]

Once it gains this characteristic of emitter of financial instruments, the entity becomes a regulated entity undergoing regulations and/or harmonizing as well as controlling and surveillance of CNVM. Emitters are one of the main categories of receivers of the specific legislation of capital market, a legislation characterized by the fundamental principle of investors’ protection. Emitters are classified as follows: Companies emitting financial instruments (compulsorily organized as share companies); organisms of collective investment in mobile assets (OPCVM); State, local communities, public institutions, and autonomous administrations. The emitters

characteristically act as participants only on primary markets (owing to the initial public offer and of primary public offer). Share companies are the main emitters of mobile assets. Before Law no. 297/2004, Romanian legislation of mobile assets distinguished between common investors and qualified investors (sophisticated) according to the idea of the investment's risk in mobile assets made in order to get profit. According to this conception, an investor is any natural or juridical person that, on its own risk, buys, owns, sells and/or exchanges financial instruments intending to get a profit out of the dividends or interests of those financial instruments or according to the increase of their market value. Sophisticated investor is that investor that has the capacity of evaluating investment risk and also has the needed resources to assume this risk. Law no. 297/2004 puts aside this dichotomy, defining only the qualified investor. According to the new law, a common investor is any person that does not accomplish the conditions of being a qualified investor. Qualified investors are not anymore defined according to their capacity of evaluating and assuming investment risk, but according to descriptive criteria, according to their size, to their position within capital market or according to the size of the business.

Investors are divided according two large categories: individual and institutional. Individual investors are natural persons or juridical persons that make modest transactions on the market of financial titles. They can be long term passive investors that buy and keep mobile assets with a view of providing long term capital gains; yet, this group of investors has a reduced impact upon the daily price of mobile assets, and active negotiators that try to turn to good account the change of stock exchange course with a view of getting a profit. Besides individual investors there are also institutional investors. They are companies or institutions that make important transactions. Such investors include: banks, insurance companies, investment companies, organisms of collective investment, institutions that administrate pension funds. This type of investors exerts a significant influence upon the amount of transactions and the price of financial instruments.

Irrespective of the type of investors, individual or institutional, on stock exchange market they mainly exhibit four types of behavior (according to the authors Victor Stoica and Adriana Gruia, in their work *Capital Markets and Stock Exchange Products*) when they meet in the ring. The ring is, in fact, the main arena where two parties can be seen: that of the "bulls" and of the "bears". Accordingly, the mobile assets market is dominated either by one party or by the other during the time. When the bears dominate we are dealing with a "bearish" market; when the bulls dominate then we deal with a "bullish" market. The "bulls" represent the investors that have an optimistic conception and that consider that certain title or field of activity is going to have an ascendant tendency. Accordingly, a bullish market exists under the circumstances of a prosperous economy where the monetary value of goods and services increases as well as stock exchange titles. Bullish markets cannot last forever due to the phenomenon of titles over-appreciation that can determine extremely dangerous situations. The "bears" are the opposite of the "bulls" representing the

category of pessimistic investors that predict a descendant tendency of the market, of a certain title or of a certain field.

The ring also includes other players: the “chickens” and the “pigs”. The “chickens” are those extremely prudent investors dominated, in fact, by fear which is higher than their desire of profit. They invest in safe titles as treasury bonds that do not bring a high profit but a profit similar with the interests offered by banks in case of long term deposits. They never risk, they avoid speculative transactions, and, consequently, do not get important profits. The “pigs” are those risk investors that consider only those companies that can get them high profits within a shorter period of time. One may ask the following question in connection with the “pigs”: what is the bad side of their behavior as their final target is exactly the getting of profit? The explanation is the following one: the pigs invest only according to rumors and speculations; they never analyze anything, not even their favorite title. As the chickens, they are dominated by fear, by negative emotions; they are greedy, and the results they get are poorer than those of the chickens; they are those who always lose.

As a conclusion, only the “bulls” and the “bears” win in the ring, adapting their types of transactions according to the general tendency of the market or of a certain field: they buy on a bullish market and sell on a bearish one. Sometimes even the “chickens” get a small profit, the only losers being the “pigs”. Besides this classification of the investors there is also another classification according to the variety of financial instruments, and of the portfolio of mobile assets they make; it includes the following types of investors: the prudent investors, the moderate ones, and the bold ones. Prudent investors prefer those monetary instruments that provide a low risk and higher profits than term deposits. Moderate investors want, as the prudent ones, to “feel the money”; yet they are willing to accept a higher amount of risk in order to accelerate money increase. They also take the risk of the negative correction. Bold investors are willing to risk as they want to win. Bold investors are going to invest 50% of their money in the stock exchange and make a portfolio where they combined the companies having the most important increasing potential in the second category of the Stock Exchange and RASDAQ, with 2-3 first category giants whose quotations are more stable.

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## **THE HARMONIZATION OF THE RELATION COSTS – QUALITY – PERFORMANCE AT THE TOURISM UNITS LEVEL**

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**ABSTRACT:** *The global competition determined the tourism units to be more focused over the quality services, so they lose their reputation or even risk to cease their activity. A series of studies shows that in general, the costs that involve the correction of non quality and those for prevention and evaluation, represents in average 25% by their incomes and 5-15% by their production costs. In the case of the tourism units, the specialists appreciate that the weight of these costs is even greater. The services quality divide the managers interests for insuring the quality necessary for the functioning of the tourism unit, the climate, the staff preparation and also the relation with the tourists and the suppliers.*

**KEY WORDS:** *costs, quality, performance, management, services, tourism*

The essential factors that the performance relies on are the services costs and quality and the interdependence relation between these factors. Given the actual facts when the competition on this sector continues to grow, the managers' attention should be focused more and more on the services quality even though the costs level is higher because the weight of this factor is in a state of continuous growth.

In this way, the managers started to be more and more focused as we shall see on the costs needed to ensure the quality of the services demanded by the tourists. As a conclusion, the managers' ability is reflected in their capacity to organize and satisfy in a different matter the tourists' interests. By the orientation of the developed countries, in our days the tourism units performance, we should mention the environment protection and the insurance of a low term development.

The continuous efforts of the tourism units to increase their efficiency have reached to an approach from a financial point of view of the problems concerning the

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services quality. In order to reach their objectives, they must organize the technical factors, human and administrative so they could reduce, eliminate and most important prevent the qualitative minuses. So, we consider that by improving services quality, results the improvement of the tourism unit financial position and the profit growth. For this to happen there is an imperative need for the introduction and development of a quality management system in order to achieve the objectives defined by the policy in the area of the tourism units quality services, which must be connected with the tourists needs and expectations but serving in the same time the tourism unit's interests.

For every one of us the quality means that a service is better than the other because of its characteristics. In an economical system, the quality represents an operation environment through which a product or service delivered by the company to its customers is related to their demands.

The need for introducing an instrument that can allow the quality assessment became even more obvious at the beginning of the 40's. This instrument named "quality costs" has been soon generally applied becoming one of the subjects most debated in the economic literature. The first company that introduced a quality costs based management was General Electric in the year 1946. This system was presented in 1953 at the 7<sup>th</sup> Congress of the American Society for Quality Control. With this occasion, there have been defined the quality costs as the costs related to rejects, inspections, tests, deficiencies encountered by the buyer, quality insurances, including the training programs in the quality area, the products quality audit, the control and static analysis.

Although there have been also other approaches concerning the structure of the quality costs, the economic practice preferred the one established by general Electric. This method integrated in a quality costs system called Quality Costs Analysis delimits there quality costs categories: preventive, evaluation and malfunction, in the meaning of the lack of quality. The growth of the tourism units number that are in a continuous state of competition and the time factor action determined changes at the level of resource costs, and the services quality affect the economic environment by giving it a dynamic character that has a result the need of accustom oneself to the new competitive terms. The quality impact over profit is significant especially on a long term, that's why is important that the efficiency of a quality system to be measured in economic terms.

In this way, at the level of the tourism units appears the need of applying a quality management method which has been generalized by the optimization quality techniques related to the specified costs and based on the principle that says that the growth of expenses made for reducing the malfunctions determines a redimension of the costs generated by their identification and a substantial reduction of those generated by their repairment, so generally speaking the total quality expenses and the total organization expenses are more and more reduced with the condition of improving this system.

Trying to control the quality means actually to bet that there is another way to mass production. The Japanese leadership was the first seduced by the ideas introduced by the American teachers Deming and Juran. Juran proved at the end of The World War 2 that to 20% of the malfunctions detected in every stage of the production process are perceptible only by the operators themselves. To adjust these defects, the quality must be introduced through the objectives of every employer on any stage. In this way the objective will stop to be an acceptable quality level, but the continuous quality growth, with the purpose "no quality lacks". In this case, the quality responsible is the tourism operators themselves, the tourism unit managers.

In order for a strategy to be useful for the tourism units is essential to insure the achievement of the comparative advantage regarding the costs and the quality of the services provided. The comparative advantage relies on the services superior quality from a significant point of view for the tourists in comparison with the competition's offer. In the case of the tourism units the competition through quality is related to the competition by the price and this even more that the quality improvement represents actually an important element in costs reduction.

The global competition determined the tourism units to be more focused over the quality services, so they lose their reputation or even risk to cease their activity. A series of studies shows that in general, the costs that involve the correction of non quality and those for prevention and evaluation, represents in average 25% by their incomes and 5-15% by their production costs. In the case of the tourism units, the specialists appreciate that the weight of these costs is even greater.

In M. Porter's opinion the comparative advantage is reduced by insuring a reduced cost that is different from other similar by its quality. By referring himself to one or more important component elements for the tourist, the comparative advantage determines this one to ask for the service characterized by superior quality than the others. The quality costs must be constantly followed and related to other indicators such as: development, the economic value added, the business incomes, in order to identify the supplementary areas that need attention and to establish the quality objectives and costs.

The quality costs measurement is focused on the main area of reducing those by allowing the performance measurement and creates an internal information basis for the services. The quality costs determination allows the promotion of superior quality services and represents a parameter for the tourism unit activity, it supplies the manager with plan and control means and also other costs, by allowing comparisons between the total activity costs and other costs, by helping proceed to a lot of decisions and represents the base of the motivation for the activities developed.

Over the years the organizations have developed even more approaches in order to observe and control the quality costs:

- the cost of preventing the quality problems – includes the costs of the design of an improve process that reduces the malfunctions, the costs of staff trainings. etc.:
- the cost of quality problems identification – includes the costs of the equipment and the staff that is responsible with the quality management:

- the cost of solving the quality problems, when the product is still in the fabrication stage – it includes the opportunity cost, the staff cost, the raw material used for repairment process;
- the cost of repairing the quality problems, when these are discovered by the tourists – it includes the warranty costs, the profit loss costs, that company image costs etc.

In a definition generally accepted, a service quality represents the amount of characteristics that gives the aptitude to satisfy the expressed needs. The lack of quality represents the global exception between the planned quality and the effective quality. In order to identify the actions that generate the costs and their dynamic evolution there is needed a deeper cost analysis on categories and cost's elements. Based on the principle "the quality doesn't cost" Crosby (1979) came up with the idea of two quality costs categories: the cost of the conformity and the cost of unconformity.

As a conclusion to the study realized in some tourism units, I have reached the conclusion that is highly necessary to effect a study regarding the quality costs, through which I have identified the following elements that compose the costs of the conformity and unconformity:

- the costs of the conformity include the costs needed to develop a quality service and they include the prevention costs and the evaluation costs;
- the prevention costs are the expression of the efforts to stop the appearance of some low quality services. In this category are included the costs that involve: process definition, quality management documents, quality improvement programs, staff training in the quality area, suppliers evaluation, comparative analysis with the competition, quality audit costs determined by the establishment of quality standards, the project verification, the control instructions elaboration, research costs, statistic studies in quality matters, etc.
- the evaluation costs are the costs of the attempts, inspections and tests in order to establish if the specified demands are satisfied Such costs include: material inspections, lab tests, inspections, staff wages, etc.;
- the costs of unconformity are those costs in the purpose of quality correction of a service. These are determined by considering the moments of the quality corrections before the tourist to enjoy the services and before the tourist benefited by the services;
- the internal costs represent the costs regarding the correction of all unconformities discovered before the service is provided. These costs involve generally repairments;
- the external costs are the costs generated by the corrections of the unconformities discovered after the tourists benefited of the services. In these category are included the costs related to tourist denunciations, insurance costs, damage disbursements, etc.

As a result of the research made, I consider to be absolutely necessary the elaboration of a quality services simplified balance sheet which should reflect, in a currency matter, the situation of the services quality from the costs point of view at a

certain moment and which has in the passive part the costs regarding the lack of quality and in the active part the prevention and evaluation costs and has the following shape:

**Table 1. The simplified balance sheet regarding the services quality**

<b>Elements signification</b>	<b>Amounts</b>
ACTIVE	
THE CONFORMITY COSTS	
- the prevention costs for the lack of quality;	
- the evaluation costs;	
TOTAL ACTIVE	
PASSIVE	
THE UNCONFORMITY COSTS	
- the internal costs	
- the external costs	
TOTAL PASSIVE	

1. Active > Passive – the difference is represented by the reduction of the costs regarding the lack of quality and it is registered in the passive part;
2. Active < Passive – the difference is given by the exceeding of the costs regarding the lack of quality and it is registered in the active part.

Based on the simplified balance sheet we can determine a series of indicators with great relevance in the determination of the quality level of the services. The quality costs indicators can be presented in the form of percentage of the expenses categories in the value of the services delivered to the tourists.

In order to evaluate in what matter the effective performances are satisfying the tourists needs and desires, the tourism units could increase the number of the financial indicators with non financial indicators. The non financial indicators indicate the future needs and preferences of the tourists and also the special areas that need improvement. As a conclusion the non financial indicators are very important for the long term future performances, unlike the quality financial indicators that have as a purpose the short term performances.

The financial and non financial indicators are mutually supplemented. Most of the tourism units should use both types of indicators in order to evaluate the performances regarding the tourism services in the quality terms.

Both the financial and non financial indicators have different types of advantages such as:

**Table 2. The advantages of financial and non financial indicators**

<b>THE FINANCIAL INDICATORS ADVANTAGES</b>	<b>THE NON FINANCIAL INDICATORS ADVANTAGES</b>
- draw the managers attention over the costs of bad quality;	- are often easy to measure and comprehend;
- help solving the problems comparing the costs and benefits of different improvement quality programs and by establishing some priorities in order to reduce costs;	- they draw attention over the physical process such as process efficiency by directing the attention over the problem areas with concrete problems that need improvement;
- offers a unique measure, of the performances in quality terms to evaluate the regulations between the prevention, evaluation, internal and external costs.	- they give feedback on short term regarding the success of the efforts of quality improvement; - they are useful performance indicators in the future long term performances.

The costs that are referring to quality are determined on the base of the existent information in the tourism unit, or those coming from tourists. For a pertinent analysis of the quality costs is necessary that the information used to rely on the analyzed period, to be correctly identified and used, also at the tourism unit level as an ensemble and to the departments' levels. The evaluation of the quality costs incidence over the performance is very difficult.

By leaving from Photon's model we can use the following steps in the identification of the quality costs:

1. Service identification;
2. The identification of the direct quality costs;
3. Choosing the repartition base of the costs in order to be able to identify the indirect costs;
4. The identification of the indirect costs of the quality associated with every repartition base;
5. Calculating the unique part of every repartition base used for the repartition of the indirect costs;
6. Calculating the quality costs repartition over the service.

The quality costs determination comes up against a lot of difficulties from many points of view. Some of these points are: a series of quality costs can't be measured, as a consequence they can only be estimated and very often this estimation is subjective; there is an important delay between the moment of turning up and the one of the identification of the quality lacks; there is an important delay that can appear between the prevention act and the one in which there can be identified the effects of these actions over the quality costs (the launchment of a staff sensitivity program in the quality area can produce the effects after a few months).

Because of these problems there is necessary that the analysis and cost interpretation should be realized on a long term and not on a short term. The quality improvement has in mind a global approach that can be defined with the help of four basis concepts:

- visible quality level: the quality should be visible for all the parts involved(manager, staff, inspectors, tourists, etc.);
- the quality measurement during the process: quality control must be done at every step of the service;
- the prevention of the services quality lacks;
- the final objective must be: tourists satisfaction.

The tries made by the companies in order to improve the quality had in mind three plans:

- the technical plan – the company’s objective must be to eliminate the errors and the no quality sources;
- the human plan – the staff knowledge and experience must be used in order to improve permanently the quality and the performances;
- the organization plan – the quality improvement can be used also by a better organization, by simplifying and permanent adjustment.

The pressure imposed by the market imposed the tourism units to adopt these manner of quality management. In order to satisfy the tourists, the managers must permanently improve the quality of the services. The services quality divide the managers interests for insuring the quality necessary for the functioning of the tourism unit, the climate, the staff preparation and also the relation with the tourists and the suppliers.

The concept of the total quality is more and more active also in the tourism industry. This concept can’t and mustn’t be used only in the developed economies, but must be considered as an objective necessary even in the context of an economy in a transition state. An organization must supervise the total quality cost which is actually expressed as a weight in the sales process, There must be realized investments in order to prevent and reduce the quality problems; these are also more reduced than the following costs.

The quality importance grew in such matter that some tourism units give a warranty for their services. In this way they try to keep their tourists which other way should try the competitor’s services. More than that, they receive this way a certain signal over the lacks of quality that can be repaired in a short period of time. Not last, the existence of the warranty motivates the staff to improve their work in order to avoid that the tourists should use the warranty against them.

No matter the way they act, the quality costs represent the base for the tourism units performance. The use of the quality costs can allow the discovery of some undetectable costs. As we saw, the quality must be projected and managed, not only verified and controlled. The quality costs analysis is an important area in the efficient

activity process of the tourism units in the actual conditions of limited resources, its job being to supply the information the managers need in order to elaborate the strategic decisions.

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## **THE TOURISM UNITS PERFORMANCE CONTROL THROUGH THE BUDGET SYSTEM**

**BOGDAN RĂVAȘ, ALIN MONEA\***

**ABSTRACT:** *The budget elaboration wouldn't have any impact if the performance hadn't been explained. This thing is possible by the budget control. The budget's control purpose is to analyze the deviation between the real costs and the standard costs in order to take corrective actions. Any deviation reported must be useful for the responsible in order to correct his behavior. The calculated deviations mustn't be exhaustive, they must be focused only over the key elements, that make that area to evolve. The budgets represent an essential component of most managerial control systems. When it is clever managed a budget: imposes the strategic plan and implementation of the plans, offers a reference frame for the performance evaluation, motivates the managers and company employees, promote the coordination and communication between the company's departments.*

**KEY WORDS:** *budget, performance, control, manager, tourism, services*

Generally speaking, any management control procedure is meant to compare the real situation, the results actually obtained with a provisioned situation, the desirable objectives of an organization. So, the mission of the performance control through the budget system represents, in my opinion, the identification and explanation of all the deviations from the budget directions.

The budgets came into the world of theory and managerial practice as prevision instruments for the incomes and expenses limitations needed in order to obtain these incomes or to prevision the expenses that are to be covered from the provisioned budget. The budget's purpose is to hold under control the company's activity by prognosis and by following the expenses that can be covered from the incomes or other resources, by marking the finance possibilities of the expenses of the different structures and the company itself.

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Generally, the control of tourism services is an exception control. The needs for control change with the size of the company's structure. The controlled objectives are different by the order in the structure.

The budgets and the sales programs must respond to some essential questions that rely on different control objectives:

- WHEN must we sale the services? That involves a period analysis.
- TO WHOM must we sale the services? That involves an analysis on tourist types.

Through their demands, the tourists define the company's activity. The tourism unit must carefully select these tourists for who it can satisfy and serve in an effective manner. Once the tourists have been chosen it must adapt to their needs by offering them the goods and services desired, and for this to happen they must achieve and develop the resources for these goods and services. The owner knows that he can't hope to any profit if the tourists don't want the company's goods and services. To not consider the expectations and needs of the tourists leads no doubt to the unit's damnation. But the reverse situation is not true. The tourist can declare himself satisfied by asking lower prices with the loss of the company. Also there is a medal reverse. A tourism unit can't function by satisfying the tourists at the demanded prices in the case that these prices are lower than the one the company paid. As a consequence the two interests must converge and the tourism unit must find the middle way. The tourist's satisfaction becomes actually the main objective.

In order to be effective, the budget control at the tourism units level must be done enough frequent, in order to take the right measures in time, and uncentralised, in order to keep itself at the same level of the correction decisions and responsibilities. Often the budget control is realized monthly and answer's to two different objectives:

- the control of the budget execution, through the identification of the deviations from the initial budgets; in this case the controller makes an analysis over some passed facts;
- budgets readjustments and the corrective acts; in this case the controller makes an analysis over some future facts;

Through the budget there is realized the budget control that has as a purpose the permanent comparison of the results obtained through the budgets with the purpose:

- to identify the causes of the deviations;
- to inform the different hierarchic levels;
- to take some corrective actions;
- to appreciate the activity of different budget responsible.

The budget control is the activity meant to supervise the management through continuous results comparisons with the budgets with the purpose of finding the deviations, analyzing the deviations and transmitting the information to the management in order to adopt the decisions. The budget control as a complementary function of responsibility delegation, must include an ensemble of horizontal and vertical negotiation procedures in order to adjust the objectives and also instruments or management methods that bring information over the route of every system relied to

the objectives. In other way, the budget control is personalized for every budget type, but in a general manner, it stands for the comparison of the achievements with the predictions and showing the deviations that could show up in the purpose of correcting the actual management and the future predictions.

The budget control must be permanent and periodic. In this way the responsible can orient his action on a short term. The budget system becomes periodic when the budget responsible informs its hierarchy of the results obtained in his department through the reporting system. The reports are communicated to the hierarchy at fixed dates. These reports:

- rebuild the incomes and expenses by comparison with the predictions;
- determine the deviations by explaining the significant ones;
- underline the measures taken by the responsible on the base of the detected deviations, in order to orient the action in a certain way.

In the budget control process from a tourism unit there must be involved at least two actors: the management controller that controls the budget and the budget responsible, the person controlled that must justify the deviations. We must also notice that together with the budget control, at the level of every responsibility center that has a budget there must be also a permanent budget control, realized by every budget responsible. Through the permanent control, the budget responsible has the possibility to influence directly the indicators connected to its actions, being able at any moment to reorient his immediate actions or to inform the general managers, if it is useful for immediate assistance.

Assigning competences and responsibilities it is made function of the essence of the budget management method. The autonomy assigned to the hotel manager allows him to adopt, together with his team, the most adequate measures that he consider to be necessary, correlated with the resources he can use. The authority limits are clearly established at every level. Also the responsibility marked in the control mechanism frame are different for every budget responsible. Practically through the budget, to the success indicators there is associated a reward-punishment system, defined in the initial agreement.

The differences real-budget may have as a result the departure of the budget responsible. The control mechanism has in mind the identification and monthly correction of the deviations. Monthly, until the date of 10, there must be realized a report, through which the achievements are compared to the predictions. The income budget control is very important for the appreciation of the commercial performance. The variation of the incomes deviations from the predicted values represents the difference between the realized incomes and the predicted ones. This deviation has two possible explanations:

- a price variation, because the services are delivered at a price different from the budget;
- a number of services variation, because at the price of the services in the budget, there are more services demanded that it was predicted.

The budget elaboration wouldn't have any impact if the performance hadn't been explained. This thing is possible by the budget control. The budget's control purpose is to analyze the deviation between the real costs and the standard costs in order to take corrective actions. Any deviation reported must be useful for the responsible in order to correct his behavior. The calculated deviations mustn't be exhaustive, they must be focused only over the key elements, that make that area to evolve.

The deviations must be reliable:

- to make the distinction between the deviation generated by the incertitude of the predictions, such as the wrong prediction model, incorrect parameters and the deviations dew to bad functioning of the responsibility center;
- to verify if the responsible doesn't look to obtain deviations closed to zero that they should associate small value resources;
- to insure the ability of the achieved values measurement procedures.

The deviation must be current because a late measure can lead to a corrective measure unadapted. For example the income deviations in a promotion period must be known a few days after the promotion started. If the deviations are known after the campaign has been finished they would actually have only a limited interest. The deviation control must be realized only in the situation that the benefits obtained will overcome the cost that is involved. Also the deviations must be calculated not only over the monetary data but also some qualitative data such as terms or quality.

Regarding the moment of the deviation we can see three phases:

- the conception, through which the budget responsible reflects over all the problems;
- the commitment in which the decision is taken to chose a certain solution;
- the commitment execution phase that will be concrete after the services delivery.

The deviation analysis is often used in performance evaluation. Usually there are evaluated two performance aspects:

- the effectiveness: the way an objective is accomplished or a purpose determined;
- the efficiency: the relative quantity of elements used to obtain a certain level of production. As little as the elements are used to obtain a production level or the larger the production level is, the greater is the efficiency.

One of the deviation analysis advantages is that it underlines individual aspects of the performance. Also if the attention is excessively concentrated on only one performance indicator, the managers will have the tendency to take decisions that would lead to a positive value of that performance indicators. These actions could generate a conflict with the general objectives of the company by stopping their achievement. A certain deformed performance perception actually shows up when the management uses a evaluation and reward performance system that ignores the company generally objectives.

The deviation are often connected. For example a bad deviation of the materials used could be associated with a favorable deviation of their price if the responsible bought materials cheaper and with a lower quality.

In the deviation analysis from the budgets, we must rely on certain aspects:

- the budgets deviations are due to some controllable causes that can be influenced by the management decisions of a responsible. The managers must focus their actions over controllable causes that influence objectives achievement defined by the budget;
- the deviations can be good or bad. For example the exceeding of material consume or direct labor are bad deviations because they affect the budget in a negative manner. The good deviations are generated by values realized under the budget such as: the achievement of some material consume lower than the ones predicted, and also values over the budget, as in the case of a higher price than the one predicted etc.;
- actually any deviation from the budget is the result of the action of two elements: prices and quantity. For example the deviation from the budget value of the consume is made from a unitary price variation and a quantity variation. Often the responsible, try to have a greater control over the quantity variations and a lower control over the price variations;
- the controllable causes of the deviations can be influenced by an autonomous decision of a manager or are the answer of some external facts for the responsibility center.

A first step in performance evaluation is to determine if there is a cost deviation. The deviation determination helps identifying the effective areas of activity. But the key for an effective control of the operations is not only to identify the deviations value but the determination of the causes of these deviations.

Once these causes determined, the manager can take action, in order to correct the problem. The effective evaluation of the managers performance depends also by the human factor and the company's policies. The people make the plans, the people develop the activities, and also the people evaluate and are being evaluated. As a consequence the management must establish adequate policies and to obtain a direct participation of the managers and employees when there is a process initiation for the performance evaluation.

Actually, a company must establish policies and procedures for the elaboration of the operative plans of the key employees, the evaluation of every responsibility area and if there are any deviations to determine their causes and the needed measures.

The deviation analysis is concentrated over the comprehension of the cause of the deviations and the way that this comprehension can be used to study from experience and improve the performances. The deviation analysis mustn't be an instrument in the game of guilt, but it should actually help the companies understand what happened and how can the better performances be obtained in time.

The tourism units should reach a balance between the two purposes of the deviation use meaning performance evaluation and personal study, balance that isn't easy to achieve. The deviation analysis is useful in the performance evaluation, but by keeping excessive attention on this evaluation and the individual objectives it can negatively affect the learning process from experience and continuous perfecting.

At the level of the tourism units an adequate budget system must have as objectives, to obtain reliable information at low costs and in an operative manner, regarding the important activities, so on the base of the budget control they could take the right actions and allow the appreciation of the budget responsible activity on different organizational levels. In order to comply the purpose of a budget system, the budgets must be the object of a budget control process to insure the deviation analysis.

The need for budget at different levels of the tourism units is imposed by the performance determination in a competitive area and with the conditions of using limited resources.

The improvement of the budget process has been realized by dinamization and integration of the human dimension and through the modification of the organization manner.

The evolved forms of budgets were named:

- management by objectives or participative management – method applied in the years 70-80 in the USA by the integration of MacGregor's theory concepts, that says that the participants satisfaction is connected to the result improvement. The advantages of this method are: the stimulation of a more responsible behavior, the judgement of the employees by the results, and not after the way they work, allows the development teams;
- flexible budgets – they connect the costs to their variables(the volume) and includes the periodic adjustment of the numbers. The advantage would be in the possibility of reducing the budget's rigidity. Although this concept seems to be accepted by the companies, the empiric studies show that the companies don't benefit by their advantages;
- Zero Base Budgeting – this way of budgeting is very different from the classical model, when there were taken and adjusted all the budget's elements. In the ZBB every budget seems to be established on an optimal structure – the best added value for every task. This method tries to assign the resources as better as possible, that the classical methods don't manage to achieve. The Zero Base Budgeting tries to reach the objectives by determining the managers to justify their accomplishments. This thing is realized by imposing them the following limit: until they will not present to the higher management viable alternatives, the plans they proposed wouldn't be financed or accepted. The hole introduction of this term leads to the abandon of every unjustified activities, their detaining in the budget alternatives risking to lead to the budget overrule by the management. The implementation of The Zero Base Budgeting may advantage the company in the following ways:
  - o They focus the budget process over a complete or effective analysis and needs;
  - o They combine the planification process and the budgets in one process;
  - o It determines the managers to evaluate the costs effectiveness of the organization;

- It expands the managers participation in plans and budgets process at every level of the organization.

Other useful budget techniques at the tourism units level can be:

- Activity Based Budgeting – represents an integration of the activity and process concepts in the budget practice, spread once the grown interest in ABC/ABM. Some authors speak about a flexible budget based on activities. Unlike the traditional budget, based on cost centers, that measure the resources the company has, the activity based budget measures the activity consume. The activity based costs calculation is concerned with the past and future costs. A natural extension of this method is given by the appliance of the same principle for the future costs budget. The Activity Based Budgeting underlines the costs needed to produce and sell products and services. The Activity Based Budgeting can supply information more detailed than the budget based exclusively on costs determinants that are related to the volume and quantity, that can lead to an improvement of the decision process.

The major advantages of ABB are:

- the orientation towards value;
- the opening to non financial indicators
- the attention is focused over the effective resource consume and not over the available ones;
- Process Based Budgeting uses the same consume principles applied to the process with a real economic vision because it allows the digestion of non financial indicators also.
- Kaizen Budgeting – integrates the continuous improvement process by the analysis techniques of the value. For example some services can be challenged to elaborate plans for the same missions, but with a smaller resource consume, by stimulating the mind and acting to reorganization.

In the context of management control, the budget is a short term plan over a year, that presents the resources assignment and the responsibilities assumed by different decision factors from the organization. For a better relation to the predicted objectives the annual budget can be isolated on small time periods such as trimesters, months, decades and even days.

The incomes and expenses budget elaboration by every organization is imposed as a natural necessity for the immediate objectives of the unit and the management accounting organization of the incomes and expenses related with the budget can allow the permanent comparison of the size of the programmed indicators with the effective ones, by amplifying the role of the information in the activity management process. These confidential information offered by the management accounting will be used by the units managers for decision initiation that would modify the commercial conditions in the future periods of time.

An organization budget is important for the activity success because:

- it obliges the management to reflect over the future activity and to plan the objectives and events on a short, medium and long term.
- It involves the whole managerial team;
- By comparing with the effective achievements makes possible the performances analysis at every managerial level.

All over the year, the real amounts must be analyzed in comparison with the budget. In this sense there are realized prediction functions of new variables or levels, with the purpose of offering a base of comparison in conditions close to the period of the analysis. The incomes and expenses budgets, objectives of the managerial accounting are an instrument of control of the incomes and expenses by comparing the predictions with achievements, permitting in the same time also the determination of the costs for a work unit, generating in this way a tight relation between the budget control and the costs system. No matter the correlation between the incomes and expenses budget it is imperatively imposed the cover of the expenses by their own incomes, the sanctions of the mistakes in the establishment of the profit by under evaluating the incomes and over evaluating the expenses, the unadmittance and the unapproval of expenses without the establishment of the finance resources.

The budgets represent an essential component of most managerial control systems. When it is clever managed a budget: imposes the strategic plan and implementation of the plans, offers a reference frame for the performance evaluation, motivates the managers and company employees, promote the coordination and communication between the company's departments.

The budget is more useful when is part of the strategic analysis of a company. The strategy establishes the way an organization combines its own capacities with the opportunities on the market in order to achieve their goals. This includes taking in consideration of some questions such as:

- What are the organization objectives?
- The markets of the unit are local, regional, national or global?
- What tendencies affect these markets?
- How is the unit influenced by the industry, economy and competition?
- What kind of organization and what financial structure is more appropriate for the company?
- What are the risks of the alternative strategies and what are the spare plans of the company in case the plan fails?

The budgets supplies the managers with feed-back about some effects of the strategies and plans. Sometimes this feed-back signals the managers that they must think again their plans and even strategies. Once the plans adopted, the company's performances can be evaluated by reporting to the budgets elaborated for those plans. The budgets allow the overcoming of two major problems regarding the use of passed results in order to analyze the actual results. The first problem is given by the fact that the results from the passed are including the failures and the low performance from before.



The budget advantages are given by the role this instrument must fulfill:

- to plan, to measure the plan of a action;
- to make more easy the communication and coordination in resource assignment;
- help to manage the performance by building a base for the accomplishment;
- performance evaluation.

In order to be useful the budget advantages, should be understand by the tourism units managers and supported by all the aspects of the management control. Budget pursuit becomes one of the most important parts of the budget management, given its value as a prediction instrument and control and as lining instrument to the predicted objectives.

Constantly there should be elaborated "control reports" in which there are made statements regarding the budget. The effective control reports are essential elements in the feed back process; in order to insure the maximum efficiency it is important to be given a special attention to the content and delivery term of the report. An ignored or misunderstood report it is useless and leads to un effective actions. The key elements that must be presented in the budget are: the level of the predicted incomes and expenses for the period or the year; the real level of the incomes and expenses in that period; the deviations from the effective and predicted levels, and also the tendencies of these deviations; the establishment of relevant deviations and if it is possible the analysis and the presentation of the control methods.

The exaggerate accent over the performance evaluation risks to determine the managers to take some actions in order to elaborate the budget and avoid the unfavorable deviations even if these actions could harm the company on a longer term. More than that, the managers are often evaluated on the base of effective financial results. Some organizations developed indicators for evaluating the performances, that reward the managers by the accuracy of their predictions used for the budgets, thing that should be implemented in my opinion also in the tourism units, no matter the size and structure. A lot of success companies establish courageous or ambitious objectives. These objectives are actually over estimations of the performance, in order to motivate the employees to make a supplementary effort in order to obtain better results. That is why at the level of every responsibility center there must be organized an information system to control the budget.

The research show that courageous budgets lead to results improvement. The lack of capacity in reaching the predicted objectives from the budget is perceived as a failure. Most of the people are more motivated by the desire to avoid failure than to obtain success. When the time for the achievement of an objective comes closer they bring more effort for succeeding. For this reason most managers prefer to establish high objectives but reachable. Creating an easy state of tension improves the results. But the elaboration of some budgets highly ambitious increases the tension without having a motivational character.

In conclusion, we can appreciate that the budget, in his quality of management instrument has the following special elements:

- the including of the prediction activities, evidence and control of the incomes, expenses and financial results;
- the decentralization of the management system by developing responsibility centers;
- the investment of every center with responsibility and authority in the resource management for the achievement of predicted objectives;

In this way the entire budget system in the purpose of helping achieve the objectives, should interest all the aspects of the activity. Only with this condition it may contribute to the maintenance of the balance between functions and different services, and also the global coherence.

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## **THE CHILD RIGHTS SYSTEM IN ROMANIAN LEGISLATION**

**OANA-CARMEN RĂVAȘ \***

**ABSTRACT:** *Child rights are a set of international conventions which define the conditions for the normal development of a child. In Romania, child rights are now the subject of a specific law, law nr. 272/2004 on the Protection and Promotion of the Rights of the Child, which is in accordance with the international conventions. All children have their own rights - whether at home with their natural parents, in foster families, child care institutions or at school. Parents and families, the professional groups who work with children, as well as any responsible citizen, should know about these rights. The law on children's rights makes it clear, for the first time, that the main responsibility for raising a child lies with his/her parents. The law also states that the local community has an obligation to support the child and his/her family if they are facing difficulties. The State is only a guarantor of child rights. This is contrary to what many people believe - that the State can be a substitute for parents and families, since it can supply food and shelter. The law promotes the new idea of alternative family based services as opposed to the old residential type state institutions. If their rights are violated, children face serious risks: abnormal physical and emotional development, bad health, poor or no education, lack of shelter, insecurity, vulnerability, unhappiness.*

**KEY WORDS:** *children, rights, law, judge, reforms, child' system*

### **1. INTRODUCTION**

Child rights are a set of international conventions which define the conditions for the normal development of a child. In Romania, child rights are now the subject of a new law, which is in accordance with the international conventions. All children have their own rights - whether at home with their natural parents, in foster families, child care institutions or at school. Parents and families, the professional groups who work with children, as well as any responsible citizen, should know about these rights.

Policemen and judges have to apply the law, but everybody (especially those directly working with children) are obliged to report on cases of child abuse or neglect.

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Local and central government authorities are obliged under the new law to guarantee and promote child rights.

The new law on children's rights makes it clear, for the first time, that the main responsibility for raising a child lies with his/her parents. The law also states that the local community has an obligation to support the child and his/her family if they are facing difficulties. The State is only a guarantor of child rights. This is contrary to what many people believe - that the State can be a substitute for parents and families, since it can supply food and shelter. The new law promotes the new idea of alternative family based services as opposed to the old residential type state institutions. If their rights are violated, children face serious risks: abnormal physical and emotional development, bad health, poor or no education, lack of shelter, insecurity, vulnerability, unhappiness.

## **2. OVERVIEW OF THE ROMANIAN CHILD CARE SYSTEM**

### **2.1. A look to the past**

In order to be able to understand the child care reforms that are currently taking place in Romania, it is important first to take a look at the past in order to understand how the tragic situation of the notorious orphanages and the resulting institutionalised children came about. Romanians are not proud of what happened to the "child protection" system during the communist era. The late dictator, Nicolae Ceausescu, who ruled the country from 1965 to 1989, wanted to double Romania's population within one generation. Consequently, he banned contraception and outlawed abortions, except in cases where women already had four children. Families who couldn't afford to raise such a large number of children turned to the state for support. The state intervened "generously" and assumed legal responsibility for all those children who were separated from their own families. With the creation of this large network of child care institutions, a "demand" for children in need was created and medical staff in particular were encouraged to advise poor young mothers that they could choose to place their child in a comfortable environment where they would have a better life. To some extent this practice continues today and is one of the factors that accounts for the large number of babies being left in hospitals.

During this period, while in other European countries large-scale institutionalised care was on the wane, in Romania this type of child care actually increased. Throughout Romania, placement centres for small children up to the age of 3 were opened for those whose natural parents were unable to provide for them. After the age of 3, they were then placed in institutions for older children. The process of moving children to different institutions, according to their age, continued until they were 18, and this continual process of being uprooted from familiar surroundings, and friends, traumatised many children. The state claimed that institutions would provide the basic needs of the child: food, shelter, clothing and education. However, with the ever-declining economic situation, and the lack of professional and individual care, living conditions in the institutions deteriorated dramatically.

With the fall of the dictatorship in 1989, the first images of malnourished children began circulating around the world. As international journalists swarmed to Romania to cover the story of the only violent revolution in Eastern Europe, they also discovered the thousands of children living in miserable conditions in institutions. These pictures, which shocked both Romanians and the world, raised the alarm. This was a tragedy about which something had to be done.

Following these news reports, international help flooded into Romania: non-governmental organisations (NGOs), social workers, doctors, priests and people from all backgrounds came to help. It was a natural first step for humanitarian aid to focus on improving the living conditions in these institutions. Large sums of money were collected both within Romania and abroad for the construction of new living facilities for the children. Toys, books and clothing were generously donated by thousands of people who were moved by the images they had seen. Their actions and help, although valuable in the short term, had the effect of keeping large-scale residential institutions going for a while longer.

Continued publicity about the plight of Romanian children in difficulty triggered an additional reaction in the West: the idea that you could "save" a child by adopting it. Unfortunately, the combination of the often overwhelming desire to adopt a child, together with the realities of supply and demand soon led to corruption. Unregulated adoptions became the norm in the early 1990s and, following reforms under the 1996-2000 government, international adoptions became linked to large cash payments which were supposed to go to improving social services. Although international adoptions were only supposed to occur after all local solutions have been exhausted, the financial incentives were so significant that they often became the first priority. The process distorted the efforts of Romania's newly adopted child care system and was finally halted by a Moratorium on International Adoptions in 2000 (reinforced by the recent law on Child Rights).

Although no official statistics are available, it is estimated that since 1990 some 30,000 Romanian children have been adopted internationally. Even though the number may seem high, the truth is that inter-country adoption did not help solve the problem of children in institutions. In fact, the number of children in care increased, as many poor families were encouraged by "middlemen" to place their children in institutions. Children who would not normally have been considered for adoption, ended up going abroad, albeit most probably to a loving family, but it is a measure that should be the last resort according to the Hague Treaty on Inter Country Adoption.

Despite some well-intended attempts at reform and some achievements by governments and local authorities during the 1990s it became obvious that the system needed to be redesigned from scratch. The new system had to be based on a comprehensive model for child welfare and protection, and have as its main objective the support for families in need and the protection of the child within the family. At the same time, the attitudes in Romanian society towards child abandonment and institutionalisation, needed to be addressed.

## 2.2. New elements from the law on child rights (272/2004)

The reforms undergone by the Romanian child care system culminated in the new law on the Protection and Promotion of the Rights of the Child, which came into effect on January 1<sup>st</sup> 2005. The public authorities, civil society as well as individuals are now responsible for guaranteeing the rights of the child as stipulated by Romania's Constitution, the new law, and in accordance with the provisions of the UN Convention on the Rights of the Child.

The present law, subordinated primarily to the child's best interest stipulates for the first time that parents have the main responsibility in raising and ensuring the proper development of a child. Subsidiary responsibility falls onto the extended family and the local community to which the child belongs. The local authorities have an obligation to support parents by providing accessible services which should respond to the child's needs - and by prioritising those families in difficulty. The intervention of the state is complementary to the rights of the family. The state has a duty to ensure the protection of the child and guarantees the observance of all rights, and can only intervene in cases of abuse or severe deprivation. The law aims to change the idea that the state could replace parental care.

Protection of the rights of the child doesn't mean violation of the parents' rights. The parents must assume some obligations without which children's development is not possible. According to the new law both parents are responsible for the upbringing of their children, even if they are divorced. The social security service will undertake all the necessary measures for the early identification of risk situations, which may determine the separation of the child from his or her parents, as well as for the prevention of abusive behaviours and family violence inflicted upon the child.

Changes were made within institutions at the local and central level:

- The National Authority for the Protection of Child Rights (NAPCR), subordinated to the ministry of Labour, Social Solidarity and Family which plays a central role on the issues affecting children in difficulty with strategic, regulatory, administrative, representative and monitoring functions;
- Local Directorates for Social Assistance and Child Protection which are mainly responsible for resolving cases involving children in difficulty as well as liaising with county councils and ensuring that sufficient resources are allocated;
- The Romanian Office for Adoptions has been set up with the role of monitoring children ready for adoption and families willing and able to adopt, monitoring the evolution of internationally adopted children and taking measures against children trafficking.

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## **EQUAL OPPORTUNITIES IN ROMANIA**

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**ABSTRACT:** *The European Union (EU) has every reason to be proud of its anti-discrimination legislation, one of the most extensive in the world. In 2000, the European Union adopted two very wide-ranging laws to prohibit discrimination based on racial or ethnic origin, religion or belief, disability, age or sexual orientation in the workplace and, as far as racial and ethnic origin is concerned, in other aspects of daily life. These texts build on the extensive provisions at EU level to promote equality between women and men.*

**KEY WORDS:** *rights, representation, recognition, respect, equal treatment*

However, calling for equal rights and adopting laws to try and guarantee them is not enough to ensure that equal opportunities are enjoyed by everyone in practice. Incentives have to be given to bring about a change in behaviour and mentality. Steps also have to be taken to tackle the intricate patterns of inequality suffered by certain groups and communities in Europe, such as the Roma, while examining the roots of these problems. Finally, we have to acknowledge that our societies are changing. Examples of this are the EU's ageing population and its increasingly multiethnic makeup. The ever-growing diversity sets new challenges that we have to meet more effectively, while offering myriad opportunities that we have to seize.

The 2007 European Year of Equal Opportunities for All is an initiative leading the way to a bolder strategy seeking to give momentum to the fight against discrimination in the EU, as the Commission explained in a document, published in June 2005, called 'Framework strategy for non-discrimination and equal opportunities for all'. During the Year, all discrimination grounds have to be treated in a balanced way and the different ways in which women and men experience discrimination on the grounds of sex, racial or ethnic origin, religion or belief, disability, age or sexual orientation have to be considered as well.

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The Year aims to: make people more aware of their rights to enjoy equal treatment and a life free of discrimination – irrespective of sex, racial or ethnic origin, religion or belief, disability, age and sexual orientation; promote equal opportunities for all; launch a major debate on the benefits of diversity both for European societies and individuals.

Activities during the Year will be organised around four key objectives: rights, representation, recognition and respect:

- Rights – Raising awareness on the right to equality and non-discrimination and on the problem of multiple discrimination;
- Representation – Stimulating debate on ways to increase the participation of groups in society which are victims of discrimination and a balanced participation of men and women;
- Recognition – facilitating and celebrating diversity and equality;
- Respect – Promoting a more cohesive society.

*Rights – Raising awareness on the right to equality and non-discrimination and on the problem of multiple discrimination.* All people in the European Union are entitled to equal treatment, irrespective of their sex, race or ethnic origin, religion or belief, disability, age or sexual orientation – this is the key message that the Year will strive to put across not only to the general public but also to individuals or groups that suffer from discrimination or are potentially exposed to discrimination. The idea will also be to show that equality does not mean sameness. The implementation of the equality principle has to take into account differences and diversity so as to ensure that each individual genuinely enjoys equal treatment.

*Representation – Stimulating debate on ways to increase the participation of groups in society that are victims of discrimination and achieving balanced participation by men and women.* Women are in the minority in our parliaments and ethnic minority MPs are even scarcer. Disabled people tend to be sidelined in society. Against this background, the Year will launch a series of debates on how to make it easier for under-represented groups to participate more in society, while ensuring a balanced involvement of men and women in all sectors and at all levels. The business community and the political sector are set to be key targets under this heading. Rather than confining itself to eliminating discrimination, an equal opportunities policy also has to try to provide all individuals with opportunities for becoming fully involved on the same footing in society. Certain communities, such as the Roma, are so deprived that positive action might have to be taken for them so as to eliminate this inequality, which is so deeply rooted in society. The advisability of taking positive measures to promote equal opportunities will also give rise to several debates and activities throughout the Year.

*Recognition – facilitating and celebrating diversity and equality.* Another aim of the Year will be to make public opinion and the people concerned aware of the positive contribution each party can make to society as a whole, irrespective of the person's gender, race or ethnic origin, religion or beliefs, disability, age or sexual orientation. During the Year, action will be taken to involve the general public in an



open debate on the meaning of diversity in contemporary Europe and ways of valuing differences in society.

*Respect – promoting a more cohesive society.* Action will be taken during the Year to raise awareness among the public and the people concerned to the importance of eradicating clichés, stereotypes and violence, and promoting good relations among all members of society, particularly young people. The Year will strive to promote and disseminate the values underlying equal treatment and the fight against discrimination.

*Your rights to equal treatment.* Discrimination is not just morally wrong – it is also illegal. European Directives oblige all European Union (EU) countries to introduce or update their laws to make sure that all Europeans have the same protection against unfair treatment. Action against discrimination on grounds of gender dates back to the beginning of the European Community in 1957. European legislation covering discrimination on grounds of racial or ethnic origin, religion or belief, disability, age or sexual orientation was introduced by two new directives in 2000.

It is illegal to deny someone a job or access to training for any of the six reasons outlined above. The laws also protect against harassment or victimisation on these grounds. The rules on gender and racial discrimination go further and additionally cover access to healthcare, education, goods and services and housing. Discrimination can be direct or indirect. Advertising a job as being unavailable for disabled people would be direct discrimination. Forcing job applicants to do a language test, when it is unimportant for the work, would be an example of indirect discrimination. Both are prohibited. If your rights have been violated, you are entitled to take action. All EU countries have judicial or administrative procedures to ensure that if a complaint is upheld, penalties are imposed against those who have discriminated.

Below it is presented the Romanian context as revealed from the last books of the national institutes.

**I – Gender.** In Romania, *the National Agency for Equal Opportunities between women and men (NAEO)* is the central public administrative institution responsible for promoting the principle of equal opportunities between women and men through the elaboration and implementation of gender policies. The national context shows serious gender segregation on the labour market. This matter is illustrated by the predominance of poorly paid women in comparison with men's situation. Male population represents more than half of the working population. Health and education represent the feminized activities of the national economy. In 2005, the employment rate of population between 15-64 years old was: for women 51,5% and for men 63,9%; as for the unemployment rate, the data's are: for women 6,4% and for men 7,7%.

During the year 2005, even though in reality the income of women and men was equal pay for equal work, the gender pay gap in Romania was around 13%. A higher value was registered in the following areas of activity: industry (30%), commerce (23%), education (15%) and health (12%). The result of the analysis proved that there are a higher percentage of women gaining smaller income, than men. The

percentage of women who earn an income above the average is 33, 1% compared to the 38,9% of men's. The balance between the working and the personal life represents a key factor in achieving real equal opportunities between women and men. At the end of June 2006, from 189.489 beneficiaries of childcare allowance, only 18% were men, while 35% from the total of 10.583 of persons that received supplementary childcare allowance (for parents going back to work), were men. 86, 8% of women were willing to reorganize their professional life in order to create a balance with their personal life, whereas only 78% men were willing to do that.

The general elections from 2004 did not bring important changes regarding equal participation of women and men to the political decision process. A low level of women representatives in the parliamentary and governmental structures could still be noticed. From a total of 469 parliamentary seats, women hold only 50 seats (which means 10, 66%). In the Deputy Chamber women represent 11, 2% from the total number and in the Senate 9,4%. There are 22 ministers in the Government nominated after the 2004 election, from which only 3 women are ministers. Until august 2006 at the ministry level from the total number of employees 51% were women, while 49% were men. From the total number of the leading positions at the ministry level, 62% were men and only 38% women. Women are also poorly represented at the local level of the public administration, considering that over 80% from the leading positions are held by men. The percent of women prefects is 7%, women sub-prefects is 20%, 4 percent represents the women mayors and 16% represents the women town counsellors.

According to an analysis, from the year 2005, carried out by the Romanian National Statistics Institute regarding women's involvement in the economic life, 116.000 men were employers compared to only 38.000 women employers. As for the number of free lancers, the analysis showed that there are 1.281.000 men freelancers and only 542.000 women freelancers. At the same time, a study carried out during the year 2006 by the research company Stanton Chase International highlighted that, in Romania, 65% of the company's leading positions are held by women. As far as the working schedule is concerned, one out of six women is working on a daily basis above the schedule. The age of women that occupy leading positions in companies (between 25-30 years old), is lower than in other countries of Europe.

The main issue revealed:

- low level of remuneration in the most feminized sectors;
- the unequal representation of women and men in the decision-making process on political level;
- deficiencies at the public administration level in insuring active measures of achieving a real balance between the working and the personal life;
- existence of sexist stereotypes within the society;
- low number of the economic activities initiated by women.

**2 – Sexual orientation.** Although from the legal perspective, once the article 200 from the Penal Code was abolished and the anti-discrimination legislation was enforced in Romania, the present situation can be considered steady, the discrimination

against lesbians, homosexuals, bisexuals and transgender (LGBT) still represents a reality in area of activity such as public services, labour relations, behaviour and practices of the Romanian Police employees, penitentiary system, reflection in the media and family relationships. There are also lots of prejudices and stereotypes regarding LGBT people from Romania.

The public opinion barometer from November 2000 carried out by The Opened Society Foundation showed that 86% of the people questioned do not want homosexuals as their neighbours, while a similar barometer carried out in June 2002 showed that 59% do not consider LGBT as normal people. The study of the Institute of Public Politics "Intolerance, discrimination and autocracy in the public opinion", published in 2003 indicates that the sexual minorities represent the most rejected persons among the minority groups. Thus, 40% of the respondents do not agree with lesbians and homosexuals living in Romania, and 93% would not accept to work with a homosexual and a lesbian. People's rights of different sexual orientation are protected by the anti-discrimination legislation, by the National Council for Combating Discrimination and by NGOs.

The main issue revealed:

- difficulties in accepting their own sexual identity, as an effect of the lack of personal and social visibility of LGBT people;
- social exclusion of LGBT people;
- violence against the LGBT community members from Romania and the intolerant attitude towards them;
- existence of stereotypes and prejudices in the media regarding the LGBT community from Romania.

**3 – Age.** The social protection of the elderly people is coordinated on institutional level by the *Ministry of Labour, Social Solidarity and Family*. The social dialogue between the elderly people and the public authorities is promoted by the *National Council for Elderly People*, an autonomous organism, with advisory function in the protection of rights and liberties of such persons, and territorial representation. Since 2004, consultative committees of civic dialogue related to problems of elderly people, have been created on territorial level (within the prefectures).

At the moment from 21, 6 millions inhabitants, 10, 5 millions are adults, 5 millions children and young people and 6 millions elder people. The consequences of such trend have lead to the exercise of a great amount of pressure from the elderly population over the adult population, potentially active and consequently over the social protection system (occupancy, health, social assistance, social insurance, etc.). Bearing in mind that after 50 years, the pensioners will represent more than half of the population, Romania will need to reformulate their medical system, education system, their social assistance and social insurance, considering that people with different ages have different needs, also because they represent a valuable resource for the society and have to be encouraged to have an active life.

According to the analysis carried out by the National Statistics Institute during 2006, the rate of activity of women between 55-64 years old is 33,5% and men's is

48,4%. According to the same statistics the employment level of women between 55 to 66 years old is 33% and men's is 46,7%.

The main issues revealed:

- difficulties in accepting the elderly people as an important cultural and professional resource, by the society;
- low awareness of the society regarding the importance of active aging as a key element in insuring equal opportunities, during the whole life;
- the access of women over 55 years old on the labour market.

*The National Authority for Youth* represents the national organism with competences in settling, elaborating, promoting and implementing the legislation in this field and in supporting legislative initiatives on youth development. The National Authority for Youth functions according to the Government Decision no. 384/2005, amended by Government Decision no. 297/2006. The percentage of young population, between 15-29 years old, is 23,7% from the total population, according to the "2005 Diagnosis – Youth situation and expectations". From this amount – 51,1% represents the male population and 48,9% the female population, and the division on residence criteria is 58,9% in the urban area and 41,1% in the rural area. In 2005, 43% of the young respondents hoped for an improvement in their lives, most of them declared they are unsatisfied by the level of their income (76%), by the political life (65%), by their self development chances (65%) and by the labour market (63%). About 50% of the young people estimated have low incomes (58%), have no opportunities for self development within the country (48%) and 33% cannot find a proper job.

The locative situation of young people is, as follows: leaving with the parents and/or other relatives -73,1%, with their own family (life partner and children) -17,4%, with their family (parents and life partners, children) -3,5%, alone – 3, 3% and with friends/in the halls -2,4%.

In 2005, the economic activities among young people increased, the percentage of the ones employed with legal forms, full-time was 73%, and the percentage of the ones with temporary contracts was 12%, as for the economic activity of pupils and students the number was 20%. In the same time, the percentage of young contractors and the number of young intellectuals had doubled in 2005 comparative to 2004. Even though, 50% of young people have considered the possibility of initiating a business, only 10% tried to materialize their ideas, and around 4,5% succeeded. During 2005, the number of young people affected by unemployment has decreased the number of illegal workers is 18% and the number of day labourers is 19%. The weight of young people who wished to participate in the political life was 10% and of those who wished to activate in a youth organisation was 25%. The percentage of young people that is actually involved in associations or in social, economical or political organisations was about 9%.

The main issues revealed:

- access to private residence;
- poor representation in the decision making process;

- insufficient promotion and financing of support measures for young economic initiatives.

**4 – Handicap.** *The National Authority for People with Handicap* represents the specialized organism of the public administration that coordinates the activities of special protection and promotion of rights for people with handicap, elaborates politics, strategies and standards in the field of rights of people with handicap, insures the implementation of legislation in the field and controls the activities of special protection of this category. The Authority functions on the basis of the Ordinance no.14/2003 with amendments regarding the foundation and functioning of the National Authority for People with Handicap.

According to the statistics carried out by the National Authority for People with Handicap on 30.06.2006, the number of people with handicap was 468.607 (55.572 children and 413.035 adults), from which 17.540 people are institutionalized (329 children and 17.211 adults) and 451.067 (55.243 children and 395.824 adults) are under the care of their family (homelike services) and/or they live independent. Out of the total number of people with handicap, 250.851 are women, from which 242.006 are non institutionalized women and 8.825 are institutionalized, and the rest are men. The percentage of people with handicap from the total number of the Romanian population is 2, 16%. The massive decrease of the job offers after 1990, affected primarily the people with handicap, protected jobs have diminished until their total disappearance. The legal framework focuses more on the encouragement of employment of the people with handicap than on the foundation of protective production structures, for improving the well-being in labour of people with handicap. Access to education, health care, employment, public transportation, living and motion conditions are dominions with no or insufficient representation at the level of local public authorities. Most of the people with handicap do not benefit from neither of the existing social services.

The categories subjected to the highest risk of social exclusion are women, either mothers taking care of children or adults, either those who are the sole caretakers of their life partners, either those having health or social problems, either those that live by themselves (with no accommodation, and low incomes), or those with handicap. Although, the situation of people with handicap has improved since the year 2000, there are still problems generated, on one hand, by the low financial and human resources, and on the other hand, by the difficulty in building a current and incorporated system for the support of this categories.

The main issues revealed:

- low access to specialized social services;
- poor access in the labour market;
- low access to any form of education, caused by the lack of a specialized educational system, due to old mentalities of teachers and also caused by the lack of accessibility to the physical and informational teaching environment;
- poor access of people with locomotive handicap in the public means of transportation;

- low access to sports and cultural activities for people with locomotive handicap.

**5 – Ethnic origin.** *The Department for Interethnic Relations (DIR)* represents a structure without legal capacity; it is subordinated to the prime-minister's office and is coordinated by the delegated minister for the coordination of the General Secretariat of the Government. The structure and the competences of the Department for Interethnic Relations are stipulated in the Government Decision no. 111/2005 published in the Romanian Official Monitor no. 184/03.03.2005.

The main responsibilities of the DIR are: the promotion of politics and strategies for keeping, asserting and developing the ethnical identity of people belonging to the national minorities; the improvement of the legal and institutional framework in this field; stimulating the dialogue between the national majority and minorities and refining common values; fighting against prejudices and xenophobia; promoting interethnic programs to support such ideas and objectives; cooperation between the international institutions and organisms specialized in this matters; implicitly facilitating the wide dissemination of the Romanian best practices in the field of interethnic relations. DIR has 5 territorial representatives, with responsibilities in monitoring the implementation of the enforced legislation regarding national minorities from the main interethnic areas of the country. The regional bureaus of the DIR are situated in Cluj, Suceava, Constanta, Turnu Severin and Timisoara. DIR has a permanent cooperation with the Council for National Minorities, created in 1993. The Council has the status of a consultative organism of the Government and is constituted from 19 organisations representing national minorities. The organisations benefit from parliamentary representation.

According to the last Census (from 2002), the percentage represented by citizens belonging to national minorities is up to 10% of the total population. Thus, in Romania there are 20 national minorities, represented in the Parliament by 19 organisations (the Czech and Slovak minorities have created a shared organisation): Albanians (under 0,1% out of the total population); Armenians (under 0,1%); Bulgarians (under 0,1%), Croatians (under 0,1%); Czechs (under 0,1%), Greeks (under 0,1%); Germans (0,3%); Hungarians (6,6%); Jewish (under 0,1%); Italians (under 0,1%); Lippovan Russians (0,2%); Macedonians (this ethnic minority was not included within the census); Polish people (under 0,1%), Roma population (2,5%), Serbs (0,1%); Slovakians (0,1%); Tatars (0,1%); Turkish people (0,1%) Ukrainians, including Ruthenium's (0,3%).

The main issues revealed:

- lack of a complete and coherent legal framework related to the status of the national minorities
- deficiencies in implementing the enforced legislation (education, culture, local administration, justice, mass media etc.), especially on a regional and local level;
- major discrepancies between the establishment and the action of the national minorities organisations;
- poor representation in the public life of women and young people belonging to national minorities;

- the persistence of negative stereotypes within the public opinion and mass media regarding national minorities;
- insufficient promotion of multiple identities and ethno-cultural, linguistic and religious diversity, as fundamentals for the cohesion of the society.

*The National Agency for Roma People (NARP)* wishes to create a wider framework for all the actors involved, and, by that, it assumes the responsibility of promoting, together with the institutions of the central and local administration but also with the specialized NGOs, actions, projects and programs. The main responsibility of the NARP consists in improving the Roma people situation by elaborating, applying and continuing the politics for decreasing the existing gaps between Roma populations and the whole society. Referring to the gender issue, the NARP strategy includes gender mainstreaming in all fields of activity (strategy, plan of action, public politics, programs, campaigns).

From the NARP perspective the issue of gender equality needs to be constantly and systematically promoted, especially regarding the equal participation of the Roma women in the public and political life. The nature of the public life acts on the relationships between the individuals, while individual circumstances affect the nature of the public participation. In order to support such ideas, a recent study, carried out by the Opened Society Institute within the Program for Roma Participation (PRP) “*Broadening the agenda, the Status of Romani women in Romania*”, shows that 43% of Roma women believe they have no equal rights with men and the reason would be the inequalities resulting from the difference of social status and heritage. The study also discloses that 67,9% of Roma women are housewives and only 11% are legally employed. The reasoning behind such a low number of women participants on the labour market is due to the discrimination on several grounds (Roma women with disabilities) they are subjected to (according to 58,4% of respondents).

The study carried out by the UNDP “*Faces of Poverty, faces of hope*”, launched in 2005, shows the gender gaps on the labour market as follows: 20% unemployed Roma men compared to 35% of unemployed Roma women. The differences between Roma men and Roma women are accentuated from the perspective of the type of activity carried out on the labour market; these gaps are probably influenced by the formal and informal education. In this respect, 23% of the Roma women (above 16 years of age) did not benefit from formal education and 35% of elder Roma women were in the same situation. Only 3,7% attend high school education. Hereto, 14% of Roma men above 16 years of age, benefited from formal education, and 16% from the elder Roma men benefited from formal education. The main reason for such gaps, as it appears from the study carried out by the World Bank, is the conditions of extreme poverty 3 out of 5 Roma people live in.

The main issue revealed:

- existence of a patriarchal system and community norms that prevent Roma women from developing a professional career;
- Roma women are confronted with multiple discrimination, especially when it comes to access to services and services supply;

- negative image and a sexist, discriminatory and abusive language promoted by the media regarding Roma men and women;
- insufficient promotion of diversity and multiple identities of women in the Romanian society.

**6 – Religion.** During the year 1990 was created the State Secretariat for Cults (SSC), as a specialized organism of the central public administration subordinated to the Government. This organism was created in order to insure a strong relation between the state institutions and the religious cults. It was autonomous until 2001, when a new structure was created by bringing together the fields of culture and cults, thus resulting the Ministry of Culture and Cults (MCC). The MCC basis its activity on the following principle: “religious cults are free, autonomous and equal in front of the authorities” (art. 3, letter e). The MCC also “supports all the religious cults recognized by the law, according to their organisation and functioning statutes, in respect to their participation to social and spiritual life of the society and mediates the litigious situations” (art. 6 align. 29). When discriminatory attitudes occur because of religious beliefs, the SSC tries to mediate the conflict, by informing the district directorate or by sending a counsellor from the respective area.

In Romania, there are 17 religious cults and approximately 900 religious associations and foundations. A number of 30 of these foundations or associations have a cult’s characteristic (a part of these religious organisations were forbidden before 1989 such as Mormons, Methodists, Presbyterians, etc.), the rest of them unfurl their activity under religious cults recognized by the law, being involved in social and charitable activities. The main difference between cults and religious associations consists in the fact that religious associations do not benefit from financial support from the state while the cults do. The cults and religious organizations are allowed to choose freely their leaders, with no interference from the states authorities. They can also build halidoms, celebrate services and religious rituals, catechize believers and edit publications etc. The cult servants are taught in state or private schools, faculties, seminars, according to their needs.

Cults and religious organisations use their native language within their religious services. According to the 2002 Census, 99, 8% of the Romanian population declared their religious beliefs, and according to the surveys 85% of the population trusts the Church institution. Still, there are some individual points of views which debate upon the necessity of studying religion in schools, of the presence of the religious symbols in the public places and the necessity to clearly segregate the Church institution from the states institutions.

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## **DIVERSIFICATION OF HYDRO TOURISM SUPPLY AND BALNEARY TREATMENTS ON ROMANIAN SEASIDE**

**MIRELA SECARĂ \***

**ABSTRACT:** *Diversification of balneary touristic supply should be enforced to accommodation facilities, restaurants, treatment bases and leisure facilities. Tourists with high expectations of a fine quality of tourism are the reason for maximum capitalization of touristic balneary potential of seaside by means of all studied strategies in order to meet the needs of all Romanian and foreign tourists.*

**KEY WORDS:** *balneary tourism, balneary treatments, health tourism, health cure*

### **1. INTRODUCTION**

Taking into consideration particularities of tourism in the Black Sea area, it is necessary to change the intensive use of existent infrastructure on short term to an extensive use that covers the entire calendar year. This may improve both the degree of exploitation of infrastructure and the efficient capitalization of accommodation spaces.

Tourists with high expectations of a fine quality of tourism are the reason for maximum capitalization of touristic balneary potential of seaside by means of all studied strategies in order to meet the needs of all Romanian and foreign tourists.

If we are to consider touristic competitiveness worldwide or European, than it is necessary to make efforts to provide tourists with the best, latest and most attractive opportunities that they can appreciate here on Romanian seaside and among them, the luxury-oriented ones in search for top quality services and competitive supply.

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## **2. DEVELOPMENT AND DIVERSIFICATION OF BALNEARY TOURISTIC SUPPLY ON ROMANIAN SEASIDE**

Diversification of balneary touristic supply should be enforced to accommodation facilities, restaurants, treatment bases and leisure facilities. Thus, the management of companies operating in the field of seaside balneary tourism should consider as follows:

- construction of new modern hotels, so that tourists always find something new to meet their demands;
- sustained renewals of restaurant units, adjustment of restaurant units according to lifestyle and habits of tourists and their age, nationality or belief;
- constant preoccupation to provide leisure facilities, means to entertain tourists according to their spare time;
- modernization of the existing treatment bases and construction of new modern facilities at higher standards that include balneary medical apparatuses;
- diversification of balneary treatment range;
- continuous training of labor force operating in balneary tourism, so that it provides high quality services for tourists.

Taking into consideration the seasonable feature of Romanian seaside, a series of deficiencies emerge, whose effect is obvious for the entire activity of seaside balneary tourism. Thus, all through the summer season, accommodation facilities and treatment bases are over demanded both concerning necessary accommodation rooms and as concerns the number of performed treatments. Out of season, most hotels are closed since they do not have heating facilities, so the demand for hydro tourism is diminished.

In order to solve these difficulties, with a view to reduce the seasonable feature and, at the same time to help increase the number of tourists that arrive for treatment, heated hotels are to be the future priority, so that appropriate accommodation is available for tourists that choose hydro tourism on seaside out of season as well; at this moment, there are few heated hotels on seaside that keep open all through the year.

For example, Hora Hotel in Saturn resort is heated and it has an accommodation capacity of 566 beds, in Mangalia, there is Paradiso Hotel that keeps open the entire year, besides accommodation rooms provided by Mangalia Sanatorium and a few others.

Investments for modernization of existing hotels are necessary besides construction of new modern accommodation places that comply with European standards. Taking into consideration that a large section of the accommodation and restaurant structures have been built before 1989 and they were designed for large tourism and few investments have been done lately, it is extremely necessary to implement modernization programs that shall increase quality level of accommodation spaces on seaside. Besides efforts of investment, these programs have to be put across in order to be competitive on similar European market.

We cannot compete with countries in European Union if the existing structure on Romanian seaside does not provide enough accommodation rooms at classification categories of three, four and five star hotels and for balneary tourism. As long as we wish for development of health and wellness tourism that require new type of tourists that can be either business people or conference participants, than, the number of luxury accommodation has to be unconditionally higher instead of two star rated facilities.

We think that besides foreign tourists, the number of Romanian tourists will also increase in terms of preference for accommodation and restaurant units that are better rated. Special attention is needed for the extension and modernization of existing treatment bases on seaside and construction of new balneary treatment bases in the resorts on Romanian seaside.

This strategy requires modernization of treatment bases, both by acquisition of modern medical devices for classic cures and beauty centers or recreation modeling centers specific to health tourism. The key to re-establish this type of tourism is the setting of the new concept that is replacement of illness medical treatment with health preservation cure. At the same time, the supply of balneary treatments need to diversify and also the entertainment facilities, so that an increased number of tourists in search for seaside balneary treatments is recorded out of season as well.

### **3. DIVERSIFICATION OF BALNEARY TREATMENTS ON ROMANIAN SEASIDE**

Balneary treatment is considered a superior means of capitalization of natural factors, determined by healthy impact of the Black Sea shore in the prophylaxis of various health conditions. Thus, the sea water, the sapropelic mud highly mineralized and springs in Mangalia that contain sulfurous, chloride, bicarbonate, sodium, calcium water and mezothermal waters as well, make the importance of Romanian seaside as concerns its therapeutic and treatment qualities.

Some specific factors are added to seaside natural qualities such as: worldwide trend at present days to replace medical treatment of some health conditions with natural cure factors, the trend to combine ordinary tourism with balneary tourism, development of social balneology, continuous increase of the demand for geriatric treatment.

There is a need for larger range of treatments, so that touristic balneary service raise to worldwide demands: organization of beauty centers that use combined treatments of natural mud and Gerovital cosmetic product, obesity treatment vacation; Mangalia resort provides the appropriate environment for such treatment owing to the quality of mezothermal water, existing portable solariums that can be used inside that may replace the sun out of season, medical facilities according to present international standards and wellness trends.

Detailed studies of wellness market and of various activities or interests should be accomplished, starting from easy means of vacation, that is rest and relaxation within natural environment and massage centers, up to a wide range of medical performances, treatment or surgical interventions.

The results of these studies have to be correlated with the potential of the existing treatment bases on the seaside, so that they focus on renovation, modernization and future development. The change in demand structure that is generated by development of wellness tourism requires a strategy of diversification in order to satisfy demands of various tourists. This type of strategy is the key to success on the path each resort chooses in order to provide competitive service supply that is comparable to the ones in the European Union.

Prevention of many health conditions can be successfully done in balneary resorts on Romanian seaside that are known not only for aerosols, but for mineral waters as well that may be used in prophylactic digestive cures or diuretic cures or many other natural factors for cures of various illnesses.

A new concept is evinced, that is the “health cure” that sets the conditions for healthy young persons and adults that choose the wellness cure or primary prophylactic cure for maintenance of their body and preparation for polluted environment or stress factors. According to modern theories, health cures or wellness cures have other objectives beside human body health and function, but are also concerned with the spiritual and psychological mood. The sedative relaxing climate of Romanian seaside as well as effects of procedures of hydrotherapy, kinetic prophylaxis, massage, various relaxation techniques, psychotherapy.

Since this is a new field of activity in balneology, we may say that the use of “health cures” within seaside balneary tourism can lead to development of this type of tourism and new segment of potential young and adult tourists’ native and foreign, in search for hydro tourism, that do not have a health condition.

Further on, here are some of such “health cures” that can be taken in treatment bases on the seaside: recreation cure (“mise en forme”), fitness cure of effort adaptation or aerobic training, “anti-stress” cure, one of the most important health cure.

Specialists in balneology suggest more types of wellness cures that can develop within balneary spas, some of them already developed in some countries of the European Union. These are the cures of prevention of ageing (geriatric prophylaxis), weight control, diabetes prevention, osteoporosis prevention, crenotherapy for digestive pause or cures of diuretic crenotherapy.

We need to promote Romanian specific products for such cures in order to achieve re-establishment of our balneary touristic services on the international market. Some products are well-known on the international market such as „Gerovital”, for rheumatic or nervous conditions and ageing prevention, and „Aslavital”, also treating nervous conditions and anti-ageing, „Boicil”, for rheumatic conditions and arterial disturbance.

The use of these products in Eforie Nord, Mangalia and Saturn resorts for various hydro treatments and their sustained promotion on EU countries market, would contribute to development of balneary seaside tourism in Europe and even farther.

For this type of cures, the products of Plantavorel, Hofigal and Plant Extract brand has also recorded good results in treatment of health conditions with the help of natural means.

The most important reason that determines tourists to visit the seaside is the seawater and sun. If these two elements were to found by tourists out of season as well, then the demand on touristic market would be directed mainly to this area of the country. For this it is necessary to build new swimming pools inside the buildings, or to improve the existing ones. In this way, a modern pool has to be made spacious, alight, clean and with seawater supply that is heated and changed often.

The new hotels and treatment bases are preferred to be built on the seaside and have such heated pools, using both seawater and mezothermal spring water from Mangalia area. This would mean a superior capitalization of the natural resources of the seaside area and an objective to appeal to both Romanian and foreign tourists.

The manner of spending spare time is also to be taken into consideration, so that we need to reorganize and diversify these activities, to develop entertainment infrastructure and promote leisure forms that are specific to our country traditions and folklore creations, so that they arise the interest of potential tourists out of season when sunbathing is not possible.

Romanian hydro touristic supply has a large competition on European market of hydro tourism since it is considered inflexible and still lacking performance because it does not meet the requirements of modern touristic market.

European touristic supply has been directed to health cures of wellness with a large display for its clients of luxury developments that include swimming pools, Jacuzzi jet pools, saunas, fitness centers also with safety installations for device exploitation, sports grounds, special programs of touristic facilities etc.

Such investments are needed on Romanian seaside, near or inside treatment bases, increasing the level of importance of seaside balneary resorts out of season besides the construction of spaces with modern endowments for the organization of cultural events, exhibitions, concerts, musical festivals etc.

A very attractive solution for entertainment both during season and out of season would be the development of restaurants, private clubs with various possibilities of entertainment and recreation, besides the usual loud disco style clubs.

By developing such centers, a certain segment of tourists may be interested in spending time in a relaxing manner by playing chess or having fun with dancing nights, tombolas or other surprise programs. Such clubs are necessary especially out of season during bad weather that does not allow tourists to take walks in the resort and there is only the hotel room left.

Taking into consideration the pleasant twine of treatment and relaxation, seaside options during out of season would be larger for the next years, especially if we are to consider worldwide trends that emerge for balneary and health tourism.

These trends in the field of health maintenance policies that focus more and more on the healthy individual in order to help him maintain his physical and mental tonus have opened new perspectives of enterprise in the direction of health tourism development.

Health tourism evinces the increasing role of the prophylactic cures for the prevention of chronic illnesses, thus outlining the above-mentioned trends. In this way, international bodies such as World Health Organization and European Union state the importance of physical and mental health of population as one of the basic conditions of present level of civilization. That is why the health vacations are integrant part of the health system.

Improvement and renewal of modern balneary medicine content that has its scientific fundament nowadays for most empiric methods of treatment used in the past, its scientific acknowledgement have contributed to its increasing credibility in the medical environment and in public opinion.

The high price of pharmacy therapeutic products and their limited efficiency as well as toxicity and side effects of many synthesis medicines led to a change of interest toward natural remedies that is ever higher. In this category of natural remedies with complex functions such as prevention, curative and recovering there is also health tourism practice.

Diversification of balneary tourism supply is a result of its evolution toward health tourism that includes thermal cures of 18 days as well as re-shaping products of fitness, various massages, thalassotherapy, anti-stress and anti-smoking products, birth cures with variable periods of 3, 6, 9 or 10 days.

Setting and development of health tourism as well as of its multiple components sustain a wide range of possibilities of supply diversification, of innovation in this field and consecration of specific products.

Worldwide trends also support these directions in the evolution for an increasing demand for wellness services that have unlimited field of diversification given their specificity.

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## **STATISTIC NON-PARAMETRIC METHODS OF MEASUREMENT AND INTERPRETATION OF EXISTING STATISTIC CONNECTIONS WITHIN SEASIDE HYDRO TOURISM**

**MIRELA SECARĂ \***

**ABSTRACT:** *Tourism represents an important field of economic and social life in our country, and the main sector of the economy of Constanta County is the balneary touristic capitalization of Romanian seaside. In order to statistically analyze hydro tourism on Romanian seaside, we have applied non-parametric methods of measuring and interpretation of existing statistic connections within seaside hydro tourism. Major objective of this research is represented by hydro tourism re-establishment on Romanian seaside and at the same time the elaboration of a complex statistic study on seaside balneary tourism with a view to evince certain issues to be solved in order to achieve development of Romanian hydro tourism in the Black Sea area.*

**KEY WORDS:** *statistic indicators, correlation coefficient, association coefficient, touristic circulation, statistic analysis.*

### **1. INTRODUCTION**

Phenomena and processes developing in the real world are part of a relationship of interdependence. Some connections are obvious, some are manifested by chain relationships of causality, others are delayed and some of them independent. Hence the interdependence among phenomena that require analysis by means of several subjects that study the same field of activity. In order to characterize them objectively we need to take into consideration the fact that a number of main and secondary factors or some essential/non-essential or some systematic or random factors, in mutual or unilateral interdependence, influence the social-economic phenomena. Statistics, by means of a various range of methods and procedures, can

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study the actual manifestation of these connections; it can express them in a quantitative manner as well as from the point of view of their intensity of production. Parametric methods of calculation of correlations are used whenever there is a possibility to determine the manner of connection manifestation that is verified with sufficient data either normally distributed or normally asymptotic.

Still, there are situations of abnormal distribution of characteristics and no information on the parameters of studied functions, either. Under these circumstances, we cannot use formulas of correlation analytic indicators, but we need to apply other methods in order to determine the existence, direction and intensity of certain connections established between two or more characteristics. These methods need to skip over the theory of distribution curve and, consequently, to open the possibility of estimation of various types of distribution.

The methods of solving these issues are known as non-parametric methods. They can establish the intensity of connection, regardless of distribution type and allow measurement of intensity of this connection not only for quantitative characteristics, but for qualitative ones too, since we do not work with the values of characteristics, but with symbols or serial number defined as rank. Dynamic profound and vast transformations of all sectors of economic and social life are reflected in the modification of economic structures, in rational exploitation of the entire resource potential and efficiency increase according to requirements of contemporary technical-scientific progress. In this context, tourism manifests itself as distinct component of economy, with an active presence in the economic and social life, as forwarder of globalization and factor of stable development. Tourism represents a phenomenon of modern civilization, deeply rooted in the social life and interrelated with it. By its vastness and complexity, tourism gathers a large natural, material and human potential with implications on the dynamics of economy and society, on international relations.

Romanian seaside represents the most important touristic area with a concentration of almost a half of Romania hotel accommodation capacity and approximately  $2/3$  of accommodation resources for international tourism. As a result of natural environment, seaside touristic activity is intermingled with hydro tourism activity. The presence of cure factors determined the construction of appropriate spaces for treatment and prevention of various health conditions. Thus, we have well-known hydro resorts, internationally famous for balneary and recovery treatment and rest as well. The importance of seaside hydro tourism is rendered by some specific factors of development of hydro tourism such as: world trend to replace medical treatment of illnesses by natural cure factors nowadays, the trend to combine plain tourism with medical balneary tourism, with the choice for tourists on vacation to spend their time in a relaxing way and improve their health at the same time, development of social balneology that makes the number of those taking partial or whole balneary cures ever increasing, travel agents use of own personnel in a continuous activity or on larger periods all through the year. Balneary tourism and health tourism has better perspectives than classic tourism. It provides the hydro seaside resorts and other balneary resorts in the country with modalities and possibilities of economic and



financial efficiency and from the social point of view it contributes to population health improvement and also to a better quality of life.

## 2. STATISTIC EFFECT OF BALNEARY TOURISM ON ROMANIAN BLACK SEA SIDE

In order to evince balneary touristic circulation during 2002 – 2007 in Saturn resort, we shall use as statistic indicators the number of tourists that checked in and the number of tourist-days in the analyzed period. Statistic indicator of the accommodation capacity represents the number of accommodation rooms for tourists, taking into consideration the number of days the hotels keep open in a certain period of time (calendar year, here), and it is calculated as the result of the number of available rooms/hotel with the number of operating days of the hotel during that year.

Determining factor shall be the accommodation capacity in operation ( $x_i$ ) and dependant factors shall be as: the total number of tourists ( $y_1$ ) and the total number of tourist-days ( $y_2$ ). These statistic indicators that are the base for all calculations are presented in Table 1:

**Table 1. Evolution of hydro touristic circulation and of accommodation capacity in Saturn resort in 2002-2007**

Years	Capacity of accommodation in operation (rooms-days) ( $x_i$ )	Number of checked-in tourists ( $y_1$ )	Number of tourist-days ( $y_2$ )
2002	272160	13340	152742
2003	306180	13221	157283
2004	340200	15029	169385
2005	331695	13786	147695
2006	307180	13659	150594
2007	344870	16854	153477
Total	1902285	85889	931176

Source: data gathered and processed from CP Saturn

Non-parametric methods that we can use to measure the intensity of connection among studied variables are such as: correlation coefficient of Spearman ranks, correlation coefficient of Kendall ranks and Yule association coefficient. In order to apply these methods to data of Table 1, we shall order growing values of determining variable – accommodation capacity in operation (table 2).

Correlation coefficient of Spearman ranks calculates according to formula:

$$r_s = 1 - \frac{6 \sum d_i^2}{n^3 - n} \quad (1)$$

where: d = difference of rank between correlated characteristics;  
n = number of researched units

Correlation coefficients of Spearman ranks calculated for given example shall be:

$$r_{S_1} = 1 - \frac{6\sum d_i^2}{n^3 - n} = 1 - \frac{6 \times 2}{216 - 6} = 0,9 \quad (2)$$

$$r_{S_2} = 1 - \frac{6\sum d_i^2}{n^3 - n} = 1 - \frac{6 \times 28}{216 - 6} = 0,2 \quad (3)$$

**Table 2. Necessary algorithm for determination of Spearman correlation coefficient**

Capacity of accommodation in operation (rooms ) $x_i$	Number of checked-in tourists $(y_1)$	Number of tourist days $(y_2)$	Ranks			$d_i^2 = (r_{x_i} - r_{y_1})^2$	$d_i^2 = (r_{x_i} - r_{y_2})^2$
			$r_{x_i}$	$r_{y_1}$	$r_{y_2}$		
272160	13340	152742	1	2	3	1	4
306180	13221	157283	2	1	5	1	9
307180	13659	150594	3	3	2	0	1
331695	13786	147695	4	4	1	0	9
340200	15029	169385	5	5	6	0	1
344870	16854	153477	6	6	4	0	4
1902285	85889	931176	-	-	-	$\sum d_i^2 = 2$	$\sum d_i^2 = 28$

Source: personally processed data

Values of  $r_{S_1}$  Spearman coefficient show a close connection between the accommodation capacity in operation and balneary touristic circulation represented by the number of checked-in tourists in Saturn resort for hydro tourism is large (0.9) to 1. On the other hand, the value of the  $r_{S_2}$  Spearman coefficient is lower, that is 0.2, which show us there is not a very close connection between the accommodation capacity in operation and the number of tourist-days. This indicator depends more on the duration of tourist vacation. At the same time, the connection between these variables can be measured by means of Kendall coefficient. Data in table 3 have been used for the calculation of Kendall coefficient as:

Correlation coefficient of Kendall ranks has the following calculation formula:

$$r_K = \frac{2S}{n(n-1)} \quad (4)$$

with the result in our case being as:

$$r_{K_1} = \frac{2 \times 13}{6 \times 5} = 0,9 \text{ and } r_{K_2} = \frac{2 \times 4}{6 \times 5} = 0,3 \quad (5)$$

**Table 3. Necessary algorithm for determination of Kendall correlation coefficient**

Years	Correlation y1/xi					Correlation y2/xi				
	$r_{xi} \uparrow$	$r_{y_1}$	$P_1$	$Q_1$	$S_1 = P_1 - Q_1$	$r_{xi} \uparrow$	$r_{y_2}$	$P_2$	$Q_2$	$S_2 = P_2 - Q_2$
2002	1	2	4	1	3	1	3	3	2	1
2003	2	1	4	0	4	2	5	1	2	-1
2006	3	3	3	0	3	3	2	2	1	1
2005	4	4	2	0	2	4	1	4	0	4
2004	5	5	1	0	1	5	6	0	1	-1
2007	6	6	0	0	0	6	4	0	0	0
Total	-	-	14	1	13	-	-	10	6	4

Source: personally processed data

Kendall coefficients indicate strong intensity connections only between the accommodation capacity in operation and the number of tourists checked-in for hydro treatments in the above-mentioned hotels in Saturn resort, the value of first Kendall coefficient being of 0,9 calculating determination coefficients,  $C_{y_1/x_i}^{k^2} = 0,8^2 \times 100 = 64\%$  and  $C_{y_2/x_i}^{k^2} = 0,6^2 \times 100 = 36\%$ , we can draw the conclusion that 64% of the variation of checked-in tourists number is determined by the subsidies and technical structures of touristic accommodation and the rest of 36% is represented by the influence of other economic, social, concourse factors. In order to calculate association coefficient, we have the association table on the basis of data of Table 1. in this purpose we shall calculate averages for the three variables and recordings shall be presented in two parts: values under average and values above average (Table 4) for the number of tourists and Table 5 for the number of tourist-days:

**Table 4. Association between the accommodation capacity and the number of checked-in tourists**

$x_i$	$y_2$	Under $\overline{y_1}$	Over $\overline{y_1}$
Under $\overline{x_i}$		3	0
Over $\overline{x_i}$		1	2

Source: personally processed data

$$\overline{x_i} = \frac{\sum_{i=1}^n x_i}{n} = 317048 \text{ rooms-days} \tag{6}$$

$$\overline{y_1} = \frac{\sum_{i=1}^n y_i}{n} = 14315 \text{ tourists} \tag{7}$$

$$\bar{y}_2 = \frac{\sum_{i=1}^n y_i}{n} = 155196 \text{ tourist-days} \quad (8)$$

In order to appreciate the intensity of connection, we calculate the association coefficient by means of the formula proposed by Yule:

$$Q_1 = \frac{ad - bc}{ad + bc} = 1, \text{ for the number of tourists} \quad (9)$$

**Table 5. Association between the accommodation capacity and the number of tourist-days**

$x_i$	$y_2$	Under $\bar{y}_2$	Over $\bar{y}_2$
Under $\bar{x}_i$		2	1
Over $\bar{x}_i$		1	2

Source: personally processed data

$$Q_2 = \frac{ad - bc}{ad + bc} = 1 \quad (10)$$

We may appreciate that the connection between the accommodation capacity in operation and touristic circulation is enough intense, the number of checked-in tourists depends mainly on the accommodation capacity in operation, just like the number of tourist-days. In conclusion, we may say that the activity in tourism is very complex, with various statistic indicators that characterizes touristic circulation and that various patterns of calculation and statistic interpretation help us achieve a quantitative economic analysis, especially a qualitative one, so that we seize the appropriate objective tendencies that are specific to each phase and their future estimation. All these are necessary to achieve efficient management and marketing of touristic activities, their profits and, consequently, of profitability rate.

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## **RESULTS CONCERNING COMBATING FISCAL EVASION IN ROMANIA**

**GABRIELA CORINA SLUSARIUC \***

**ABSTRACT:** *The European Community acts for economical and social cohesion strengthening, and especially to eliminate inequalities between development levels of different regions. It is the reason for which the member-states participates to a regional european policy co-financed with European funds, Structural Funds and Cohesion Fund, that confers a certain sense to community solidarity.*

**KEY WORDS:** *national policy, fiscal evasion, fines, frau, control*

The many bonds that fiscal laws impose to tax payers and especially, the burden of this obligations has made, all the time, to stimulate the tax payers ingenuity in finding various methods to elude fiscal duties. „Fiscal evasion has always been active and ingenious because the fisc, targeting the individuals in their wealth, it touches them in their most sensitive interest: money.”

One of the most important Romanian institutions that prevent, combats, traces and sanctions fiscal evasion is Financial Guard.

Financial Guard, a public control institution is financed from state budget, organised as a special authority of public central administration subordinated to Economy and Finance Ministry – National Agency of Fiscal Administration, with a juridical personality, exerts operative and unannounced control concerning prevention, founding and combating of any documents and acts in the economic, financial and custom field, that has as an effect fiscal fraud and evasion.

In the year 2007, by adopting HG nr. 533/2007, has been realised a growth of institutional capacity with 500 jobs, therefore the number of Financial Guard personnel has reached 1805 jobs, from which 1605 in territorial structures.

For the year 2007 the institution has assumed, as a main objective, the growth of activity quality, especially about identifying the serious frauds like illicit producing

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and trading without taxes of wares, consequently affecting, by fiscal evasion, the state budget incomes.

In the analysed period has been made 173.350 acts of control, which goal was to identify and combat acts of fiscal evasion. On this occasion had been founded fiscal-financial problems in 135.983 cases. For minor offences has been applied penalties which led to attracting to the budget of extra incomes in a total value of 272.983 thousand lei, from which has been operatively cashed during the control 178.583 thousand lei.

During the controls has been identified acts of offence which produced to state budget a prejudice of over 1.400.000 thousand lei , being forwarded to institutions to sue and to continue the investigations, a number of 2.375 cases and in 1159 cases the fiscal institutions has been informed.

According to law, has been taken goods and money from illegal sources or from illicit acts in a total value of 103.822 thousand lei

The measures have been taken for:

- Combating illicit trade with taxed products, having checks during which, an important, permanent objective was represented by actions concerning illegal spaces where took place illicit commercial activities (production, storing, trading etc.)
- Combating the introducing and trading illegal cigarettes proceeded from smuggling and from illegal internal production, these acts in this field recording spectacular results, mainly in the 4th trimester
- Impose the compiling to OUG no>28/1999 concerning the compulsory owning of fiscal electronic marking devices targeting that economic agents which proceed retail trade to own and use the fiscal electronic devices.
- Respecting the fiscal law by importers of consumption goods, also food and other products.

In this field have been organised thematic actions for checking for complying with law by the vegetable and fruit importers, where has been founded serious disfunctions concerning praising and the payment of VAT and profit tax. Also, has been effected checking to meat and meat products importers, and to rice, sugar and coffee importers.

The proceeded verifying activities to importers and construction material users has emphasized that some economic agents has formally recorded fiscal duties to state budget, omitting the payments.

Founding economic agents from trading field with technical plants, cereals, milling and bakery products which did not praised all proceeded commercial operations or use phantom firms to justify the origin of the wares or to rise the expenses recorded to abate the profit as a subject to taxation and the VAT to be paid diminish the illicit transactions in the field of exploitation, financial administration, processing and trading wood.

The verifying activities have shown the procedures of selling wood on the black market which has been exploited and surreptitiously processed. Discouraging illicit procedures in the domain of offals that can be recycled, by which economic agents, using fictive identities of garbage disposals, encourage the acquisition of diverse stolen materials from energetic or railway sector, with major consequences for national economy.

The complementary measures taken to effected actions, comparing to reference period, are presented in the next tab.

**Table 1. The action of the Financial Guard in year 2007 comparing to year 2006**

Indicators	2006	2007	%
Suspended firm by OUG 28/99	2.027	6.889	339
Suspended firm by art. 220 CPF	418	1.489	354
Confiscations of alcohol (litre)	110.400	417.477	378
Confiscations of packets of cigarettes	312.792	2.321.005	742

Results of the activity obtain in years 2007, comparing with year2006, are present in the next table.

**Table 2. Results of the activity obtain by Financial Guard in years 2007 comparing with year 2006**

	2006	2007	%
Number of check up firms	148.584	173.350	116
Number of control actions	143.437	163.640	114
I. SUM TOTALE:			
- established	281.943	376.805	134
- recovered	151.690	189.544	125
from:			
penalties			
- established	192.606	272.983	142
- recovered	138.848	178.583	129
Seizures *			
-established	89.337	103.822	116
-recovered	10.386	10.817	104
II. PENALE NOTIFICATION			
- number	2.334	2.375	102
- damage **	745.773	1.400.023	188

The recorded dynamics, especially concerning the involving in identification of fiscal evasion (prejudices in 2007 has increased with 88% compared to 2006) mirrors the assuming of institution's established objectives by HG no. 533/2007 modified with HG no. 1171/2007.

The obtained results in the main activity domains, which emphasize the actions proceeded in combating fraud with products as subject of taxation, also alcohol, tobacco, mineral oils, scarp iron, wooden material, cereals, etc are reflected in the presented data and graphics and are sustained by peculiar cases identified by the commissars of Financial Guard, also by realised indicators of main activity domain.

During the last decade has been a growing tendency of law, agencies and intergovernmental organisations to focus upon international evasion and fraud phenomenon.

This subject has an increased importance as a direct result of climate of economical recession, which determined the increasing of the tendency of a part of tax payers to reduce their taxes as a source of a new finance, in the same time, for other reasons the governs has continued to retrieve missing tax by fighting against fiscal fraud, by avoiding tax burdens and by modifying national fiscal policies.

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## **MATERIALITY IN THE CONTEXT OF AN AUDIT BETWEEN PROFESSIONAL JUDGMENT AND SUBJECTIVISM**

**ADELA SOCOL** \*

**ABSTRACT:** *The objective of this paper is to provide a global perspective of the materiality from an audit viewpoint. We describe the main regulations and settlements in the field and examine the various approaches of the materiality in audit. The paper presents the need of auditor to establish an adequate materiality in audit. From the theoretical approach and from the example supporting this particular theme, the results of this study insist on the importance of professional judgment in auditing and identifies major issues that need to be considered to improve the choose of materiality in audit.*

**KEY WORDS:** *Planning and Performing an Audit of Financial Statements, Evaluating the Effect of Misstatements*

### **1. AIM AND RESEARCH METHODOLOGY**

We choose the materiality in audit as the object of the study based our approach on the importance of materiality in audit. We consider that materiality is a basic concept in audit and nevertheless there aren't established and distinct sets or rules to determine materiality in audit. The absence of such rules creates drawbacks for auditors.

Simultaneously, materiality is a subjective concept. What may be material in one situation may not be material in another. The auditor's determination of a materiality level or levels is a matter of professional judgment and of experience of auditor. The materiality is affected by the auditor's perception of the financial information needs of users of the financial statements.

After the presentation of the general frame of reference of the theme in the specialty literature and in the specific national and international legislation, the paper approaches the manner to determine the materiality in audit. Through an example of

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determination of materiality, we underline the dual character of the materiality pleaded between professional judgment and subjectivism. Our personal contributions refer to the comparative study of the professional judgment and subjectivism in audit.

The information on the study theme was realized by studying the national specialty literature and international one in the field and by consulting the available information's from the institutions level which make researches and issue regulations on the audit (including materiality in audit), such as the International Federation of Accountants - International Auditing and Assurance Standards Board, Chamber of Financial Auditors of Romania.

## **2. THEORETICAL BACKGROUND**

At the international level, the importance given to the materiality in audit is considerable in the last years. Proves of this importance are offered by the IAASB's (International Auditing and Assurance Standards Board) regulations in the field. In October 2008 were published two International Standards on Auditing (ISAs) 320 (Revised and Redrafted): "Materiality in Planning and Performing an Audit" and 450 (Revised and Redrafted), "Evaluation of Misstatements Identified during the Audit". These ISAs are effective for audits of financial statements for periods beginning on or after December 15, 2009. In December 2004, the International Auditing and Assurance Standards Board (IAASB) issued an exposure draft of proposed ISA 320 (Revised), "Materiality in the Identification and Evaluation of Misstatements." The comment period closed on April 30, 2005. The IAASB gave due consideration to the comments received on the proposed ISA and also consulted further with the IAASB Consultative Advisory Group. The IAASB concluded that the clarity and flow of the requirements and guidance would be enhanced by addressing materiality and misstatements in separate ISAs; that is, an ISA on materiality in planning and performing an audit and an ISA on evaluating misstatements identified during the audit.

International Auditing and Assurance Standards Board (IAASB) is an independent standard-setting body within the International Federation of Accountants (IFAC). The objective of the IAASB is to serve the public interest by setting high quality auditing and assurance standards and by facilitating the convergence of international and national standards. Thereby, the Board enhancing the quality and uniformity of practice throughout the world and strengthening public confidence in the global auditing and assurance profession.

In Romania, Chamber of Financial Auditors of Romania CFAR promotes the interests of the financial auditor profession in Romania. It adopted since setting up the International Standards on Auditing and the Code of Ethics and Professional Conduct issued by the International Federation of Accountants (IFAC). Also, Chamber of Financial Auditors of Romania assures the accurate translation of the International Standards on Auditing, for the financial auditors to be permanently to date with the developments in the area at the international level.

In the field of the approached theme, the specialty literature detains theoretical analysis and empirical studies of the materiality and risks in audit. Results of the studies show varied approaches of the professional judgment in audit. Starting with the '90s in the context of development of the audit on international plan, we notice the preoccupations on the studying of the materiality and risks in audit.

H.G. Chong and G. Vinten (1996) affirm that for investors risk is closely associated with return of investments and materiality. Investments with considerably higher risk normally attract a higher rate of return. Higher level of risk needs a higher threshold of materiality. There are occasions in which financial managers, fail to take the materiality effects in the process of risk evaluation. The authors assess risk in the auditing context. Audit risk models established by researchers reveal that there is a need to look into the effects of materiality. An extension on the existing audit models, to incorporate the effects of materiality is made. With this, 128 permutations were resulted. It is understandable that auditors may not be cost benefit for auditors to evaluate all the 128 possible outcomes before the issuance of audit reports. Their model could seriously be served as a reference to both auditors and financial managers in the light of evaluating risk.

J.L. Colbert (1996) compares two concepts crucial to planning and performing the audit work: audit risk and materiality. He presents differences between international and US guidance would imply that the two sets of standards require different levels of audit work; this situation would be a concern to investors and auditors. Similarities in the international and US standards would suggest consensus regarding the levels of work.

H. Chen, K. Pany and J. Zhang (2008) investigate the relationship between the amounts obtained using professionally accepted quantitative benchmarks of audit planning materiality and the size of accounting misstatements corrected by financial statements restatements. They use a sample of 136 companies that have restated such financial statements and compare the amounts of the restatements with planning materiality benchmarks (rules of thumb) established to aid auditors in arriving at audit planning levels. They were found that, depending on the method of analysis selected and the materiality benchmark followed, as high as approximately 62 per cent of the restatements involve income levels less than the planning materiality level.

Materiality in audit raised not only the interest of international scientific field, but also the interest of national scientific communities.

In Romania, Oprean I., Popa I.E. and Lenghel R.D. (2007) show that the preliminary materiality is determined on the basis of three main factors: the size of its audited on the basis of choice and the nature or quality presentations wrong. The authors present the procedures apportionment of the global materiality on the balance sheet of assets. Allocation threshold of global significance on the assets is in depending on the share held by each element in total assets.

The adjustment coefficients were determined on the basis of professional reasoning as follows:

- for items with low turnover or weight, which can be audited with low cost and the elements who are expected to find a low-volume of distortion, have been determined the coefficients of lower adjustment;
- for items with high turnover or to which are not expected to be discovered distortions have been established adjustment of coefficients higher.

We point out Danescu's T. important opinion (2007) on materiality is not affected by and it doesn't affect the four audit risks: (acceptable, inherent, control and no detecting), but together these risks determine the quantity of the planning proves.

### **3. WHAT IS MATERIALITY IN AUDIT?**

Financial reporting frameworks often discuss the concept of materiality in the context of the preparation and presentation of financial statements. Although financial reporting frameworks may discuss materiality in different terms, they generally explain that:

- Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements;
- Judgments about materiality are made in the light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both;
- Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered.

The objective of an audit of the financial statements is to enable an independent auditor to express an opinion as to whether the societies' financial statements are prepared, in all material respects, in accordance with an identified financial reporting framework. A matter is material if knowledge of the matter would reasonably influence the economic decisions of users taken on the basis of the financial statements. Materiality may be considered in the context of the financial statements as a whole, any individual statements within the financial statements or individual items included within the financial statements.

Materiality should be considered by auditors *when determining the nature, timing and extent of audit procedures and when evaluating the effect of misstatements*. The objective of the auditor is to apply the concept of materiality appropriately in planning and performing the audit. When establishing the overall audit strategy, the auditor shall determine materiality for the financial statements as a whole. While planning an audit, the auditor should keep in mind that the audit risk is to be kept at an acceptably low level. If, in the specific circumstances of the entity, there is one or more particular classes of transactions, account balances or disclosures for which

misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements, the auditor shall also determine the materiality level or levels to be applied to those particular classes of transactions, account balances or disclosures.

The auditor shall revise materiality for the financial statements as a whole (and, if applicable, the materiality level or levels for particular classes of transactions, account balances or disclosures) in the event of becoming aware of information during the audit that would have caused the auditor to have determined a different amount (or amounts) initially. If the auditor concludes that a lower materiality for the financial statements as a whole (and, if applicable, materiality level or levels for particular classes of transactions, account balances or disclosures) than that initially determined is appropriate, the auditor shall determine whether it is necessary to revise performance materiality, and whether the nature, timing and extent of the further audit procedures remain appropriate.

Also, the objective of the auditor is to apply the concept of materiality when evaluating the effect of misstatements. In conducting an audit of financial statements, the overall objectives of the auditor are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework; and to report on the financial statements, and communicate as required by the ISAs, in accordance with the auditor's findings. The auditor obtains reasonable assurance by obtaining sufficient appropriate audit evidence to reduce audit risk to an acceptably low level. Audit risk is the risk that the auditor expresses an inappropriate audit opinion when the financial statements are materially misstated.

Materiality and audit risk are considered throughout the audit, in particular, when:

- Identifying and assessing the risks of material misstatement;
- Determining the nature, timing and extent of further audit procedures; and
- Evaluating the effect of uncorrected misstatements, if any, on the financial statements and in forming the opinion in the auditor's report.

There is an inverse relationship between materiality and the degree of risk.

Determining materiality involves the exercise of professional judgment. A percentage is often applied to a chosen benchmark as a starting point in determining materiality for the financial statements as a whole. Factors that may affect the identification of an appropriate benchmark include the following:

- The elements of the financial statements (for example, assets, liabilities, equity, revenue, expenses);
- Whether there are items on which the attention of the users of the particular entity's financial statements tends to be focused (for example,

for the purpose of evaluating financial performance users may tend to focus on profit, revenue or net assets);

- The nature of the entity, where the entity is in its life cycle, and the industry and economic environment in which the entity operates;
- The entity's ownership structure and the way it is financed (for example, if an entity is financed solely by debt rather than equity, users may put more emphasis on assets, and claims on them, than on the entity's earnings);
- The relative volatility of the benchmark.

Examples of benchmarks that may be appropriate, depending on the circumstances of the entity, include categories of reported income such as profit before tax, total revenue, gross profit and total expenses, total equity or net asset value. Profit before tax from continuing operations is often used for profit-oriented entities. When profit before tax from continuing operations is volatile, other benchmarks may be more appropriate, such as total revenues.

Materiality relates to the financial statements on which the auditor is reporting. Where the financial statements are prepared for a financial reporting period of more or less than twelve months, such as may be the case for a new entity or a change in the financial reporting period, materiality relates to the financial statements prepared for that financial reporting period.

#### **4. HOW WE ESTABLISH THE MATERIALITY IN AUDIT? AN EXAMPLE**

By the minimum standards set by the Audit Chamber Auditors in Romania, this institution recommends to the professionals auditors to set the materiality based on the following limits:

- Between 1% and 2% of total assets (before subtracting debt);
- Between 0.5% and 1% of total expenses;
- Between 5% and 10% of profit before tax.

Below (table 1) is a sample selection of the materiality.

We consider that in this case, the materiality should be calculated according to total revenues. Total revenue is the indicator most consistently in recent years. Assets and results varied greatly and therefore were not taken into account.

Determining a percentage to be applied to a chosen materiality involves the exercise of professional judgment.

There is a relationship between the percentage and the chosen benchmark, such that a percentage applied to profit before tax from continuing operations will normally be higher than a percentage applied to total revenue. For example, the auditor may consider five percent of profit before tax from continuing operations to be appropriate for a profit-oriented entity in a manufacturing industry, while the auditor may consider one percent of total revenue or total expenses to be appropriate for a not-for-profit entity. Higher or lower percentages, however, may be deemed appropriate in the circumstances.

**Table 1. Establishment of the materiality in audit**

Determination of MATERIALITY Mission: Audit of Financial Statements Exercise 200N		Document ABBREVIATION Section F0
Name of the Customer		
Compose by		Date
Revised by		Date
Indicators	Current exercise	Previous exercise
Total assets before subtracting debt	12.000	11.000
1%	120	110
2%	240	220
Total revenues	20.000	18.000
0,5%	100	90
1%	200	180
Profit before tax	2.500	2.200
5%	125	110
10%	250	220
Materiality	200	180

## 5. CONCLUSIONS

Based on our research, we recognize the importance of professional judgment and the role of the professional judgment in audit and its application to fundamental concept – materiality. We underline the key factors that form part of the framework for professional judgment: audit task environment, auditor characteristics, audit evidence, decision-making process in audit.

We consider that there are essential differences between professional judgment and subjectivism in establish the materiality in audit. The professional judgment marks the normality, while the subjectivism is a danger for audit. The subjectivism denotes the doctrine according to which knowledge and value are dependent on and limited by your subjective experience. We affirm that the subjectivism is the inconvenient approach in audit, because it is the views and behavior of an auditor who tends to be affected by the emotional qualities of an event, argument, or problem. And all of these affect negatively the auditor's opinion and their independence.

In the context of today's increasingly global economy, business operations of audited companies are becoming much more complex. The users of the financial statements expect that the financial statements should be reliable and should disclose all the material information in respect of financial matters of the entity.

If auditors will continue to play a vital role in adding credibility to financial statements, it is essential to address the risks and pressures they face in the course of performing an audit. This includes and an efficient process in establishment of materiality in audit. The auditor's professional judgment is a focal point of those challenges.

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## **THE PRESSURES ON THE HUMAN RESOURCES MANAGEMENT WITHIN THE PUBLIC SECTOR**

**IOANA STĂNCESCU, VASILE POPEANGĂ \***

**ABSTRACT:** *The Elaboration of the policies and strategies concerning the management of the public function and of the public employees is one of the attributions of the National Agency of The Public Employees (ANFP in Romanian language from Agentia Nationala a Functionarilor Publici). (art. 21 alin. 1 The Law no. 188/1999). The role of the human resource management has been in a general changing process, from an administrative function to a development function. In fact, the management of the human resources is a continuous process which comprises new perspectives, experiences, initiatives and activities. Never has to be considered a fixed set of rules which are valid now and for long term, too. The management of the human resources is a permanent subject of discussion and has to be adapted at a changing environment.*

**KEY WORD:** *human resources, managerial decisions, public administration*

### **1. THE MANAGERIAL DECISIONS ON THE PUBLIC DOMAIN**

The managerial decisions on the public domain are ones of the most difficult, as these interconnect the individual, organizational and situation factors which maze have influence and are refund in the respective decisions, and simultaneously, have to answer some various requirements that, further, vary in time, depending on the respective factors variation. The managerial decisions on this domain also vary from an organization to another, as the have to answer the needs of those organizations, and the relative importance of the functions or of the activities on the domain of the human resources is not the same in all the situations. But in the same time, all functions or activities on the public management domain suppose the preparation and the adoption of some personal decisions which have to evaluate situations with dual, moral or ethical and legal aspect, extremely complex or which have to make a series of choices or selections regarding the human factor, many times, extremely difficult.

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Among the main features of the management in the public administration, connected to the specific of this domain we mention:

- The pressure of the permanent requests of the citizens
- The stressed working character of some actions which sometimes allow reduced margins of the movement of the managers.
- The complex dimension of the leading acts which have to be in harmony efficiently economical, social, political and administrative elements, etc;
- The taking into account of the fact that in Romania, in the actual stage of transition to the market economy it is necessary a radical modification of the mentality of those who work in the public administration, a matter stipulated

Among the main pressures which create difficulties within the management activity in the public administration are to be remembered:

- The crisis of time stressed by the rapidity with which are produced the transformations in the political, economical and social system.
- The non-correlation of the programmers and of the activities with different partners who act on the territory of the local public administration or are connected with the problems of some embodiments of the public administration.
- The heterogeneousness and the fragmentation of the preoccupations owed not only to a damaged organization, but also to an insufficient information realized in the device of the public administration and its relationship with the citizens.
- Pressures resulted from the incompetence of the working apparatus, actions of some force grouping, lack of resources for solving different problems, etc.
- difficulties generated by the disorder of the entrances of resources, most of them generated by breaks of the logistic chain.

## **2. THE PRINCIPLES AND OBJECTIVES OF THE HUMAN RESOURCE MANAGEMENT IN THE PUBLIC ADMINISTRATION**

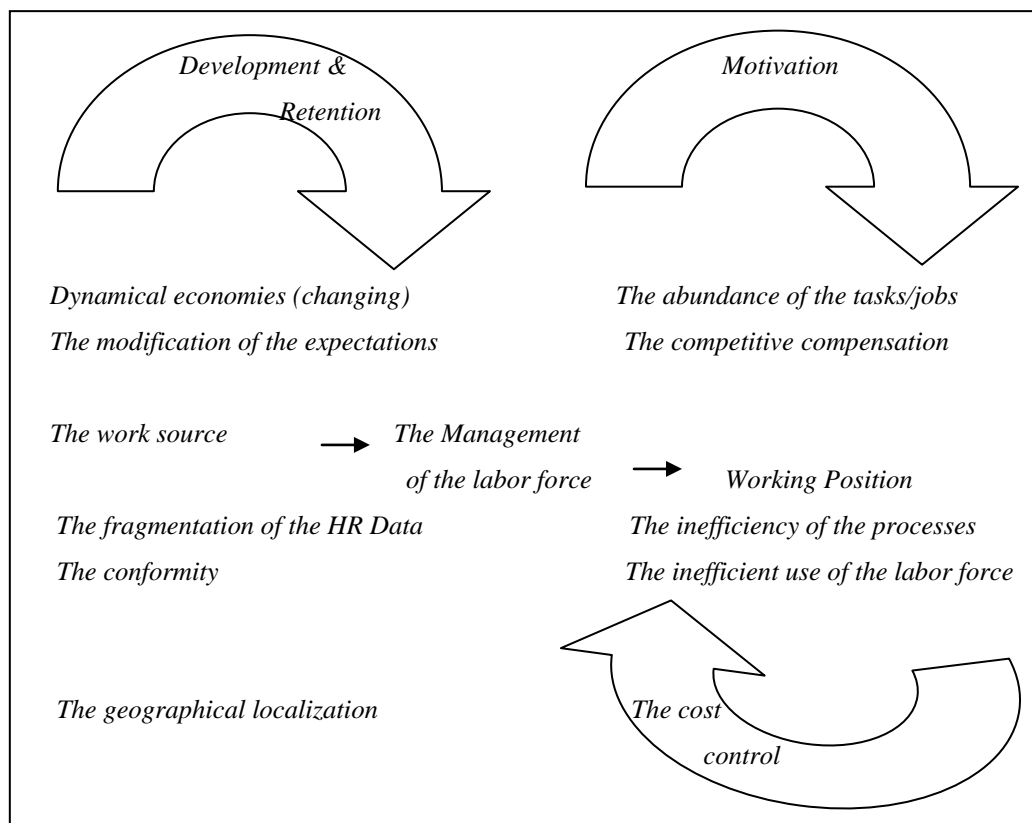
The Principles of the Human Resource Management in the Public Administration are as follows:

1. It is realized under the law, assuring the reposting of the rights and fundamental liberties of the citizen, of the organization and functioning system of the local public administration and of the judicial framework created by the Statute of the public employee);
2. It is based on the criteria and standards generally recognized, at the International level of the excellence, according to its specialty;
3. It is applied at all organization and functioning levels of the structures of the public administration and supposes the active and responsible participation of all organisms and persons with managerial attributions;
4. It is performed by continuous cooperating, training and involving of the public employee at the accomplishment of the HRM, according to his or her own aspirations;

5. It is accomplished in conformity with the fundamental duty of the local public administration of being in the service of the society and citizens

The principles staying at the base of exercising the function of public employee are as follows:

- The prompt and efficient assurance, free of prejudices,, corruption and abuse of power and political pressures of all the activities performed by the public employees;
- The selection of the public employees exclusively taking in account the competence criterion;
- The chances equality at the entrance and promoting within the embodiment of the public employees;
- The stability of the public employees. ” ( The Law No. 188 concerning the Statute of the public employees)



**Figure 1.** Pressures on the human resources on the public sector

These objectives are based on a set of own values of the human resource from the public administration, where are included:

- **Representatively** (the public employee acts on behalf and for the public authority);
- **Responsibility** (in accomplishment of his/her mission, the public employee has rights and obligations defined explicitly, reported to the position he or she occupies);
- **Professionalism** (the equilibrium between the correct appliance of the specialty knowledge and understanding of the specific problems within the public administration);
- **Engagement and dedication** (the public employee belongs to an activity system based on the career, being invested in a function and deposing an oath);
- **Stability and continuity** (guarantees offered by the own Statute of the public employee);
- **Continuous development** (the increase of the competence and performance according to the career advancement);
- **Participation** (involvement of the public employees in the decision making process and their respecting);
- **Transparency** (the activities deployed by the public employee may and have to be known by the community);
- **Accessibility** (the activity in the public administration is open for any person who wishes to work on this domain and corresponds according to the required conditions for it, and every public employee has the opportunity to be promoted on a superior position);
- **Adaptability** (the adequacy of the work at tasks and conditions in a continuous movement);
- **Equity** (the individual performance is recognized);
- **Ethics** (the public employee must have a moral behavior).

The Management of the Strategically Personal Investment in the Central and Local Public Administration includend:

- Processes of administration of the distributed, different human resources;
- The personnel motivation;
- The continuous decrease of the budget at the same time with the increase of the need of specialized knowledge;
- Short time for personnel specialization;
- Processes consuming time and resources for recruitment, placing and training.

Health- Recruitment, development and maintaining of the qualified labor force included:

- Distributed management of the human resources;
- The high rotation of the specialized in a very short time;
- The management of the certifying and of the trainings;
- The limited data base of the candidates;
- The long recruitment cycle for the specialized personnel.

Defense - Strategically Management of the personal included:

- Distributed management of the human resources;
- Processes of administration consuming time and resources;
- Short time until an employee is retired;
- Processes consuming time and resources for recruitment, placing and training;
- The need of the management and administration of the career.

### 3. CONCLUSIONS

The local public administration, under the light of the new Constitution, is no more a state administration, but an administrative structure that allows to the local collectivities to solve themselves their local problems by the means of their own administrative authorities, under the control of central state authority.

Last years were transferred toward the local authority's new tasks and responsibilities. The expectations concerning the quality of the services and the relationships with the population have become higher and higher and have had an increased importance.

A basic condition of the accomplishment of these requirements is the existence of an embodiment of public employees with high competence and moral probity, devoted and loyal to the reform, to the objectives and new tasks which belong to the local public administration.

The Human Resources Management (HRM) should be regarded and understood in this context as one of the most important *strategically instruments* for achieving the desiderates of the reform in the local public administration.

A modern approach of the HRM has to sustain the reform directions, which for the local public administration mean:

- The creation of a functional, efficient relationship between the political decision and the specialty administrative decision;
- The decentralization of the decision-making process, first of all of the administrative one, up to the optimal level of operatives and efficiency;
- The Improvement of the organizational and functional framework of all public local authorities;
- The Insurance of the transparency of the decisions made within the local public administration;
- The increase of the role and importance of the public control upon the acts of the local public administration;
- The continuous improvement of training level, of the competence and of the responsibility of the personnel from the local public administration, not only for the elected personnel, but also for the public employees.
- The objectives of the HRM, which are coming from this mission are :
- The Revaluation with maximal efficiency of the HR potential and capacity from the local public administration;

- The continuous adaptation of the HR politics to the tasks and objectives of the organization, by developing the aptitudes and the competences of the personnel from the local public administration;
- The modernization and the continuous improvement of the instruments of accomplishment of the performance personnel management;
- The performing with professionalism of all the tasks regarding the management of the human resource in the local public administration;
- The active involvement in creating and maintaining an organizational climate and of an organization culture based on the value and the performance of the human resource.

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## **TAX EVASION BETWEEN LEGALITY AND ILLEGALITY**

**ANA-PETRINA STANCIU, ANCA JARMILA GUȚĂ\***

**ABSTRACT:** *The purpose of this paper is to try and define the tax evasion phenomenon and several ways of settling this rod of market economy into shape, all in the context of the contemporary law system. There are also taken into account the opinions of some consecrated authors with valuable publications in this field, together with the placement of tax evasion from legality to illegality this way studying the more or less obvious differences between actual tax evasion and fraud.*

**KEY WORDS:** *tax, evasion, fraud, economy, law, illegality, market.*

Growth in our civilization level leads to an amplification and diversification in human needs, thus higher demands for public and quasi-public assets. This way, the financial effort claimed by fulfilling these needs registers higher levels from one period to another, leading to a very high demand of public financial resources, which either way have a limited and often insufficient nature. In this context, identifying efficient solutions to obtain larger public financial resources poses problems. A so-called solution might be the uncovered monetary issue, but considering the harmful medium and long term effects of this extreme measure on the stability indicators in macroeconomics, we appreciate that this is not a healthy measure. Could it be that state loan contracting or augmentation of the general fiscal rate is the best solution? Considering that state loans are often assimilated to “held taxes” it is obvious that in both situations the basic effect is the same: increasing tax burdens for contributors (either immediately, or in a future period). Although the effect caused by the two directions is an unpopular one, it certainly is better than using uncovered monetary issue. There is one amendment: the public authority should apply them only when the disproportion between supply and demand in public financial resources is obvious, furthermore when public expenses have been reduced to a minimum level so that there is no chance of “margining”.

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Many times, when the public authority takes into account the increasing fiscality they bet on fiscal illusion phenomenon (also known in the economy's doctrine as fiscal anesthesia). This implies a boost in taxes without this being actually perceived by the simple contributors through their tax burdens. Regularly, the fiscal illusion phenomenon does not imply any change in tax portion or the introduction of new taxes, but it might involve changes in the structure (sometimes even perception) of already existent taxes. Obviously, this phenomenon is encouraged by an even more complex (or ambiguous) fiscality structure that does not allow the contributors to gather exact information regarding their taxes. When the intention of increasing fiscal burdens becomes perceptible to a larger range of contributors, the public authority will try and minimize the political and elective costs of this measure so that it will be possible to generalize countervails induced by the increase of tax burdens; as a consequence there will be justifications regarding the fact that only this particular fiscality rate is able to insure the public financial resources needed to finance a larger number of public assets, thus better satisfying the collective needs of society.

Starting from defining tax as "necessary evil", fiscality has been approached, without a doubt, as a constraint to the average contributor, especially when the respect for the law together with the level of culture in this particular domain, are quite low. Regardless of the contributor's fiscal civism, tax burdens will be perceived as being more uncomfortable and unjustified as the fiscal pressure becomes higher or as the management of public financial resources becomes assimilated to political decisions that are discretionary and incoherent. The phenomenon of "avoiding taxes" or tax evasion is based on the issues presented above together with the suffocating fiscality situations.

Tax evasion constitutes at this point a complex economical and social phenomenon. It is extremely necessary for all the countries to limit the harmful effects of this phenomenon so it will become less spread, for it is well known to us that it cannot be eradicated. Tax evasion has an early and direct effect on the levels of fiscal influx leading to disturbed balances in market mechanisms and unlawful enrichment among those who practice this deceiving method that affects the state and last, every contributor. There are numerous ways of avoid paying taxes, but those who use these methods can be separated into two categories: those who exploit the flaws of the rules in this domain and those that use licit procedures.

In market economy, the fiscal authorities are confronted with an evasion phenomenon that has been taking proportions as a result of the tendency to tamper with higher amounts of money from under the law. "To cheat the revenue authority is considered to be a proof of ability, not of dishonesty, to pay what the revenue authority claims, is a proof of simple-mindedness, not of integrity [7].

According to specialists in the field, tax evasion holds the first place in underground economy, its' ways varying and being extremely ingenious:

- unapproved merchandise production;
- purchasing companies in debt;
- deceitful bookkeeping and balance sheets;



- accelerated multiplications of forms and procedures used in money laundering, so on and so forth.

Tax evasion creates “images”, “realities”, “histories” parallel to reality on a certain tax generating situation so that it will become less ratable. So, tax evasion will generate parallel realities on a certain economical phenomenon so that it will lead to a reduction in tax payments. In order to achieve its objectives, tax evasion appeals to information regarding the law, personal funds, public funds, economy and finance administration, management, marketing etc.

Tax evasion is born in the simplest game of interests whatever the tax share, all this reflecting human greed and selfishness. Humans are always tempted to put general interest after the personal one, thus being inclined to consider taxes more as prejudices and not as legitimate contributions to public expenses, furthermore to see as being evil the ones who try to diminish their heritage. It is also known that from ancient times the contributors have been trying to reduce tax liabilities through a large palette of methods.

The phenomenon of avoiding to pay taxes towards the state (state is referred to as consisting in all budgets and special funds) namely tax evasion is especially characteristic to a free market economy and less to a directed, centralized economy or an economy controlled by the Government.

Tax evasion is not only the image of fiscality, but also of a political and social climate, of nationality and religion. Human condition is responsible for the generalization of this particular phenomenon, together with the feeling of forfeit without receiving the equivalent back under different ways (public services).

There is a way of thinking in the minds of contributors that consists in not paying anything but only the absolutely necessary. Tax evasion is one of the most complex and important social and economic phenomena confronted nowadays by all states and whose negative consequences are fought with more and more, but also keeping in mind that the eradication is practically impossible. The statistics confirm the fact that this phenomenon has a wider spread in developing than in undeveloped countries where governments objectively encounter difficulties in monitoring transactions in their economy.

Tax evasion is the best studied chapter in fiscal law, as well as by technicians, ideologists and even journalists. However, in spite of all that is written about causes, ways, spread, control and sanctions regarding tax evasion, the words describing it are not precise and the exploited domain is uncertain. Thus, this notion is difficult to shape up, but unanimously recognized, because there is no legal definition of tax evasion that has mostly illicit evasion acts at its base. As a result there are vague differences between tax avoidance and evasion.

Regarding the vagueness of words used to describe tax evasion this comes from the diversity of words used to enlighten, more or less the same phenomenon: willing unfulfilment of legal tax obligations by the contributor. The Romanian Dictionary defines tax avoidance as: “avoidance of tax obligations”. The Oxford Dictionary defines tax avoidance as “minimizing tax obligations legally but also

through ways of full uncover towards fiscal authorities; the arrangement of financial business with the purpose of reducing obligations within the law". The same source defines tax evasion as the minimization of fiscal obligations illegally, usually by not revealing the obligation of paying a tax or duty, or through providing the authorities with fake information.

Romanian jurists at the beginning of this century have been preoccupied by the definition of tax evasion. Oreste Atanasiu considered it as being represented by "all licit and illicit procedures with the help of whom the ones interested tamper totally or partially with their fortune from the obligations settled by fiscal laws".

Tax avoidance is the contributor's action to elude the law, drawing upon an unforeseen law combination thus "tolerated" through incaution. The legal support of these contributors is given by the principle: "what the law does not forbid is allowed" [2].

Illicit tax avoidance can be defined as a willing action from the contributor that violates a legal prescription in the purpose of unfulfilling the proper fiscal obligations. To achieve this purpose, he appeals to: the diminishing of the tollable object, under evaluating the quantum of ratable matter or the use of other ways of avoidance. Tax evasion presumes, above a violation of the law and legislator's intention, a direct and deliberate trespassing of the rules imposed by the law for establishing taxes and tax payment for the contributor.

University professor D.D. Șaguna defines tax evasion as "a logical result of the effects and inadvertences of an imperfect legislation, of vicious applied methods, as well as imprudence and incompetence from the legislator, whose excessive fiscality is as guilty as the one committing the evasion". Some authors appreciate that, by the way the effects of fiscal regulations, there are legal tax evasions and the illegal ones [1].

When avoidance of the fulfillment of budgetary obligations is created by interpreting fiscal laws in favor of the contributor, then we find ourselves in the area of tax avoidance which does not constitute malfeasance. As an example this shapes up when a certain part of the incomes of some individuals or social categories is taken hold of from the actual taxes because of the way fiscal legislation elates the establishment of ratable objects. When an income is settled by the law depending on certain standards or rules and determines a ratable income that is inferior to the real one it is called tax avoidance.

In case the ratable object is counterfeited with an under evaluation of tax quantum or with the help of other ways of avoiding tax payments, we find ourselves dealing with tax evasion. So we can clearly observe that the connection between legality (avoidance) and illegality (evasion) is actually not a rupture, but continuity. Thus there is an "interference area" between the legal and the illegal compartments. This area is quite easy and frequently used and the contributor is due to slip easily and deeper from the error of using fiscal options, the simple abstinence from breaking the law to actually breaking it and qualifying for abuse and fraud.

If we are indeed talking about fraud we are also talking about: legal or legitimate fraud, illegal fraud, international evasion, legal evasion, illegal evasion, tax

heaven or hiding places, from abusing the right of avoiding taxes, the liberty of choosing less rated ways or under estimating fiscality, law embezzlement or underground economy [4].

Often enough, fiscal fraud is assigned strictly to a crime against the law (foreseen and punished by the law), and will be distinguished from tax avoidance the last being a clever use of the possibilities offered by the law. V. Brown and P. M. Jackson define tax avoidance as a legal rearrangement of business, so that fiscal obligations are minimized and tax evasion as an illegal rearrangement of business in the same purpose [6]. The imprecision of fiscal fraud or tax evasion comes from the distinction made sometimes between so called legal fraud and illegal fraud. Legal fraud, a metaphorical and ambiguous expression, is frequently used in French countries (France, Switzerland, Belgium). It has a double significance. Sometimes it designates ratable mater in certain favouring fiscal regimes. Often enough legal fraud designates the judicial procedures permitting tax elusion without breaking the law.

One of the best known meanings given to tax avoidance is “the art of avoiding to fall in the attraction field of fiscal laws”, a concept belonging to M. C. de Brie and P. Charpentier. Iulian Vacarel suggests that the definition of tax evasion might be “subtracting from the imposition of a part of taxable facts” [8]. Concerning the classification of this phenomenon, the author shows us: “Evasion can be committed by a person within the law (tax avoidance) or by breaking a legal stipulation (tax evasion). In the first case tax avoidance does not imply a crime while in the second case evasion is considered as being fraud”.

The Moldavian authors V. Cusmir and V. Berliba who underline a strict delimitation between avoidance and evasion, think that the actual tax avoidance should be excluded from the number of fiscal felonies legally sanctioned and should incriminate only fraud or tax evasion in certain precise situations described exactly by the law [3]. Another opinion shared by these two authors is that a legal tax avoidance is characterized by eluding fiscal law using procedures and unforeseen law combinations leading eventually to diminished taxes and avoiding the law.

Avoiding taxes implies this kind of activities whose result will not be ratable and diminishing taxes means a maximum exploitation of the existent fiscal facilitations foreseen by the law, diminishing imposable incomes in a larger proportion but within the permitted area. Keeping in mind that the legal or authentic inexistence revealing certain notions, the defalcations mentioned above, can be said, are within the law. Because of the gaps in fiscal laws and the imperfection of the law, the so called peculation activity can be considered a legal one.

Fraudulent or illegal tax evasion, unlike legal tax avoidance that is prudently used in regards with avoiding duty and tax payment but within the law, breaks the law flagrantly with the purpose of avoiding duty and tax payment. Besides the ones mentioned above tax evasion can have other purposes as well. For example, total avoidance of taxes, which involves activities without approval from the state, not declaring taxable situations, lack of documents, creating the so called ghost companies, destruction of evidence etc. Another purpose might be the decrease in size of the fiscal

obligations by withholding the income information, the falsification of evidence documents, even through the simple fact of not elaborating fictional documents [5].

Concluding upon the diversity of opinions towards legal and illegal tax avoidance, legal and illegal tax evasion, we consider that there is only one phenomenon that affects income taxes depending on the relation to the law of this particular activity and that can be called licit tax avoidance (allowed by law) and not legal tax avoidance (because legal implies that there are laws upon it exists, it is foreseen by the law, according to the law), as well as illicit tax avoidance (illegal), which is a synonym of tax evasion.

The actual ways this phenomenon takes place, either in a situation or another, only aggravate the severity and seriousness of this phenomenon, rather than defining it. The definition is only one: avoiding the obligation of imposing the taxable situations without contravening with the present laws or by the contrary contravening with them.

Describing licit and illicit (illegal) tax avoidance is necessary and useful because it gives us the at least theoretical possibilities of estimating the size of this phenomenon based on its two ways of manifesting. This dissociation helps sensitize different political and administrative decision factors towards finding and establishing adequate ways of limiting and controlling tax evasion as a whole. The political decision factors (parties and parliament) should be particularly interested in licit tax evasion, followed by the administration factors (government) and as regards to illicit evasion (illegal), first of all the governors should be worried and preoccupied as they, according to the law, are responsible for creating the state's fiscal policy that can be compromised in case this phenomenon gets out of hand.

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## **OBJECTIVES AND SOCIAL - ECONOMIC POLITICS CONVERSION**

**MARIETA STANCIU, CARMEN PUIU \***

**ABSTRACT:** *Social protection is an essential tool of solidarity between the citizens of each member state, subscribing in the general right of every person to social security. At U.E. level it has been established that existing differences between application domains of social security can constitute a big obstacle for free person's circulation aggravating regional lack of balance. As a consequence, U.E. wants to act through its institutions in order to promote a convergent strategy of state members' politics in this domain, based on commonly settled objectives which allow the remediation these inconveniences.*

**KEY-WORDS:** *FEDER – European Fund of Regional Development, FSE – European Social Fund PESC - politic of economic and social cohesion, convergence, regional competition, European territory cooperation*

Starting from the finding that comparable evolutions which take place in the majority of states can involve common problems (as, for example, population ageing, evolution of family structures, persistence of a high unemployment level and situations evolution and poverty forms), European Union promoted this facto convergence, defining common objectives for national social policies orientation. Meanwhile, due to diversities of social protection systems and their profound connections with national cultures, member states enjoyed the liberty of setting its own financing and organization modality of social protection systems.

Taking into account the disponibility of financial resources, of priorities and balances inside social protection systems, member states had in view realizing following objectives:

- to guarantee each person a level of resources comparable with human dignity;
- to offer a person residence on the territory of the state member, no matter the level of his/her resources, possibility to benefit from protection systems of existent health in that state;

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- to contribute at social integration facility and integration on working market of all those who are fit to make a salary activity.

In what concerns giving social protection, social policies from member states must respect equality principle of treatment, so it can be avoided any discrimination based on citizenship, race, colour, sex, religion, manners or political opinions by solicitants regarding contribution or residence periods, necessary for obtaining the performance. Also, the equity principle must be respected.

Social protection systems must adapt to behaviors evolution and family structures, when these involve the apparition of new social protection needs, especially related by working force transformations and demographic evolution.

The main branches of social securities covered by convergence strategy are performances in case of disease, maternity, unemployment, work incapacity, ageing and those that respond to some family needs. Concerning sickness performances, social protection system must be organized so it can led to the sickness prevention, treatment and re-adapting of affected persons.

The European Council in Lisbon established as a strategic objective of The European Union, the creation 'of the most competitive and dynamic economies based on knowledge from the world, capable of sustained economic growth, with more and better jobs and more pronounced social cohesion'.

Development and extension of the European market economy in a global manner had a limited effect when it came to generate prosperity or economic growth during the last ten years. Many countries motivated poverty accentuation or social exclusion as an effect of democratization weaknesses, a result of state power erosion, of civil society ability to express its own opinions. In some countries, a long-term effect could threaten social cohesion and human fundamental rights.

Social cohesion, at European level, must be seen as a stabilization factor. The concept of social cohesion must be understood as a system projected for establishing some new forms of balance to fight against poverty, social exclusion and improving life quality for all society's members.

The realization of social and economic cohesion represents an expression of European solidarity and, at the same time, a request for accomplishing criteria of economic efficiency and global competition.

The continuing improvement of economic and social cohesion environment is in fact, a construction corollary of a unique market, without intern borders. Everyone should benefit, in an equal way from the advantages of an enlarged market, created by eliminating all boundaries and which implies free circulation of goods, services, persons and capital.

Based on the conclusions of the second Rapport of the European Commission regarding Social and Economic Cohesion in the European Union, entitled '*Europe's unity, people solidarity, territories diversity*', published in February 2001, the process of reformation and adaptation of communitarian policy in social and economic cohesion domain must endorse identification of priorities and taking some measures, especially in the following fields of activity:

- modernization of European social model, by investing in human resources, combating social exclusion, constructing a welfare active state;
- promoting social inclusion, meaning a larger access to work market, creating new occupational opportunities, professional improvement and development of knowledge and professional experience; increasing working force quality – as an essential factor in realizing a coherent system of economic and social cohesion – meaning increasing educational level on one hand and on the other hand knowledge and acquisitioned experiences during the work process.

In a strong connection with the given problematic of combating unemployment, the fight against poverty imposes the application of a strategy which combines actions that contribute to the insurance of the working place with protection measures and social assistance for certain categories or groups of disadvantaged persons from social point of view.

Constructed on the base of cohesion principles and social solidarity, of non-contribution, the system of family allocations and social assistance has a set of passive and active measures addressed to vulnerable categories. All these are meant to prevent social exclusion and marginalization, to ameliorate and support family functions and rapports between its members, the system of social assistance and family allocations endorses prevention and getting over some situations that generate negative consequences on family structure and climate, on the psycho- social-economic state of its members, as follows: degradation of life material conditions, of family quality life, scholar abandonment, domestic violence etc.

Economic growth represents a *sine-qua-non* condition for achieving social cohesion. This way, there are two necessary directions of action.

Long-term objective is represented by the construction of an efficient environment for social policy, apt to offer solutions at problems made by modern economy, situated in the middle of an evolution process. Concomitantly, though, a series of short-term aspects must be taken into consideration, needing an immediate intervention. Part of these is related to consequences of economic reorganization, others concern big costs of social insurances, which affect economic development and impose fighting measures against evasion in the work process.

European Union is one of the most prosperous regions worldwide, having 12 member countries with very developed economies. But not all Europeans have the same advantages and succeeding chances in socioeconomic terms. The difference is made by the area in which they live – if it is a prosperous or poor area, an area in expansion or in economic decline, a rural or urban one, in countries that integrated in the last session, at the outskirts of European Union or in one of its economic centers. In these conditions social and economic cohesion is necessary, being as well one of the main objectives of the European Union.

As it is defined by 158 article of European Communities Treaty, cohesion is necessary for promoting ‘general harmonious developments’ of the Community and requires a reduction of ‘disparities between development degrees of different regions

and the lack of progress of disadvantaged regions', rural areas being also included. The policy of economic and social cohesion of European Union for 2007-2013 has 3 main objectives:

**A.** Convergence is an 80% financed objective from the budget for structural and cohesion funds, which endorses regions in member states of European Union that have a PIB/ inhabitant less than 75% from the communitarian average and regions that enter in the so-called 'static effect';

**B.** Regional competition and occupying working force is the second objective, financed with 15% of the budget for structural and cohesion funds, that endorse not eligible regions in the convergence objective;

**C.** European Territory Cooperation is 5% financed objective from the budget destined for structural and cohesion funds and refers to trans-national cooperation, trans-border cooperation and inter-regional.

According to 159 article of European Communities Treaty, Community acts by Structural Funds. Cohesion Fund and other financial instruments made for supporting the realization of these general objectives. Tasks, priority objectives and organizing Structural Funds are defined by the Council, at European Commission proposal and having the European Parliament's approval. So, the Treaty consists of stipulations for coordinating economic policies, implementing Communitarian policies, particularly of the Unique Market, as well as for utilizing existent Structural Funds and the Cohesion Fund.

For the period 2007-2013 there are three known financial instruments as Structural Funds: European Fund of Regional Development (FEDR); Social European Fund (FSE); Cohesion Fund (FC). And two Complementary Actions, respectively: European Fund for Agriculture and Rural Development (FEADR) and European Fund for Fishing (FEP).

The implementation of structural funds is based on the following principles:

- Concentrating measures on priority objectives for development. FS intervention is concentrated on those territories or populations that are confronting with the biggest difficulties. Applying the concentration principle led to the establishment of a limited number of intervention areas;
- Programming or intern coherence is the expression of a multi-annual approach and which leads to the elaboration of multi-annual development programs, as well as the result of a process that leads to a decision taken in partnership. Adopted measures become, afterwards, the responsibility of management authorities;
- Partnership implies a tighter collaboration between the Commission and proper authorities , an national level, regional or local in each member state from the preparing phase until the implementation of measures;
- Subsidiary which was established by the Maastricht Treaty and which means that a superior authority could not act if an objective is satisfying achieved at an inferior level;



- Additionally or external coherence according to which structural UE support must be additional and not replace already involved resources by national, regional or local authorities, with the purpose of developing their regions and the work market. Structural help represents, in this way, an added value for eligible territories; member states are obliged to maintain financial commitment at the same level that they were in the beginning of programming period.

Debates that have preceded the elaboration of 'the third rapport on economic and social cohesion' revealed the existence of two big problem categories regarding priorities that should be pursued and realization means of cohesion policy. Concerning priorities, there was a long consent about orientating existent resources on to less developed regions and, especially, on new member states. Another sensible problem was represented by regions belonging to the actual member states, which benefit of Objective 1's support, and which, despite the fact that they did not realize the process of economic convergence; they could lose the present support because of average PIB/inhabitant reduction in a large Union (a consequence of the so-called 'static effect'). So, according to the dates from 2000, 18 regions (about 21 millions inhabitants) could be in that situation. Moreover, other regions would not accomplish eligibility criteria to be considered less developed, because they had a PIB/inhabitant superior to 75% from communitarian average of EU-15. As a fact, the necessity of maintaining a digressive support was imposed in favor of these regions.

Concerning realization means of CES, discussions emphasized the necessity of simplifying FS administration method as much for the actual period of programming as for the next interval. Member states have pronounced themselves for simplifying and decentralizing responsibilities about financial administration and FS control. The general opinion is that the present system, with very detailed rules and funded on an unique model is inadequate, because of different existing needs in each of the beneficiary countries, categories of imposed interventions, available resources etc. Union's extension will impose the modification of the actual system, starting from the necessity of strengthening administration capacity of new member states.

In Europe's last century, politicians became more and more conscious of the fact that establishing long-term internal and international economic relations, based on trust, as well as manifesting solidarity with people and/or nations that are less developed became indispensable for reaching general welfare.

In the last decades, population and consume growth, technologic progress, services development, as well as frequent crisis (especially in resources domain), lead to the intensification of commercial relations between countries and accentuating dependency among nations. Based on the growth of interdependence between states, assuring a high as possible level of economic cohesion can lead, on long-term, at obtaining economic benefits for all those involved.

Cohesion can be defined as representing that property of constitutive elements of a system, which ensures the whole's coherence and unity and allows the function and perpetuation of the system, distinguishes four levels in which cohesion is present: economic, social, cultural and politic.

Economic cohesion represents the support of reaching the general objective pursuit by every nation that of welfare increases. In Europe, thirty years that followed the war, known as ‘ the glorious thirty years’ , were followed by twenty years of slow growth, and, in the last decade, the growth was resumed. Specialists in economic history emphasize on the essential role played in the XX century the three ‘I’: *Innovation, Institutions and Investments*.

Social cohesion represents another important element in developing an economic system. The necessity of reaching economic cohesion became real fact since the industrial revolution (XIX century), when social problems proved to be the price paid by society for achieved technologic process. Due to the fact that these problems affected especially certain social categories, being the most vulnerable ones (women, children, elderly persons, persons with physic or physical disabilities etc), being the most exposed modifications in economy (unqualified persons or weakly qualified, categories confronting structural unemployment etc.), it became more evident the need of a distinct policy, destined to the reduction of disparities between people, regions or states. Such interventions also imposed re-modulating fiscal or budgetary systems, for the simple desire to be able to face increasing expenses needed for supporting affected social categories.

Cultural cohesion represents a third characteristic feature of advanced industrial societies in which it is evidenced intensity in communication growth and spreading systems of common cultural values, favour processes of technologic progress as well as of developing international economic relations.

Cultural cohesion was produced not only inside own borders and cultures, by consolidating national identities (identified by flags, emblems, hymns, celebrations and national rituals), but also outside borders, under the form of clothing currents, artistic creations (in theatre, movie, music domains), literary, clubs and/or associations with ideas, principles, common values etc. Moreover, developing education systems and means of mass communication, facilitated the spread of certain values in the most distant corners of the world, contributing to the achievement of a certain cultural cohesion.

Political cohesion, a specific feature of politic evolutions in the last centuries, but more evident in the last decades based on the technology and communication revolution, was represented by formalizing norms and international institutions (identifiable through a series of objectives connected by specific institutional and legislative uniformity). Numerous movements (religious, political, civil, professional etc) to which states from Europe and outside its borders, were witnesses, especially from the beginning of the second half of the XIX century, had as main objective consolidating political cohesion both internally and internationally. On international level, pursuing certain interests and common goals led to the formation of alliances, organizations and other categories of entities, with a higher or more reduced degree of political cohesion.

At the European Union's level, cohesion term was attributed to a more restricted meaning, that of social and economic cohesion. For European society, cohesion remains an important pillar, representing the objective of actions that were made in regional development domain.

The policy of social and economic cohesion represents a sum of interventions on a communitarian level, including both the policy of regional development (orientated. Mainly, to reducing territorial disparities, regenerating industrial areas in decline), certain aspects of social policy (as well as fighting against unemployment on a long-term period, supporting educational process and that of continuing formation), and a PAC part (assistance granted to rural development).

The concept of social and economic cohesion derives from that of real convergence, in the sense that objectives of nominal convergence can only be reached when the conditions of manifesting offer are not divergent. In other words, CES concept makes the passing to the notion of real convergence. Such a concept became a reality in the progress of European integration only at the end of the 80's.

The most important PCES component is, evidently, the policy of regional development (PDR).

The policy of regional development includes an assemble of measures planned and promoted by the authorities of local and central public administration, in partnership with different economic actors, for insuring an economic and social growth which is dynamic and durable, by efficiently valuing regional and local potential.

In other words, PDR includes all those measures, actions which can significantly influence the development of one region. The main objective of PDR is represented by the realization of a more efficient and equitable repartitions inter and intra-regional during these activities and their results.

Specific objectives, in their turn, include: unemployment reduction, increasing life levels, attracting foreign investors, improving infrastructure, balancing chances and social condition in rural and urban environment etc.

Although, the Rome Treaty mentions in its preamble the necessity of reducing regional discrepancies, it does not making any connection with different re-distributive mechanisms. Despite all these, at that time, the Treaty created the Social European Fund (FSE) and The European Investment Bank (BEI), without mentioning, as an essential objective, the promotion of CES. Also, another observation should be made, Article 92.3 (present 87.3) of Rome Treaty specifies the fact that national subventions (support from the state) could have been considered compatible with the intern market only if they promoted 'economic development of those areas in which life standards were very low and in which a high unemployment was registered'.

Spatial characteristics of regional disequilibrium confirmed the theory 'centre and outskirts', utilized by economic analysts and sociologists to analyze inequalities between regions. As such, EU structural policy was constructed on the premise of a poor outskirts' existence (Scotland, Ireland, Portugal, centre and south of Spain,

Corsica, south of Italy, Greece, and after the 90's Eastern Germany) and a rich centre (south of Great Britain, north - east of France, countries from central Europe, north – western Germany and North of Italy).

The economic integration process induces an outskirt- centre structure, because it creates advantages for more developed regions (countries). Companies will have the tendency of locating themselves in regions in which retail market is bigger, while outskirt regions will constitute supply markets with producing factors of the centre region.

The EU joining of cohesion countries and enlarging European integration have increased the probability of development discrepancies intensification. Until these stages of the integration, income levels were close, what made adopting a cohesion policy unreasonable. Its role became that of supporting less developed regions that risked becoming outskirt regions of EU. This way, it was decided to grant structural and cohesion funds from the communitarian budget in order to reduce disparities.

Public debates generated by PESC reform (politic of economic and social cohesion) have as purpose evidencing the necessity to concentrate on a more reduced number of problems, essential for assuring cohesion on the U.E. level, as well as that of competition, durable development, social and economic reorganization, proposals made by the commission in 'Third Cohesion Rapport' regarding a limited number of priority themes, meant to reflect the established agenda from Lisbon and Gotheburg as follows: conversion, regional competition and labour employment, trans — boarding territorial cooperation. The priority 'conversion' will have to sustain both economic growth and the process of creating new working places in states and community regions least developed, reflecting, in fact, the continuity element on PCES 43. Strategies will have as objective growing competition and the level of labour employment on a long — term period, being sustained from financial resources of FEDER, FSE and FC. Each of the three funds will be orientated mainly on some types of interventions to answer identified problems at community level, regarding competition, lasting development or social and economic reorganization.

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## **PERCEPTIONS ABOUT THE LABOR MARKET OF THE BESSARABIAN STUDENTS IN ROMANIA**

**RĂZVAN ȘTEFĂNESCU, COSTEL NISTOR,  
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**ABSTRACT:** *In the last years, the labor market from Romania was affected by significant changes. The economic recovery and the Romanian workers migration towards wealthier countries led to a significant decrease of the unemployment. Moreover, some sectors of the national economy confront problems given by the insufficient labor force. Among the solutions taken into consideration for the labor force deficit is the encouragement of the educated people from Republic of Moldova inflows. This paper explores the aspects that could motivate citizens from the Republic of Moldova to look for jobs in Romania after they graduated university studies. Based on an investigation among citizens from the Republic of Moldova that are students in Romania, we approach the main elements of their evaluation of jobs' utility. We found out they would prefer to be employed in Romania although they considered that getting a suitable job for their studies is much easier in the Republic of Moldova.*

**KEY WORDS:** *Labor Market, High Education, Transition Countries*

### **1. INTRODUCTION**

At the beginning of 1990s, the Communist regimes fall in Eastern Europe and the break-up of the Soviet Union stimulated the development of cultural, diplomatic and economical relations between Romania and the Republic of Moldova. Crossing the border between the two countries became quite facile since many restrictions had been eliminated. As a consequence, many citizens from the Republic of Moldova (also called Bessarabian people) tried to establish their residence in Romania even by obtaining the Romanian citizenship, being attracted by the superior standard of living. This situation is quite common in the late years when massive influx of immigrants

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from poor countries occurred in richer countries, affecting their economies [1]. However, because the high rate of unemployment that affected Romania in the 1990s it was very difficult for them to find jobs. In the last years, the circumstances have changed. On one hand, the economic recovery and the massive workers migration to Western countries made some sectors of the Romanian economy to face the problem of an insufficient labor force. One solution taken into consideration for solving this problem was to employ the workers from the Republic of Moldova. On the other hand, after the Communist Party victory in the Republic of Moldova elections, the relations between the two governments became quite hostile. Moreover, the Romania adhesion to the European Union led to new restrictions in crossing the border between the two countries.

In the 1990s, the cooperation between the two countries offered the choice for many high school graduates from the Republic of Moldova to study in Romanian universities. Romanian government offered substantial subsidies for universities in order to motivate them to admit students from the Republic of Moldova. However, in the last years, the deterioration of the political relations between the two countries led to significant impediments for the cooperation in the education. Many of the students from the Republic of Moldova found a job while they studied in Romania. After they graduated, a lot of them preferred to stay in Romania although they didn't get jobs suitable for their studies. In this article we approach the options of the students from the Republic of Moldova regarding the jobs they wish to get after graduation. For this purpose we use our own investigation among 38 students from "Dunarea de Jos" University of Galati, Romania. Although the sample is too small to allow a generalization, the results of this investigation could bring some clues about the Bessarabian students' perceptions about the Romanian labor market.

## **2. DATA COLLECTION**

The data we used for this paper come mainly from individual interviews we realized in the period October 2007 – June 2008 on a sample of 38 students from the Republic of Moldova studying at "Dunarea de Jos" University of Galati, Romania. 21 of them study in the economic field, while the other 17 study in the engineering field. In these interviews we tried to maintain an atmosphere that helps students' sincerity and the lack of inhibition. In our investigation we approached the following aspects: circumstances of employing students from the Republic of Moldova in Romania; relevant factors in evaluating the utility of a job; main characteristics of jobs from Romania and from the Republic of Moldova; possibilities of employment after graduation.

## **3. CIRCUMSTANCES OF EMPLOYING STUDENTS FROM REPUBLIC OF MOLDOVA IN ROMANIA**

The matter of the employed students has several approaches. It was revealed that along the financial needs to support their studies, students had other reasons to look for jobs, such as their concern to get practical knowledge for their future profession or to learn the circumstances of being hired [2]. The particularities of the foreign students' employment made also the object of many theoretical approaches. Some researches proved that native and immigrant workers are imperfect substitutes [3]. It was also revealed that foreign students' inflows had significant effects on wages for skill specific employment [4]. The individual interviews revealed that 32 from 38 students are employed. They explained they had to find jobs since the subsidies offered by the Romanian authorities and the contribution of their parents are not enough to support the cost of living. However, because of the efforts implied by employed foreigners in Romania, only three of them were hired with legal formalities. From the six unemployed students, four are searching for suitable jobs while the other two are not interested in being employed.

#### 4. RELEVANT FACTORS IN EVALUATING THE UTILITY OF A JOB

In our investigation we asked the students about the factors they used in jobs evaluation. It resulted that three factors are considered relevant for them: wages, jobs' security and employees' rights. The students assigned to these factors different degrees of importance (Tab. 1). In order to facilitate the comparison, we transposed the degrees of importance on a rating scale from 1 to 5 (1 for "very little" and 5 for "very big"). It resulted that wages are considered the most important factor, followed by jobs' security and employees' rights. However, the descriptive statistics for the three factors indicated significant values of standard deviation; skewness and kurtosis (Tab. 2).

**Table 1. Students' Perceptions about the Importance of Relevant Factors for Evaluating the Utility of a Job**

<b>Importance degree \ Factor</b>	<b>Wages</b>	<b>Jobs' Security</b>	<b>Employees' Rights</b>
Very big	29	14	6
Big	7	11	12
Medium	2	8	11
Little	-	4	5
Very little	-	1	4
Total	38	38	38

#### 5. MAIN CHARACTERISTICS OF JOBS FROM ROMANIA AND REPUBLIC OF MOLDOVA

We asked the interviewed students to characterize the jobs from Romania and Republic of Moldova using the three factors they considered as relevant. Regarding the wages, it was obvious the superiority of the jobs from Romania (see Table 3).

**Table 2. Descriptive Statistics of Students' perceptions about the Importance of Relevant Factors for Evaluating the Utility of a Job**

Indicator	Factor	Wages	Jobs' Security	Employees' Rights
Mean		4.71	3.87	3.29
Standard Error		0.09	0.18	0.20
Median		5.00	4.00	3.00
Mode		5.00	5.00	4.00
Standard Deviation		0.57	1.12	1.21
Sample Variance		0.32	1.25	1.45
Kurtosis		2.70	- 0.34	- 0.58
Skewness		-1.87	- 0.70	- 0.40
Range		2.00	4.00	4.00
Minimum		3.00	1.00	1.00
Maximum		5.00	5.00	5.00
Sum		179.00	147.00	125.00
Count		38.00	38.00	38.00
Largest (1)		5.00	5.00	5.00
Smallest (1)		3.00	1.00	1.00
Confidence Level (95.0%)		0.19	0.37	0.40

**Table 3. Students' Perceptions about the wages in Romania and in Republic of Moldova**

Level	Country	Romania	Republic of Moldova
Very big		6	-
Big		21	3
Medium		11	8
Little		-	15
Very little		-	12
Total		38	38

We transposed their answers on a rating scale from 1 to 5 (1 for "very little" and 5 for "very big") in order to facilitate the comparison. The descriptive statistics resulted confirmed that students considered the wages from Romania much higher than from Republic of Moldova although the standard deviation, skewness and kurtosis are significant (see Table 4).

From the students' answers it resulted that they considered the jobs' security in Romania and in Republic of Moldova quite comparable (see Table 5).

Student answers were transposed on the rating scale for facilitate comparison. Closed average scores resulted, with significant standard deviation and skewness (see Table 6).

Regarding the employees' rights, the students' answers indicated the jobs from Romania are superior to the ones from Republic of Moldova (see Table 7).

In order to facilitate the comparison we transposed students' answers on the rating scale. From the descriptive statistics resulted an average score for Romania more than twice bigger than from Republic of Moldova (see Table 8).



**Table 4. Descriptive Statistics of Students' perceptions about the wages in Romania and in Republic of Moldova**

Indicator \ Country	Romania	Republic of Moldova
Mean	3.87	2.05
Standard Error	0.11	0.15
Median	4.00	2.00
Mode	4.00	2.00
Standard Deviation	0.66	0.93
Sample Variance	0.44	0.86
Kurtosis	- 0.64	- 0.51
Skewness	0.15	0.53
Range	2.00	3.00
Minimum	3.00	1.00
Maximum	5.00	4.00
Sum	147.00	78.00
Count	38.00	38.00
Largest (1)	5.00	4.00
Smallest (1)	3.00	1.00
Confidence Level (95.0%)	0.22	0.31

**Table 5. Students' Perceptions about the jobs' security in Romania and in Republic of Moldova**

Level \ Country	Romania	Republic of Moldova
Very big	3	2
Big	11	14
Medium	17	15
Little	5	6
Very little	2	1
Total	38	38

## 6. POSSIBILITIES OF EMPLOYMENT AFTER GRADUATION

In our investigation we asked the interviewed students to compare the possibilities of being employed, after graduation, in Romania and in Republic of Moldova, in the fields they study. It resulted that they considered they would have much more possibilities in Republic of Moldova than in Romania to find jobs suitable with their studies (see Table 9).

In order to facilitate comparison, we transposed the students' answers on a rating scale from 1 to 5 (1 for "very little" and 5 for "very big"). From the descriptive statistics resulted an average score for Republic of Moldova much bigger than from Romania while the standard deviations, skewness and kurtosis are significant (see Table 10).

**Table 6. Descriptive Statistics of Students' perceptions about the jobs' security in Romania and in Republic of Moldova**

Indicator \ Country	Romania	Republic of Moldova
Mean	3.21	3.26
Standard Error	0.16	0.14
Median	3.00	3.00
Mode	3.00	3.00
Standard Deviation	0.96	0.89
Sample Variance	0.93	0.79
Kurtosis	0.20	- 0.03
Skewness	- 0.26	- 0.32
Range	4.00	4.00
Minimum	1.00	1.00
Maximum	5.00	5.00
Sum	122.00	124.00
Count	38.00	38.00
Largest (1)	5.00	5.00
Smallest (1)	1.00	1.00
Confidence Level (95.0%)	0.32	0.29

**Table 7. Students' perceptions about the employees' rights in Romania and in Republic of Moldova**

Level \ Country	Romania	Republic of Moldova
Very big	12	-
Big	14	-
Medium	11	5
Little	1	16
Very little	-	17
Total	38	38

In the interviews, we asked the students if they considered as compatible the knowledge gained in a Romanian university with the needs of employers from the Republic of Moldova. Students from the Engineering field were confident about that compatibility. Instead, students from the economic field were concerned about the fact that a lot of the knowledge achieved in Romania is useless in the Republic of Moldova where the economic system is different. In unanimity, the 38 students considered that in general Romanian employers are reticent to offered jobs to Republic of Moldova citizen. However, all of them are determined to remain in Romania after graduation explaining that they expected to obtain here, even in jobs unsuitable with their studies, wages much bigger than in Republic of Moldova. For this purpose, they are determined to follow master degree studies programs that could facilitate their living in Romania.

**Table 8. Descriptive Statistics of Students' perceptions about the employees' rights in Romania and in Republic of Moldova**

Country	Romania	Republic of Moldova
<b>Indicator</b>		
Mean	3.97	1.68
Standard Error	0.14	0.11
Median	4.00	2.00
Mode	4.00	1.00
Standard Deviation	0.85	0.70
Sample Variance	0.73	0.49
Kurtosis	(0.96)	(0.78)
Skewness	(0.22)	0.53
Range	3.00	2.00
Minimum	2.00	1.00
Maximum	5.00	3.00
Sum	151.00	64.00
Count	38.00	38.00
Largest (1)	5.00	3.00
Smallest (1)	2.00	1.00
Confidence Level (95.0%)	0.28	0.23

**Table 9. Students' perceptions about the possibilities of being employed in Romania and in Republic of Moldova**

Country	Romania	Republic of Moldova
<b>Possibility</b>		
Very big	3	7
Big	6	11
Medium	12	14
Little	10	4
Very little	7	2
Total	38	38

## 7. CONCLUSIONS

In this paper we approached the Bessarabian (students in Romania) citizens' perceptions of the labor market. For this purpose we used an own investigation among 38 students. We found out these students evaluated the utility of a job using three elements: wages, jobs' security and employees' rights. They considered that jobs in Romania are superior in terms of wages and employees' rights to the ones from Republic of Moldova while in terms of stability are comparable.

The interviewed students believed that, after graduation, it would be much easier in Republic of Moldova than in Romania for them to find jobs that are suitable with their studies. However, because the bigger utilities, they would prefer the Romanian labor market. The students' perceptions of the Romanian labor market are important from the perspective of solutions for the deficit of skill employees' in some sectors of economy. Their preference for jobs in Romania proved this problem could

be partially solved by encouraging inflows of educated labor force from the Republic of Moldova.

**Table 10. Descriptive Statistics of Students' perceptions about the possibilities of being employed in Romania and in Republic of Moldova**

Indicator \ Country	Romania	Republic of Moldova
Mean	2.68	3.45
Standard Error	0.19	0.18
Median	3.00	3.00
Mode	3.00	3.00
Standard Deviation	1.19	1.08
Sample Variance	1.41	1.17
Kurtosis	- 0.66	- 0.22
Skewness	0.25	- 0.33
Range	4.00	4.00
Minimum	1.00	1.00
Maximum	5.00	5.00
Sum	102.00	131.00
Count	38.00	38.00
Largest (1)	5.00	5.00
Smallest (1)	1.00	1.00
Confidence Level (95.0%)	0.39	0.36

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## **THE ECONOMIC DEVELOPMENT OF ADMINISTRATIV- TERRITORIAL AREAS IN THE CONTEXT OF ACTUAL ADMINISTRATIVE TERRITORIAL ORGANISATION IN ROMANIA**

**MELINDA SZASZ** \*

**ABSTRACT:** *Administrative-territorial organisation is a problem of national interest and it is not given for ever. Without a solid administrative organisation we can not talk about systematic organisation of public activity. Administrative-territorial units are state cells, that assure indivisibility and unity, but giving exaggerates power to local units' results a weak state. Today Romanian administrative-territorial organisation has two levels. First level is formed by communes and cities. The second level is formed by districts. Regional level was created in 1999, but this is not an administrative level. Regional level is an organisation modality to respond to European Unions' requests. An eventual future administrative-territorial reorganisation should take in consideration an abstract element dictated by administrative law science and a concrete element resulted from Romanian peoples' needs. The real questions regarding administrative-territorial reorganisation is to create regions and a second intermediary level or to keep the actual organisation and to realise a larger decentralization, especially in financial area. Regarding administrative-territorial reorganisation there are a few theories.*

**KEY WORDS:** *administrative-territorial organisation, central and local authorities, regions, local units, communes, cities, districts.*

### **1. GENERAL CONSIDERATIONS ABOUT ADMINISTRATIVE TERRITORIAL ORGANISATION**

Administrative-territorial organisation was moot in discussion in states with vast territories. The power could not be realized only by central authorities. The solution was to give some prerogatives to local authorities, so the state power will be unitary achieved in the whole country [16]. In this case, solving some local

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administrative, financial and military problems was given to local authorities. The conclusion is that multiple activities from a country require both central and local authorities. To achieve efficiently their mission and activities, state authorities – central and local, must do it in the shortest time and in maximum efficiency conditions.

Over the time and from one state to another administrative-territorial organisation was different and various, trying to respond to every society and every historical period's purposes and expectations.

Administrative-territorial organisation is not given for ever. It is permanently modified according to state's needs and functions and to satisfy local collectivity requirements.

Administrative-territorial organisation is a problem of national interest and it can be solved through the agreement of political and social forces and avoiding its conversion into political or electoral capital.

A country whose' administrative-territorial organisation leaves much to be desired is a country that doesn't pay enough attention to its administrative-territorial organisation; a fact that is wrong because without a solid administrative organisation we can not talk about systematic organisation of public activity.

Through administrative-territorial organisation any state wants to create administrative units, because they are easy to govern. Administrative-territorial units are state cells. They assure state indivisibility and unity. In the same time, we must underline, that giving exaggerates power to local units can produce a weak state. We, also, must emphasize that local units want to be more and more autonomous, but most of the time they live through central subventions [2].

Nowadays Romanian administrative-territorial organisation has two levels. First level is formed by communes and cities. Districts correspond to the second level. In 1999 regional level was created – but this is not an administrative level. Regional level is an organisation modality to respond to European Unions' requests.

In the context of public administration's reform reconsideration of Romanian administrative-territorial organisation is more and more raised for discussion. It seems that actual territorial organisation – in 41 districts plus Bucharest, doe not respond to efficiency criteria. Another argument is that regions were created to administrate European funds.

Still, important members of European Union's staff underlined that "not European Union, but only Romania can decide it's future administrative-territorial organisation – as an internal problem of Romania". So creating regions must be attentively analysed, because it's not a European Union request, so can be the result of an independent Romanian decision.

In the same time, we shouldn't take necessarily other states' example, because the situation is not the same. Also, we shouldn't create regions only to follow European example.

In European Union are different types of regionalisation. It means each state choose that type adequate to its own politic, economic and social realities.

So, there isn't an ideal regionalisation model to follow. Every country, according to its economic, politic and social conditions creates its own criteria of administrative-territorial organisation. The administrative-territorial organisation must respond to development necessities and eliminate economic dissimilitude.

Time will show us if there is necessary an administrative-territorial reform that will suppose to create regions. Regionalisation is a two-edged sword, because historical examples (creating provinces in 1938-1940 and regions in 1950) proved regions were unviable, inefficient and inconvenient to Romanian traditions.

## **2. SOME TEORIES CONCERNING ADMINISTRATIVE TERRITORIAL ORGANISATION IN ROMANIA**

Any solution chosen by legislative bodies regarding administrative-territorial organisation doesn't have to be decided by historical, doubled with sentimental steps. These two above mentioned factors don't have to be the conclusive argument for an administrative-territorial reorganisation.

An eventual future administrative-territorial reorganisation should take in consideration an abstract element dictated by administrative law science and a concrete element resulted from Romanian peoples' needs.

Regarding to administrative-territorial organisation we consider necessary the appearance of a new law. Law is not static or given for ever, it has to permanently be in concordance with latest politic, economic and social realities; so in this context we consider the actual law, which was adopted in 1968, old.

An administrative-territorial reorganisation should create new administrative-territorial units well dimensioned and equilibrated as material and human potential.

The real questions regarding administrative-territorial reorganisation is to create regions and a second intermediary level or to keep the actual organisation and to realise a larger decentralization, especially in financial area [11]. Regarding administrative-territorial reorganisation there are a few theories.

A first theory is about creating regions and a second intermediary level. If regions will be created we will see major legislative changes, because creating a second intermediary level we'll have to re-establish public authorities' competences [19].

We can state several regionalization's disadvantages: regionalization can damage to state's unity, is an expensive process (because presume administrative system's enlargement and the need of more finances), can make more difficult decisional process, can remove the decision from the citizens and can determine decisions' centralization. Another disadvantage of creating a second intermediary level is the system's complexity and the superposition of attributions [17].

Another theory regarding administrative-territorial reorganisation refers to maintain a single intermediary level and to reduce districts' number.

The advantages of this theory: maintains a single intermediary level, so the costs are reduced, the new created administrative-territorial unit will be economically and financially more powerful.

A last theory regarding administrative-territorial reorganisation refers to maintain a single intermediary level and to increase districts' number. Is a theory wherewith we don't agree at all.

The disadvantages of more districts are economic, because little districts don't have enough resources, so they will never be equal with large and developed districts and its citizens will pay bigger taxes.

Arguments against creating more districts are sustained by static dates, too. So, actually there are several districts with reduced territory and inhabitants, so the solution is not to increase districts number, but to reduce them.

Also, lately in European Union's states was noticed the tendency to reduce the number of local units, so in this context we will be ridiculous to create new ones.

In administrative-territorial reorganisation case I sustain to maintain a single intermediary level and to create 30-33 big districts, which will be named districts and not regions. I also sustain a reform whereby districts will receive more power, a real decentralisation, especially in financial area, because only big territories with a real autonomy can be efficient and decentralized.

Anyway, I consider that the solution, underlined by other authors, too, is to give to local units means and competences as important as or much more important than intermediary's units [24]. We'll have to find a solution to strengthen basic units' local autonomy, especially in financial area.

So, financial resources to be distributed directly to basic units and not through intermediary units, because in this situation exists the suspicion, which was many times confirmed, that resources distribution is subjugated to political clients. I, also, believe that this proposed measure is completely realizable, through legislative acts, and is not utopian.

### **3. CONCLUSIONS**

In an economic study was shown that districts created in 1968 are complex territorial units, relatively equilibrated as surface, population and economic potential [18]. The conclusion is that the structure is good, but it could be improved. So, we could harmonize districts in the area of surface and population, so they could function better.

As I mentioned before, I sustain to maintain a single intermediary level and to create 30-33 big districts. So, I don't approve the creation of 20 big districts, because in this case I consider the effect will the same as creating regions and the decision will



be too far from citizens. I, also, don't agree regionalization theory and creating a second intermediary level, because too much intermediary levels have no good effects, because create parallelisms and dysfunctions, instead of assuring efficiency.

Related to administrative-territorial reorganisation nothing was made, because political actors fear about major implications of this reform. This delicate problem should be approached by a team made by history, public administration, geography, sociology and economic specialists, because is very important to underline - administrative-territorial reorganisation is a problem of national, and not local, interest [20].

Administrative-territorial organisation has multiple implications, juridical and economic. A judicious territorial organisation favours rational emplacement of production and harmonious development of areas [1].

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## **ACTUAL PROBLEMS WITHIN THE STRUCTURES OF THE SOCIETY OF KNOWLEDGE IN ROMANIA**

**ELENA TOBA, DALIA SIMION \***

**ABSTRACT:** *The article shows the role of the society of knowledge in the durable harmonious economic and social development between the Planet and the needs of the human society. In Romania, the transition to the society of knowledge, the creation of its structures was neglected; the preoccupations aligning almost exclusively towards transition to market economy and towards the transfer of the achieved wealth. In the future a reexamination of the correlation between scientific research, development and technological innovation (RDI) as basic factor of the society of knowledge, should be realized. From this perspective are analyzed the strategic objectives of RDI in the light of “Lisbon Program” as well as the principles and action directions within the domain of RDI stipulated in the national strategy in the domain of RDI from Romania for the period 2007-2013.*

**KEY WORDS:** *knowledge, scientific research, development, tehnological inovation, competition, education*

### **1. INTRODUCTION**

**Knowledge**, generally, is a process within which people create images, notions, conceptions and theories about the surrounding reality and, certainly, about themselves. All these do not have a certain purpose, they serve the practical needs, thing that necessitates the creation of instruments and means of practical action. Every moment, knowledge is an approximate-exact reflection of reality.

Under the contemporaneous economic-social and political conditions, the productive capacity of knowledge considerably overrules the one of classical resources (land, capital, physical work) which occupy a secondary place and role in economic increase. In spite of all incertitude, the society of knowledge constitutes a new and great promise of progress and wealth, of encroaching the sub development, of reducing of the economic and social gaps existent in the world.

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The realism of this challenge seems totally right if we consider the fact that the society of knowledge is based, most than never, on scientific knowledge; a resource that has an unlimited “deposit” of human intelligence; the value of knowledge increase within the use. The road of wealth starts to be strongly marked by scientific knowledge and not by territorial dimensions, by the amplitude and diversion of natural resources, by the number of population, that rather becomes a brake and not even by huge capital resources.

Tending to detach the economic increase of these classical resources, scientific knowledge affirms stronger than ever, as a resource that reduces the costs and prices, assuring not only the increase of wealth, but also the increase of the access of the inhabitants of the Planet at material and spiritual wealth, a durable, harmonious economic and social development between the Planet and the needs of human societies.

In spite of all these, in the past 17 years Romania has been almost exclusively preoccupied of the transition to market economy, of the transferred of achieved wealth, neglecting the transitions at the society of knowledge, the creation of the structures of this society that decisively conditions the increase of wealth, of the wealth of actual and future populations.

Thus we explain why today the structures of the society of knowledge in Romania cannot be perceived their important contributions within the evolutions of macroeconomic indicators within economic increase:

- a) The schools of urban and especially rural environment, including university education all these years lacked the financial support of the state, knowing varied and profound degradations that could not reflect on the most important premise of the society of knowledge- the level of scientific preparation of pupils and students. Hence, some Romanian researchers draw attention that, under the conditions of free circulation within European Union, Romanians can become a second hand working force, own to some inferior technological steps.
- b) Research – firm development, called to create knowledge and to apply them within the production of goods and services almost misses if we take into consideration the fact that 85% from firms do not have certain structures. The research-development sector of small and medium enterprises is the most precarious if we consider that own financing resources are totally insufficient, it lacks infrastructure and corresponding working conditions, without talking about its incapacity to offer motivating salaries to scientific research staff.
- c) Small and medium firms cannot beneficiate either from the effects of implication of Direct Foreign Investments; they are not automatically obtained if the government does not facilitate the creation and functioning of necessary institutions and markets. As a consequence, “the performances” of SMEs are sub mediocre due to the low degree of valorization of gross resources, realized with out-of-date technologies. Old structures of scientific development and technological development, inadequate through the passing at market economy could be easily adjusted to the new needs. Most structures for the fundamental,

academic, university and department research dealt with huge difficulties of understanding of governmental financing. In the USA and many other countries these problems were mainly solved many years ago within all structures of the society of knowledge, including in the industries and branches of direct production.

- d) The structures of informatics and communications technology reflects the creation in Romania of a digital great gap, not only related to EU~15, to its new members, but also towards candidate countries. Much more difficult is the fact that if the gap between EU15, member states and candidate states is visible reduced, on the contrary, in Romania a tendency of amplification of discrepancies towards all these groups of countries manifests. Romania holds the last place in EU, at a great distance even towards Bulgaria. Under the aspect of electronic transactions, Romania is already considered underdeveloped; the perception of these transactions at firm level is incipient, the possibilities of usage of electronic trade are used only by some firms from banking and media sphere. The obstacles of the development of electronic trade are both observed in the sphere of current expenditures, as well as in investments. Not even governmental reforms were successful, since in telecommunications, state monopole has been replaced by a private monopole, less with prices favourable to the apparition of the society of knowledge with high prices at telephony services and internet access that had to strongly stop electronic trade in Romania. The few realizations in creation of the structures of knowledge and in reorganizing, on these bases of Romanian economy it is difficult to valorize the effect of implication of direct foreign investments (ISD). Thus, in spite of the important contribution of foreign capital in Romanian exports (textiles, furs and leather, shoes etc.), ISD valorizes the same factors that determined in the past the comparative advantages of Romanian economy.
- e) Without extending this analyses we can conclude that without the impulses of knowledge of the structures of the society of knowledge, the actual rhythms of economic increase, considered high by us and European representatives cannot be calming if they are hardly obtained, with low levels of productivity, with energofag consumption and intensive material, specific to the industrial society. If the energy consumption of o the unity of IGP continues to be of circa 8 times greater than European average, we understand that neither high rhythms of development will be supported, nor the economic gaps will be reduced; these will be even deeper, if economic impulses of the society of knowledge are missing or are hardly affirming in Romania.

Starting from the ascertainment that in Romanian modern economic history other objectives of national importance were hardly created with great errors, and others as for example industrialization ended with great failures, we consider that the explanation of some failures and to avoid to repeat them in the future could be eased through a reexamination of the correlation between scientific research, development and technological innovation (RDI).

## 2. STRATEGIC OBJECTIVES OF RDI SYSTEM

Strategic objectives of RDI system from Romania intends to develop the science and technology, *with the purpose to increase Romanian economic competition, to improve social quality and to increase knowledge with valorization potential and enlargement of action horizon.*

In order to accomplish this role, RDI system has 3 strategic objectives:

1. Creation of knowledge, respectively the obtaining of some scientific and technological top results, worldly competitive, intending the increase the contribution of Romanian system of RDI to the development of the world stock of knowledge, the increase of international visibility and transfer of results in economy and society. Reaching this objective supposes the integration within international networks and promotion of excellence in research. There will be created internationally recognized excellence schools having critical mass and facilities necessary for performance research, experience in shaping new doctorate researchers, as well as conditions for young post doctorate researchers. Excellence poles will be created by financing some projects proposed by personalities with a special, internationally appreciated potential, especially young persons. A special focus will be placed on initiation of young researchers in excellence doctoral and post doctoral schools that should assure them a corresponding preparation and development of the capacity to realize advanced researches. Thus schools have to be attractive for performing researchers, and experienced in supervising the young graduands, no matter their nationality.

2. **The increase of the Romanian economy's competition** through innovation with impact at the level of economic agents and through the transfer of knowledge within economic practice. This objective wishes to obtain some top technological results, researches of the type of solving complex problems of local, regional national interest or formulated by economic agents, as well as the development of technologies, products and innovative services with direct application. Partnerships between universities, research institutes and economic agents will be stimulated. Competence centers and technological platforms with financing and/or co financing on medium periods of time, of 5-7 years will be sustained for creation. Financing schemes will consider aspects connected to state help for RDI.

3. **Increase of social quality** through development of solutions, including technological ones that should generate direct benefits at the level of the society. From this category we have the solutions to local, regional and national problems connected to social cohesion and dynamics, increase of policies efficiency as well as problems connected to health, environment, infrastructure, territory arrangement and valorization of national resources.

**Within the triangle of knowledge, education, research-innovation** the last elements is the most connected by the impact on wealth and also the most problematic from the point of view of connected policies. Innovation, process with many variables, centers on collaboration between research and industry. In the last decade, developed countries proposed intermediary entities or forms of interaction and collaboration

through which they may create bridges between the two sectors, giving them public growing financial resources. European Union makes efforts in order to recuperate the gaps of economic increase towards the United States, placing the RDI domain at the basis of these steps. The revision of Lisbon Strategy in 2005 reinforced the objective established at Barcelona of allowing 3% from IGP for research-development. The majority of European states have already adhered to this objective, the level of private investigation remaining questionable.

Nowadays, the main challenges to which European Union has to face in order to improve the capacity of innovation are connected to the insufficient concentration in excellence poles capable to compete on global level, the weak integration of the elements within the triangle of knowledge, the insufficient trans and interdisciplinary research focused on the innovation needs, the lack of some model of governing and organization of research and education at European level, high costs of patterning in EU and reduced mobility of researchers.

STARTING from the Lisbon Program European Union launched for the period 2007-2013 a set of initiatives concerning research and innovation, global competition of universities and research institutes, development of entrepreneurial aptitudes and the transfer of knowledge in products and services. At the Community level, the established lines of politics find their correspondence within the programs stipulated within the financial frame 2007-2013, respectively:

- **Frame Program 7** for research, the main instrument to which the activities of research-development are sustained, transnational collaboration in the domain, frontier research (coordinated by Research European Council) and excellence networks, European technological platforms (interest groups, mainly firms and research entities that together define strategic research agendas and which can launch commune technological initiatives implying substantial public and private resources).
- **The Program concerning competition and innovation**, that sustains innovation and development of SME, offering financial support (especially for *start-up*), supporting a transnational network of technological transfer, as well as numerous other initiatives, without implying research or education activities.
- **The Program “Education and Preparation 2010”**, through which member states are supported in adapting the system of education and formation in order to reach the objectives from Lisbon, comprising a compound of mobility and cooperation.
- **The Program of economic and social cohesion**, through which the states, or more exactly, the regions are supported with important sums of money in order to reduce the structural gaps, the domain of RDI being recommended as priority.

### 3. THE ROMANIAN SISTEM OF RDI

**The Romanian SISTEM of RDI** crossed a very difficult period after 1989: under financing and delayed restructuration did not offer the change to adhere to world

tendencies from science and technology except for isolated cases, and the fragile sector of the enterprises from Romania could not exercise a real request for innovation. Practically isolated, the system of research-development fragmented, the different compounds following to assure the survival with the minimum of existent resources, mainly through public financing, within some basically formal and autarchic subsystems.

Under the effect of chronic under financing, the number of researchers dropped drastically within the period 1990-2004, once with the increase of the age average. The reduced attraction of the career in research determined qualitative losses at the level of human resources and made extremely difficult the attraction of young performers in research. Many performing researchers choose the leave country. The low level of salaries in RDI could be considered at determinant for the reduced activity, but in reality the reasons are complex, connected to the delayed institutionalized reform, to the reduced quality of research-development infrastructure, of the lack of an evaluation system that should stimulate and compensate real performance, excellence. One of the strongest reasons may be considered the lack of clarity and transparency concerning promotion in professional career.

Nevertheless, Romania still has human resources and tradition in certain domains of science and technology, and the present strategy creates the premises of recognition and stimulates their development.

The level of financing had also an adverse impact on the maintenance and development of the research infrastructure necessary for advanced researches, in order to obtain valuable results at international level and in order to solve some complex economic and social problems at national level. The impact has been a negative and direct one on international cooperation, of the participation within European projects and networks of research, determining the isolation, separation from the great objectives of European research and limitation of access to performing products and technologies necessary for industry and services from Romania. Managerial capacity and the lack of some minimal institutional resources for the support of some research laboratories determined the inefficient functioning even where there existed a performing infrastructure. The low usage degree has been determined by the reduced capacity in offering interest services especially to economic agents.

Modest results and weak international collaboration are reflected in the small number of articles in scientific publications from the main flow of knowledge, in the small number of cites of the scientific results published by Romanian authors as well as the lack of interest towards the protection of intellectual propriety. The extremely small number of requests for patent with Romanian author in Romania and especially in Europe, USA and Japan confirm this situation.

Even if the RDI system did not manage until presently to generate great examples of success in the transfer of results into socioeconomic practice, it succeeded to maintain or to develop actors (through which universities, institutes, research collectives) that have a certain international visibility and may be or already are excellence poles.



Financing based on projects, through competition, started in 1999 extended in 1999, essentially determined performance increase and change of mentality concerning the access to resources. Evaluation criteria have been clearly oriented towards scientific performance demonstrated by the researcher (articles in the main flow of knowledge at international level, cited scientific papers, papers of great professional prestige at scientific conferences, patents, participation within projects obtained through international competition), as well as towards novelty and credibility of the themes of the proposed research with possible impact on knowledge. The criteria are also oriented towards institutional capacity of offering the proper environment and infrastructure necessary for the creation and development of some strong research groups with international visibility that should offer the proper frame for the preparation of the young researchers through programs of doctorate and post doctorate.

Public financing of research-development in Romania marked out a radical process of change starting with 2005, once with the first considerable increase of the percentage from the intern gross product (IGP) for this domain. The weight of public expenditures from IGP for research-development doubled within 2005-2006, the ulterior increase having as target 1% in 2010. The program "Excellence research - CEEEX" launched in 2005 by the National Authority for scientific Research contributed to the orientation of public expenditures for research for the realization of the Romanian Area of Research and preparation of the research and development community from Romania for the successful participation to the European frame program of research PC7, within 2007-2013- in the program CEEEX the priorities of public finances of the research-development have been the ones foreseen for Pc7, and the projects focused on the creation of strong consortiums, promotion of interdisciplinary research, development of human resources, international promotion of the Romanian RDI system as well as on consolidation and development of certification infrastructure. The program assures the convergence with the European level and practices, but it could not focus the public investment. CEEEX impact n the increase of private expenditures for research-development is expected to be an important one, but this cannot be estimated yet.

#### **4. NATIONAL STRATEGY WITHIN THE DOMAIN OF RESEARCH-DEVELOPMENT AND INNOVATION**

National strategy within the domain of Research-Development and Innovation is based on major principles concerning RDI governing as for example:

1. Responsibility towards the society – allotment of public funds towards RDI system should be considered an investment that serves the interest of the society;

2. Transparency – public access to information concerning obtained policies, moments and results; access to information concerning RDI financing opportunities from public funds, including through development of e-governing within RDI domain; simplicity and clarity of the procedures for the obtaining of RDI public financing;

3. Performance – evaluation of the degree of reaching the established objectives, reported to the realized investment.

Surveillance, evaluation and correction mechanism will assure the adapting capacity of the strategy according to the evolution at national and international level.

Ex-post evaluation of the implementation of the strategy is realized at the middle of the implementation period, year 2010 as well as at the end of it. Evaluation is independently realized, preferable international. The evaluation of the impact of strategy implementation will furnish information necessary for the elaboration of future policies.

In the light of these principles, the National Strategy within the domain of research-development and innovation, stipulates that main **action directions**, the following:

- Sustenance of the initiatives of pre competition research of the firms through adequate financial and support instruments
- Stimulation of public research-development universities and entities for the creation and development of entities of interaction with the private environment, within which they should assure experimental basis for common projects, frame for technologic transfer and staff exchanges;
- Increase of the cohesion of innovative entities from the public and private sector, through development of innovation networks, participation in technological platforms and through development of scientific and technological parks;
- Sustenance of the entrepreneurship based on innovation, through development of services in innovation incubators, improvement of the access to risk capital and through assurance of the preparation within the domain of innovation management;
- Fiscal stimulation of RDI investment at the level of firms, correlated to adequacy of the way of registration of these expenditures;
- Increase of the access of SMEs at information concerning the results of the researches, at financing and collaboration opportunities, through dedicated support services.

National strategy within the domain of research-development and innovation (RDI) for the period 2007-2013 is based on the vision of the Romanian society concerning the role of science, technology and innovation in the development of the society of knowledge in Romania, for the economic and social progress. Taking into account that Romania is a state member of the European Union starting with 2007, RDI Strategy assures the coherence with the main political documents specific at communitarian level.

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## **IMPACT OF TAX POLICY ON FDI IN ROMANIA**

**ADINA TRANDAFIR \***

**ABSTRACT:** *This article addresses the issue of controversy in tax laws in the European Union related to the new tax system adopted by some Member States relatively new entered on the single tax rate, the advantages and disadvantages of adopting this system of taxation. Also, the article discusses the impact of the new fiscal policies adopted by Romania, by implementing the flat tax on foreign direct investment. From this point of view were analyzed developments flow and the stock of foreign direct investment, taking into account the performance indicators of the flow of FDI, but also indicative of the relative importance of the stock of FDI, such as the stock of FDI / capita - indicator which expresses attractive business environment of the host country for foreign investors, the stock of FDI expressed as a percentage of GDP - is another way to express permeability local business environment to the investors, if FDI is addressed in the light of the host country, or attractiveness economy to potential investors, whether FDI are reviewed in the light of their interests, the average value of FDI projects.*

**KEY WORDS:** *tax policy, single tax rate, tax competition, foreign direct investment, potential investment*

### **1. FLAT TAX - OPERATIONAL INSTRUMENT OF TAX POLICY**

Under the impact of so many controversies legislative taxation at the EU level, the issue need adoption of a uniform system of taxation through the implementation of national tax systems of the flat by the Member States. In recent years, many countries have adopted the flat tax, as an alternative to well known progressive tax system. With the new extension of the EU, which took place in January last year, are a growing number of states that have adopted the flat tax imposition or who intend to adopt.

Taking into account past experiences in the field of taxation in EU countries as regards the advantages and disadvantages of the flat tax for countries that have adopted it, we will determine whether to adopt the flat is a way to harmonize tax or increased

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tax competition. European model tax flat tax could become the main instrument for increasing competition in the global economy.

Flat tax imposition is not a recent invention. In modern times, the first state that has adopted the flat tax has been Hong Kong in 1947. Many experts believe that this measure has contributed in large part, the economic prosperity of the small Asian territory, a former British dominion. Besides, two other British territories have adopted the flat tax, one of them even before Hong Kong's. This is about Channel Islands: Jersey (1940) and Guernsey (1960). Thus, we could say that the flat return is due, in large part, Britain.

The following will show in chronological order the evolution and implementation of the flat tax in Europe. The first state that has adopted the flat tax has been Estonia in 1994. It was established in a rate of 26% for the imposition of personal income. This rate applies to both personal income and those of capital. Since 2000, in Estonia have not been taxed profits of enterprises, except those distributed in the form of dividends to shareholders. This measure has stimulated enterprises to retain and reinvest profits, which led to a resumption of economic growth to around 6% per year. There were no recorded negative effects, such as reducing budget revenues - in 1993 its share in GDP was 39.4% in 2002 and 39.6% [6]. As regards the amount of tax on personal income, its share in GDP decreased in 2002 compared to 1993 from 8.2% to 7.2% [6]. To face the new circumstances of the EU that the new tax competition, Estonia adopted a legislative framework to reduce the rate of taxation, since 2007, from 26% to 20%. Lithuania is the second country in Europe, which adopted immediately after Estonia, the same year, single rate tax, personal income for establishing one of the highest single shares of 33% and for the taxation of profits, one of the lowest flat - 15%, only Ireland is located below this threshold with 12.5 percent.

In 1995, a year after the other two Baltic countries, Latvia has also implemented measures to reform tax, resulting in a single tax rate of personal income and a 25% share of the profits tax of 19%, share that was low in 2004 to 15%. Of those listed above, notes that the Baltic States were the first countries in Europe that have adopted a new model of fiscal policy by introducing the flat tax and a very low level of taxation on profits. These measures have helped to a large extent, in the process of economic revival and transformation of the former centralized economies of Soviet-style, the market economy fully functional. In 2005 Estonia place, four in the world in terms of economic freedom [3].

Baltic example was not followed immediately. Countries in similar situations, such as country and our state and have admired the success of Baltic without undertaking any measure in this regard. After seven years in 2001, Russia faced with serious macroeconomic imbalances and the huge gaps in the public budget, followed the precedent created by Estonia, adopting a single tax rate of 13% of all personal income and 35% of the profits of enterprises. Russia has adopted this radical reform due to low revenue from the state budget, which put it unable to honor its obligations. After entering the flat in the first year recorded an increase in public revenues collected from personal taxes of 46% in nominal terms and by 26% in real terms [2]. Slovakia

adopted in 2004, the same single tax rate of 19% for both personal income and profits for businesses and VAT.

One year after Slovakia in 2005, Romania has also adopted the flat tax, following the same example - the flat, for both personal income and the profits of 16%. Initially VAT rate remained at 19%, but later it was reduced to 16% from 1 January 2007. At the same time, our country has achieved another success in the field of taxation - the unification of the entire tax legislation into one law, the tax code [8].

In Romania transition to the new taxation system, brought in the first year, the state budget revenue from taxes on profits of 21.1% of GDP, more than 5.5% over the previous year, while income tax personal income of 26.7% of GDP by signing it, in this chapter, an increase of only 1.5%. In 2006 there was a considerable decrease of these sources of income, as in 2007, the year of accession to register increases in revenue from the state budget from taxes on profits of 20.8%, and from taxes on income and wages of 23%. In the same year, revenue from the state budget collection of VAT (whose share fell by 3%) increased by 12.8% over the previous year.

Adoption of the flat tax by countries, mostly former-socialist lead to increased tax competition issues between the new members of EU and old Europe, which currently remains reluctant to adopt this fiscal measures. Hence another problem: that of finding the optimal tax system, a choice between a system based on a progressive taxation (adopted in Western Europe) and one based on a single share (adopted in many former socialist countries), to lead both to harmonize laws and to eliminate negative aspects of competition in a united Europe.

Pressure already exists, from the various interest groups in favor of the adoption of fiscal measures in countries like Western Europe and becoming increasingly exacerbated, at least in Spain [7], Germany and Britain [5].

In developed countries of Europe observed the trend of decrease in the maximum marginal rate, with the exception of Italy, which has the highest maximum marginal rate of taxation on profits of enterprises, in European countries analyzed. The most spectacular development has had a share of Germany, which, from 50% in '90, has reached 25% in 2002, and the largest share maximum marginal tax profits of enterprises, reached the lowest share of the Member States.

Orientation of many countries to a national tax system based on a single tax rate is determined by the benefits that it generates [6]:

- Incline to stimulate employment and investment;
- Reduce the cost of tax administration by simplifying procedures for accounting and control, simplification caused by the absence of global revenue at the end of the year, the tax is, in most cases, single and final;
- May contribute to increasing budget revenues, by increasing the taxable base;
- Reduce tax evasion by lowering the opportunity cost of such an act;
- Contribute to increased economic activity environment, with positive impact in attracting foreign investment;
- Remove a large part of deductions and exemptions, leaving the taxpayer freedom to manage their income in relation to personal needs and not the concern of

reducing the tax burden, can contribute in this way, increasing the efficiency of resource allocation;

- Comply with certain principles of equity revenue, net of basic minimum income, which provides tax relief for people with low incomes;
- Reduce the pressure of certain interest groups in favor of preferential tax regimes.

Analyzing the current state of knowledge in the field, countries that have adopted a single rate of taxation and have established a level much less of it, compared with countries that have not yet addressed this fiscal. From this point of view should be shown separately own advantages of a flat tax and a reduced rates. Obviously, some of the benefits listed are valid in the case of reducing the present level of quotas progressive.

Flat tax does not mean, necessarily, reduced rate, although in most cases presented, is set at low levels in order not to adversely affect those with the lowest incomes. The only notable exception is Lithuania, which set a single rate of 33%, considered by many experts as being high [6]. A high level of the flat generated effects contrary to those mentioned above, with negative social impact. If we think only poor people to qualified low-income living in social allowances (generally non-taxable), which once employed in work will have to pay a tax equal to one third of the revenues gained, we recognize the impact of major of taxation on employment. It is very likely that such persons do not have any incentive to work in a formal, preferring the status of current and supplementing their income with earnings from the underground economy. In this case a flat tax with a high level would increase the percentage of unemployment in the country and would encourage the actions of tax evasion. For this reason, for a rigorous analysis must separate the effects of their own flat the valid, generally occurs when a reduction in fiscal pressure. In other words, Incline to work and investment takes place and then when a progressive reduction in the tax allowance, only that if the flat, the absence of a progressive taxation after a certain level of income, not penalizes in an increasingly stressed the concern of labour [6].

From this point of view can be said that a flat tax does not mean, necessarily proportional taxes, how many times there is a tendency to consider. In practice tax by reporting the gross personal income taxes have not proportionate, even if income is taxed at a single rate. Increase imposition falls as revenue rose to the level at which changes to proportionality. Hence another advantage of the flat, that offers increase not inhibit the work of Incline people already registered a high level of income. Where there are no deductions or exemptions, which in practice are unlikely to happen, flat tax rates determine the existence of proportion [1].

In terms of reducing tax administration costs, it is closely related to the elimination of deductions, which generates reports less numerous and less complex by the tax. A U.S. study reveals that in the U.S., Advertisers of taxes costs approximately 24 cents for every dollar collected, costs generated only needs highlighting, completion, processing of tax documents, not including losses caused by this desire to decrease employment and investment, or those related to tax evasion and enforcement costs [4].

As mentioned above, it can be concluded that the benefits of their flat tax are: simplifying the tax system so as to the meaning taxpayers, especially in terms of fulfilling reporting obligations and prominence, with effects in the reduction of administrative costs and tax evasion; increasing the tax base by eliminating certain deductions and exemptions, while weakening the pressures of various interest groups in favour of preferential tax treatments, which can generate higher revenue for public budgets (see previous case of Russia); increase incentives to work and investment in a greater degree than in the case of progressive quotas, especially for people with high income. Character tax system based on a single share presented above, have led many countries from the former Communist bloc, to adopt this system. Opening higher by the system of former ex-socialist countries, is due to several reasons: first, these countries have inherited complication tax system characteristic of countries of Western Europe, and then they are more open to different experiments, as a result of the transition who crossed her, having a much more positive and flexible to the changes and a more rapid response to changes that can occur in the economic environment, in contrast to Western countries [1].

## **2. IMPACT OF ADOPTING FLAT TAX ON FDI IN ROMANIA**

In Romania, the first direct foreign investment during post-dated 1990. According to official statistics, by the end of 2002 has accumulated a stock of FDI of 10.4 billion U.S. dollars, which means about. 480 USD per capita - an extremely modest compared with other countries in the region of central-eastern Europe.

To highlight the impact of adopting a new system of enforcement by our country on FDI, will report to as the evolution of the flow and stock of FDI before and after the introduction of the flat tax.

### **2.1. Evolution of FDI in 2004**

Statistical characterization of FDI is considering, on the one hand, stock investment, on the other hand, flows of investment. The net flow of FDI in 2004 has achieved a level of 5183 million. Index performance flow of FDI in Romania in 2004 was quite low, reaching over 35 value of 76 in 2002 and 2001 and 83 in 1995. This reveals a decrease of more than 50% of the performance of FDI flows in 2004 compared to the previous period. According to the source cited above, potential investment at the end of 2003, in Romania was 81, falling to the year 2000, when the value reached 94. This is reflected in the classification made by UNCTAD for the period 2003-2005, Romania is considered a country with a potential weak investment and FDI flow performance was below expected potential.

According to the same sources, Romania ranks second in 2003-2004, after the Russian Federation, the top ten in Southeastern Europe with a large flow of FDI. During this period, in Romania was an FDI flow of \$ eight billion, while the Russian Federation has received \$ 12 billion. At the same top, the third is Azerbaijan, followed

by Kazakhstan and Bulgaria. Large flow of FDI in Romania during this period is due in large part privatization of oil company Petrom and the sale of its company OMV (Austria). Following this operation the flow of FDI into the country was \$ 5 billion, according to the source cited. FDI balance at the end of 2004, resulting from the addition to the initial balance of net flows of FDI and the patch value from revaluations due to change exchange rates and prices, a record level of 15,040 million.

As regards the indicators of importance (significance) relative to the stock of FDI in Romania in 2004, they recorded the following:

- The stock of FDI / capita was 696.3 € / capita. This indicator expresses the attractiveness of the business environment of the host country for foreign investors. With both FDI / capita is higher, the opportunities are greater business and investment environment is more favorable.
- The stock of FDI expressed as a percentage of GDP was 6.1%. is another way to express permeability local business environment to the investors, if FDI projects are addressed by the host country, the economy or attractiveness for potential investors, whether FDI are reviewed in the light of their interests.
- The average value of FDI projects was 140 thousand € / company owned or partly foreign.

In 2004 earnings from FDI were at 2083 million. Of these, the most important [(2020 million respectively 97% of total income) is income from equity capital, consisting of distributed dividends and reinvested profits in the financial exercised in 2004. Reinvested profits amounted to 1452 million correspond to a 70% share of total revenues, and distributed dividends amounting to 568 million have a 27% share of total income. Net interest income received by foreign investors to direct their loans to businesses in Romania are in short supply, with a level of only 66 million, they represent 3% of revenue.

## **2.2. Evolution of FDI in 2005**

Net flows of FDI in 2005 recorded a level of 5218 million, registering a growth of approximately 0.7% compared to 2004. Analyzing the structure of FDI flows in 2005 compared with 2004 is a decrease in both flows of FDI in the form of equities to foreign investors to direct capital of enterprises with 11.35% and the net profit in the form of reinvested 19 , 5 percentage points. Has been a significant increase in net credit received by enterprises from direct investment, foreign direct investors of 94.7% in 2005 versus 2004. FDI stock at the end of 2005, resulting from the addition to the initial balance of net flows of FDI, the value of the differences arising from revaluations due to change exchange rates and prices, and the restatement of the accounting value of balances, the level recorded 21,885 million . Unlike the flow of FDI, the stock registered in 2005 an increase of 45.5% compared to 2004.

Indicators of the relative importance of the stock of FDI in Romania in 2005, recorded the following:



- The stock of FDI / capita was 990.7 € / place. This indicator expresses the attractiveness of the business environment of the host country for foreign investors. This indicator increased in 2005 compared with 2004, approximately 43%, indicating an increase in business opportunities and attractive business environment in our country in our country.
- The stock of FDI expressed as a percentage of GDP was 7.6%. This indicator has recorded a growth (24.6%), not as big as the previous indicator, which shows an increased permeability of the local business environment and the attractiveness of the economy of our country in 2005 compared to 2004 for potential investors.
- The average value of FDI projects was in 2005, 184 thousand € / company owned or partly foreign. In this increase was 44 thousand € / company owned partly or wholly foreign, and of 31.4%.

### **2.3. Evolution of FDI in 2006**

Net inflows of FDI in 2006 recorded a level of 9059 million. In 2006 there was a significant increase in the flow of FDI, by 73.6% over 2005 and 74.8% compared to 2004. Taking into account the very small increase recorded in 2005 (0.7%), we could say that there has been a record increase in the flow of FDI. FDI balance at the end of 2006, which includes the value differences from revaluation due to the change in the exchange rate and monetary prices and the accounting restatement, recorded level of 34,512 million, with more than 57.7% over 2005 and 129.5% compared with 2004.

As regards the indicators of importance (significance) relative to the stock of FDI in Romania in 2006, they recorded the following:

- The stock of FDI / capita was € 1561.63 / loc. Compared with 2005, attractive business environment in our country for foreign investors, reflected in the light of this indicator, rose by 57.7% in 2006.
- The stock of FDI expressed as a percentage of GDP was 10.02%. The value of this indicator, in 2006, indicating increased permeability of the business environment and the attractiveness of the Romanian economy by 31.8% over the previous year.
- The average value of FDI projects was in 2006, 262 thousand € / company owned or partly foreign.

Comparing data from the three years is a drop in the stock of FDI in 2006, industry (by 9.8% over 2005 and 18.2% compared to 2004), the trade (to 18.7% over 2005 and 15.9% compared to 2004), but there were spectacular increases in construction (by 700% over 2005 and 482% compared to 2004) and in hotels and restaurants (300% as compared to 2005 and over 2004).

### **2.4. Evolution of FDI 2007 – 2008**

FDI inflows in 2007 was € 7069 million, decreasing by 22% compared to 2006, covering the deficit of payments at the rate of 41.9%. In 2006, the record has been achieved in this area: foreign investors have brought in Romania €9.1 billion.

As regards the indicators of importance (significance) relative to the flow of FDI for 2007, they recorded the following:

- The flow of FDI / capita was 320.6 €/ place. Compared with 2006, attractive business environment in our country for foreign investors, reflected in the light of this indicator, fell by 21.8% from 409.9 €/ place in 2006.
- The flow of FDI expressed as a percentage of GDP was 1.75%. The value of this indicator, the year 2007, all indicate a decline in the light of this development permeability of the business environment and the attractiveness of the Romanian economy, by 33.5% over the previous year.
- The average value of FDI projects in relation to the flow of FDI was in 2007, 48 872 €/ company owned or partly foreign.

In the first half of 2008 FDI inflows increased by 63.4% over the same period of 2007, reaching the value of €4.84 billion. From a structural point of view, the biggest share had intra-group loans, many banks are capitalized in the first half of the year, but holdings in capital (the privatization of Electrica Muntenia Sud).

Importances (significance) relative to the flow of FDI for the first half of 2008, reflected by three indicators are as follows:

- The flow of FDI / capital was 223.04 €/ place.
- The flow of FDI expressed as a percentage of GDP was 5.6%. The value of this indicator exceeds even on a single semester, the indicator similar to a year earlier.
- The average value of FDI projects in relation to the flow of FDI was in the first half of this year, 31 358 €/ company owned or partly foreign.

The values of the three indicators presented above lead to the conclusion that both permeability and attractive business environment, but also the status of the Romanian economy, grew in the first half of this year compared to 2007, that year represented a decline of investment flows to the developments so favorable in 2006. According to information provided by BNR, the inflow of FDI during the period January to April 2008, not only doubled, compared to the same period last year, but covers 61% of the balance of payments deficit, compared to 38% as covered in 2007 (figure 1).

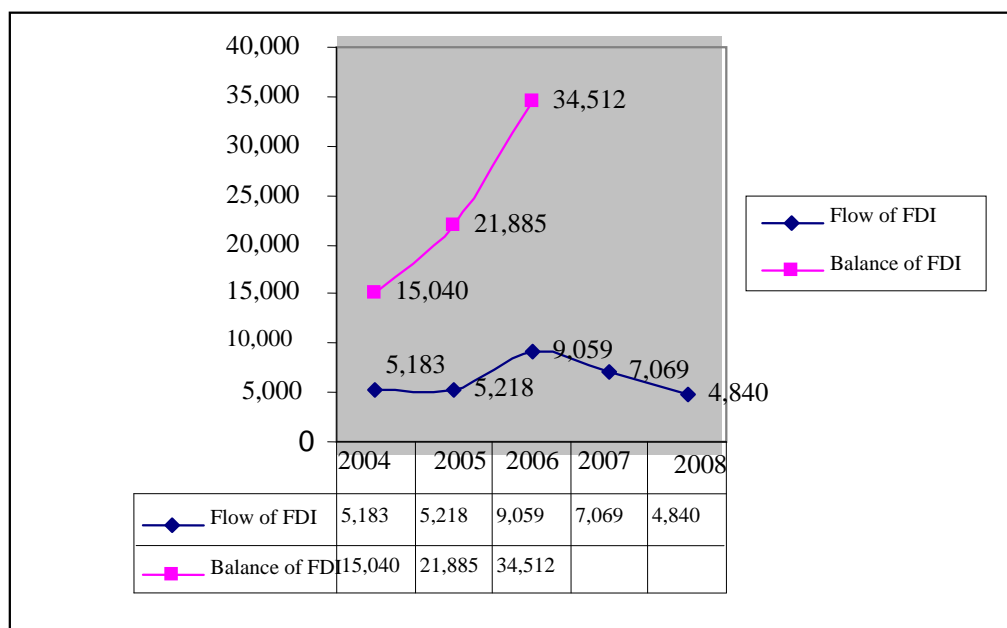
### 3. CONCLUSIONS

Given that the powers in matters of tax policy are still at the disposal of the national authorities are likely to respond to each state in their own way at the initiative of countries that have introduced flat tax. There is also the possibility that the tax system based on a single tax rate to an optimum solution for states with economies in transition, ex-socialist, and as regards the harmonization of tax laws in this area relate to other aspects such as would harmonize with the Directive "parent-subsidiary, which led to numerous legal controversies in time.

Taking into account the characteristics and advantages of the flat tax and those of a reduced rates of taxation (given in Chapter 1), could reach a common denominator between the two tax systems applicable at this point in the EU. Until the emergence of

the flat tax landscape in Europe, efforts to harmonize tax on line in direct taxes were channelled towards providing a basis for taxation as uniforms (by eliminating deductions, exemptions, exemptions), measures circumscribe the general objective of promoting a climate favourable free and fair competition in the single market. Adoption of the flat tax has resolved in a very simple issue of harmonizing the system of deductions and exemptions, by the mere fact that they have been largely eliminated.

**Fig. 1. Evolution of the flow and the balance of FDI in Romania during 2004-2008**



The longer attractive for single tax rate will increase by increasing the number of countries implementing this system of taxation, the emphasis concerns tax harmonization will move to the optimum sizing of imposing quotas. Should take into account also that the adoption of a tax system based on a single tax rate, accompanied by continued policy of financial support from the EU can help the new member states to eliminate disparities existing between them and the countries of Western Europe.

Regarding the influence of the tax system based on single share on foreign direct investment, the case study that I conducted (Part Two) in Romania in terms of FDI trends before and after the adoption of the flat, confirms one of the advantages mentioned above, except only in 2006, respectively inclination to increase investment. Adoption of the new taxation system, and other measures in the field, led to an increase, from one year to another, so the flow of FDI and the attractiveness of the business environment in our country for foreign investors, the flow of FDI / capita reaching only the first semester of 2008 the value of 223.04 €/ place compared with

2004, when the whole year, the flow of FDI / capita was 239.9 €/ place. Estimates specialists are positive year-end, taking into account the fact that FDI flows expressed as a percentage of GDP was in the first half of 2008 to 5.6%, the value of this indicator, exceeding even on a single semester, the similar indicator of the previous year.

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## **STRATEGIC DIAGNOSIS AND THE PART IT PLAYS IN DECISION MAKING**

**EMILIA UNGUREANU, TIBERIU CRISTIAN AVRĂMEȘCU \***

**ABSTRACT:** *Strategy and strategic planning represent a decisive factor of success, both in human activity in general and in the economic life of the company in particular. Strategy is the main connection between the organizational structure of a company and its external environment, hence the opportunity to study the external environment and to carry out strategic diagnosis. Strategic diagnosis allows the company to give a quick response to the constraints of the external environment, foreshadowing the necessary efforts to adapt to the structural changes of the environment, as well as the efforts to achieve a proper position as against the competitors.*

**KEY WORDS:** strategy, strategic diagnosis, strategic management, strategic analysis, external environment.

Strategic diagnosis implies the analysis of the impact of the external environment combined with the analysis of the internal resources of the company, for the purpose of harmonizing them with the intentions and the expectations of the participants to the life of the organization and of the interest holders. The main objective of strategic diagnosis is to identify the external and internal influences capable to bring about the success of the company; the influences proceed from the following directions:

- *The external environment of the company, with its macro and micro components, is the bearer of a certain degree of dynamism, complexity and turbulence, characteristics able to generate both opportunities and threats to the company. The more turbulent the environment is, the greater the risk of the business taking place is, but the pronounced dynamism means, at the same time the occurrence of interesting opportunities. The more stable an environment is, the fewer the threats, but, at the same time, there are also fewer and less profitable opportunities, the inertness of the*

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environment affecting the risk appetite of the participants. On the other hand, an event can be a threat for the company and, at the same time an opportunity for the competitors, the ability to fructify it depending strictly on the internal resources and their capability.

- *The resources and specific competencies of the company* allow it to define what we call "strategic capacity", by combining the strong and the weak points of the company regarding the company's ability to outclass its competitors in decisive situations, based on the key elements of the activity. We are talking about the significance and the practical share of the potential and internal constraints of the company in outlining its strategic decisions. The competencies which determine a certain competitive advantage, known as fundamental competencies, originate in the amalgamation of more potential elements, are considered to be the distinctive "best cards" of the organization, those which are more difficult to reproduce by the competitors. The analysis of these resources and internal synergic connections must be one of the key elements of strategic diagnosis, since it allows marking out and encouraging the favorable influences of the environment upon the competitive performance of the company.

- *Establishing the mission of the company*, which may mean setting goals such as volume growth, the increase of the organization impact on the market, the increase in profit, the increase in the return on share, innovation promotion etc. this third axis of influence plays a crucial part in intensifying the other two since the part of the human component and of the cultural context of the organization is gaining more and more relevance/ recognition in the expectations of the interest holders and their capacity to influence the company goals, and thus the strategic outline. In this context the influence of the last should be detailed, being in direct connection with the power given by the level of participations and with the interests, diverging at times, to direct the organization strategy towards certain priorities.

The evolution directions of any organization in order to achieve the strategic goals are not equivalent. Each direction means a series of decisions and activities which consume/ use different resources and produce different costs. This is why the problem of evaluating these directions and choosing the most favorable one, the one which maximizes the strategic competitiveness and minimizes consumptions, seems to be natural. If the evaluation was based on a series of known data, there would be no problem in analyzing and underlining the most convenient results. But in order to evaluate the possible directions leading to the accomplishment of the strategic goals one must take into account the existent uncertainties as well as an external environment in continuous change. What is more, there is a formidable pressure from the competition which can be neither ignored nor measured.

In this difficult situation, of uncertainties and threats, opportunities and failures, taking decisions with a view to achieve the strategic goals represents a problem and not everybody has the necessary ability to come up with the best solution. That is why strategic thinking and a suitable managerial training are needed in order to frame possible strategies. For any organization the development of strategies represents

a necessity. The problem is not whether we should frame strategies or not, but to choose from the possible strategies those which can lead to a strategic competitiveness. The difference between the strategies is huge, and it can vary from success to bankruptcy. That is why, in order to elaborate a suitable strategy; the top management must know very well the internal and external state of the organization and especially the dynamic of the external forces, in order to achieve a stable dynamic balance between the internal forces.

Strategic analysis is acknowledged by the factors involved in the managerial decision as the “*Cinderella of the decisional process*”, as it supports the process step by step through a thorough analysis of a multitude of options and the choice the best ones, but, at the same time, it is reproached with the lack of analytical approach. When this condition is met, the strategic analysis tends to be static, conservative and inflexible in terms of consistent decisions, valid only for the short term and only for American management schools, which have initiated and still control diagnostic analysis from conceptual and operational point of view. Contrary to, or rather complementary to these ideological tendencies (that have marginalized the role of the strategic analysis, favoring financial approach and substantiation in decision making), we think that the two parts of the equation: strategic analysis and decision based on it must be in a dynamic and flexible relation that allows an adjustable and innovative organizational attitude. In this way, strategic analysis must be approached as a means of achieving three managerial objectives/ goals:

1. support for the managerial decision;
2. factor of coordination/ communication at the company level;
3. factor in outlining the company vision regarding its future development.

The first of the three identified parts is also the one that has brought about the development of the strategic approach, as part of coherent managerial decision making, based on analytical studies not only on intuition and empirical assumptions. Even in smaller organizations, an important number of decisions are taken daily by responsible factors, on the appropriate decisional level. It is extremely difficult to evaluate the specific impact of each decision and its implications, due to the lack of a predefined strategic direction able to direct towards a common target these singular decisions.

Even more, in big companies, that have more responsibility centers and multiple levels of decision, this goal is possible to achieve if all the factors involved in decision making pursue the strategic objectives on a short and medium term, and thus reducing the decisional alternatives. This allows and guarantees at least the coherence of the entire process if not the simplification of the act of decision making.

The second part refers to ensure the coordination that should exist between the decision makers, especially in the case of big companies, where they are in big numbers and the decision is dispersed. In order to coordinate the decisions taken at different levels, and to ensure coherence at the company level, the strategic diagnosis must be connected to the inter-departmental communication mechanism of the company, creating that synergy indispensable its performance attitude.

„Consistency over time” is the defining syntagm of the part played by the strategic process in the company life. To outline its future, to rationally plane it, means to adopt a strategic vision and to express a set of strategic intentions. This is possible as a result of a diagnosis process that underlines what can be achieved in terms of objectives, specifying the costs and the financing sources.

It is obvious that not all the decisions taken at the organizational level are strategic. There are a few elements that allow differentiating between the strategic decisions and other types of decision (production, technological, regarding the personnel, administrative, etc). These elements refer to:

- the fact that the respective decisions define the company’s activity, especially the domains of strategic activity, contribute to their number, to the opportunity of one or more of these existence. The activity area and its future configuration are extremely important for the organization as it directs its activity towards a well-defined product and service portfolio on the one hand, and, on the other hand it outlines the degree and the geographical areas where the company is present.

- secondly, with the aid of the strategic decisions, the company tries to obtain or to consolidate competitive advantages, by emphasizing and exploiting their sources. The sources of competitive advantages may refer to the action of vertical integration, or, on the contrary, of externalization of a part of the production system; what is more, the quality is one of the most appreciated sources of competitive advantage, which allows a favorable position in relation with the competitors, at similar prices. The price is also an element that may favor a company, especially in relation with the foreign competitors, especially when the indigenous company may claim and receive support from the state, which protects local producers, within the boundaries of external agreements.

- strategic decisions may refer also to the manner in which are appropriated the own resources and the attracted ones, either the financial resources (when the proposals of the accounting analysis department and the elements of the provisional budget are analyzed), or the technological, material, human or commercial ones, by finding optimal proportions with a view of finding an appropriate answer to the opportunities of the environment. Each company plans the employment of existent resources and the attraction of new ones, either with a strategic purpose, for a longer period of time, or trying to avoid the overuse of resources on risky activities.

- strategic decisions must have practical applicability, and become operative. Without this logical and necessary connection between planning, analysis and execution, the whole process is useless. It becomes useful only when the future decision are taken based on the strategic analysis and diagnostic and the expected advantage, objective or performance operationally created

There are two facets of the competitive strategy of a company, according to the factors taken into account in order to define it:

- *generated strategy* which results from identifying the opportunities from the external environment, and adapting the resources of the company in order to turn them to good account, for the purpose of obtaining and maintaining the competitive advantage;



- *built strategy* starts from the existent resources and competencies and intends to influence the elements of the environment, to create new opportunities and to preserve the competitive advantages.

In the first case the company adapts its competitive attitude for a better response to the elements of the environment, while in the second one the function of the strategy is to exploit the resources of the company such as to change for its benefit the competitive configuration and, as much as possible, the opportunities of the environment.

The built strategy is characteristic of an innovative measure, which does not follow the preset rules of the competitive game, and tries to influence them according to its own strong elements. This is more risky than the other form of strategy since a series of elements such as the size, financial force, individual or allied force of the competitors may attract the failure of the measure. It can be used both by small and medium size companies, and by large national and multinational corporations, that have the courage to float on outside the traditional markets as long as the internal resources support the measure.

The key element in all these situations is to combine the existent measures with rapid gain of the necessary competences that allow the organization to enter new market segments as game leader rather than a pursuer. The defining elements of the facets of the strategy are shown in the table below:

**Table 1. The characteristics of the generated and built strategy**

<b>The components of the strategy</b>	<b>Generated strategy</b>	<b>Built strategy</b>
Fundamental elements	■ adapting the internal resources to the opportunities offered by the environment	■ creating opportunities by turning to account the existing competencies
Competitive advantage sources	■ product positioning ■ differentiation induced by the market	■ differentiation of the products on distinctive competencies, and reconfigure the market
Possible positioning for small companies	■ finding market niches	■ changing the rules of the competitive game
Means of reducing risk	■ attaining a balanced activity portfolio	■ building and maintaining a competence portfolio
Main direction of investments	■ towards dividing the activity in divisions and branches	■ towards maintaining distinctive competencies

As a consequence the strategic measure can be defined as that set of actions oriented towards the optimization of the intentions and expectations of all the parties involved in the company's activity (share holders, creditors, employees, providers and clients), obtaining a competitive advantage and its consolidation, through fair allocation of resources, creating a medium and long term perspective regarding development and defining the specific field of activity of the company.

To sum up, we can conclude upon four essential characteristics of the strategic decisions, taking into account their operability, the decisional process and the consequences for the organization they are subordinated to.

Thus, strategic decisions are elaborated under conditions of uncertainty of the business environment, the decision maker being asked to choose between more options referring to future situations with a certain possibility of accomplishment. This feature justifies the high risk of the strategic measure, especially in case of uncertain or turbulent economic environments, hence the tendency of the firms that operate in such environments to define their strategy on limited periods of time, functioning mainly on „*day by day solutions*”, with loosely determined and adjustable strategic directions.

Secondly, strategic decisions have a global character, they cannot be approached from a single perspective, since they involve and refer to the whole organization. Concepts such as financial strategy, human resource management partially overlap at the company level under the arbitrage of the decision maker, subordinated to the strategy of the company which refers to the company as a whole, each of the company function has its objectives, but the strategy integrates them all in a global vision and optimizes the decisions at the company level.

Obviously, strategic decisions are intrinsic complex, both in the case of large corporations, spread on a large geographical area, and monolithic companies, active in a single field of activity. The complexity of the decisions originates in the multitude of factors that have to be evaluated, from the uncertainty arising from the future configurations of the environment and the limited resources that can be used in the competition.

Lastly, the strategic decisions can often have radical consequences for the life of the company and may lead to organizational, cultural or mentality changes. That is why it is extremely difficult to discipline an organization that has been functioning based on routine and without strategic perspective for decades.

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## **CONTINUING THE REFORMS IN MAJOR SIGNIFICANCE FIELDS FOR ECONOMIC INCREASE**

**CECILIA ELENA VĂDUVA \***

**ABSTRACT:** *The macroeconomic framework has to focus on structural reforms, tax and budgetary policy, agriculture and rural development, and the macroeconomic framework has to follow IMMs preservation. Form the convergence view the macroeconomic framework supports the durability of the economic increase including by financing the development of physical infrastructures of the human capital.*

**KEY WORDS:** *reforms, economic increase, sustainable macroeconomics*

The provision of a sustainable macroeconomic framework for 2007 – 2013 is one of the fundamental objectives characterized by an increase of the correlation process of existent policies and the implementation of the new policies, tax continuance and consolidation of the de-inflationist process and the process of budgetary deficit according to requirements of the Union.

Monetary, budgetary and tax policies shall be subordinated to the logics of a multinational budgetary programming that could allocate the necessary resources for the key fields and rationalize expenses taking into consideration the principle of subsidiarity.

The tax and budgetary policy objectives shall take into consideration the provisions of the Development and Stability Pact and the economic policy shall follow the principles included in the General Orientations of the economic policy.

Budgetary shall focus on a flexible construction integrated in actual budgetary programs in accordance with the approach way of the budget at the level of the European Union paying special attention to: priority provision of amounts meant for co-financing the projects financed from European funds, providing Romania's contribution payment for financing the European Union budget within the personal resources system, the increase of the budgetary incomes weight in GDP.

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The main objective of public debt management shall be represented by the provision of financing sources for the budgetary deficit at a lower cost and at an acceptable risk. A major desiderate shall be represented by the design and implementation of an internal governmental public debt policy for avoiding the increase of bank interest rates with negative effect upon requests, investments and inflation.

The continuance of the de-inflation process and reaching an inflation compatible with the Euro area is another priority. From this point of view, salary policy is very important in the budgetary field and in that of state enterprises. Structural reforms have to continue for increasing the possibility of manpower market and production factors.

Romania's rural development has the main objective of harmonious development of rural communities together with the consolidation of agricultural and forest fields taking into consideration the environment protection requirements.

In spite of all the alterations reflected in the last few years of structure GDP, continuous industry keeps on being a dominant branch in the national economy. 45% of the average number of employees in the national economy depend on the salary of the industrial activity gives this branch a special position on the social plan also generating additional difficulties to adaptation to the new conditions if this means the decrease of the number of personnel.

The place of the industry is given not just by the degree of resources concentration and production and by the intensity of functional connections also with the other branches. The most affected branches by the industry decline are transports, trade, constructions. Although every branch is under the influence of some specific factors, their dependence on industry is very high.

The stronger decline of transports in accordance with the industry is explained by the industrial production decrease with high tones products and implicitly by reducing the goods itinerary on the railway. The other branches depend on the industry evolution both for its possibility to provide technical equipment through the industry evolution and for its potential capacity to be the most important beneficiary of services.

The size of the negative impact of industry decline upon the real economy system reveals the key position of this branch in national economy. Although macroeconomic indicators show significant alterations in the field of production and consumption comparing to the production factors, functional relations and proportions at mezzo- and microeconomic level, conditioned by technology have a powerful inertial character.

The dominant position of industry in vertical economic structures and its ramified connections in horizontal structures give it a strategic role in re-launching the economy, in stimulating economic growth.

The development level cannot be judged only by the conjuncture evolution of the production volume and economic efficiency but by a certain stable configuration of economic institutional structures and behavior characteristics of economic agents.

In the structure of the national economy, industry has a significant role, being the main source in achieving GDP.

The conception upon the economic structure and a country's specialization in production has been based in time on the Ricardian theory of comparative cost. There is no agreement on the importance of providing certain factors.

The orientation of economic activity through political decision towards a specialization dictated by the advantage determined through the evolution of economic resources is difficult and risky taking into consideration that at macroeconomic level the measurement of these resources especially under qualitative aspect and the results of their combination is impossible. The political decision can have an important role in orientating structures forming and even determining in certain periods. On a long term determining are the economic efficiency and progress.

Together with the economic efficiency strict criteria an important role is played by the natural and social conditions where activities have developed in a country.

A structure reflecting the connection between natural resources and the orientation of economic activities is the report between the main branches of the industry. If the natural resources, exploitations do not allow medium and long term exploitation and commercialization as a source of reaching and maintaining a high level of living the preponderance of processing industry is an absolute need.

The type of energy used and the extent to which manpower combines and physical capital are determined by the characteristics of the production technologies. The heavy industry has not only the very high absolute and relative consumption of material and energetic factors as well as the high consumption of capital being also capital intensive. Their dominant position is given by their dipole structure of some main industrial products markets produced within this industry, for the national economy. This position perpetuates because in the country new enterprises with the same profile do not establish, because these products beneficiaries' access to these products is limited due to higher international prices.

At the orientation towards performant economic structures analyzed through the relation with the environment a decisive contribution has to be given by the prices mechanisms, primary energy price, and raw materials at the real value of the goods and the coverage of the expenses necessary for unaltered preservation of the environment quality.

Creating relative prices distortions of production factors and comparative efficiency of activities and products favors the maintenance of some activities with arguments based on the apparent economic efficiency.

In the conditions of globalization trends of inter- and intra-industrial flows between national economies and between geographic areas of the world becomes important to know the way in which national economy at present and in the future.

In the strategy for supporting manpower employment, providing the premises for developing the constructions shall have a determining role due to the great requests of manpower, inside the branch. The possibilities to increase the number of employed people in constructions shall be conditioned by the privatization rhythm of constructions- mounting units, by the investments funds but also by the support from local and central authorities in the following years. The employment capacity of this branch shall be influenced by the organizational innovations and the transfer of technologies.

Insurance financial services and the ones provided to enterprises shall have perspectives for creating new jobs.

The change of view has produced due to the evidence of the slow rhythm of market mechanisms and the lack of financial and managerial resources preventing the market to have the necessary force of modeling the new requested structural configurations.

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## ECONOMIC GROWTH MEASUREMENT

MARIA VĂDUVA \*

**ABSTRACT:** *Economic growth measurement is one of the significant issues of economic growth theory. Despite the fact an agreement has been reached in practice for the adoption of annual GDP indicator, things are unclear from many reasons. The insufficiency of this indicator is admitted, for the economic growth measurement and for the international comparison and it is shown that a correct calculus should take into consideration the purchase power.*

**KEY WORDS:** *economic growth, gdp indicator, measurement, international comparison*

In the countries with a low GDP, internal prices, especially for the main products are low and there is the tendency to underestimate the official exchange rate, GDP value/inhabitant comparing to the richer countries.

The analysis of the economic growth must be made in constant prices of the main year and the values from the analysis period shall be affected by a subunit coefficient under the form of  $(1+i)^r$  through which we take into consideration the currency time decrease.

The pregnant analysis of the economic growth can be make abstraction of qualitative aspects determining the quality of growth. Economic growth is the joint result of quantitative and qualitative components of finite use values. Quality is not a notion succeeding quantity, but it is strongly connected to it and can be considered a scale for hierarchy. Quality grows in time, is has to be extrapolated together with the analysis of its implications upon the necessary quantities. Economic growth measurement shall be made by comparing GDP or GNP at the beginning of the period with that from the end of the period. Measurement shall be carried through the rhythm of the real, total GDP or GNP or for every inhabitant.

From the bonus size point of view in a certain period, the growth is linear and exponential. A size grows linearly when the respective growth is in size, absolute or

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constant during a certain period of time. Exponential growth has an exponential increase when growing with a constant percent of its total value, in a constant period of time. If an income grows with a rhythm of 10% every year, its level grows exponentially and doubled within seven years. The more common exponential growth is the more surprising can be its results. Exponential growth generates number rapidly, being a dynamic phenomenon implying elements that alter in time.

Dynamic modeling theory shows that any exponentially growing size is connected to a positive feedback loop. Such a loop is sometimes called vicious circle. In a feedback positive loop a cause-effect relations chain is included so that the growth of each element causes a sequence of alterations with a result of an even bigger growth of the initial altered element. The growth of the national income, as an effect, causes the growth of production factors that generate a new growth of the national income. The choice of economic growth rate is one of the fundamental options of any economic development policy at national level.

Economic and social progress of any country is in tight dependence with economic growth. The continuous and optimum growth of the national income influences the achievement of the society's objectives in the given stage. The high rhythms of economic growth allow getting some absolute higher growths and causing the more rapid increase to superior stages of material and spiritual civilization. From a certain level of economic growth, higher economic growth rhythms in less developed countries causes growths of production per inhabitant equal or bigger that in economically developed countries, to the acceleration of relative unbalances, the entry into a new stage, that of cancelling absolute unbalances.

If the option was made for GDP per inhabitant as the main indicator expressing economic growth, it is necessary to make some considerations upon the way of expressing it. We can stop upon the growth indicator in t year and in the main year.

Economic growth indices in a certain period have a synthetic character because they include the influences of a high number of components expressing the average results of all the activities.

Growth evolution can be also expressed through an arithmetic or geometrical progression. If the growth is linear, it can be described by a straight line. If the growth is expressed through a geometrical progression, we get for the analyzed indicators and t interval:

$$GDP_t = GDP_0(1+r)^t \quad (1)$$

The expression is similar with the compound interest, where r is the average growth rhythm between the main year and t year. The connection between the annual average rhythm and the growth index can be established by the relation:

$$(1 + r)^t = GDP_t / PIB_0 = i_{GDPt} \quad (2)$$



We can notice the inconvenient that the growth analysis is hiding through the average rhythm, with the compound interest equation, because it takes into consideration only the first and the last year, no matter the evolution in intermediary years. This has led to other proposals for computing economic growth and statistic analysis in the study of the evolution of  $Y = \text{GDP/inhabitant}$  indicator in a certain period of time.

Within the national economy there is a great number of production processes with long duration, if for the electric power the period between the production and use is practically zero in other fields the production process lasts 2-3 years. This justifies why we can admit an average duration of one year for production process and the use of discontinuous function  $(1+r)^t$  for computing average rhythms.

In long term economic growth related studies it is more indicated to use the continuous function supported by the acceleration tendency of transformation processes leading to the decrease of the average interval between the goods production and their use under the period of one year.

For the same annual rhythms, economic indicators levels are greater at the end of the period if using the equation of continuous function, when computing using the geometrical progression equation, the differences being even more significant the bigger the period of time is.

In economic calculations based on updated values, the use of exponential growth rate leads to differences comparing to the used computation with the geometrical progression.  $\beta$  represents their updated value at the moment of being put into service for an efficiency rate ( $r$ ) and during a computation interval ( $t$ ) if given by the expression:

$$S = \beta (1+r)^t - 1 / R(1+r)^t \quad (3)$$

Economic growth is conditioned by the potential existent resources. The intensity of the economic growth as well as its quality are the result of the concomitant and interdependent action of a complex of economic, technical, scientific, organizational, social and political, direct and indirect, primary and derived, general and specific, intensive and extensive, internal and external factors.

A significant influence upon the economic growth is given by indirect factors with immediate action: the size of aggregated request, the absorption capacity of the internal market respectively; the efficiency of the financial and bank system looked at through the orientation way of the economic activity through credit; economies rate and investments rate, the competitiveness of products, marginal orientation towards export comparing to that towards import, manpower and capital migration, budgetary and tax policy of the state.

The long term growth of production has two possible fundamental sources: quantitative growth of factors through the growth of capital and labour resources drawn in the production process, quantitative growth of raw materials and power, the growth of cultivated fields, the growth of factors and their use efficiency under the

conditions of a favourable economic and institutional environment leading to the increase of national productivity, of the investments efficiency to the decrease of the specific consumption of raw materials.

The first source indicates the quantitative size of economic growth and the second one is its qualitative size. The way of combining the two sides and their contribution to the growth of macroeconomic results depend on the structural size of the national economy. The proportions of combining the factors depend on the nature of technologies and the way of distributing economic resources on activities at a given moment, the flexibility of achieving those resources according to the needs to adapt the offer to the request alterations.

The quantitative and the qualitative side of production growth has a compensatory interaction, mediated by the structural side. The decrease of the amount consummated from a factor can be compensated by the increase of its efficiency achieving at least a preservation of the production level. This replacement depends of the roughness of proportion of combining the factors required by the used technology.

The increase of the volume of used factors and technologies improvement leads to an increase of production. The rhythm of technical progress is represented by the increase of total productivity of the production factors measured by the quantity of production growth due to the combination of production factors.

In accordance with the relative contributions of production factors to the production growth and the national income, through their quantitative and qualitative sides, there can be two main types of economic growth: extensive and intensive.

Extensive economic growth is characterized by the preponderant contribution of the quantitative sides of direct factors for the GDP growth or of a macroeconomic indicator. This type of growth is specific to economies going through periods of accumulations based on high annual invested effort. Intensive economic growth supposes a certain preponderant contribution of qualitative sides of factors for increasing GDP or of another macroeconomic indicator. Every economic system has a hierarchy of fields according to the number of employed personnel and to the productivity and specific quality in the respective field.

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## **ORACLE HRMS FOR THE HUMAN RESOURCES MANAGEMENT IN THE PUBLIC SECTOR**

**TEODORA VĂTUIU, ION LUNGU \***

**ABSTRACT:** *Oracle Human Resources (Oracle HRMS) represents a strong set of applications for the optimization of the human capital an organization disposes of. In the new economy, based on the Internet, the optimum usage of work force is one of the imperatives in e-business. In order to successfully meet this target, an organization needs a simple and efficient system for the administration of the human capital.*

**KEY WORD:** *human capital, software application, management system*

### **1. OVERVIEW OF ORACLE HUMAN RESOURCES MANAGEMENT SYSTEM (HRMS)**

The Oracle E-Business Suite Human Resources Management System family of applications automates the entire recruit-to-retain process, so you can align your workforce with strategic objectives. A single integrated data model provides an up-to-the-minute accurate view of human resources-related activities, including recruiting, performance management, learning, compensation, benefits, payroll, time management, and real time analytics.

A human resource management system, or HRMS, is a software application or suite which provides all of the necessary human resource functions for hiring, firing, paying and managing their personnel from C-level executives to administrative support. Many of the routine functions which lend themselves nicely to an HRMS are like Recruitment, Employee Time Attendance, Payroll, Training, Benefit Administration and Performance analysis.

Part of the Oracle E-Business Suite package, the Oracle Human Resources Management System (HRMS) solution, offers the technologies and functionalities

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necessary for the accomplishment of competitive advantages. This system assures benefits regarding:

1. the optimization of human resources capital
2. the input of decisional instruments for the administration of work force
3. the reduction of costs for the HR department
4. the profitability of global operations



**Figure 1.** Suite Human Resources Management System

## 2. THE DESCRIPTION OF THE ORACLE PROCESSES

The value of the Oracle solution is given by the existing and potential capabilities. At present, Oracle Human Resources represents an informatics solution developed on the base of the best human resources' tactics and which is used in over 2600 big firms all over the world. Potentially, the Oracle solution permits ulterior developments of the processes and data structures from the HR department, thanks to the fact that this thing is the heart of the application: an extraordinary flexibility based on the possibility of adding new data and defining new processes.

From the point of view of the HR department's necessities, the processes performed are:

1. framing on post
2. administration of the human resources' budgets
3. identification of the vacant places
4. description of roles and positions
5. recruiting
6. registration of candidates
7. match of the vacant positions' requirements with the qualities of the persons
8. accomplishment of the interview

9. execution of the hiring offer
10. training of new employees
11. administration of personnel reorganizations

Development of employees presupposes:

- definition of the position's requirements
- identification of the employees' qualities
- evaluation of the training requirements
- definition of careers
- administration of trainings
- trace of employees' performance

Management practices include:

1. execution of personnel analyses
2. administration of personnel evaluations
3. defining of organizational structures
4. defining of work relations between employees

General practices connected with the recruitment of personnel presuppose:

1. description of vacant positions
2. reporting
3. administration of disciplinary actions

Income politics take into account:

1. recording of tallies and absences
2. processing of the employees' income data
3. income processing

The information management from this domain presupposes:

1. administration of employees' data
2. reports about the personnel

Compensation of the employees includes maintenance of data concerning bonuses, advantages and other benefits offered to the personnel, according to the organizational structure of the company.

Administration of labor protection refers to:

1. administration of labor protection courses
2. tracing of incidents and their registration in the system
3. definition of administrative politics referring to: employees' compensation, fraud, etc.

Management of the personnel from local and central public administration represents a long-term, strategic investment, taking into account:

- Processes of distributed human resources administration;
- Motivation of the personnel;
- Continuous reduction of the budget, simultaneous with the increase of the need for specialized knowledge;
- Short time for the specialization of the personnel;
- Time consuming processes and resources for recruiting, placement and training.

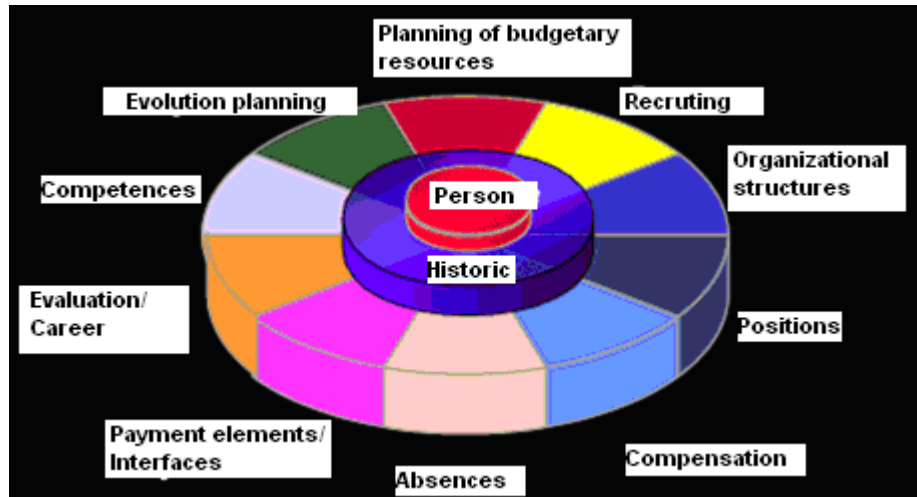


Figure 2. Functionality of Oracle HRMS

Or with people-related costs averaging over 60% of total corporate expenditures, leading firms are paying increased attention to the contribution made by their workers and are developing a new model for HR. This model includes programs to improve the efficiency, effectiveness, and productivity of the workforce and the ability to manage locally or globally.



Figure 3. Administration and offering of on-line training

To be fully effective, these programs require new processes supported by leading technologies. Oracle calls this new model Workforce Excellence and believes it is the ultimate goal of HR, regardless of company size, industry segment, or geography. The model is composed of four main phases: comply, automate, measure, and align.

Oracle solution offers:

- The possibility of delivery and use of the educational content on-line;
- Delivery of on-line courses with the assistance of the Internet technology;
- Complete integration with the management solution of the human resources;
- Full support for competences and knowledge;
- On-line assessment and tests;
- Personalized methods of learning;
- Forums, chats, virtual classes – instruments of interaction between students and instructors.

Oracle E-Business Suite Human Resources Management System includes key enhancements such as global transfers, checklists, and an uplifted user interface including more efficient flows for absence and salary administration.

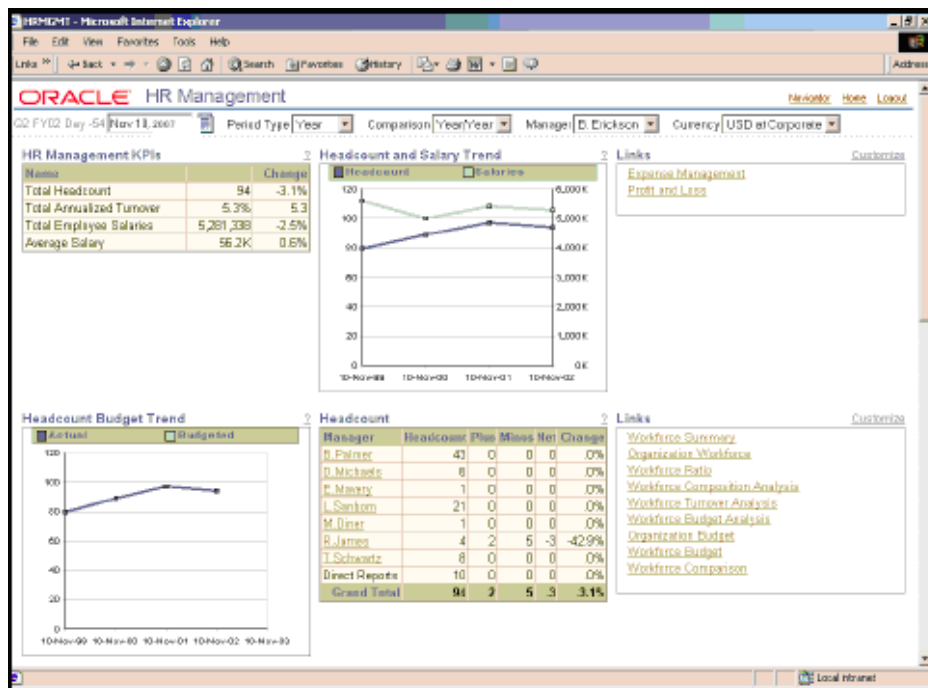


Figure 4. Uplifted user interface

### 3. CONCLUSIONS

The applications integrated in the Oracle E-Business Suite package are built on a unique architecture, which consolidates data from Oracle and non-Oracle solutions and assures a consistent definition of clients, providers, partners and employees at the level of the entire organization. The result is a multitude of applications which can assure the most efficient matrixes, financial data, profit and lost reports, as well as the whole range of information for all departments, products and geographical locations.

Among the most important benefits offered by Oracle E-Business Suite we can mention: cost reduction, increase of the operational efficiency, quick refund of investments in informatics technology and a faster implementation of the e-business models.

In this way, the products of the Oracle family assure the highest performance in data processing as well as the most advanced standards of reliability, availability and security.

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## **ORGANIZATIONAL RISK IN LARGE AUDIT FIRMS**

**SORIN-SANDU VÎNĂTORU, GEORGE CALOTĂ \***

**ABSTRACT.** *This paper analyze and discuss organizational risk in large-audit firms and contribute to auditing theory on how organizational risk may be analyzed. The study is conducted as a review of literature on audit-firm organization, risk management, professions and organization theory. Large-audit firms are commonly organized as partnerships relying on hierarchy and standardization of work processes to control work. The paper argues that this may be an effective way of organizing audit work in a stable environment. In a volatile environment, however, the strategy becomes highly risky. The focus of the paper is on the organization of large-audit firms and its findings do, therefore, not necessarily apply to small audit firms. The paper presents a general view of the way large-audit firms are organized and controlled. Local variations may occur but these are not analyzed in the paper. Wer analyzes the inherent organizational risk of the common way of organizing audit work and is therefore of direct interest to partners and other professionals in large-audit firms. It may also be seen as an example of how organizational-risk analysis can be applied in the audit process and it discusses the competences needed to perform such analysis.*

**KEY WORDS:** *risk analysis, risk management, auditing.*

### **1. WHY IS IT IMPORTANT FOR AUDITORS TO UNDERSTAND ORGANIZATIONAL RISK?**

It is often claimed that the last decades have changed the traditional-industrial society into a post-industrial society with a knowledge-based economy. In the post-industrial society, products and services are increasingly sold on global markets which has made competition global and speeded up the life cycle of products. Post-industrial production is therefore characterized by being flexible order production as opposed to the standardized mass production of the past-industrial society. To be able to seize opportunities in temporary niches by adapting production to the ever-changing demands of costumers, flexible production in turn requires a better-educated and

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reflective workforce with broader skills, as well as a decentralized organization without a distinct center of power. Flexibility is also created by vertical disintegration of companies and outsourcing of tasks, and by an increasing use of IT to automate work processes, which has reduced the need for manual labor substantially. The shift to the post-industrial society also involves a general shift from the production of standardized goods to the production of “signs,” i.e. goods where the primary production takes place at the design stage and services where the primary content is of an aesthetic character. The only thing stable these days is change, as some put it, and to be able to survive companies must therefore be organized in a way that enables them to adapt swiftly to changes in the market. Organizational risk, broadly defined as the risk that the organizational configuration of a company does not support the achievement of its strategy, therefore becomes vital to manage for companies in the post-industrial era. Large-audit firms are an integrated part of the new production regime and they are particularly sensitive to organizational risk, since they must understand and manage the organizational risk of the audit firm as well as understand the organizational risk of their clients. The latter is the case because organizational risk for the client eventually may turn into a going-concern problem for the auditor. The purpose of this paper is primarily to analyze the organizational risks that large-audit firms face. Secondary, this analysis may also contribute to an understanding on how to analyze the organizational risk of clients. The indirect approach to the last question inevitably has its limitations when it comes to generalization since the analysis is focused on professional services firms and the way they organize, not on other industries and their way of organizing. The aim is therefore not to produce a general checklist, but rather to discuss the knowledge needed to analyze organizational risk.

## **2. THE RISK OF PARTNERSHIPS**

Considering the importance of audit firms surprisingly little has been done in terms of analyzing their organizational structure and control systems. Furthermore, these firms have undergone a great deal of change over the last 10-15 years making it worth reviewing the research previously done to reassess the results. The purpose of this and the following sections is to analyze past and present literature on the subject in order to contribute to an updated understanding of the general organizational risks that large-audit firms face today. It starts, in this section, by analyzing the risk that follows from being organized as partnerships and subsequently goes on in the next section to analyze the primary control mechanisms (often called coordination mechanisms) found in audit firms: standardization of work procedures, hierarchy, and culture. Finally, the risk of these control mechanisms is analyzed.

A good deal of the literature on the organization of audit firms assumes without much argument that accountants are professionals and that audit firms consequently are “professional bureaucracies”. When organizations grow to a size where direct supervision becomes un-accomplishable organizations usually starts to bureaucratize, especially if their environment is relatively stable. The core of a bureaucracy is

standardization of which there are three possible objects; standardization of work processes, standardization of output and standardization of skills. Since, professional work by definition is too complex to be standardized, it is often argued that the primary-control mechanism in the audit firm is the standardization of skills. Standardization of skills is combined with a tight system of recruitment, socialization and indoctrination that makes the accountant member of a “clan”, a community sharing a profound common agreement of what constitutes proper behavior and of common goals and interests. Although clan control was intended to be an alternative to the bureaucratic controls of standardization, most applications of clan-ideas to accounting nevertheless see clan control as a supplement to bureaucracy.

To some degree, standardization of skills combined with clan control may have been the way audit firms were controlled in the past. Hanlon (2004) analyzes the changes in organizational structures that have taken place in professional service firms over a 150-year period. He argues that whereas “collegiate professionalism” with clan control may have been the primary control mechanism from around 1920 up till 1980, the turn to “commercialized professionalism” - of which the accounting profession is seen as the archetype – changed this over the last couple of decades. The tenet in the new form of professionalism is commercial behavior rather than social service, that we describe the change as a decline in professionalism. The change came about because elite groups within the large-audit firms pushed for more centralized-bureaucratic controls in order to enable a growth strategy. A second reason was that it was seen as a means of securing an acceptable and uniform quality of the audit service as a reply to the many lawsuits against audit firms. And third, as a result of the internationalization of audit firms, bureaucratic controls were also needed to accomplish the “seamless web” that most audit firms were eager to create.

Audit firms are “professional partnerships” emphasizing the collegiality, peer evaluation and autonomy of the partners in the firms. Later, the same writers talk about “pluralistic partnerships” adding the autonomy of the partner to the traits above while arguing that it is mainly the small audit firms that are organized this way. The large-audit firms are moving in the direction of “managed professional partnerships” or “managerial professional bureaucracies” characterized by a strong focus on commercialism and following centralized attempts to position the firm strategically according to analysis of the market/client base to take advantage of market trends. This involves an entire repositioning of the firm as professional-business advisors instead of audit firms and such a repositioning cannot be accomplished without centralized strategic decision-making and subordinates complying with the strategic decisions taken. For operating controls, these firms rely heavily on bureaucratic standardization of work. Large-audit firms are therefore under pressure to abandon the partnership structure in favor of a corporate structure, or at least to adopt traits from this.

The pressure to adopt corporate structure is further reinforced by developments in the mix of services marketed by these firms. It is often argued by practitioners that consulting tasks, such as giving advice and adapting standard solutions to specific client needs, require a high degree of partner autonomy. This is because partnerships

create an entrepreneurial culture among the partners that clients like. The more consulting being done, the better the “professional partnership” would therefore be. Auditing, however, is widely seen as a standardized commodity by academics as well as practitioners, and to produce a standardized service the corporate structure is more adequate since it supports bureaucratic controls in the form of formalized and standardized practices. With the selling off of the consulting arms of the large-audit firms, auditing has become more important for the audit firms and so is therefore the incentives to organize with a centralized-corporate structure. The partnership structure is nevertheless an ideal that is seldom completely abandoned when audit firms incorporate. Although owners of incorporated-audit firms formally are shareholders, they commonly refer to themselves as partners. While this may be seen as a response to the divided nature of the audit firm’s services, it also tends to cause problems because elements of the egalitarian-decision processes are retained.

Finally, the size of the large-audit firms makes the professional partnership ideal problematic. Professional partnerships are founded on a consensus ideal, which is incompatible with the large number of partners in the big firms. KPMG and PricewaterhouseCoopers (PWC), for instance, have 6,667 and 8,019 partners, respectively and it is hard to imagine all these coming to consensus on strategic issues. Other practitioners see the partnership structure as creating endless committees and having a lack of direction. In other words, as the audit firms grow in size, the egalitarian consensus ideal of the professional partnership comes under pressure. The large-audit firms therefore typically introduce control by hierarchy, creating different classes of partners in addition to the hierarchy among the salaried professionals. Typically three types of partners are found: salaried partners who do not own equity or have voting rights; equity or national partners, who own equity, have national voting rights and are eligible for election to the national-management committee; and international partners, who in addition may vote and participate in the international management of the firm. In spite of the introduction of hierarchy, the equity-partners still expect influence and typically elect the partners for the national-management committee for a fixed-term of 5-6 years after which they return to the normal partner ranks again. Sometimes they retain the right to vote on major-strategic decisions as well. The hierarchical organization of the large partnership is relatively costly because tiers of middle line management is added to the organization while it simultaneously maintains residual traces of the collegial processes in small partnerships.

### **3. CONTROLLING THE BEHAVIOR OF EMPLOYED PROFESSIONALS**

So far, the paper has focused primarily on the partnership level. The partners are nevertheless only the top 10 percent of the professional iceberg with the remaining 90 percent or more being salaried professionals. To make sure their decisions are carried out, partners therefore need an effective control or coordination mechanism. In professional partnerships, the primary operating control mechanism of the employed workforce is socialization into accepting the objectives of the partners. This is done by

a selective recruitment policy where (at least in certain cultures) minority groups and working class people are excluded by recruiting employees with a personality type that is robust to bureaucracy, and by application of a mentoring-training system, which installs a partner worldview in the employees). One of the major rewards in this system is the promise of future partnership often referred to as “the lure of partnership”. As mentioned before, large-audit firms have moved away from the professional partnership structure and may now be seen as managerial professional bureaucracies. The managerial-professional bureaucracy is still a partnership, but a partnership where the egalitarian traits of the professional partnership have been abandoned in favor of centralized management for the reasons stated above. Since, centralized management cannot rely solely on decentralized recruitment and socialization as the primary-control mechanism, it has to be supplemented by other mechanisms. In the managerial professional bureaucracy, auditors are primarily controlled by a combination of three types of control mechanisms. These are presented below and in the following section the risks are discussed.

First, auditors are supposed to conduct their work according to professional standards, whether these are local-auditing standards or international standards on auditing, and compulsory peer review systems are in place to secure compliance with these. Auditing standards are by their nature normative although they usually allow firms or partners a certain degree of autonomy. The higher management generally considers risk, the more likely it is to try to control that risk by bureaucratic rules and compliance controls. The audit-risk model still in use was the audit firms answer to the litigation boom in the USA in the early 1980s, and the model's primary function is to coordinate and control-audit work by allowing centralized control with the risk and materiality decisions in the audit process. The audit-risk model is usually implemented in a highly structured version, where comprehensive-auditing manuals prescribe standardized working procedures and where key decisions are centrally controlled by audit automation or decision-support systems. The turn to business-risk audits was expected to place greater emphasis on subjective judgment and thereby make the audit process less structured, but subjective judgment and structure goes well together, as the large-audit firms now rely on the use of decision-support systems that guide auditors through the pre-planned stages of the audit and standardize the documentation of their subjective work. Standardization of work procedures is therefore the primary-control mechanism in the audit profession.

Secondly, as the audit firms grow in size, further levels of hierarchy are added to the organization to enable control by direct supervision as well as leverage the personnel more thoroughly. Although textbooks only mention four hierarchical layers, in practice there is sometimes more. The same is the case for PWC but this firm appears to sub-divide each hierarchical level even further. In other words, middle-line management becomes quite extensive making direct supervision a major-supplementary control mechanism in large-audit firms. Recent studies indicate that partner and manager involvement in the audit-review process have increased in the Big Four as a result of the adoption of the business risk audit approach and the use of electronic

documentation. Although this development may reduce the need for a multi-layered hierarchy, it still emphasizes the importance of direct supervision as a control mechanism to supplement standardization of work procedures.

Commercial behavior is still encouraged by incentive systems where partners usually “eat what they kill,” where elevation to partnership is restricted to the few demonstrating the ability to acquire new clients, and where salaried professionals are remunerated according to scorecard evaluations of their performance. PWC for instance, has initiated a performance appraisal and development programme, according to which employee performance on all engagements of a certain size must be evaluated. At the yearly appraisal interviews, the employee must bring along at least 3-4 such “Appraisals.” Based on these a personal development plan is drawn up and remuneration decided. The PADP program measures the employee on a 1-5 scale on eight areas: the ability to exceed client expectations, efficiency, performance, risk management, supervision and development of subordinates, use of technology, communicative skills and performance gaps. Formalized incentive systems are therefore another supplementary control mechanism, in particular in the large-audit firms. In addition to the control mechanisms provide an overview of a number of other control mechanisms such as departmentalization/divisionalization, budgeting systems, informal communication, and socialization into a corporate culture. All of these are also applied in various degrees by audit firms. According to Stevens (1991) Price Waterhouse and Arthur Andersen in particular relied heavily on corporate culture for coordination, Andersen to a degree where their auditors nicknamed themselves “Arthur Androids”. Arthur Andersen was fairly successful in centrally controlling the culture, mainly because all auditors from around the world from time to time had to attend the St Charles Training Center in Illinois, where they were socialized to accept the corporate culture. This, however, is a costly coordination mechanism and it was still supplemented by formalized standard operating procedures for conducting audits as well as for general management. Nevertheless, corporate culture is a control mechanism that plays a supplementary role in some audit firms. The corporate culture is a source of risk in itself to the extent it does not support the chosen business strategy. A particular cultural risk mentioned is “command-and-control tactics by upper management that inhibit employee flexibility and learning,” a culture, which often develops in hierarchical bureaucracies.

The chances for creating enabling bureaucratic structures in audit firms are unfortunately reduced by the presence of some of the forces that encouraging a coercive logic; that is asymmetries of power, knowledge, skills, and rewards. The partnership ideal is based on a clear distinction between the relatively few partners and the many employees. Since, partners are usually owners of the audit firm they bear the downside financial risk of the behavior of their employees. As discussed earlier, this risk was the driving force behind the development of the audit risk model and its implementation in the form of structured-audit methodologies. Structure in auditing is defined as “a systematic approach to auditing characterized by a prescribed, logical sequence of procedures, decisions, and documentation steps, and by a comprehensive and

integrated set of audit policies and tools designed to assist the auditor in conducting the audit". In the international audit firms, the audit policies and the structured methodologies are usually centrally defined, with the US branch playing a prominent role in the process. Feedback from employees in the periphery of the world has to travel a long way and pass through many layers of hierarchy before reaching the center. If it is at all possible to establish a feedback loop it will become fairly sluggish. Auditing is therefore more likely a formula application business, where knowledge is applied in the audit process rather than systematically generated. Or to put it differently, audit innovation only takes place to the extent it is initiated, organized and fully controlled by top management in the big audit firms. The price for this control is paid in terms of the speed at which innovation takes place. It is interesting to note that it took the big audit firms 5-10 years to develop and implement the business risk audit approaches. The centrally controlled learning strategy is clearly best suited in a stable-business environments.

#### **4. THE RISK OF THE APPLIED CONTROL MECHANISMS**

So far, the paper has argued that the large-audit firms have centralized their strategic and much of their operational decision making. Audit work and innovation is controlled by highly standardized work processes as well as by direct supervision in an extensively hierarchical organization, sometimes supported by a uniform corporate culture. The paradox of bureaucracy is that its popularity in practice is inversely proportional to its reputation. As long as the environment remains stable being a machine bureaucracy does not necessarily cause problems. It is an effective way of controlling mass-production. However, if the environment becomes unstable, hierarchy becomes dysfunctional. In these cases, the operating core experiencing problems producing, adapting or selling the standardized product typically do not have the authority to deviate from the standards. Operative problems are consequently referred up through the hierarchy, often ending at the top level in the cases where the problems are of a fundamental character. This has the effect that top-management is being overburdened with operative decisions at a time where it is crucial that it concentrates on making strategic decisions. Generally, the combination of bureaucracy and hierarchy will slow down corporate decision making, making it dysfunctional in the "new economy" of flexible specialization where fast decisions are required to seize opportunities in temporary niches. Auditors must be aware of this to understand their client's business. Perhaps, the greatest challenge an external auditor faces during a period of rapid change is to develop an understanding of the implications of recent "shocks" to the economic system within which the client operates, and to anticipate the speed with which such shocks will impact his client's profitability and survival. There is also evidence that large-audit firms consider their own business subject to this development. Ernst and Young's (1994) Audit Innovation Project was partly initialized because of perceived changes in the environment: We must adapt to rapid change in the global business environment. We have been successful, but that does not ensure future

success. We need a dynamic service delivery model to address these evolving issues, and we need to adapt to our marketplace from a position of strength. The accounting profession is generally experiencing the threats as well as opportunities of change in information technology and change in investors need for information. These changes allegedly necessitated the need to “reengineer” auditing to focus on business risk and also lead to opportunities in the form of assurance services. If the large-audit firms find themselves in rapidly changing environments their organizational form could therefore be a cause of severe problems.

Adding to these problems, the standardized routine work in the machine bureaucracy is also a source of risk. The well-known downside of such standardization is that it deprives employees of autonomy and control over their work situation, as well as of the stimulation of innovative challenges. Working in machine bureaucracies therefore often leads to dissatisfaction and demotivation, which is why it is often recommended that such organizations recruit people with low expectations of work points out, routine also has a positive side in the sense that it provides people with a high degree of predictability in their lives, a predictability that can serve as the background on which to evaluate alternatives. Without a certain degree of routine, people would completely lose control over their lives. How much control a person needs is in the end a question of personality, whereas some people are quite happy to subject to standardized routine work, “there appear to be more jobs in Machine Bureaucracies than people happy to fill them.” The personality of auditors has been studied in a number of geographical settings, and the findings are remarkably similar.

The combination of extensive hierarchy and partnership is also a cause of motivational problems, since it clearly shows that very few will become partners. The “lure of partnership” does therefore not work that well anymore, in some cases causing a “brain drain” problem with large numbers of professionals leaving for better opportunities elsewhere. This has allegedly caused some consulting firms to consider abandoning the partnership structure and incorporating instead. Audit firms are knowledge intensive firms who depend on being able to attract and keep talented young professionals. A centralized organization relying mainly on standardization of work processes and hierarchy for control is hardly suited for this purpose and is therefore also a source of risk.

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## **THE ROLE OF CULTURE IN INTERNATIONAL NEGOTIATIONS**

**LUMINIȚA VOCHIȚA \***

**ABSTRACT:** *This paper attempts to examine the issues surrounding the role of national culture bias and the concept of distance among Hofstede's cultural dimensions on the ability to reach integrative agreements in international business arrangements between firms. Relational models of negotiating and the role of culture are presented as well as several managerial implications and propositions for future research.*

**KEY WORDS:** *national culture, cultural dimensions, negotiation model, individualism-collectivism, power distance, uncertainty avoidance, synergistic negotiations, integrative solutions*

### **1. INTERNATIONAL BUSINESS, NEGOTIATIONS AND CULTURE**

International business, on a macro level, is conducted within a framework of trade agreements derived from negotiations among governments. When a government, in such a negotiation, wins concessions from another government, these concessions are typically harmful to consumers in the country whose government "won" the concession. Such concessions are usually agreements by other countries to limit the intensity with which foreign firms will compete in the export market.

These concessions help special interests such as domestic firms by shielding them from competition, but harm the majority interests of the nation by imposing higher costs on domestic consumers. This is demonstrated through sugar prices in the U.S., or the retail price of rice in Japan, both of which are well in excess of world market rates (Boudreaux, 1995). A negotiation model which encompasses cultural dimensions could be an appropriate means for effectively obtaining a balance between special and majority interests of each nation in international business agreements. Ideally, a global trade framework should take into account differences in cultural

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dimensions, and attempt to use them as a negotiating asset in the pursuit of mechanisms to facilitate an integrative outcome oriented system of international business.

Culture, defined as "the collective mental programming of people in an environment," (Hofstede, 1980), refers to a conditioning of a group of people which will influence a lifetime of thought processes, behavior, and actions. Culture is an ingrained behavioral influence which affects the way collective groups approach, evaluate, and negotiate opportunities for international business.

This paper attempts to examine the issues surrounding the impact of national culture on the ability to reach an agreement in international business negotiations. It is my hypothesis that national culture will produce certain predetermined biases which, when combined with the degree of distance between cultural dimensions and the negotiating style employed, predictably affect the negotiator's ability to reach integrative (win/win) agreements.

National culture resides in deeply-rooted values (Hodgetts 1993), and its distinctions are found to vary widely. The pursuit of establishing characteristics to define and measure these distinctions has been an ongoing focus of many research efforts. Geert Hofstede (1980) developed a pioneering and widely accepted classification scheme which breaks national culture into the dimensions of power distance, uncertainty avoidance, individualism-collectivism, and masculinity-femininity.

Hofstede's (1980) first dimension, power distance, examines a culture's tolerance for accepting unequal dispersions in power between members of organizations. The second dimension, uncertainty avoidance, is based upon a society's degree of uncomfotability with ambiguous, unpredictable situations, and its pursuit of stabilizing activities to avoid such situations.

The individualism-collectivism dimension measures a society's degree of identification with, and level of dependence on social frameworks. Hofstede's final dimension uses the terms masculinity and femininity to describe groupings of characteristics such as assertiveness, wealth, people, and quality of life that a society places value on (Hofstede 1980, 1991).

Negotiation, a process through which agreement may be reached on matters of mutual interest, is essentially the art of persuasion (Pruitt, 1981). As such, persuasion can result in one of three distinct negotiating outcomes - integrative agreements, distributive agreements, or no agreement. Integrative outcomes result in the production of increased benefits through the negotiation process which are in excess of the sum of inputs.

An example of this is the generation of new solutions through the negotiation process which satisfy or exceed each party's interests. This outcome is contrasted by distributive outcomes which simply result in a division of the original inputs among the negotiating parties. Here, no new solutions are produced through the negotiation process. This is usually due to the fact that each party is preoccupied with defending or expanding its position.

Numerous cross-cultural endeavors end in failure - due mainly to a negotiator's inability to accept and adapt to the underlying beliefs of the other party (Currie 1991). Since international business negotiations are more complex than domestic, due largely to this added dimension of cultural diversity, one proposed solution to the limitations of principled negotiating is the synergistic approach (Adler 1991).

The culturally collaborative synergistic style of negotiating emphasizes that understanding the other parties, their interests, and their assessment criteria, becomes more difficult due to cultural and communication differences. However, the diversity of culture may enhance the generation of creative options for mutual gain. Based on these assumptions, synergistic negotiating suggests that if cross-cultural differences are recognized, clearly communicated, and understood by the negotiator, they can be the basis for constructing win-win agreements (Adler, 1991).

The synergistic negotiating process includes the stages of preparation, relationship building, information exchange, negotiation, progression, and agreement. Of these stages, research indicates that information exchange, which is directly affected by cultural dimension differences, is one of the most influential factors in achieving integrative solutions when attempting to negotiate international agreements.

## **2. RELATIONSHIP BETWEEN CULTURAL DIMENSIONS AND INTERNATIONAL NEGOTIATIONS**

While we have examined the evolution of an approach to achieving integrative outcomes from international business negotiations, theoretical limitations continue to exist with cross-cultural applications of principled negotiating and its internationalized modification of synergistic negotiating. These limitations are rooted in the role of culture through its influence on communication styles and cognitive biases. These two effects of culture impact the very effectiveness of the negotiating process.

The various dimensions of culture examined previously are fundamental to obtaining not only a proper understanding of the cultural background of various nations, but also in determining which biases may be inherent in them. With most international business negotiations research focusing on the relationship between culture and behavior, few studies have examined culture in reference to the outcome of negotiations (Natlandsmyr & Rognes 1995).

This demonstrates a need for additional research in to the role of culture in international business negotiations. While most models assume outcome is based upon aspects of negotiation style or preparation, certain negotiation outcomes may not be obtainable in various situations.

Most past research identifies negotiation as a product of antecedent inputs and static or synergistic solution production which can result in integrative, distributive, or null outcomes (Adler 1991; Natlandsmyr et al., 1995; Pruitt 1981;). Antecedent inputs include cultural biases, which can be perceptual and cognitive, motivation level, and negotiation behavior (Natlandsmyr et al. 1995). Common biases center on a culture's

ability to perceive integrative outcomes and tolerate risk (Bazerman & Carroll 1987). A culture which is highly risk averse and which perceives negotiations as static (zero-sum) will have great difficulty in participating in synergistic negotiations (Natlandsmyr et al. 1995). In contrast to this static/averse cultural perception, research indicates that cultures with a less competitive / individualistic, problem solving orientation are more predisposed to synergistic negotiating. This role of competitiveness as an issue in the pursuit of integrative outcomes is further supported by some of Pruitt's (1990) more recent work on competitive orientation as an obstacle to integrative solutions.

This review of culture and its role in negotiation behavior leaves us in need of a more encompassing cross-cultural framework for negotiation. We have examined the existence of dimension distance differentials across national cultures, and the effects these produce. Prominent researchers point to the economic utility of knowledge regarding national culture profiles (Franke, Hofstede, & Bond 1991).

We have learned from previous studies that cultures with high masculinity, (assertive and competitive behavior), seek distributive outcomes and will have great difficulty with a synergistic negotiation process. Cultures with high uncertainty avoidance and power distance will be likely to accept distributive outcomes and less likely to be comfortable with a synergistic negotiating process. This impact of culture through the influence of cognitive bias creates a challenge to negotiating strategy and a void, which seeks a model that can predict and obtain integrative outcomes.

### **3. CONCLUSIONS AND PROPOSITIONS**

What role can previous negotiation models such as the synergistic negotiating style play in achieving integrative outcomes given the impact of cultural bias? Such a challenge provides many avenues of approach. One approach which could be pursued is to examine the relationship among the inputs of the cultural dimensions of the negotiators, the negotiation style utilized, and the type of outcomes achieved.

Another approach could examine the relationship among the distance between cultural dimensions of the negotiating parties, negotiating style, and the type of agreement outcome. Due to the diversity of approaches and the wealth of research questions within this area, I will limit this paper to examining the role of inter-national cultural dimension distance and negotiating style upon the type of outcomes produced. The formal research question may be "Is there a relationship between cultural distance and negotiating style upon the type of outcomes produced in cross-cultural negotiations?"

Initially we propose that firms from nations that are similar on Hofstede's dimensions will come to agreement in a shorter period of time than firms from dissimilar nations. Nations high in masculinity, uncertainty avoidance, power distance, and individualism will be unable to, or have great difficulty engaging in synergistic negotiations and achieving integrative outcomes. Nations which are collectivist, feminine, have low uncertainty avoidance, and a lower tolerance for power distance

will be more predisposed to synergistic negotiating and to achieving integrative outcomes. Note this relationship between group type and synergistic negotiating ability is diametrically opposed to the relationships that occur in traditional (positional) negotiating for these groups.

Negotiations between nations with low inter-nation cultural dimension distance will reach agreement with integrative outcomes more often. Negotiations between nations with low cultural distance will have shorter time spans. Proximity of cultural dimensions means similarities in the cognitive and perceptual biases, communication style, and negotiation behavior of the parties involved in the negotiation. These similarities will produce a higher level of comfort among the negotiators which will serve to facilitate an enhanced negotiating process.

Negotiations demonstrating high levels of synergism will produce integrative outcomes more often than negotiations without. Negotiations demonstrating high levels of synergism will reach integrative agreements in shorter time spans than traditional negotiations. Negotiations which have strong relationship building will reach integrative agreements more often and in shorter time spans than negotiations without.

So, we have attempted to demonstrate how culture interacts with the negotiation process to produce integrative, distributive, or null outcomes. These ideas may serve as a useful tool for negotiators at both the national and firm level to facilitate cross-cultural arrangements which produce integrative outcomes. This stream of research is fundamental to the expansion of world trade and the enhancement of international trading arrangements.

Further evolution of our system of international business, to a framework which facilitates integrative outcomes, has the potential to eventually alleviate the economic concerns and solve the challenges among the various national cultures of the world.

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## **ROLE OF TECHNOLOGY IN NATIONAL GAIN FROM INTERNATIONAL TRADE**

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**ABSTRACT:** *This paper analyses how the technology transfer and development influence the country's benefit from international trade. Knowledge developed in one country has positive effects on other countries through trade. Trade leads to the spread of international technology for three major reasons. First, technologically more sophisticated intermediate goods become available for production. Second, the technological specifications of intermediate and final goods developed abroad can be studied and the intrinsic knowledge can be acquired. Finally, trade favours person-to-person communication as an important vehicle of knowledge transfer. However, countries have different abilities to absorb technology developed elsewhere. A wide range of policies can be used to foster technological progress at the national level. The multilateral trading system (and international organizations more generally) can play a role in facilitating international technology transfers.*

**KEY WORDS:** *trade theories, technological progress, "incorrect" specialization, differential gains, policies to foster innovation, technological knowledge*

### **1. INTRODUCTION**

From the discussion of major trade theories and associated empirical evidence, it seems reasonable to conclude that the gains from trade are universal – that is, shared among all countries participating in international trade. However, several studies have highlighted the possibility that, under certain circumstances, one country may gain less than its trading partner or even lose when trade is liberalized (although global gains always remain positive). This may be of obvious concern to policy-makers trying to emphasize the benefits of trade opening.

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Two key aspects in the distribution of gains from trade across countries appear to be countries' relative size and level of technological development, and the relationship of these issues with other relevant factors. For instance, differences in the availability of resources may influence the choice of technology. The latter may change rapidly in open economies and, therefore, alter the initial situation of gains from trade. Since the economic size of a country cannot easily be changed, at least in the short-term, technology appears to be an important factor shaping a country's expectations of trade benefits. Technological leadership can even make up for size disadvantages. The theoretical literature emphasizes that while the general presumption is that trade liberalization enhances innovation and world growth, several counteracting effects may be at work. This implies that, at least in theory, it is possible to have varying effects on growth, whereby some countries benefit while others are negatively affected by a reduction in trade barriers. The evidence points to the limited relevance of these counteracting effects. In particular, the evidence at the firm-level in both developed and developing countries for several trade liberalization episodes attests that trade reforms improve the growth of plant productivity and, hence, the overall growth of the economy.

Nonetheless, policy-makers still believe that trade may lead to "incorrect" specialization. The notion of "incorrect" specialization is based on the assumption that the spread of technology across borders is limited while empirical literature finds that knowledge developed in one country has positive effects on other countries through trade. However, a possible counter-argument could be that while this form of technology transfer is present in general, not all countries may benefit from it.

From a policy perspective, the question remains as to whether a country should welcome the possibility to trade with technologically advanced partners or shun it, and what it can do to reduce technological differences. By the same token, it must be asked how trade itself can act as a mechanism for technology transfer and what policies may encourage such exchanges. These issues are discussed in turn.

## **2. TECHNOLOGICAL DIFFERENCES AND INTERNATIONAL TRADE**

Traditional approaches, be they Ricardian models or variants of the Heckscher-Ohlin framework that include technological differences, have emphasized that the more "different" countries are from one another, the higher is the potential for mutual gains from trade opening. Smaller countries also prefer to trade with larger countries, as they reap more of the surplus if the terms of trade change in their favour, as is likely to happen. As far as dynamics are concerned, it was noted that a country that is large enough to influence world prices via the volumes it exports, i.e. even a "smaller" country supplying a highly specialized product, can see its terms of trade worsen if it experiences faster capital accumulation or productivity growth than the rest of the world. Hence, "export-biased" growth can hurt a country that is sufficiently large to influence its terms of trade.



Building on the idea of import-versus export-biased growth, Krugman (1990) has argued that catching-up by technologically backward countries may lead to welfare reductions in the advanced country, whereas technological progress in the leading country benefits all. In this model, technological progress is biased towards technology-intensive industries. In other words, progress in the technological leader is biased towards goods that other countries do not produce themselves (and, hence, they benefit from lower prices, while the leader's terms of trade loss is outweighed by its productivity gains). By contrast, technological progress in the less advanced countries leads to competition with the leading country's current exports, and while production of new exports in these countries also benefits the technologically advanced country (since they have become cheaper), the leader risks paying more for its traditional imports, i.e. technologically less sophisticated products, in view of real wage increases abroad. This line of thought has received renewed public attention, when Nobel-prize winner Paul Samuelson argued that the recent rise in outsourcing to developing countries could wipe out the gains from trade in the industrialized world (Samuelson, 2004).

While agreeing that productivity improvements in a low-wage country in relation to a previously imported good can hurt the former exporter, Bhagwati et al. (2004) maintain that the outsourced services in question (before the arrival of the internet) used to be non-traded and did not constitute exports by advanced economies. Hence, the benefits from importing cheaper services arise in the usual manner for the outsourcing countries. Nevertheless, Krugman's (1990) basic analysis is still valid if developing countries become better at producing the goods currently exported by advanced nations.

Bhagwati et al. (2004) contend, however, that with both sides producing a range of products in the real world, consumption and production effects of growth tend to offset each other and leave the direction of terms of trade changes undetermined. With net effects being modest, the authors discount the possibility of significant terms of trade changes following productivity improvements and skill accumulation abroad. The "new" trade theory and more recent advances mostly do not consider country differences and the consequences that these may entail. Where certain approaches have allowed for such differences, the more advanced country usually realizes larger gains from international trade, in contrast to the scenarios discussed above. In the monopolistic competition model, owing to the presence of scale economies and transport costs, the gains from trade for countries that are similar in all respects apart from size may be different. The home market effect together with weak counteracting forces can lead to an agglomeration of industry in the larger trading partner. Technological superiority resulting in higher productivity could be expected to further promote the size advantage of a trading partner by raising its market potential.

In the heterogeneous firm model with country differences, a higher level of technological development in the home country makes it harder for trading partners to enter that market. This is akin to a situation where the initial level of competition is already high (e.g. because the market is larger) and it is more difficult for foreign

competitors to find their niche. At the same time, firms from a technologically advanced country also find it easier to compete in foreign markets, and the overall productivity effects from firm selection and share-shifting are amplified. Demidova (2006) notes that technology has to be understood broadly in this context to include, for instance, an inadequate trading infrastructure that affects the overall level of firm productivity in a country.

In short, each of the various trade theories is built on a specific, narrow set of assumptions and abstracts from different aspects of the situation in the real world. It is quite natural that the theories explaining the gains from trade do not offer a unified view of the implications of country differences. Reality is likely to be a complex overlay of the different factors that each framework identifies as an underlying rationale for trade and of the different terms of trade and real income changes that may follow. The degree to which differential gains are realized across countries also depends on the prevalence of other economic conditions, such as the flexibility or rigidity of labour markets, that are often simplified or not explicitly considered in such models.

However, especially from a firm-level perspective, it seems fair to say that policies fostering technological progress, be it in the narrow sense of research and development (R&D) promotion or in a broader sense that includes public services and infrastructure, strengthen a country's position in international trade. What can policy-makers do to promote a country's technological advancement? The literature has shown that the rate of technological change is determined not only by domestic innovation but also by the international diffusion of technology, particularly in developing countries.

Many of the policies to foster innovation domestically are also conducive to encouraging the transfer of technology from abroad. These include improvements in a country's education system and support for R&D (including the interaction between basic research and its application to specific uses), the provision of a regulatory environment that allows inventors to appropriate the rewards of their work, notably patent protection, and the creation of a market structure that creates the incentives for entrepreneurs to innovate and constantly improve their competitive position. Such policies seek to ensure that new knowledge can be absorbed domestically and that foreign providers are ready to do business in the first place. They matter to all of the different mechanisms through which technology may be transferred, be it trade, foreign direct investment (FDI) or partnerships. Broader policies also have an impact. For example, infrastructure investments may be particularly important to attract FDI, and labour market regulations and the efficiency of financial institutions may play a key role in ensuring the widespread diffusion of technology within a country.

Most of these policies are implemented at the national level. However, in certain policy areas international cooperation and coordination may be beneficial. Within the WTO, a Working Group on Trade and Transfer of Technology has been established in order to consider possible recommendations that might be taken within the mandate of the WTO to increase flows of technology to developing countries. For

example, some members expressed the view that a number of provisions in the Trade-related Aspects of Intellectual Property Rights (TRIPS) Agreement had an important role to play in technology transfer. The Aid for Trade initiative was also mentioned in the context of capacity building and the development of human capital. Hoekman et al. (2004) have raised the question as to what extent special and differential (S&D) treatment is needed, for instance in order to subsidize R&D efforts, but conclude that, in general, WTO rules do not constrain many of the policies commonly used to encourage the international transfer of technology. To the contrary, policies that reduce trade barriers and uncertainty in international trading relationships have the potential to increase the international transfer of technology. This has been demonstrated in a number of empirical studies finding that increased trade flows promote technology transmission not only via direct trade links between countries but also indirectly through the network of trade relations by partner countries (Keller, 2004; Lumenga-Neso et al., 2005).

### **3. INTERNATIONAL TRADE AND TECHNOLOGY TRANSFER**

The following sub-section reviews how the international flows of information that accompany trade imply that technical improvements in a sector developed in one country may improve productivity in other countries. This channel is independent of whether or not the receiving country is active in the same sector. However, while international trade increases exposure to foreign knowledge, not all countries are in an equal position to take advantage of it. This sub-section also examines the role of the world trading system (and of international organizations more generally) in facilitating technology transfers. Unfortunately, technological innovations produced in advanced economies may not respond to the needs of developing countries. Technological knowledge is embodied in products. Trade leads to the international spread of technology because: (a) technologically advanced intermediate goods become available for production; (b) the technological specifications of intermediate and final goods can be studied; and (c) it favours person-to-person communication. There is an important difference between technology acquired via the use of advanced intermediate inputs and that acquired via the learning of the technology embodied in a product. In the former case, employing the foreign intermediate good involves the implicit usage of the design knowledge that was created with the R&D investment of the foreign inventor.

The technological knowledge of the blueprint is embodied in the intermediate good, and the use of the technologically advanced intermediate good increases the importing country's productivity. As long as the intermediate good costs less than it would cost to produce domestically, which includes the R&D costs of product development, there will be a gain from having access to foreign intermediate goods. This gain is sometimes called "passive" technology spillover (Keller, 2004). Although an importing country has access to the results of foreign R&D activity, the technological knowledge embodied in the imported intermediate good as such is not

available to domestic inventors, only the manufactured outcome of it is. This contrasts with the situation when the importing country acquires the knowledge embodied in the imported good, whether intermediate or final. Knowledge is acquired by reverse engineering, copying, or communicating with the suppliers of the product. In this case, the knowledge obtained through communication and/or the copying of imported goods will probably not be lost even if communication or imports are interrupted. Once the technology has been acquired, the foreign technology remains in the country. This process of learning is likely to be less expensive than the original expenditure needed to create the knowledge, and therefore a gain is associated with it. This gain is commonly defined in economic literature as an “active” spillover, since it requires the active participation of the importer.

Notwithstanding the role of international trade in the spread of technology, in particular by increasing countries’ exposure to advanced technologies, there are still important reasons for productivity differences across countries. Economic studies have emphasized several factors determining whether technology is successfully acquired by another country. These are associated with the notion of “absorptive capacity” – the idea that a firm or country needs to have certain types of skills and institutions in order to be able successfully to adopt foreign technological knowledge. As technical knowledge is generally needed to use more advanced technology, a certain level of domestic know-how (Caselli and Wilbur, 2001; Hanushek and Kimko, 2000) and domestic R&D (Griffith et al., 2000) is a prerequisite in order to benefit from technology transfers. Equally important are an effective business environment, macroeconomic stability and good governance since taking advantage of knowledge spillovers requires risky investments that depend on these factors (Acemoglu et al., 2007).

Is there a role for international organizations in promoting the spread of technology? Recent studies have pointed out that there is often a mismatch between technologies developed at the world frontier (i.e. in the advanced economies that produce most innovations) and the needs of the adopting country. The lack of effective enforcement of intellectual property rights and the inability to pay for innovation in less developed economies lead firms in the advanced economies to target the needs of their own domestic markets (Acemoglu and Zilibotti, 2001, and Bonfiglioli and Gancia, 2007). As a result, technologies that travel through trade may not be appropriate for importing countries.

Inappropriate technologies limit the extent of technical development. Importantly, these problems cannot easily be solved by individual countries’ policies. For instance, the enforcement of intellectual property rights may imply a prisoner’s dilemma whereby each developing country prefers other countries to enforce property rights in order to encourage producers in advanced economies to manufacture technologies more appropriate to their needs. This suggests an important role for international organizations in coordinating the enforcement of property rights and in encouraging the production of technologies more appropriate to the needs of less-developed countries (Acemoglu and Zilibotti, 2001). As free-riding problems in patent

policy are more severe the larger the number of independent countries involved in the global economy, the significance of an international patent agreement increases with the number of sovereign decision-makers (Grossman and Lai, 2004).

Several issues on the role of the multilateral trading system (and of international organizations in general) in promoting the international spread of technology are still open to discussion. These issues include the meticulous design of intellectual property rights agreements (e.g. differential rules for least developed countries, harmonization of criteria for patentability and novelty), the role of other policies (e.g. subsidies, temporary movement of people, monitoring), and the extent to which such policies should be embedded in a multilateral trade agreement. The discussions held over the past few years in the Working Group on Trade and Transfer of Technology have brought to the fore many of the complexities involved.

#### **4. CONCLUSIONS**

Technical knowledge can be acquired through international trade. Studies that focus on international knowledge spillovers find that knowledge developed in one country has positive effects on other countries through trade. Trade leads to the spread of international technology for three major reasons. First, technologically more sophisticated intermediate goods become available for production. Second, the technological specifications of intermediate and final goods developed abroad can be studied and the intrinsic knowledge can be acquired. Finally, trade favours person-to-person communication as an important vehicle of knowledge transfer.

However, countries have different abilities to absorb technology developed elsewhere. Studies have emphasized several factors determining whether technology is successfully absorbed across countries. These factors are associated with the idea that a country needs to have certain types of skills (e.g. human capital) and institutions in order to be able to adopt foreign technological knowledge.

A wide range of policies can be used to foster technological progress at the national level. The multilateral trading system (and international organizations more generally) can play a role in facilitating international technology transfers. Policies to improve a country's ability to adopt technological innovations must be targeted at its educational system as well as its business and regulatory environment. One particular problem related to the transfer of technology is that innovations produced in advanced economies may not respond to the needs of developing countries. Such a mismatch may result from insufficient property rights protection. This suggests a role for international organizations in promoting international technology diffusion through adequate property rights enforcement. Other areas where international organizations can help include the coordination of development aid to build infrastructure and human capital.

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## **MANAGEMENT SYSTEM COMPONENTS RELATED TO SERVICE PROVIDING ORGANIZATIONS FROM DEVELOPED COUNTRIES**

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**ABSTRACT:** *The Management system related to service providing organizations from developed countries contains a series of components to be approached: the service market, service provision, organization's image, culture and philosophy of the organization to provide the service. Within a market economy, the activity of any organization providing public or private services is decisively determined by the market, both in terms of demand for necessary resources and in terms of provided results, services respectively. The provision of services implies a careful analysis of the environment of organization's activity, of the human, material and financial resources involved, closely connected to the continuous concern of the management for client satisfaction and for creating the best achievable image of the organization.*

**KEY WORDS:** *service management, client satisfaction, public and private services, service market, service quality.*

An effective management system of the service providing organizations implies approaching the following components with maximum of seriousness and responsibility: service market, service provision, organization's image, culture and philosophy of the organization providing the relevant service.

### **1. Service market**

The service market is the frame wherein both the demand for service of the clients, as natural or legal persons, and the supply of services provided by various public or private organizations are expressed. In such context, it is necessary for the management of the service providing organizations to identify and analyse the demand for public and private services existing on the market.

The demand and supply of services existing on the market are influenced by several factors:

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- price of supplied service,
- price of the substitution services,
- changes in clients' preferences,
- the segment of population served by the organization,
- organization capacity to invest in order to improve the quality or to diversify the service,
- managers' forecasts on price policy,
- number of suppliers of public and private services,
- technical capacity of the organization specialized in service performance and supply.

Unlike private organizations, which provide services mostly intended for certain identified market segments, public institutions are meant to cover a larger area or even the entire national territory, as they meet the general public interest through their object of activity and special status, and in some circumstances, they are the sole competent organizations in providing unique public services.

## **2. Service provision**

This component analysis implies three elements to be identified: human resources within the service organization; client; technology and equipment employed in service planning, performance and provision process.

*a) Human resources within the service providing organizations.* The assignment of the service providing organizations' managers is a complex one, since they must identify and employ appropriate management methods and techniques and must implement an adequate management style in order to mobilize and direct the human resource potential within organization in view of performance and provision of a quality service. Undoubtedly, it is necessary for the managers to pay more attention during the process of recruitment and selection of the personnel able to identify specific social needs of larger or smaller groups or the society in its entirety, and it is also necessary to possess skills in identifying and using appropriate methods and techniques enabling the development of the mobilized human resources for the purpose of performance and provision of relevant services.

The main criteria to be considered during human resources selection within an organization, generally and particularly in a public institution are as follows:

- ability of the human resources to identify and understand the system of the changing social needs and to supply a service at the client's requirements;
- the degree of candidates' flexibility in terms of mentality and behaviour;
- employees' capacity to innovate in order to find solutions to the specific issues of the citizens and society;
- ability to identify the appropriate modalities to satisfy the needs based on distributed resources, given the fact that the resources available to the organizations, and to the public ones in particular, are limited in view of performance and provision of services.



**b) Client.** The relationship with the client implies a plus of attention from the managers of the public or private service providing organizations. Diagnoses on clients' social issues are made and, based on such frame, there are identified the causes generating such issues, levels of client satisfaction, client suggestions and the plus of value they can benefit thereof. Thus, information on satisfaction level in regard to the services provided on market can be identified through opinion surveys conducted on service consumers. The clients' feedback represents signals for organizations' managers. They can detect the strong and weak points of the service performance and provision processes more easily and can analyse the generating causes and consequently take actions in order to improve the relation with the client. Based on knowing the consumers' evaluation criteria of a service, learning their needs, satisfactions and expectations, the experts from marketing departments of the organizations are able to provide the managers with realistic recommendations.

Frequently, for the purpose of attracting clients, the service providing organizations employ the technique of immediate provision of service to the client and of granting advantages consisting of additional services, priority in relation with the organization, etc.

**c) Technology and equipment .** The employment of electronic equipment and appropriate software ensures the smoothness and efficiency in developing specific activities of the service performance and provision process. Information represents the working material for managers in decision substantiation, and the processing of primary data which were obtained from outside and inside the organizational system with the assistance of specific techniques and programs enables a better coordination of the processes so that the outcome would be materialized in a quality service corresponding to the client's demand.

During the planning process, the application of modern informational techniques facilitates the identification, analysis and processing of the information from the service market and also the substantiation of forecasts, strategies and programs intended for supplied services, price of services and service promotion.

During the service performance process, the application of informational techniques provides a series of advantages, such as: shortening the duration of service performance process, improvement of service quality, reduction of service cost, improvement of organization image as perceived by clients, quality enhancement of the managers' decisions, improvement of communication process, diminution of bureaucracy in service performance process, diminution of informational distortions.

The usage of informational techniques in services delivery can reduce the time between conveyance of the client's demand and satisfying the need by supplied service. All acquired information contributes to the final decision of the client on choosing a service, if there is such possibility to choose a supplier of similar services, at a lower cost and better quality.

### **3. Organization image**

Another significant component of the management system of the service providing organizations is organization image. Creating the image of a certain organization or a provided service constitutes another concern of the managers of the organizations activating on service market, especially in case of competition. In case of the administrative institutions providing unique public services to the citizens, the concern and responsibility of the managers is amplified due to the fact that monopoly upon a certain service binds the supplier even more in front of the client.

Mainly, the outline of an organization or service image depends on several factors:

- Quality of the service provided by the organization,
- Capacity of the organization's managers to identify the actual demand for services for specified periods of time;
- Organization's flexibility and management,
- Creative capacity of the management team to plan, perform and provide the services.

The image can be influenced by the organization's culture and human resources, provided services, market segment covered by organization or specific activities involved.

The market studies conducted within marketing field show that the consumer has a certain representation for each need, representation which is the image of the support intended to satisfy that need – the virtual image of the service. Unfortunately, there are maintained significant differences between the virtual image of a service and the real image within the public sector, especially the public sector in Romania; this is due to the insufficient concern of the public managers and not only them for recognizing the virtual image and getting closer, and overlapping the actual image.

### **4. Culture and philosophy of the organization providing the service**

Specialists' researches proved that elements of the organizational culture had a significant influence upon the organization performances regardless of their field of activity. Furthermore, the studies showed that fundamental values of the organizational culture are determined by the content of the national culture.

The approach of organizational culture issuer as part of the service management system proves to be difficult and requires special consideration from managers of the service providing organizations. Strong service providing organizations do not rely exclusively upon the rational tools of the scientific management in order to achieve a higher productivity. Instead, they use the culture (profound convictions, shared values, various formalities) in order to inform and reach the clients and to sustain the performance and provision of a quality service. In a public or private organization possessing a strong culture, the managers are aware of the fact that human resources represent the key to success, and the organizational climate the human resources run their activity has a determinant effect upon individual performances.

The managers, in regard to public or private organizations and political representatives in regard to administrative institutions, must build and conduct a culture reflecting the organization's mission, its philosophy and must assist the organization in establishing a certain position on the market. By doing so, the great international companies have achieved consistently remarkable performances. Consequently, the building of the organizational culture starts with ascertaining the organization's fundamental values to be shared to the employees through daily activities and through overall conduct of the managers. They are able to explicitly express the type of conduct expected from their co-workers and subordinates and can apply specific methods and techniques in order to determine the formation of the expected conducts. A strong culture protects an organization against too fast influences of the environment pressures, thus providing the necessary stability.

In conjunction with the organizational culture concept, the philosophy of the service organization emerges. This includes a system of values created as a result of the answers given to the following questions:

- Which is the clients' opinion on services provided by the organization?
- Which is the competition view on quality of the services provided by the organization?
- Which is the organization's management position towards the employees?
- What do the employees think about their own organization?

From Richard Norman's perspective the elements which are essential to an organization's philosophy are the following:

- Quality and excellence orientation within the service performance processes. The organizations' managers possessing strong cultures do not accept mediocrity; therefore, quite often, they cross over the hierarchy and interfere every time they find the employees' conduct not to be compliant with the established cultural values of the organization.
- Client orientation. The managers of the service companies came to understand that services cannot be sold once for all their clients; therefore developing a permanent relation with the client is part of a sustained marketing process. At the same time, the managers understood that all these clients were created in time following a long and laborious process. Consequently, the investment in developing the relation with the client represents a significant step for a service organization.
- The investment in human resources and usage of certain techniques in relations with employees. There are many organizations where managers are concerned with application of sophisticated management methods and techniques but disregard the essential aspects, such as knowing the values of human resources and strengthening employees' trust in organizational values, as well as strengthening organization's trust in its own employees.
- Focus on distinctive values of approach within a generalizing perspective. This means that it is required to permanently follow and continuously survey the trends

and changes in the system of social needs in order to run perfectly an organization and to consolidate its culture and philosophy within a permanently changing environment.

Consequently, the culture and philosophy, among other components of the management system of the service providing organizations, play their well defined part in achieving the foreseen objectives.

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\* *Prof., Ph.D., University of Petroșani, Romania*

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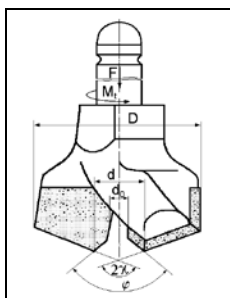


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