THE QUALITY OF SERVICES OF GENERAL INTEREST IN THE NORTH-EAST REGION OF ROMANIA: SPOTLIGHT ON THE CONSUMERS’ PERCEPTION

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ABSTRACT. The services of general interest (SGI) envisage those services able to respond the obligations derived from the public interest criterion, being usually divided into two categories, which refer to services of general economic interest and social services of general interest. This paper proposes an inquiry into the main characteristics of the SGI in Romania at national and territorial level, with a particular focus on the North-East region. More precisely, it aims to investigate the consumers’ perception on quality of the existent SGI in the North-East region. The methodology mainly focuses on a questionnaire designed within the ESPON project the paper is based on, for all envisaged regions in the participant countries. The results show that in general respondents have a positive perception on the quality of SGI in the North-East region. For example, in general, the quality of the electricity network, of the water supply network, of the mobile phone (network coverage), of Internet (broadband), of the services provided by the local public administration, by pharmacies, by social care, by kindergarten/pre-school, by primary school, by posts, by libraries is considered to be good. However, there are also SGI considered neither good nor bad, in relation to their quality; it is, in general, the case of the local and main roads, of the waste disposal, and of the telephone network (fixed line). Finally, the paper identifies future challenges related to the SGI at national and territorial level, offering useful suggestions to the policy-makers in this field.

JEL Codes: H54

Keywords: services of general interest; Romania; quality; regional development
1. Introduction

The Territorial Agenda 2020, which aims to substantiate the territorial dimension of the EU’s Cohesion Policy in the 2014-2020 program period, has established the services of general interest (SGI) as one of the keys able to generate added value to regional and local development in the member countries (Lindblat, 2011). These services have as the main binding the dominant power of the public authorities (European Parliament, 2004) and refer to utilities such as water, electricity, gas, transportation, postal services and telecommunication, etc. as well as education, health and social care, social housing, labour market services, etc. The former category is usually known as “economic SGI” whereas the latter is addressed as “social SGI.”

Compared to the situation existing before 1990, characterized by the full provision of SGI by public authorities, in the post-communist Romania the business sector is also involved in this field, usually via public-private partnerships. In terms of competences relating to the administration of SGI, they are distributed between LAU1 units (i.e. counties – “județe”) and LAU2 units (i.e. localities – cities, towns and communes). For example, services such as administration of local airports, specialized social services for the elderly, administration of public interest health units of county interest, etc. are administered by counties, whereas administration of road infrastructure of local interest, local public passenger transport, sewage and waste water treatment, etc. are in the charge of localities. There are also competences shared with central authorities (e.g. administration of road infrastructure of county interest, primary and specialized social services for child protection, etc. at LAU1 level and thermal power supply produced in a centralized system, pre-university education, social and youth housing, etc. at LAU2 level), competences shared by local authorities with county authorities (provision of services of public utilities through regional operators), and competences delegated by the state (payment of allowances and benefits for adults and children with disabilities, delegated to local authorities) (Constantin et al., 2012).

Based on these overall considerations, this paper examines the current situation of Romania’s SGI at national and regional level, the North-East region being particularly envisaged. The main emphasis is put on the consumers’ perception with regard to the quality of SGI in the North-East region. The methodology is mainly based on a questionnaire designed within the ESPON project 2013/1/16 “Indicators and Perspectives for Services of General Interest in Territorial Cohesion and Development,” being applied for all selected regions in the participant countries. With this aim in view the paper is organized as follows. In the beginning, an overall evaluation of the SGI provision at national level and in the North-East region is performed. Then, the focus is placed on the perception of the North-East region’s
consumers in terms of service quality as well as accessing the quality (like durability, reliability, functionality) of the technical infrastructure or services provided in the selected localities. The last section concentrates on brief conclusions and policy recommendations.

2. Overview of the SGI Provision at National and at North-East Region Levels

SGI in Romania, implicitly in the North-East region have a series of particularities, many of them being related to administrative issues, as outlined in the introduction. Further on, in this section a brief statistical analysis of the provision of a series of economic and social SGI at national and North-East region levels is accomplished, with a special focus on different aspects directly referring to consumers, such as accessibility issues.

Thus, in case of the economic SGI, taking into account the gas services, it can be stated that even if it is considered that the gas market is entirely free, in reality only 56,5% (as volume, not as consumers number) of the market is in this situation and consumers – key players on this market – can negotiate their contractual terms. For example, in 2010, according to ANRE (2011), household consumers had a remarkable share (respectively, more than 20%) in the structure of the gas consume in Romania, occupying the third place after the electric and thermic energy producers and the chemical industry. An important aspect relating to this service focuses on prices, Romanian consumers benefitting from the lowest price for gas in the EU at the moment. Also, Romania has a low level of taxes for electric power, lower values being registered only in Bulgaria and Estonia. Furthermore, considering the accessibility issues, improvements have been made. For example, the number of localities that are connected to the gas network increased by 37% (from 609 to 835) in 2009 compared to 2002 (National Institute of Statistics, 2011). A similar increase has been also recorded in case of the total length of the gas distribution network (from over 24 thousands km in 2002, to over 33.3 thousands km in 2009). Although it is the least developed region of the country, from the gas distribution network connection point of view, the North-East region is not on the last place. For example, in 2002, almost 32% of 1.3 million households of this region were connected to the gas network. The South-East region and the South-West region recorded 6 percentage points (pp) less, while the South Region 2pp. In what concerns the accessibility to electric energy, according to the National Institute of Statistics (2004), in 2002 in Romania 97% of the households had electric power installations, with important differences by residence environment (99.2% in urban households and 94.7% in rural households), the North East region being the least electrically connected
area. Thus, 95.1% of the households had electric power installations. The share in the urban areas of the North-East region was closer to the national average (99.2%) while the rural areas in the same region registered the national minimum of 92.3%.

Very accessible services for Romanians refer to new infrastructure services. For example, according to a study carried out by the Akamai Technologies Company in 209 countries and regions around the world, Romania has no rival in Europe in what concerns the speed of connection to internet, being surpassed at global level only by 3 Asian countries, respectively South Korea, Hong-Kong and Japan. But, even if the speed of connection to the internet is very high, according to a study of the European Commission conducted in 2010, the penetration rate of the wired internet in Romania was only of 13.7%, placing it on the last place in the European Union (ITC media, 2011). However, in 2010, the number of households connected to internet increased by 4% compared to 2009.

Also, in what concerns the telephone lines, in 2009, 5.29 million of telephone landlines existed in Romania, their number increasing by 2.3% in comparison with 2008 (Birzoi, 2010) and the share of households which owned landlines in 2009 was of 65.2% (National Institute of Statistics, 2011). On the other hand, according to Wall-Street (2011), the mobile telephone services were utilized by 82% of the households in Romania in 2010, through subscriptions or prepaid cards, while the number of mobile lines decreased by 3.1% in comparison to 2009, reaching 24.6 mil lines.

In relation to the accessibility to water and sewage services, according to the National Institute of Statistics (2004), 53% of the Romanian households had running water inside the house (mostly from public network). More than one out of ten households (11.5%) had water from wells on their own proprieties, while over 29% did not own any water source. In the North – East region only 38% of the households had running water inside the house, while 6.2% owned a well on their propriety, but the majority (52%) did not have access to water on their premises. Even if the situation in the North-East region was not favourable, there are other regions in Romania where the situation was worse. However, there is an activity that placed the North-East region among the top regions in Romania. This is related to waste services, more precisely to waste recycling. The North-East region takes the second place of the eight regions of the country, by level of development, according to the recycled waste weight, after the West region.

Considering the transportation and infrastructure, in 2009 there were 81.7 thousand kilometres of public roads and over 10.8 thousands km of railways (National Institute of Statistics, 2011). Also, Romania has 17 civil airports, 16 of them being open to international traffic, 26 fluvial ports, 6 fluvial and maritime ports, and 3 maritime ports. In general, in both railway and maritime passenger transportation, their number has decreased from one year
to another, consumers being more oriented towards other means of transport, such as cars. With regard to the public transport, it consists, in general, of busses existent in all the cities in Romania, underground available only in the capital, tram and trolley lines available in general in the important cities in Romania and taxis available in almost all the Romanian cities. Due to its geographical position, the North–East region has direct access to all the means of transport, except the maritime transport.

In what concerns the social SGI, education faces a special situation, strongly related to the demographic decline in the last 20 years which has a direct impact on the school population. Thus, a decrease in the school population was registered in the university/school year 2009/2010 compared to the university/school year 1990/1991, respectively from 5.07 mil. persons to 4.17 mil. persons (National Institute of Statistics, 2011). This situation is not common to all the educational levels, being more visible in the secondary cycle of education. Also, there are exceptions from the mentioned situation, respectively the tertiary educational level that registered an increase in the number of students from 192 thousand enrolled in the university year 1990/1991 to 907 thousand in the university year 2007/2008. However, in the next university years the number of students declined, reaching the level of 775 thousand in the university year 2009/2010. Even if education faces the previously outlined situation, the labour market services face – to some extent – a positive context, although the labour market is mainly characterized by a very high level of mobility of workers. Thus, in Romania unemployment is quite low compared to other EU countries; according to National Institute of Statistics (2012) in July 2011 in Romania it reached a value of 4.8% (4.5% female unemployment rate and 5.0% male unemployment rate). In the North-East region the values are above the national average (total unemployment 5.6%, out of which female-5% and male-6.1%).

Regarding the care services, the healthcare system does not present a uniform geographical distribution of its units in Romania. There are extremely well-equipped medical units with both professional staff and medical equipment especially in university centres with tradition in medical higher education, while there are other places where a small number of medical units exist that are not even well equipped and do not have well trained medical staff. For example, although the population in the North-East region is 17.3% of the total population in terms of medical infrastructure, the specific weight of this region is less than the reference population. There are also places where no medical unit exists.
3. Consumers’ Perception on the Quality of SGI in the North-East Region

3.1 Methodology

The questionnaire proposed by the ESPON project case studies coordinator was distributed to localities of all six counties belonging to the North-East region. The questionnaire contains 10 questions and, apart from the identification question, all of them contain scale variants. The localities were chosen using a series of selection criteria able to offer a comprehensive view on the main characteristics relevant for the presence/absence, density and quality of SGI in various areas of this region. These criteria refer to: the inclusion of the locality within urban/rural environment, the area of the locality compared to the locality average in the county, the density of population within the locality compared to the locality average in the county, the rate of population aging within locality, and the locality landform.

The question that we are making reference within this paper is focused on the consumers’ perception on one hand, on the quality of services of general interest provided within the North-East region of Romania, and on the other hand, on accessing the quality (like durability, reliability, functionality) of the technical infrastructure or services provided in the respective locality. Both categories of services of general interest are analyzed within this paper, as follows: services of general economic interest, such as electricity network and sewage system, and social services of general interest, such as education and health sector.

A total of 103 questionnaires were collected from all counties of the North-East region. Their distribution by county is represented in Figure 1.

Figure 1 Percentage of the total no. of questionnaires applied in North-East region

![Graph showing percentage distribution of questionnaires by county.]

**Source:** own representation, based on the research results

The maximum percentage of respondents was registered in Vaslui county (37.04%), and at the opposite side Bacau county is encountered (4.63%).
3.2 Discussion

Annual assessment reports and the laws in force are two main tools that are used when evaluating the quality and the provision of SGI. When applying the questionnaire, specialists have outlined that several indicators of quality have been developed for SGI, being encountered in the methodology of the national plan. The evaluation of the quality of services provided by the local public sector is in most of the cases conducted internally, based on operating regulations of the services. Annually, the evaluation of the SGI is performed by local administration within the meetings of the Local Council. Additionally, an external evaluation of SGIs is made by the citizens that benefit from them. The Court of Auditors, the National Authority for Regulating Community Services on Public Utilities, the central and local public administration is among the controlling bodies of the accessibility of SGIs.

Among these tools used for measuring the quality of SGI, the consumers’ perception on their provision is the one discussed within this paper. In the following part of the paper, the consumers’ perception on certain services of general interest is exposed.

Consumers of SGI within the North East region of Romania consider that aspects related to health system (health centers, hospitals) are mainly not applicable in their locality. Apart from these cases, those consumers that have these services available within their locality have marked “good” on a scale from 1 to 5 (very weak to very good). In addition, the consumers have indicated the quality of social care as being mainly good.

As regards the educational system, two categories can be noticed: on one hand the kindergarten and primary school that are appreciated by the respondents as having a good even very good quality, and, on the other hand, the high school and university that in the majority of cases is not applicable. The justification to this situation is that the respondents were from different types of localities and according to the locality characteristics, the existence of these services is not mandatory.

Regarding the opinion of the consumers on the postal service within their locality, most of the answers have indicated a good quality. On the second place there were situated the answers that registered as “very good” the quality of this service.

3.2.1 Quality of SGI in the North-East region

The purpose of applying questionnaires to a series of localities with different characteristics was accomplished. As a consequence, there are localities that by their status do not dispose of services of general interest. In this case, the respondents have marked the answer “not applicable.” Apart from these
respondents, where the service exists in that particular locality, the majority of the consumers have appreciated that the quality of the analyzed SGI is mainly good.

3.2.2 Accessing the quality of SGI in the North-East region

As regards the quality of SGI in the North-East region, respondents’ perception is in general a positive one. For example, in most cases, accessing the quality (durability, reliability, functionality) of the electricity network, of the water supply network, of the mobile phone (network coverage), of Internet (broadband), of the services provided by the local public administration, by pharmacies, by social care, by kindergarten/pre-school, by primary school, by posts, by libraries is considered to be good. However, there are also SGI considered neither good nor bad, in relation to accessing the quality; it is, in general, the case of the local and main roads, of the waste disposal, and of the telephone network (fixed line). Furthermore, in case of railways, of the sewage system, of the gas supply, of the personal and household services, of the services provided by the health centers, by hospitals, by secondary and tertiary schools, by banks, by culture centers, and by large shops the quality assessment process is considered to be not applicable.

4. Brief Conclusions and Policy Recommendations

Our analysis indicates that the spread of the SGI among the localities even in rural environment should be a constant preoccupation of the local authorities. But, it is recommended that this extension of SGI to be done in parameters of efficiency. A solution that could be encouraged by local authorities would be the involvement of private sector by promoting public – private partnerships. Accessing and using the European funds for the development of the region is another tool that should not be omitted. The involvement of the civil society in providing services of general interest, mainly social, could be a useful measure to be applied - at the beginning in small communities, and afterwards spread at the level of larger localities.

Acknowledgement

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REFERENCES


REGIONAL DISTRIBUTION OF THE RISK OF POVERTY ACROSS THE EUROPEAN UNION

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ABSTRACT. Despite the fact that an important target of the EU27 is the socio-economic cohesion, the global crisis forced the increase of the poverty rate across the Member States. The paper deals with the idea that the disparities connected to the poverty rate increased and the European Cohesion Policy is not able to find solutions to face this negative trend. The analysis is based on the latest official statistical data and is followed by pertinent statistic tables and diagrams. A distinct part of the paper deals with a forecast connected to the poverty rate for the next two years. There are at least two obvious conclusions of this analysis. First of them is that the EU27 is not able to face the global crisis’ challenges and is far away from a solid socio-economic recovery process. The second conclusion is that the risk of poverty will increase especially in the latest Member States.

JEL Codes: R5; R11; R13

Keywords: risk of poverty; regional disparities; work intensity; material deprivation

1. Introduction

European Union wants to be understood as a model of sustainable economic development and an area of prosperity for its inhabitants. There are a lot of strategies focused on these objectives, including the latest one (EU, 2011).

The global crisis’ impact did not change the official discourse of the European officials about socio-economic cohesion and unity.

In 2011, the start of the economic recovery across the EU supported the idea that Europe was able to face the crisis. Unfortunately, the negative evolution of the Greek economy was followed by Spain, Portugal, Ireland and Cyprus.

It seems to be a great difference between the official position and the real economic environment. The surprise came at the end of 2012, when a European official document talked about 120 million European citizens who
faced the poverty risk and social exclusion. They represented 24.2% from the EU total population.

According to the European standards, the persons at-risk-of-poverty are those living in a household with an equivalised disposable income below the risk-of-poverty threshold, which is set at 60% of the national median equivalised disposable income after social transfers.

2. Research Methodology

The paper deals with a three-step analysis. The first step is a retrospective analysis during 2005-2008. In order to do it, the paper used official statistical data provided by Eurostat. The second step is the analysis of the risk of poverty under the global economic crisis’ impact, during 2009-2011. Last, but not least, the paper realizes a forecast of the risk of poverty for 2012-2014 time period. This forecast is made using dedicated software SPSS19 and the estimation of the data is realized under ARIMA restrictions. All steps of the analysis are supported by pertinent statistical tables and diagrams. The comparative analysis offers us the possibility to understand the trend of the risk of poverty across the EU27 and in every Member State.

3. Risk of Poverty before and after the Global Crisis’ First Impact

Across the EU, the risk of poverty had a good negative trend. As a result, the risk of poverty in 2008 decreased by 7.82% compared to 2005. The Member States could be divided into two groups: those with a risk of poverty lower than the EU average (17 states) and those with a risk of poverty higher than the EU average (10 states). 6 states from the second group belong to those which adhered to the latest two waves (Bulgaria, Latvia, Lithuania, Hungary, Poland and Romania).

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According to Table 1, some economies faced an increase of the risk of poverty in 2008: Ireland, Malta, Austria, Portugal, Slovenia, Sweden and UK. The impact of the global crisis brought an increase of the risk of poverty across the EU27 to 24.2% of the total population in 2011, compared to 23.6% in 2010.

Across 21 Member States, children had a greater risk of poverty than the rest of population in 2010. The exceptions were Denmark, Slovenia, Finland and Sweden (Antuofermo M, Di Meglio E., 2012). The greatest risk of poverty rates were in Bulgaria (49.2), Latvia (38.1) and Romania (41.4%) and the lowest are in Czech Republic (14.4%), Sweden (15.0%) and Netherlands (15.1%).

In 2011, around 120 million persons in the EU were at risk of poverty. The highest rates of risk of poverty were recorded in Bulgaria (49.1%), Romania (40.3%) and Latvia (40.1%), and the lowest in Czech Republic (15.3%), Netherlands (15.7%) and Sweden (16.1%). The evolution of this rate of risk has to be coupled with the anti-crisis packets measures implemented by all Member States (Eurostat, 2012).

According to Europe 2020 Strategy, the analysis of the risk of poverty has to be followed by that connected to people living in households with very low work intensity and those being in a situation of severe material deprivation.

During 2005-2008, people living in households with very low work intensity as percentage of total population decreased from 10.3% in 2005, to 9.0% in 2008. The same trend was for almost all Member States, excepting Germany, Cyprus, Hungary and UK. The greatest rates of people in households with very low work intensity were in Ireland (13.6%), Hungary
(12.0%) and Belgium (11.7%) and the lowest were in Cyprus (4.2%), Luxembourg (4.7%) and Estonia (5.3%).

The impact of the global crisis brought an increase of this rate not only at EU27 level, but for almost all Member States. As a result, the rate of people living in households with very low work intensity achieved 10.0% in the EU27 in 2011. The situation of the Member States didn’t change. The greatest rates of this indicator were in Belgium (13.7%), Lithuania (12.3%), Latvia (12.2%) and Hungary (12.1%) and the lowest in Cyprus (4.5%), Luxembourg (5.8%) and Czech Republic (6.6%). As a general point of view, the situation becomes worst in 2011 (see Table 2).

Table 2 People living in households with very low work intensity (% of total population)

<table>
<thead>
<tr>
<th>Country</th>
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About 10% of the people aged 0-59 lived in households with very low work intensity in 2010 and 2011. The lowest rates of this indicator were in Luxembourg, Sweden and Czech Republic and the highest in Latvia, Belgium and UK.
Another negative trend regards the severe materially deprived population. After a positive trend during 2005-2008, this indicator started to increase in 2010 and 2011 (see Table 3).

Table 3 People living under severe material deprivation (% of total population)

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According to Table 2, 8% of the total population was severely materially deprived in 2010 and 2011. The deprivation rates were smaller in Luxembourg, Netherlands and Nordic states and higher in Bulgaria, Romania, Hungary and Latvia.

On the other hand, the evolution of the above 3 indicators (risk of poverty, households with low work intensity and severe material deprivation) leads to the idea that they are powerfully interconnected (see Figure 1).
4. Forecast of the Risk of Poverty

The next step of the analysis is to forecast the risk of poverty for the next three years: 2012 (for which there are not official data), 2013 and 2014.

The forecast takes into account EU27 (VAR00001) and Romania (VAR00002). Across the EU27, the risk of poverty’s line presents a steep drop from 2011. This trend will continue during the forecasted period. As a result, the risk of poverty will achieve 22.5% in 2014.

Romania has a worse situation, even though the trend of the risk of poverty is the same with the EU average. In 2014, this indicator will achieve about 38.0% of the total population, greater than EU average (see Figure 2).

Figure 2 Forecast of the risk of poverty in the EU and Romania (%)

![Figure 1 Trend of poverty in the EU (%)]
5. Conclusions

It seems to be a great paradox: the EU27 economy goes on the way of economic recovery but, on the other hand, the risk of poverty is still high. Moreover, the risk of poverty in 2014 will be almost the same with that from 2009, which means that the EU27 economy lost 5 years. The problem is that the rate of poverty in 2014 (22.5%) is far away from the cohesion policy’s main objective.

The latest Member States have a worst situation, which will continue during the forecasted period (Dobre G., 2012).

The top 10 of the risk of poverty in the EU27 covers 7 new Member States (see Figure 3).

Figure 3 Risk of poverty across the EU27 (%)  

A negative trend is that children are under greater risk of poverty than the rest of the population. The risk of poverty of children aged below 18 is about 27.0%, compared with 23.0% of the working age population and 20.0% of the elderly (Eurostat, 2012.2). This represents another argue that EU27 is far away from an optimal solution for sustainable socio-economic development. As a result, the Member States have to find their own solutions to face the global crisis’ challenges.

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THE ROLE OF EDUCATION FOR THE ECONOMIC GROWTH OF BULGARIA

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Burgas Free University

ABSTRACT. The paper presents results of a study which estimates the impact of human capital on growth in Bulgaria over the period 2000-2012. The empirical models are based on the extended Cobb-Douglas production with three inputs—labor, physical capital and human capital. Export and Foreign Direct Investments (FDI) are included as well. The quantity of human capital is measured by the share of people in the labor force aged 25-64 having completed at least upper secondary education. The outcome suggests that the share of people with upper secondary education enters insignificantly the regression model. Moreover, its short-run accumulation is related negatively to real output per capita. When tertiary education is considered, the result is positive and statistically significant. In general, the study cannot fully support the hypothesis that education fosters growth because people with upper secondary education twice outnumber those with tertiary education. The results also imply that the upward trend of real output is attributed mainly to FDI, physical capital accumulation and export. A reasonable explanation of the non-significant role of secondary education is that the quality of human capital is a crucial factor for growth especially in countries where the average educational level is relatively high. According to the results of a partial correlation analysis foreign language proficiency explains a large part of the variation in output per capita across Europe.

JEL Codes: H52; J24; D04

Keywords: human capital; education; growth; foreign language proficiency

1. Introduction

For almost a decade before the beginning of the recent crisis Bulgaria had been experiencing one of the highest rates of growth in Europe. The question which this study poses is about the contribution of human capital to the economic development. I estimate the link between educational attainment of the labor force and the rate of real GDP changes on the basis of the production function approach.
The basic empirical specification is based on the extended Cobb-Douglas production function with three inputs: labor, physical capital and human capital. The model includes additional growth determinants such as export and FDI. Educational attainment of the labor force aged 25 to 64 years measures the human capital stock. Such an approach solves the problem of endogeneity because the educational level of the population in a given period reflects the growth trend in the past only. The quantity of human capital is measured by the share of people in the labor force having completed at least upper secondary education. Foreign language knowledge measures quality of human resources, specifically: 1) the average number of foreign languages learnt per pupil at secondary school; 2) the share of people who speak English. This is an adequate measure for a small open economy such as Bulgaria because knowledge of most popular foreign languages facilitates the adoption of advanced production technologies and models of management, international trade and FDI.

2. Human Capital in the Models of Growth: A Brief Review of the Theoretical Literature

In the theoretical literature two main strands of models try to explain the link between human capital and long-run economic growth: endogenous growth models and the extended neoclassical model. In the models of endogenous growth human capital is a key determinant of the long-lasting growth trend. Romer (1986) focuses on the role of human capital (or “knowledge”) for the development of new capital goods and productivity improvements. The rationale behind the devotion of resources to the development of knowledge is the existence of a patent system. Both the limitless process of generation of knowledge and the presence of externalities determine the increasing returns to human capital, which are crucial for growth in the long run.

In the model of Lucas (1988), individuals allocate their time between production and schooling. The assumption that human capital involves constant returns to the existing stock of human capital produces a positive growth rate of output per capita. In both models the growth trend depends on the initial stock of human capital. Nelson and Phelps (1966) propose an alternative explanation. The existence of qualified labor resources enhances the capacity of the country for innovation as well as for adoption and implementation of new and better products, new methods of production as well as new technologies from abroad.

An important feature of the endogenous growth theory is that although the individual firm faces diminishing returns, the returns to capital at the aggregate level could be constant or even increasing. This rising marginal productivity in the economy driven by human capital is essential for the
growth process. The long-term rate of growth per capita is determined within the model.

The followers of the neoclassical theory introduce human capital in the Solow-Swan model (Mankiw, Romer and Weil, 1992). Both physical and human capital may accumulate over time. However, investments in human capital lead only to transitional growth; no long-run growth of GDP per capita is observed because of the decreasing marginal returns to both types of capital and a lack of externalities. The neoclassical framework is rather more successful in explanation of the international differences in income than the growth path per se.

3. Methodology and Empirical Results

The study utilizes the extended Cobb-Douglas production function to establish a long-run relationship between the educational level of the active population and aggregate output. The models tested here are derived from a production function with three inputs — labor, physical capital and human capital. In case of constant returns to scale, it has the following general form:

\[ Y = A * K^\alpha * H^\beta * L^{(1-\alpha-\beta)} \]  \hspace{1cm} (1)

Y is output, K denotes the stock of physical capital, H is the stock of human capital and L is the supply of labor; \( \alpha \) and \( \beta \) measure the output elasticity with respect to physical and human capital, respectively. Dividing by L, the logarithmic form of the function becomes:

\[ \ln y = \ln A + \alpha \ln k + \beta \ln h \]  \hspace{1cm} (2),

where: \( y, k \) and \( h \) are quantities per unit of labor. The parameters \( \alpha \) and \( \beta \) measure the elasticity of output with respect to production inputs. In case of developing economies export is added as an additional determinant in the production function. The economic reasoning is the existence of scale effects and externalities associated with export production and sales (Balassa, 1978; Tyler, 1981). It is appropriate to add export in the case of transition economies as well. The reduced form specification includes also a variable for foreign direct investments.

The statistical sample consists of quarterly seasonally and cyclically adjusted real data sets over the period 2000: 1 – 2012: 2 – the latest available data. The dependent variable is real GDP per unit of labor force. The stock of physical capital (K) is calculated using the perpetual-inventory method.

The formula is:

\[ K_t = (1 - \delta) * K_{t-1} + I_t \]  \hspace{1cm} (3),

where: \( I_t \) -denotes domestic business investments;
\( \delta \) -the annual depreciation rate is set to 0.05.
The number of people in the labor force having completed at least upper secondary education is used as a proxy for the quantity of human capital. In the model, the variable SEC includes active population with upper secondary education (ISCED 3-4). Alternatively, the variable HIGH denotes the labor force with tertiary education (ISCED 5-6). In addition, the variable PRIM represents the share of people with no education, primary or lower secondary education. Export (EXP) and foreign direct investments in Bulgaria are included as ancillary determinants of growth. Equity capital is used instead of total FDI inflows (the variable FDI) because the existence of negative values in the latter makes seasonal adjustment impossible. All variables are expressed as ratios to active population and in logs.

Economic time series are usually non-stationary. The existence of a unit root and the order of integration are proven by the Augmented Dickey-Fuller (ADF) test (Dickey and Fuller, 1979) as well as the Kwiatowski-Phillips-Schmidt-Shin (KPSS) test (Kwiatowski et al., 1992). According to both of them, the variables are integrated of order 1. The structural stability has been tested by the method proposed by Yamatoto (1996) and Hayashi (2005).

The long-run dependence between non-stationary economic processes is modeled by the co-integrating regression. If more than one co-integrating relations are expected, the Johansen test (Johansen, 1988) is preferred to, for example, the two-step procedure suggested by Engel and Granger (1987). The model comprises real output, the capital stock, export, the educational indices of primary, secondary and tertiary education and the FDI inflows. Restricted trend and unrestricted constant are included. The results indicate the existence of at least one long-run relationship between the variables.

Real GDP is a dependent variable in the co-integrating regression models which I build. The equations are solved using the method of OLS with heteroscedasticity corrected errors. Models 1 and 3 (see, Table 1) include FDI, export and a human capital index – SEC or HIGH. The stock of physical capital participates in model 2, model 4 and model 5. The high R²-value contrasts with the low DW-test statistics. The latter is significant at the 5% level under the Co-integrating Regression Durbin-Watson (CRDW) test, thus denoting the adequacy of the models.

When a physical capital stock proxy is excluded, the regression coefficient for the variable SEC is positive and significant at the 10% level. On the contrary, when the full model is considered (see model 2 in table 1), the result clearly indicates that an increase of the share of people with upper secondary education is not associated with higher output levels. Tertiary education is significantly and positively related to growth (see model 3 and model 4 in table 1). However, its long-run elasticity to output decreases by 0.2 units whereas the estimated p-value gets larger when the variable KSTOCK is added to the regression.
Table 1  Estimation of the long-run effect of human capital on output per capita

<table>
<thead>
<tr>
<th></th>
<th>Model 1</th>
<th>Model 2</th>
<th>Model 3</th>
<th>Model 4</th>
<th>Model 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>constant</td>
<td>3.194</td>
<td>2.102</td>
<td>3.276</td>
<td>1.286</td>
<td>1.975</td>
</tr>
<tr>
<td></td>
<td>(0.000)</td>
<td>(0.002)</td>
<td>(0.000)</td>
<td>(0.004)</td>
<td>(0.025)</td>
</tr>
<tr>
<td>SEC</td>
<td>0.341</td>
<td>-0.058</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.099)</td>
<td>(0.811)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>HIGH</td>
<td></td>
<td></td>
<td>0.600</td>
<td>0.406</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(0.003)</td>
<td>(0.021)</td>
<td></td>
</tr>
<tr>
<td>PRIM</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0.004</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(0.960)</td>
</tr>
<tr>
<td>KSTOCK</td>
<td>0.431</td>
<td></td>
<td>0.353</td>
<td>0.406</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.000)</td>
<td></td>
<td>(0.000)</td>
<td>(0.000)</td>
<td></td>
</tr>
<tr>
<td>EXP</td>
<td>0.448</td>
<td>0.192</td>
<td>0.353</td>
<td>0.202</td>
<td>0.212</td>
</tr>
<tr>
<td></td>
<td>(0.000)</td>
<td>(0.000)</td>
<td>(0.000)</td>
<td>(0.000)</td>
<td>(0.000)</td>
</tr>
<tr>
<td>FDI</td>
<td>0.013</td>
<td>0.044</td>
<td>0.027</td>
<td>0.043</td>
<td>0.041</td>
</tr>
<tr>
<td></td>
<td>(0.007)</td>
<td>(0.000)</td>
<td>(0.000)</td>
<td>(0.000)</td>
<td>(0.000)</td>
</tr>
<tr>
<td>N of obs.</td>
<td>50</td>
<td>50</td>
<td>50</td>
<td>50</td>
<td>50</td>
</tr>
<tr>
<td>Adj. R²</td>
<td>0.967</td>
<td>0.948</td>
<td>0.927</td>
<td>0.948</td>
<td>0.964</td>
</tr>
<tr>
<td>F</td>
<td>487.778</td>
<td>225.080</td>
<td>209.870</td>
<td>224.212</td>
<td>332.137</td>
</tr>
<tr>
<td></td>
<td>(0.000)</td>
<td>(0.000)</td>
<td>(0.000)</td>
<td>(0.000)</td>
<td>(0.000)</td>
</tr>
<tr>
<td>DW</td>
<td>0.487</td>
<td>0.635</td>
<td>0.670</td>
<td>0.902</td>
<td>0.597</td>
</tr>
</tbody>
</table>

Note: All variables are expressed per unit of active population in a logarithmic form. P-values are presented in parentheses.

Model 5 in table 1 evaluates the link between the lowest educational levels and per capita output; the coefficient is not statistically significant. The figures give evidence that FDI, export and business investments sustain the upward growth trend in the Bulgarian economy. The elasticity of export to output ranges from 0.192 to 0.245 with an average of 0.213. The effect of physical capital is even stronger: the slope coefficient is 0.371 on average. These values imply decreasing returns to scale.

In fact, this regression output is not unexpected. It confirms one of the major problems in Bulgaria’s educational system – a lack of qualified labor
resources at the middle educational level. The share of active population with upper secondary or post-secondary education is about 55%; it is the economy’s backbone and should be the driving force of its development. Comparatively, highly educated people account for only 1/4th of the labor force. This means that the gaps in secondary education translate into a holdback for economic growth.

The general conclusion emerging from that econometric exercise is that it does not explicitly prove that the higher average educational attainment determines the positive trend of output per capita observed in Bulgaria after the year 2000. Although the models including tertiary education favor the theoretical hypothesis that education facilitates growth, the result for upper secondary education unequivocally points out that it is not related to the long-run economic development. The estimates show that the aggregate production function with physical capital, foreign direct investments and export best describes economy.

A reasonable explanation of the non-significant role of secondary education is that the quality of human capital is a crucial factor for growth especially in countries where the average educational level is comparatively high. In order to test that hypothesis, I conduct a simple experiment which aims to compare the impact of the quantity of human capital on aggregate activity with the effect of its quality measured by foreign language proficiency of active population. Comparable data for the EU member states are available since the year 2004. So, the average number of foreign languages learnt per pupil at upper secondary school in 2004 approximates the quality of human capital (fig. 1). Year 2004 is the first year for which a database for the EU exists. Four years later (between 2008 and 2010), pupils at the secondary school in 2004 were 20-24 years old. Therefore, an index of the human capital stock is the average number of active persons with upper secondary education aged 20-24 years over the period 2008-2010. The dependent variable is the average real GDP per person of labor force between 2008 and 2010. Real GDP per capita in 1995 is a control variable in both cases. All variables are expressed in logs. For the purposes of this descriptive analysis, I switch from the 25-64 age-group to people between 20 and 24 years old because pupils at upper secondary school in 2004 (between 16 and 19 years of age) formed the 20-24 age group between 2008 and 2010.
Figure 1 Number of foreign languages learnt per pupil at secondary school vs. output per head

Note: United Kingdom and Ireland are excluded from calculations; missing values for Austria. Data for Island and Turkey are added. Source: author’s calculation based on Eurostat data, http://epp.eurostat.ec.europa.eu/portal/page/portal/education/data/database

The correlation analysis presented above shows a statistically significant positive relationship between language qualification and output: one additional foreign language is expected to increase output by 22 units. On the contrary, the correlation when the quantity of human capital is used is close to zero and statistically insignificant. Thus, the descriptive analysis implies that foreign language proficiency explains a large part of the variation in output per capita across the EU. A similar pattern appears when the share of people who speak English is linked to GDP per active person.

An alternative explanation for the econometric result might be that when human capital is above a given threshold level, it is not significantly related to economic activity because the existence of diminishing returns. Given the quality of education, a similar statistically insignificant effect should be expected for all post-communist member states due to the high levels of human capital. Such an explanation is consistent with the neoclassical theory specifically the existence of diminishing returns.

4. Conclusion, Limitations and Future Research

My study tries to illuminate the impact of educational attainment on the long-run dynamics of output per capita in the Bulgarian economy. It gives clear-cut evidence that the increase of the quantity of people with upper secondary education does not matter for the rate of economic growth. When
tertiary education is considered, the result is positive and statistically
significant both in the short- and the long-run. On the basis of that, it cannot
be concluded that the higher average educational level was a significant
growth determinant in Bulgaria in view of the fact that the share of active
population having completed upper secondary education is twice as large as
the share of people with tertiary education. Moreover, the regression output
suggests that the upward trend of real output is attributed mainly to FDI,
physical capital and export.

In order to explain the econometric outcome I focus on the quality of
human capital. According to the cross-country correlation analysis, foreign
language proficiency explains a larger part of the variation in output per
capita across member states in comparison with the human capital quantity.
This probably means that more attention should be drawn on the quality of
education. A logical extention of this study would be an inclusion of
different countries in the sample and verification of the hypothesis raised
above.

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SIGNALLING ECONOMIC GROWTH THROUGH ECONOMETRIC ANALYSIS: ROMANIA’S CASE

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ABSTRACT. It is commonly accepted that economic growth is influenced by numerous factors, such as interest rates, business environment conditions, inflation, unemployment, foreign direct investments, etc. But how do tax rate, public debt and consumption affect the economic growth in Romania? This study aims to analyze the relationship between these three factors and their aggregate impact on real GDP evolution, throughout econometric analysis. We start with the common assumption that a lower tax rate and public debt, along with an increasing consumption rate will positively influence real GDP ratio, and, consequently, will conduct to economic growth. The paper attempts to evaluate whether these assumptions apply in Romania’s case, by using a series of data over a period of 10 years. Data were provided by the National Institute of Statistics and have been processed using a linear regression function.

JEL Codes: C51

Keywords: economic growth; public debt; tax burden; consumption rate

1. Introduction

Econometric analysis is used nowadays in all fields, especially economics. By using econometric instruments, we can trace the evolution of a certain economic phenomenon, in order to confirm or not theories in the field. Moreover, the trend of an observed economic phenomenon can be predicted using econometry, based on its observed evolution.

The present study uses specific econometric methods for the construction of a linear model. The proposed theoretical model is constructed using
multiple regression. In constructing the model, we start from the theoretical investigation of the studied phenomena, we continue by setting the dependent variable and the relevant independent variables and finally, we test the validity of the proposed model using adequate methods. Validation of the proposed model allows us to make predictions about future evolution of the studied phenomenon- economic growth in Romania.

We bring into discussion economic growth within present recession that seriously affected countries worldwide. Under today’s circumstances, economic growth is hard to be obtained. Still, positive evolutions of several factors influencing economic growth can lead to an ascending trend in the future. We will focus in our study on past evolution of three factors with significant impact on economic growth: overall tax ratio (tax burden), public debt and consumption rate. Observed past evolutions for these macroeconomic indicators will be used in order to predict future economic growth.

2. Research Methodology

2.1 Theoretical Background

Commonly, economic growth is considered to reflect (Lucas, 1988) the accumulation of both human and physical capital, together with an increased productivity derived from technological innovation. Still, economic growth is the result of demand creation (Ayres, 1989), as the development of new products or services lead to an increase in real GDP. Literature in the field stated that economic growth measurement refers to calculating the percentage of change registered by GDP or GNP, in real terms (Pivoda, 2012).

Firstly, we will refer in our analysis to tax burden, generally defined in the field as the level of fiscal pressure imposed by taxes - both direct and indirect taxes, including social contributions. Literature argues that (Atrostic, Nunns, 1998) “tax burden measures attempt to quantify the decrease in utility and to evaluate the decrease against a measure of ability to pay.” All in all, we will further consider tax burden as the total amount of tax an individual or a business must pay within a country, over a period of one year.

Secondly, we will take into account in our analysis public debt, as it is an important factor that influences economic growth and “the channels through which public debt can potentially affect economic growth are diverse” (Checerita, Rother, 2010). Considering the definition given by the Maastricht Treaty, public debt represents “consolidated general government gross debt at nominal value, outstanding at the end of the year.”
Lastly, we will focus on the influence of consumption rate on economic growth. Given that consumption rate is generally defined as the total quantity of goods and/or services consumed within a country over a specified period, we will refer in our study to the annual consumption rate, in order to make relevant comparisons (Pivoda, 2011).

2.2 Construction of an Econometric Model

Data used within our research have been collected from National Institute of Statistics and Eurostat. The observation period is of 13 years, respectively the period between 2000 and 2012. We have used the data collected in order to construct a model using four variables: economic growth (measured as real GDP growth rate), tax burden, government gross public debt and consumption rate. Given these four variables, data have been processed using multiple regression, considering the following function:

$$EC_{GR} = \alpha + \beta_1 \text{Tax}_\text{Burd} + \beta_2 \text{Pub}_\text{Debt} + \beta_3 \text{Cons}_\text{rate} + \epsilon,$$

where: $\alpha =$ constant; 
$\beta_1, \beta_2, \beta_3 =$ variables’ parameters; 
$EC_{GR} =$ Economic Growth, measured though real Gross Domestic Product growth rate; 
$\text{Tax}_\text{Burd} =$ Tax burden within a country, over a period of a year; 
$\text{Pub}_\text{Debt} =$ Government gross public debt; 
$\text{Cons}_\text{rate} =$ Annual consumption rate; 
$\epsilon =$ residual error.

The regression function above defined represents a linear model. Annual real GDP growth rate, through which we measure annual economic growth, is an endogenous (dependent) variable in our model. Exogenous (independent) variables are represented by tax burden, government gross public debt and consumption rate, all calculated as annual ratios (as percentages).

We have used the data collected in order to estimate parameters of the proposed model. The method used for estimation of parameters is least squares method.

After defining and validating our model, we will use it to forecast economic growth in Romania for the next 4 years. Consequently, we will be able to make several predictions regarding the economic growth and Romania’s possibilities to improve the economic activity in the future, given the present recession.
3. Theoretical Econometric Model: Economic Growth in Romania

3.1. Research Results

The parameters of the regression function were estimated using EViews program. Several other tests were performed in order to check results. The results obtained by data processing are summarized in the table below (Table 1).

As Table 1 shows, the estimated values of the coefficients for the independent variables of the model are 0.720489, -0.181735 and 0.410925. The coefficients obtained show a direct correlation between economic growth, as a dependent variable, and tax burden and consumption rate, as independent variables. The negative value of the consumption rate parameter indicates an inverse correlation between economic growth and public debt.

Considering that parameters of the model, hence the model itself, are obtained by processing a time series, we verified the results through several statistical tests: t-test, R-squared, log likelihood, Durbin-Watson statistic, etc.

Table 1 Estimation of parameters for the specified variables

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>-73.82442</td>
<td>38.52122</td>
<td>-1.916461</td>
<td>0.0876</td>
</tr>
<tr>
<td>TAX_BURD</td>
<td>0.720489</td>
<td>0.162278</td>
<td>1.480272</td>
<td>0.1729</td>
</tr>
<tr>
<td>PUB_DEBT</td>
<td>-0.181735</td>
<td>0.162698</td>
<td>-1.117008</td>
<td>0.2929</td>
</tr>
<tr>
<td>CONS_RATE</td>
<td>0.410925</td>
<td>0.249144</td>
<td>1.649350</td>
<td>0.1335</td>
</tr>
<tr>
<td>R-squared</td>
<td>0.961262</td>
<td>Mean dependent var</td>
<td>3.638462</td>
<td></td>
</tr>
<tr>
<td>Adjusted R-squared</td>
<td>0.925016</td>
<td>S.D. dependent var</td>
<td>4.224423</td>
<td></td>
</tr>
<tr>
<td>S.E. of regression</td>
<td>3.444725</td>
<td>Akaike info criterion</td>
<td>5.559225</td>
<td></td>
</tr>
<tr>
<td>Sum squared resid</td>
<td>106.7951</td>
<td>Schwarz criterion</td>
<td>5.733055</td>
<td></td>
</tr>
<tr>
<td>Log likelihood</td>
<td>-32.13496</td>
<td>F-statistic</td>
<td>3.015183</td>
<td></td>
</tr>
<tr>
<td>Durbin-Watson stat</td>
<td>2.225259</td>
<td>Prob(F-statistic)</td>
<td>0.086798</td>
<td></td>
</tr>
</tbody>
</table>

Source: Authors’ processing using E-views

Firstly, we tested parameters using t-Statistic. Consequently, all parameters are statistically significant (they significantly differ from zero value).

Furthermore, we tested the appropriateness of each explanatory variable in the proposed model. In this sense, we used the adjusted R-Squared Statistic (adjusted R²). The results show that the adjusted R² value is very close to 1, which means that the proposed model fits within the considered sample.
Still, using time series in construction of a regression function can affect the validity of the model due to serial correlation. Therefore, we examined residuals for evidence of serial correlation by testing the Durbin-Watson statistic. Given the obtained value of the Durbin-Watson statistic (2.2252), we conclude that there is no serial correlation between residuals. Correlograms and Q-statistics confirmed the Durbin-Watson statistic result.

Finally, in order to validate our model, we computed F-test for linear regression. As Table 1 shows, the value of F-Statistic is significantly bigger than the Probability of F-Statistic. As a consequence, the proposed model is valid.

Moreover, we used t-test in order to verify that all variables considered - tax burden, public debt and consumption rate - can be used as explanatory variables for the dependent variable - economic growth. The results obtained show positive correlations between the explanatory variables and economic growth. Hence, none of the explanatory variables will be excluded from our model - all three variables will be kept within the proposed model.

By using F-test and t-test, our model was validated. Our proposed model is a linear model, reflecting the effects of fiscal policy on economic growth. Consequently, we will define our model as follows:

\[
EC_{GR} = -73.82442 + 0.720489 \times TAX_{BURD} - 0.181735 \times PUB_{DEBT} + 0.410925 \times CONS_{RATE}
\]

The validation of the model allows us to use it for forecasting future evolutions of economic growth in Romania.

### 3.2 Forecasts of Economic Growth in Romania

The actual historical values of the variables (both endogenous and exogenous) of the model are shown in Figure 1. Graphical evolutions of tax burden, public debt and consumption rate can be used in order to identify a trend.

![Figure 1 Actual values of variables included in the model](image)

Source: Authors’ processing using E-views

The observed trends of the historical values allow forecasting future evolution of the exogenous variables. Hence, it may be possible to forecast economic growth in Romania by using the proposed model. We have
forecasted economic growth by making several assumptions for the exogenous variables. Consequently we assumed that:
- population income will increase by 5.24% annually, which consists in 3.42% increase in consumption rate;
- gross public debt will decrease by 2.61% annually;
- government will relax fiscal policy after recession period, leading to a decrease by 1.34% in annual tax burden.

Given the above assumptions, we were able to forecast Romania’s economic growth for a 4-year period, respectively 2013-2016. Figure 2 shows results of our forecasts.

Figure 2 Forecasts of economic growth in Romania between 2013 and 2016

Source: Authors’ processing using EViews

As seen in Figure 2, Romania will register in the next period a positive evolution of real GDP, consisting in economic growth. Forecasts show that Romania will register in 2013 a 0.5% increase in real GDP, followed by a slight decrease to 0.3% in 2014. In 2015 and 2016 Romania will improve its economic conditions, as forecasts indicate an approximately 0.8% increase in real GDP in 2015, respectively 0.9% in 2016.

4. Conclusions, Limitations and Future Research

Econometry provides a wide range of useful instruments in economic analysis. The present paper uses regression as a basis for creating a model of economic growth in Romania. The proposed theoretical model, validated by econometric tests, can be used in predicting future evolutions of the discussed variables. Our results show that Romania will have a positive evolution within the next 4-year period, as economic growth is expected.

Still, the theoretical model we propose can be improved, as other explanatory variables can be included in the model. We have analyzed the economic growth through the use of three economic indicators, respectively
tax burden, public debt and consumption rate. Further research may add several variables to the proposed model.

In addition, a larger observation period will probably provide a more detailed overview on Romania’s economic situation and its possibilities to register economic growth in the forthcoming period.

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LABOR MARKET – A POLE OF INFLUENCE
IN THE ECONOMY

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ABSTRACT. An important area of any country’s market economy, the labor market plays an important role in providing dynamic economic interdependencies in any country, and reflects multiple aspects of the economic and social life, providing an overview of key issues and interdependencies that occur within it and the influence they may have on other sectors or areas, its direction of action.

JEL Codes: J11

Keywords: national wealth; human resources; economic development

1. Introduction

Labor market, as part of a market economy is a balancing mechanism that takes into account the interests of employers, i.e. to carry the demand for labor and the interests of employees as sellers of labor supply and labor supply bearers. This mechanism implements a specific set of social and labor relations that contribute to establishing and maintaining a balance of interests between workers, employers and the state.

In the labor market, define the conditions of employment, proper working conditions, labor costs reflected in salary, educational opportunities, career development, etc., while also showing the main trends of employment complementary to those of unemployment.

Known as a market with imperfect competition, due to the fact that in this type of market one can meet monopoly, monopsony or oligopoly, labor market reflects the interrelationship between demographic, embodied in human resources that determine labor supply and the socio-economic development generating labor demand.

Labor supply embodied in human resources is a component of national wealth, which causes a strong influence on the level and rhythm of development of an economy, because it basically states the training level, research ability, scientific, cultural and artistic values available to a people.
2. Human Resources - Part of a Nation’s Wealth

If the elements of the accumulated wealth and the natural resources attracted in the economic circuit directly determine the economic activity, the rhythms and proportions of the economic development, human resources influence indirectly the economic development process. Thus, training level, research capacity, accumulated experience are factors that influence the level and dynamics of the labor productivity and thereby, the economic development level and its dynamics. Due to the difficulties in quantifying these elements, human resources, considered from this point of view, are not used in the calculation of national wealth.

Human resources can be also examined from another angle, namely as part of the national wealth of a country, expressed through its supply of people. In a general sense, the concept of stock concerns the real goods that can be sold, i.e. those that can be put on the market. When the economy was based on slaves, they could be considered part of the wealth of that state. In the current system of the market economy, people are not real goods belonging to someone, they cannot sell themselves, but what they can sell on the market and more specifically on the labor market is their workforce, expressed through various specialized activities or not, that humans carry out. Regarding the value of the stock, it is expressed by the output value, measured by the income that is brought by the labor factor.

In fact, the stock of people can be also expressed by the totality of physical and intellectual endowments of a nation, contributing to a part of the national wealth. However, when we are talking about national wealth, the thought leads us to all the buildings, equipment and consumer durables production, monetary gold and foreign investment, all based on certain physical or intellectual human labor, consumption today, yesterday or now century.

Human resources regarded as its various sides represent a crucial, active and dynamic, long-term component, closely linked to the driving factors of the society and economic activity.

Human resource is the human community that is identified by a set of characteristics and their links to development, while is also a topic of analysis for different sciences, including the economic one, due to the fact that demographic change may affect some mechanisms of economic functioning, including labor market.

On the other hand, human resources represent both a factor and a fundamental resource, the only alive resource from all things that exist to this day. Man, as a constituent part of the population, through his workforce adapts and transforms objects work to achieve his goals.

Population, viewed and analyzed in double position, as consumer but at the same time as producer, is an element of primary importance in the
economic and social development of any state. From the point of view of the consumer, population identifies with the total of the human potential, i.e., the total population of that state, and from the point of view of the manufacturer, the population generates labor resources, yet different in terms of the number, experience and their training. For developed countries, the population and labor’s decline can be compensated by the capital resources or by replacing them with imported labor from less developed countries. For the countries that are less developed or even developed, that are lacking sufficient capital resources, the population and labor decline can affect national attempts to revive growth, or can block any tendency to accelerate economic growth and reduce economic and social disparities.

3. The Existence or Non-Existence Correlation between Total and Active Population

Starting from the idea that the evolution of population is closely related to active population, we will try to study whether there is any connection between population’s dynamics and active population. The study is based on real data extracted from the database called TEMPO, which contains time series. Thereby, an input data packet of the model has resulted, being shown in Table 1.

<table>
<thead>
<tr>
<th>Year</th>
<th>Total population</th>
<th>Active population</th>
<th>Year</th>
<th>Total population</th>
<th>Active population</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998</td>
<td>22526093</td>
<td>11284094</td>
<td>2006</td>
<td>21610213</td>
<td>10041639</td>
</tr>
<tr>
<td>1999</td>
<td>22488595</td>
<td>11279935</td>
<td>2007</td>
<td>21565119</td>
<td>9994268</td>
</tr>
<tr>
<td>2000</td>
<td>22455485</td>
<td>11283126</td>
<td>2008</td>
<td>21528627</td>
<td>9944668</td>
</tr>
<tr>
<td>2001</td>
<td>22430457</td>
<td>11151080</td>
<td>2009</td>
<td>21498616</td>
<td>9924140</td>
</tr>
<tr>
<td>2002</td>
<td>21833483</td>
<td>10079450</td>
<td>2010</td>
<td>21462186</td>
<td>9964540</td>
</tr>
<tr>
<td>2003</td>
<td>21772774</td>
<td>9914263</td>
<td>2011</td>
<td>21413815</td>
<td>9867953</td>
</tr>
<tr>
<td>2004</td>
<td>21711252</td>
<td>9957144</td>
<td>2012</td>
<td>21355849</td>
<td>10145293</td>
</tr>
<tr>
<td>2005</td>
<td>21658528</td>
<td>9851034</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The correlation analysis is used to study the intensity of the relationship between variables. Strictly speaking, the correlation is a measure of the intensity of the relationship between variables. Depending on the type of variables considered, statistic relations can express either combination (for nominal variables), or correlation (for numerical variables). In our case, we will measure the correlation. This can be expressed by: covariance, the Pearson correlation coefficient and rank correlation coefficients (Spearman and Kendall).

Pearson correlation coefficient is denoted by $\rho (X, Y)$ and is defined by:
The correlation coefficient is obtained by standardizing covariance. The correlation coefficient ranges from -1 to +1. If it takes the zero value, then there is no link between variables. Sign of “ρ” value indicates the direction of the relation between variables. The plus sign indicates a direct connection (when the values of X variable increase, also the values of the variable Y increase) and minus sign, means a reverse link (when the values of the X increase, variable Y decreases). The absolute value of ρ indicates the intensity of the relation, namely: when closer to 1, the bond is stronger, i.e. when closer to zero, the link is weaker. A correlation coefficient equal to +1 indicates a perfect relation between the variables, and a coefficient equal to -1 indicates a perfect inverse relation.

**Sperman coefficient** is an extension of the Pearson correlation coefficient, where the values of the related variables are replaced with the corresponding ranks. Coefficient is denoted by θ and is calculated by the formula

\[
θ = I - \frac{1}{n(n^2 - 1)} \sum_{i=1}^{n} d_i^2
\]

where:
- \(d_i\) - the difference between the correlated rank values
- \(n\) - the number of units observed - the pairs (x, y).

**Kendall coefficient** is defined by the relation:

\[
τ = \frac{S}{0.5n(n-1)} = \frac{2S}{n(n-1)}
\]

where \(S = Q + P\), where P is the number of higher ranks taken further to the rank considered, and Q is the number of lower rank, as taken (taken with the minus sign). S rank is calculated for the dependent variable Y, ordered by rank variable factor X.

Rank correlation coefficients of variation were the range [-1, +1] in the same sense as in the case of the Pearson correlation coefficient.
Correlations total population - active population

The intensity of the relations between the two indicators: total population and active population is measured by the correlation coefficients given above. Thus revealed the following values:

Table 2 Total population - active population correlations using Pearson coefficient

<table>
<thead>
<tr>
<th></th>
<th>Total population</th>
<th>Active population</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total population</td>
<td>1.000</td>
<td>.916**</td>
</tr>
<tr>
<td>Pearson Correlation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.</td>
<td>.000</td>
</tr>
<tr>
<td>N</td>
<td>15</td>
<td>15</td>
</tr>
<tr>
<td>Active population</td>
<td>.916**</td>
<td>1.000</td>
</tr>
<tr>
<td>Pearson Correlation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.000</td>
<td>.</td>
</tr>
<tr>
<td>N</td>
<td>15</td>
<td>15</td>
</tr>
</tbody>
</table>

** Correlation is significant at the 0.01 level (2-tailed).

Table 3 Total population - active population correlations using Kendall and Spearman coefficient

<table>
<thead>
<tr>
<th></th>
<th>Total population</th>
<th>Active population</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kendall’s tau_b</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total population</td>
<td>1.000</td>
<td>.615**</td>
</tr>
<tr>
<td>Correlation Coefficient</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.</td>
<td>.003</td>
</tr>
<tr>
<td>N</td>
<td>15</td>
<td>15</td>
</tr>
<tr>
<td>Active population</td>
<td>.615**</td>
<td>1.000</td>
</tr>
<tr>
<td>Correlation Coefficient</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.003</td>
<td>.</td>
</tr>
<tr>
<td>N</td>
<td>15</td>
<td>15</td>
</tr>
<tr>
<td>Spearman’s rho</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total population</td>
<td>1.000</td>
<td>.775**</td>
</tr>
<tr>
<td>Correlation Coefficient</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.</td>
<td>.002</td>
</tr>
<tr>
<td>N</td>
<td>15</td>
<td>15</td>
</tr>
<tr>
<td>Active population</td>
<td>.775**</td>
<td>1.000</td>
</tr>
<tr>
<td>Correlation Coefficient</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.002</td>
<td>.</td>
</tr>
<tr>
<td>N</td>
<td>15</td>
<td>15</td>
</tr>
</tbody>
</table>

** Correlation is significant at the .01 level (2-tailed).

In Table 2 and Table 3 are presented the Pearson correlation coefficients, Kendall’s, Spearman’s under matrix form. Each box contains information about the correlation between the two variables (the line with the column), the materiality considered appropriate and the number of observations (N). In the considered model, the variables are: total population and active population. The number of observations, N = 15 corresponds to the number of years in the considered period. These are shown in the first column of Table 1 and correspond to the dates which cover the period 1998-2012. Corresponding to each observation N (i.e., calendar time) are considered the
two variables in the model: total population (column 2 of Table 1), active population (column 3 of Table 1).

Significant threshold will give information about the probability that the results are correct. In other words, it will indicate the degree of error of the model.

Table 2 presents the Pearson coefficients. If we follow the first line of the table we can see the two coefficients used to describe the relation between total and active population. It is obvious that the total population is a perfect direct correlation, so the indicator is 1, and the significance threshold of the result has an error of less than 0.000%.

For correlations between total population and active population Pearson coefficient value is 0.916. This value indicates a direct link between the two strong indicators as the value is very close to 1. From the presentation of the model we know that as the value of the coefficient is closer to 1 or -1, the relationship between the two variables is stronger. If the coefficient is close to 1, the correlation is direct, and if it is near -1, the correlation is reversed (if one variable increases, the other decreases). It follows that if the total population decreased in number, then the active population followed the same trend.

The correlation is very strong, and the significance threshold of the result is very good - the probability of error is less than 1%.

4. Human Resources’ Contribution to Economic Development

As noted, human resources constitute a fundamental resource for creating labor resources, the only alive resource from all which are used in present. Man, as a constituent part of the population, through its workforce adapts and transforms objects work to achieve his goals. An essential factor in the economic and social development of any country, human resource, as a human potential that is available to a nation is the whole population of that country at a time. This potential should be regarded primarily as a consumer collective, aspect that identifies with the total population, but also with a collective producer, something that identifies with labor resources, i.e. the number, experience level and training. Labor resources existing at a point in society, expressing the number of people able to work, which contributes to higher levels of labor employment, i.e. that part of the population that has all the physical and intellectual capabilities that allow it to carry out a useful activity, that is why it is necessary (Siddharthan and Narayanan, 2013) “appropriate utilization of human skills to foster development.”

Many people have the opportunity to contribute through their work to the economic and social development of a nation. This actually represents a fundamental concern for the welfare of any society, being under
consideration in all states. A job provides not only income but also has great importance for the opportunity of being involved in the society. A high rate of employment leads to a balance in the labor market, thereby creating equitable and balanced living standards, issues that are starting points for growth and socio-economic development. Therefore, one of the essential conditions that can ensure the success of economic and social development is giving more attention to the demographic policies.

In essence, the increasing number of population leads to an increase in the demand for goods and services, with direct effects on growth and favorable job offer, leading thus to a higher employment rate, higher living standards, reaching the main objective of any nation - increasing the level of economic and social development.

An individual, regardless of which side stands, company or employee, gives their best in everything, makes every effort to carry out their own interest. As Nitu et al., 2012 put it, “in a market economy competition is free, it is part of free enterprise or freedom of action, which means that economic agents act to achieve their own interests, and the economy, as a whole, is the result of this action” employees increase their wealth only by increasing the work effort according to the qualification and field in which they operate; and reward is also well differentiated.

For most of us, work occupies an important part in our lives, perhaps more than any other activity. Often we tend to associate the concept of working with a series of chore tasks that we want to minimize, and if possible to get rid completely of them, but work has more advantages, otherwise people would not feel so discouraged and confused when they become unemployed.

Essentially, a society cannot exist and function without human labor. This axiomatic truth was understood and used in various ways, by various economic schools of thought. Classical and neoclassical economists have focused on increasing productivity and efficiency in order to increase wealth in the free market economy. Marxist economists have highlighted the limits and drawbacks, including those related to the use of labor, the cyclical crises, moving from denying the principles of market economy to its admission as a necessary evil, then, in our days, to a way of exit from the crisis.

It is widely recognized that the development of any nation, enriching the material and moral condition of man, the consideration of which the world can enjoy in its relations in society, depends on work. But society progresses more quickly as it can ensure its workforce a higher degree of employment and can attract it into useful and effective activities.

The evolution of each country’s economy has brought forward theoretical and pragmatic concerns, both in terms of employment problems and non-employment or unemployment. These issues are complex and contain a wide range of expression, with important economic consequences and social
costs-human, which is why employment is one of the essential characteristics of the economy, and the employment levels are one of the most important macroeconomic indicators.

Experience of the world, more or less developed, proving that these states have seen plenty stages of economic decline, decline accompanied by chronic mass unemployment. Since 1920, is known that unemployment situation in some countries have reached levels up to 25%, which is unwanted by anyone. A country with more than 5% of unemployment certainly is in a phase of depression or economic crisis.

In Romania also (Nitu et al., 2012) “post-communist transition generated major changes in all spheres of socio economic life”; labor market is one of the most affected by this transition and the emergence and growth of unemployment is just one of those consequences.

If the problem to ensure a higher degree of employment would be a simple matter, of course world countries could solve it easily. The fact that the problem could not be solved only with great effort and in a fairly lengthy period, it confirms to us that it cannot be considered an easy problem, that has not been avoided by the U.S.A., England, France, or Germany, except for certain periods of time, although they had great economic potential.

5. Conclusion

A country that fails to reduce unemployment means that appropriate macroeconomic policy led and found the means to absorb the unemployment labor force, so important for a country is to be able to maintain a higher degree of employment level of employment and to avoid slipping into chronic unemployment.

Essentially, occupation is a multidimensional process that involves an organic combination between elements of economic, demographic, educational, social and institutional behavior. At the same time, employment is wider than the area of wage labor itself; as it includes all kinds of activities and occupational structures that define a job which is an incentive to humans and the evolution of the business environment in which they operate. Also in the process of economic globalization, it can be lead to internationalization of outsourcing or employment, with favorable effects for some people and less favorable for others. Depending on the direction of the flux employment, globalization, labor becomes social dumping carrier.
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TOURISM DEVELOPMENT IN THE TERMS OF SUSTAINABLE DEVELOPMENT IN ROMANIA

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ABSTRACT. Tourism is an essential component of public service sector, an industry with huge potential for development. It is part of the tertiary sector of the national economy, consisting primarily of supplies of services, which results in a highly dynamic, natural, under the conditions of contemporary civilization. The tourism industry is characterized by a great structural complexity, which takes many forms of service. The purpose of this paper is to support the arguments link between sustainable development and national tourism sector, and therefore the assimilation of the term “sustainable tourism” and its inclusion in the sustainable development strategies of Romania.

JEL Codes: L83; K32

Keywords: effects of globalization on national economic competitiveness; optimizing tourism; measuring the sustainable development of tourism

1. Introduction

At the beginning of this century and millennium, travel and tourism industry is, worldwide, the most dynamic sector and, in the same time, the most important generator of jobs. From an economic perspective, tourism is considered, at the same time, as the main source of national economic recovery of those countries with an important tourism resources, provided by a properly exploit.

2. Materials and Methods

The work was based on the comprehensive study on the national strategies for sustainable development and tourism, developed so far in Romania.
The methods used for this work are: documenting, systematizing information and comparative analysis of the provisions of the countries, which are members in European Union, in the field of sustainable development and tourism.

3. The Approach of Tourism from the Sustainable Development Perspective

Major, deep changes occur in the third millennium, closely related to the crises which are provoked worldwide and the reform intentions of the various international organizations such as the UN, EU, WTO, GATT, etc. They have in common the recovery of the existing crisis and the revival of the economy, by converting the process of internationalization in one of globalization.

Since 1990, the world economy distinguished three hypostases:
- globalization and its profound effects on the competitiveness of national economies;
- contradiction between the harsh laws of the market (economic logic) and distributive justice (social logic);
- contradiction between economic logic and the necessity of the environmental protection.

Economic globalization causes an ever increasing interweaving of national economies, reflected in an increase of the role of trade, foreign inventions and capital formation or gross domestic product, in every country.

The concept of sustainable development has deep roots in economic theory, but currently can be addressed through the profit growth theory. To shape a real theory, it is necessary to use a principle to unify the four economic areas: microeconomics of firms and individuals, macroeconomics of the national state, the economy of the transnational corporations and the global economy.

If developed countries can handle easily to mobilize these resources and perceived effort is not significant, in the case of the less developed countries or underdeveloped things are complicated.

The situation of the countries that are in transition is more difficult, because many sectors that use resources, generates grievances or injustices, and on the other hand delays in development.

The concept of sustainable development implies the existence of tourism and economic development in terms of the anthropization their nature, without creating harm and damage it. From this perspective, it is necessary to evaluate the strategies for sustainable development, by establishing global
economic efficiency, concept which involves converting all the effects in economic obtained effects and comparison with the effort made.

In terms of tourism, applying the concepts of sustainable development has resulted in recent years in the development and implementation of laws; that would lead to promotion of the tourism and protection of the environment from pollution, its regeneration or touristic waste recycling.

4. The Appearance of the Concept of “Sustainable Tourism” as a Consequence of the Principles of Sustainable Development

The idea of adopting the sustainable development concept in tourism emerged in the early ’90s, taking rise to sustainable tourism - an industry that has rapidly gained importance both in academic and research areas, as well as in practice / business / tourism industry.

In principle, sustainable tourism dissociates from mass tourism and partly is associated with alternative contemporary forms of tourism, (post mass): ecotourism, green tourism and rural tourism, business or the automobile.

Global Code of Ethics for Tourism adopted by the World Tourism Organization in 1999; emphasizes the principles that make the tourism a factor of sustainable development.

Since tourism-environment relationship is very close and with implications for two-way, tourism should be involved in the sustainable development.

The concept of “sustainable tourism” is based on the ancient principles of conservation and management, but provides a more active behavior, that includes continued economic growth in a greener and fairer manner.

Environmental impact of tourism involves analyzing of the tourist-tourist product-tourist reserve relationship.

Sustainable development, as it turned out, is not just a trend but a necessity imposed by the high level of development reached by some states, and also, by the economic backwardness of many other states.

Since its appearance in 1987, the concept of sustainable development has penetrated in all economic and social areas: from sustainable agriculture to sustainable transport and sustainable tourism.

Objectives, principles, requirements of sustainable tourism development can be found in forms of tourism such as ecotourism, rural tourism or cultural tourism. These forms are the expression of desire that tourism is not only a positive and dynamic factor for development and a practical solution for keeping unaltered environment, in present.

Sustainable tourism means the ability of the tourism destination to remain competitive, against all the issues raised, to attract visitors for the first time
and subsequently make them loyal, to remain culturally unique and be in constant balance with the environment.

Sustainable tourism must balance between two types of needs satisfaction:
- economic development;
- protection of natural potential, of the environment as a whole.

Sustainable tourism strategy involves three aspects:
- **quality** - sustainable tourism provides a valuable experience for visitors, while improving the quality of community life - host and protecting the environment;
- **continuity** - sustainable tourism ensures continuity of the natural resources based on and continuity of community culture – host, satisfying experience for visitors.
- **equilibrium** - sustainable tourism ensures a balance between the needs of the tourism industry, environmentalists and local community.

Therefore, planning, development and operation of tourism must be part of the sustainable development strategy of the area, region or country. Sustainable tourism is a form of alternative tourism, however, is based on the following principles:
- to minimize the impacts of tourism on the natural environment in order to achieve the environmental sustainability, helping to maintain and improve the conservation status by returning a portion of the income to the protected area; practicing forms of tourism that does not affect the natural environment.
- to minimize the negative impacts of tourism on local communities and their members to achieve social sustainability. Development of those forms of tourism that does not disturb and do not interrupt the daily life of the population from the tourist destination; avoiding the hostile situations in relation with the local community.
- to minimize the negative impacts of tourism on culture / traditions / customs of the local communities to achieve sustainable cultural; development of a tourism able to determine and maintain local cultures individuality and avoid saturating their “external” cultural influences.
- to maximize economic benefits to the local people as a result of tourism development, to achieve economic sustainability. It is one of the most important principles of sustainable tourism, at the service of protection and economic development of local communities and protected areas.
- to provide education, training, information for all those involved in tourism; tourist education through a higher understanding and appreciation of the impacts caused by it to improve personal attitudes regarding the environment and reduce impacts. It includes an ecological educational component for visitors, residents, local government, rural population, urban etc.
to have local control - a basic principle in sustainable tourism. The local community is involved and consulted throughout the development of sustainable tourism, being an active decision maker. The key here is local ownership of tourism infrastructure elements (like: accommodation structures). The local community and local governments are involved and have especially financial control.

4. Sustainable Impact on Tourism in Romania

In sustainable development, tourism has the key role to observe and promote the overall objectives of the society. This may underlie the balance between tourism activities and sustainable development.

National Strategy for sustainable socio-economic development on the medium term presents tourism as a priority sector, considering that it is able to contribute a significant share to the recovery and economic recovery in Romania.

In order to capitalize optimal (sustainable) of the tourism resources and protection of the environment, provide a legal and administrative framework for the organization and performance of tourism in Romania (Government Ordinance 58/1998), planning, approval and maintenance of recreational ski slopes leisure and mountain routes (Government Ordinance 1269/1996), the use of Black Sea coast tourism beach (Government Ordinance 107/1996), attesting tourist resorts (Government Ordinance 77/1996) and have completed certification criteria definition and tourist areas where environmental protection and tourism potential is a priority condition.

Romania had also developed specific rules on sanitary protection zones for water and resource use and therapeut (Government Ordinance 101/1997). The Law 41/1995 on the protection of national cultural heritage define the concepts of national cultural heritage and historical monuments, components, measures to protect historical monuments and delimitation and increase their protection zones, that establish the planning documents.

Environmental protection legislation (Law no. 137/1995), those related to planning activities involved in the planning process (Law no. 50/1992, Government Decision no. 31/1996 and other acts of the government come to sustain the sustainable development tourism by requiring operators to carry out projects, development and installation quality travel and not harm the environment and tourism resources. requirement to obtain an environmental permit (Ordinance no. 125/1996) for an investment and to develop a study about the environmentally, socially and economically impact to base decisions on the location and size of the investment objective, integration into the natural environment and local architecture, the exploitation of renewable resources, treatment and disposal of sewage, waste etc. has a
particular importance for this purpose. Through environmental permit are established the conditions and operating parameters for existing and new activities, based on environmental agreement (Order 170/1990). Moreover, in accordance with EU directives, all member countries were required to introduce in national legislation an act who require to all operators to take account of the impact, that the large investment projects has on the environment, including tourism.

Tourism in order to achieve compliance with the principles of sustainable development should be subordinate to national and regional plans for economic and social development. Actions may cover for economic (revenue growth, diversification and integration activities, the control, the zoning of the development), social goals (improving poverty and inequality of income distribution, indigenous socio-cultural heritage protection, participation and involvement of local communities) or environmental purposes (protection of the ecotourism functions, conservation and sustainable use of biodiversity).

5. Conclusion

Tourism occupies an important share of the national economy, being the sector generating places of work, as well as a beacon to increase the income; while the Romanian industry is in decline, but having natural potential, with which few above countries can be proud, the tourism seems to be the only solution that Romania has to pass the economic crisis. This is why strategies promoted at regional and local level should give attention to the tourism - by maximum exploitation of available resources inexhaustible.

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THE BENEFITS OF KNOWLEDGE MANAGEMENT AND E-GOVERNMENT IN RAISING CITIZEN ENGAGEMENT – JORDAN CASE STUDY

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ABSTRACT. This paper tries to highlight the relationship between Knowledge Management, and e-government success depending on the citizens’ attitude toward it, investigate the factors that can motivate or inhibit citizens to be engaged in e-government, and investigate the role of knowledge management as a tuning up parameter for raising citizen expectations and trust in e-government and consequently their engagement in its success. The paper mainly focuses on identifying the e-government services in Jordan, and identifying the uses and practices of e-government in Jordan. Kingdom attaches great importance to the transformation of e-government due to the benefits e-government provides to the national economy. The e-government expresses a modern system adopted by governments using the World Wide Web, and the Internet to link their institutions to each other, and connect the various services private institutions and the general public, and the development of information accessible to individuals in order to create transparent relationship characterized by speed and accuracy designed to improve the quality of performance. The research found that the strategic goal of the management of e-government is to support and simplify dealings of stakeholders in the digital society, while the external objective of e-government management is to satisfy the needs of its customers in line with their aspirations and to simplify the mechanism for access to electronic services through various electronic channels. It is known that the activation of information and communication technology leads to provision of services to stakeholders quickly and efficiently, to high credibility and transparency.

JEL Codes: M100; M120

Keywords: knowledge management; e-government; citizen; engagement
1. Introduction

Information and communication technology (ICT) is an important factor affecting our lives to a large extent. Governments around the world have realized the power of ICT in simplifying and speeding the services delivery. These rapid changing environments have pushed governments to explore, understand, adopt, and operate electronic interactive services with their customers (Chalhoub, 2010). E-government is one of the concepts that appear as a response to this rapidly changing world. E-government is defined as a relatively new era of study in the field of Information System (IS) that is concerned with the use of technology by governments to deliver services electronically.

E-government is a rapidly growing phenomenon in both developed and developing countries. Recognizing the perceived benefits, governments are investing huge sums in e-government initiatives. The trend has been supported by the view that improving the quality of e-services and their delivery will improve adoption of e-government and offer governments a cost-effective and highly efficient means to deliver citizen services (Deakins et al, 2002; Ebrahim et al, 2005; Mutula, 2005). As a result, it has an increasing impact on how governments at all levels function and make their services available to their citizens.

2. Research Problem

E-Government has often sounded a very promising and innovative approach in all aspects of Jordanian people’s daily life. Despite the initial progressive steps undertaken, Jordan is still experiencing the challenge of implementing E-Government initiatives successfully. This is due to the same factors that could hinder growth of the conventional government and big institutions as well, namely bureaucracy, lack of accountability and transparency, and lack of citizen participation in democratic institutions and processes. Despite the fact that the number of the web-sites examined in this study is limited, it did not include all governmental institutions around the country, especially those with online presence.

3. Research Importance

E-Government program in Jordan is a truly unique Jordanian model that is built on best practices of presenting opportunities to upgrading the government services, increasing skilled human resources, digital inclusion, and eventually creating a society where E-Government contributes to the economic and social development of the Kingdom (MoICT- E-Government
program, 2003). Each government agency in Jordan is still in charge of its own digital transformation towards a more “customer-centric” approach in the delivery of services by means of appropriate technology, knowledge management and skilled staff to achieve the ultimate national goals through the successful implementation of E-Government programs and initiatives that are relevant and affordable to the citizens of Jordan studying current searching “Electronic government in Jordan.”

4. Research Aim and Objectives

- Identify the e-government services in Jordan.
- Identify the benefits of e-government in Jordan.
- Identify the uses and practices of e-government in Jordan.

5. Research Hypotheses

H1- There is no statistical significant impact for the level of service offered by e-government.
H2- There is no statistical significant impact of benefits to the user of e-government.
H3- There is no statistical significant impact for the level of quality of services offered by e-government.

6. Previous Studies

The study conducted by Almarabeh and AbuAli (2010) introduces a general framework for the E-government through discussing answers to 3 main questions related to E-government: What, Why and How E-government? The answers to these questions summarized in giving different definitions, maturity for E-government, addressing the challenges and opportunities for developing a successful E-government, and discussing different factors for achieving the success for E-government projects and the role of ICT.

The study of Mohammad et al. (2009): E-governments facilitate the use of information systems in government strategic and operations. This paper reviews the e-government concepts in information society and especially focuses on the government project in Jordan, views some of the strategic and technical challenges and the risk factors affecting the development of electronic government, and gives some suggestions to overcome the consequences of these difficulties. Some of these factors must be identified correctly and as a result should be looked at the risk factors as they are in control of the success or failure of the project of the e-government.
A study conducted by UN (UN E-government Survey, 2008) in the year of 2008 presents a comparative assessment of the 192 United Nations’ Member States. The survey evaluates the application of information and communication technologies by governments. This evaluation of E-government readiness places citizens at the forefront, by focusing on the governmental services and products that primarily affect them. Ahmed Al-Omari and Hussein Al-Omari (2006), E-Government Readiness Assessment Model (Al-Omari, 2006). Both researchers presented a general framework model for E-government Readiness Assessment and the recommended factors represent the basic components to be assessed prior to launching the “e-initiative” to be sure that the implementation was made in the correct way. These factors were: Organizational Readiness, Governance and Leadership Readiness, Customer Readiness, Competency Readiness, Technology Readiness, and Legal Readiness. Like in any country, e-Government in Jordan will require continued investments in services and technologies whose benefits are not always immediately apparent (Ministry of Information and Communications Technology). The following table provides a benchmark of benefits as measured by other countries (OECD report).

7. Sampling Method

The research consists of (49) employees in the staff of the Palace of Justice and the Court of legitimacy and municipalities; (49) total number in sample, (45) total number of responses. However, according to the Neuman (2000) formula to calculate response rate, the total response rate, as shown in the equations below is (91) percent, it is ‘very high’ to take the data analysis. There are (4) questionnaires which were not returned by the employees.

8. Data Analysis Tools and Techniques

The researcher used the Statistical Package for Social Science (SPSS) to analyze the data. To test the hypotheses of the research the researcher uses these data analysis methods:

1. Frequency and Percent.
2. Mean and Std. Deviation.
3. One-sample t-test.

9. Hypotheses Testing

This part deals with hypotheses testing. The hypotheses were tested using One Sample- t-test in order to determine if there is an impact of independent
variables; the level of service and benefits to the user and the quality of services offered by e-government. According to the Decision rule factors: “accept” the null hypothesis (H0) if calculated value (t-calculated) is less than critical value (t-tabulated) and “reject” (H0) if resultant value is greater than critical value. Also, “0.05” level of significance was used to analyze the collected data. According to the Decision rule: “accept” null hypothesis (H0) if the significance level (α) of the question is greater than 0.05 significance level, and “reject” (H0) if the significance (α) level equals or is less than 0.05 (Eleyan, 2011). As a result for this decision rule, the researcher has tested statistically the proposed hypothesis and found the following results: Hypotheses: There is no statistical significant impact for the level of service and benefits to the user and the quality of services offered by e-government.

H1- There is no statistical significant impact for the level of service offered by e-government.

In order to investigate this hypothesis mean, standard deviation, and One sample t-test are applied.

**Table 1** Mean and Std. Deviation for each item of level of service offered by e-government

<table>
<thead>
<tr>
<th>No</th>
<th>Item</th>
<th>Mean</th>
<th>Std. Deviation σ</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Invest in good coordination with key stakeholders and initiative owners</td>
<td>3.76</td>
<td>0.98</td>
</tr>
<tr>
<td>2</td>
<td>Continuous planning and roadmap revisiting</td>
<td>3.62</td>
<td>1.10</td>
</tr>
<tr>
<td>3</td>
<td>Use of international suppliers (with local partners, when it is possible)</td>
<td>3.67</td>
<td>1.07</td>
</tr>
<tr>
<td>4</td>
<td>Ensure proper planning for program management initiatives within the Program roadmap</td>
<td>3.50</td>
<td>1.15</td>
</tr>
<tr>
<td>5</td>
<td>Encourage investment by local suppliers in applications by giving priority to qualified local</td>
<td>3.43</td>
<td>1.13</td>
</tr>
<tr>
<td>6</td>
<td>Absence of local suppliers of certain high- suppliers</td>
<td>3.69</td>
<td>1.09</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>3.61</td>
<td>0.68</td>
</tr>
</tbody>
</table>

The above table shows that the highest average rate was (3.14) of paragraph (Invest in good coordination with key stakeholders and initiative owners), while the lowest average rate (3.76) of paragraph (Encourage investment by local suppliers in applications by giving priority to qualified local) and the overall average (3.43).

H2- There is no statistical significant impact of benefits to the user of e-government.
Table 2 Mean and Std. Deviation for the benefits to the user of e-government

<table>
<thead>
<tr>
<th>No</th>
<th>Item</th>
<th>Mean</th>
<th>Std. Deviation σ</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Allows citizens to register vehicles online; processing is about USD 4 less than counter transaction</td>
<td>3.14</td>
<td>1.09</td>
</tr>
<tr>
<td>2</td>
<td>Saves more than USD 1 million per year</td>
<td>3.21</td>
<td>1.16</td>
</tr>
<tr>
<td>3</td>
<td>GBP 13 million savings over 4 years; reduces costs to suppliers by GBP 37 million</td>
<td>3.43</td>
<td>1.06</td>
</tr>
<tr>
<td>4</td>
<td>Business resource Center. Rationalization of services</td>
<td>3.19</td>
<td>1.17</td>
</tr>
<tr>
<td>5</td>
<td>Provides Business information and allows online document filling</td>
<td>2.79</td>
<td>1.18</td>
</tr>
<tr>
<td>6</td>
<td>Allows tendering to take place online</td>
<td>3.55</td>
<td>1.17</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td>3.22</td>
<td>0.81</td>
</tr>
</tbody>
</table>

The table (2) shows that the highest average for items was (3.55) (Allows tendering to take place online), while the lowest average (2.79) for item (Provides Business information and allows online document filling) and the overall average was (3.22).

H3- There is no statistical significant impact for the level of quality of services offered by e-government.

Table 3 Mean and Std. Deviation for the quality of services offered by e-government

<table>
<thead>
<tr>
<th>No</th>
<th>Item</th>
<th>Mean</th>
<th>Std. Deviation σ</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Reform the public sector websites now</td>
<td>3.38</td>
<td>0.66</td>
</tr>
<tr>
<td>2</td>
<td>Value to take place as government agencies interact directly with</td>
<td>3.29</td>
<td>0.99</td>
</tr>
<tr>
<td>3</td>
<td>Challenge working practices &amp; processes</td>
<td>3.67</td>
<td>0.95</td>
</tr>
<tr>
<td>4</td>
<td>Ensure financial security</td>
<td>3.24</td>
<td>1.03</td>
</tr>
<tr>
<td>5</td>
<td>Encourage the banking sector to develop new Websites allow an exchange</td>
<td>3.43</td>
<td>1.15</td>
</tr>
<tr>
<td>6</td>
<td>Clients on-line, including recording and storing sensitive information</td>
<td>3.71</td>
<td>1.09</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td>3.45</td>
<td>0.54</td>
</tr>
</tbody>
</table>

The table (3) shows that the highest average for quality of services offered by e-government was (3.71) for item (clients on-line, including recording and storing sensitive information), while the lowest average reached (3.24) for item (Ensure financial security). The overall average or quality of services offered by e-government was (3.45).

10. Conclusion

The e-government expresses a modern system adopted by governments using the World Wide Web and the Internet to link their institutions to each
other, and connect the various services private institutions and the general public, and the development of information accessible to individuals in order to create transparent relationship characterized by speed and accuracy designed to improve the quality of performance, the research found a number of conclusions.

- The strategic goal of the management of e-government is to support and simplify dealings stakeholders in the digital society.
- External objective of e-government management is to satisfy the needs of its customers in line with their aspirations and to simplify the mechanism for access to electronic services through various electronic channels. It is known that the activation of information and communication technology leads to the provision of services to stakeholders quickly and efficiently, to high credibility and transparency.
- Summed up the benefits of e-government in the use of digital information and electronic media in the management of the affairs of the country and citizens.
- Facilitate transactions between the government and citizens and businesses (stakeholders).
- Provide all stakeholders with integrated information to help in decision-making processes.
- Simplification of internal procedures, thus developing the performance of government institutions.
- Enable all segments of Community access to government services simply and at the lowest cost.

REFERENCES


ABSTRACT. This study aimed to identify the extent of the Jordanian tour application of transformational, transitional and laissez-faire leadership, and the relationship of these kinds in achieving job loyalty. The main findings of the study indicate that there is a transformative, reciprocity and undemanding leadership to the managers of Jordanian tourist companies, with the exception of some parts as they do not take into account the moral and ethical consequences of decisions, they do not wait for the situations to deteriorate before taking an action, and they do not wait for the problems to become chronicle before taking a stand. And there is a direct correlation between transformational and transactional leadership and between the emotional loyalty, ethical loyalty and devotion. But there is no relationship between laissez-faire leadership and between the emotional loyalty, ethical loyalty and devotion. The study recommended Jordanian tour companies to urge its managers to take into account the moral and ethical consequences of decisions, and to focus their attention entirely on handling mistakes, complains and complaints and failures, to urge and assist its managers in finding suitable mechanism to trace all errors that occur in their regions of responsibility.

JEL Codes: M100; M120

Keywords: leadership role; tourism; companies; achieve; loyalty; subordinates
1. Introduction

Human resource is the most important element in the enterprise because the financial assets are directed by employees where the success or failure of the enterprise is linked to their performance and consequently to the leadership which leads and directs personnel, so human resource is the most important investment in the enterprise. The essence of leadership is the influence of the leader on his subordinates, and the difference in influence tools used by the leader in directing his subordinates reflects the difference in leadership styles and patterns; there are some who put all the authorities in his hand and focused on production only and depends on finding the staff motivation to work through the so-called sanction power or he does not put all authorities in his hand and offers the opportunity to the staff to participate in his duties, and depends on finding the staff motivation to work by so-called ‘The power of confidence’ based on proper human relations between them, or he leaves all the responsibilities to the staff and relies entirely on them in management without guidance or their participation in all solutions and decisions.

Tourist section is considered one of the major sectors in that their success and continuity is affected by the efficiency of human resources so leadership may have an important role in determining the loyalty degree of the personnel and consequently improves the performance of the enterprise.

2. The Aim of the Study

The study aims to identify the extent of Jordanian tour enterprises applying of transactional, transformational and laissez-faire leadership and the relation and the relationship of these kinds of leadership to achieve loyalty.

3. Methodology of the Study

The study relied on descriptive analytical approach, where preliminary data were collected from the study community and analyzed statistically to reach conclusions about the study areas. The questionnaire was the primary data-gathering instrument designed to measure corporate community realities.

4. Study Population

The study population consists of all 23 Jordanian tour companies.
5. Study Tool

118 questionnaires have been distributed to various companies; each company was given 5-6 questionnaires, 109 questionnaires have been restored, and 10 have been excluded because of the great lack of information in them. The questionnaire method was based on closed questions, and the available answers were: strongly agree, neutral, disagree, and strongly disagree. Previous answers have been weighted by degrees (5, 4, 3, 2, 1) respectively.

6. Literature Review

Abu Rami, 2010: this study aimed to find out the extent of elements of transformational leadership availability among civil society leaders in Jordan, and identify the most important material, financial, technical and organizational culture leadership requirements to apply it in civil society organizations, and identify the most important skills for building and developing transformational leaders in civil society, and organizations.

The study found that transformational leadership elements are available in a positive way and some of them are the “charismatic character” motivation, inspiration and creative encouragement, while the focus on individual feelings element become less.

The availability of physical, financial and technical requirements to the transformative leadership in civil society organizations have a big influence in raising the performance of their employees.

Study of AL Dmou (2010): This study aimed to measure the impact of transformational and transactional leadership in providing employees and critical thinking skills.

The study also aimed to identify the extent of differences in the critical thinking skills and preparations related to individual attributes characteristics. The study found a strong positive effect of transformational leadership dimensions in gaining critical thinking skills and preparations, an apparent impact of laissez-faire leadership dimensions and a negative impact on the organizational culture dimensions and they are not statistically significant. The results of analysis of variance showed the existence of statistically significant differences in critical thinking skills attributed to the overall experience.

Study of Sethi Anjanee (2010): This study aimed to describe the dimensions and the challenges of leadership in the new millennium, where the study showed that in the twenty-first century leadership will be influenced by three major change forces: globalization, liberalization and technology which are advancing by leaps and bounds.
It showed that there is a wide variety of methods to explain the process of leadership and its complexity. Leadership may be shown as a trait or as a behavior or may be seen from a humanitarian point of view. And there are many different definitions of leadership.

Study of Jain & Mukherji (2009): This study aimed to describe the importance of leadership for developing and directing the human factor in business schools in India and the study ended in emphasizing the importance of human resources in these schools and the importance of leadership in them; the study recommended caution when trying to apply western theories of leadership in non-western countries, because all the concepts may not be relevant to effective leadership in these countries, where each one has its way of driving and using its special style according to nature of the population.

7. Analysis of the Hypothesis

Several statistical measures were used such as: arithmetic mean, t-test, Cronbach’s test, standard deviation, analysis of variance (ANOVA), and Toki test. Regarding the answer to the questions, question (paragraph) acceptance must have arithmetic mean greater than 3 and t-value must be greater than the indexed value or p-value must be less than the significance level adopted in this study of 0.05.

7.1 Analysis of the First Hypothesis

There is a transformational leadership among managers of tourist companies: 1) With the exception of paragraph 1, all the other paragraphs of the idealized influence (behavioral) were statistically significant. Arithmetic mean was greater than 3.00 while level indication (p-value) was less than significance level (0.05).

As to paragraph 1, although arithmetic mean was greater than 3.00, the indication level (p-value) was greater than 0.05; which means that managers do not take into account the moral and ethical consequences of their decisions. As for all the paragraphs combined, arithmetic mean amounted to 3.62 and indication level 0.00, which means that directors have idealized influence (behavioral).

2) All paragraphs that make the individual account were statistically significant. Arithmetic mean was greater than 3.00 while level of indication (p-value) was less than significance level (0.05).

As for all the paragraphs combined, arithmetic mean was 3.79, observation level (p-value) 0.00, which means that managers take into account the individuals.
3) For idealized influence (legacy) all its paragraphs were statistically significant. Arithmetic mean was greater than 3.00 and (p-value) less than significance level (0.05).

As for all the paragraphs combined, arithmetic mean was 4.16 and (p-value) 0.00. This means that there is an idealized influence (legacy) for managers.

4) For intellectual stimulation all the paragraphs were statistically significant, since arithmetic mean is greater than 3.00 and (p-value) less than significance level (0.05).

5) As for all the paragraphs combined, arithmetic mean was 3.95, (p-value) 0.00. This means that managers encourage intellectual stimulation.

As for inspirational motivation, all paragraphs were statistically significant, since arithmetic mean is greater than 3.00 and (p-value) less than significance level (0.05).

6) As for all the paragraphs combined, arithmetic mean was 3.24, (p-value) 0.00. It means that managers encourage inspirational motivation.

For transformational leadership as a whole related to the first hypothesis, all the paragraphs combined, arithmetic mean was 3.74 which is equivalent to the rate of 74.8%, (p-value) 0.00. Where the first hypothesis is accepted, this means that there is a transformational leadership among the managers of tourist companies.

Table 1  Statistical indicators for Transformational t leadership

<table>
<thead>
<tr>
<th>No</th>
<th>Paragraph</th>
<th>arithmetic mean</th>
<th>standard deviation</th>
<th>t value</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Manager takes into account moral and ethical consequences</td>
<td>3.10</td>
<td>1.07</td>
<td>1.58</td>
<td>0.16</td>
</tr>
<tr>
<td>2.</td>
<td>Identifies the importance of a strong feeling toward goal</td>
<td>3.86</td>
<td>0.43</td>
<td>11.79</td>
<td>0.00</td>
</tr>
<tr>
<td>3.</td>
<td>Talks about his most important values and beliefs</td>
<td>3.71</td>
<td>0.62</td>
<td>6.80</td>
<td>0.00</td>
</tr>
<tr>
<td>4.</td>
<td>Underlines the importance of a collective feeling toward goal</td>
<td>3.63</td>
<td>0.49</td>
<td>7.59</td>
<td>0.00</td>
</tr>
<tr>
<td>5.</td>
<td>Idealized influence - behavior</td>
<td>3.58</td>
<td>0.51</td>
<td>7.18</td>
<td>0.00</td>
</tr>
<tr>
<td>6.</td>
<td>Helps others to develop their abilities</td>
<td>3.80</td>
<td>1.05</td>
<td>4.50</td>
<td>0.00</td>
</tr>
<tr>
<td>7.</td>
<td>Treats others as individuals rather than being members of a group</td>
<td>3.83</td>
<td>0.86</td>
<td>5.72</td>
<td>0.00</td>
</tr>
<tr>
<td>8.</td>
<td>Understands that everyone’s needs, abilities and aspirations are different from the others</td>
<td>3.60</td>
<td>1.03</td>
<td>3.43</td>
<td>0.00</td>
</tr>
<tr>
<td>9.</td>
<td>Spends time in education and training</td>
<td>3.91</td>
<td>0.98</td>
<td>5.51</td>
<td>0.00</td>
</tr>
<tr>
<td>10.</td>
<td>Individual consideration</td>
<td>3.79</td>
<td>0.50</td>
<td>9.29</td>
<td>0.00</td>
</tr>
<tr>
<td>11.</td>
<td>Instills pride in others with whom he is associated</td>
<td>4.03</td>
<td>0.86</td>
<td>7.10</td>
<td>0.00</td>
</tr>
<tr>
<td>12.</td>
<td>Acts in a way that makes others respect him</td>
<td>4.11</td>
<td>0.93</td>
<td>7.07</td>
<td>0.00</td>
</tr>
<tr>
<td>13.</td>
<td>Displays a sense of strength and confidence</td>
<td>3.80</td>
<td>1.26</td>
<td>3.77</td>
<td>0.00</td>
</tr>
<tr>
<td>14.</td>
<td>Beyond self-interest for the good of the Group</td>
<td>4.69</td>
<td>0.80</td>
<td>12.53</td>
<td>0.00</td>
</tr>
<tr>
<td>15.</td>
<td>Idealized influence – attributed</td>
<td>4.16</td>
<td>0.67</td>
<td>10.22</td>
<td>0.00</td>
</tr>
<tr>
<td>16.</td>
<td>Makes others look at problems from different angles</td>
<td>3.89</td>
<td>0.90</td>
<td>5.82</td>
<td>0.00</td>
</tr>
<tr>
<td>17.</td>
<td>Reviews the important assumptions to find out which one fits</td>
<td>3.49</td>
<td>1.22</td>
<td>0.42</td>
<td>0.04</td>
</tr>
<tr>
<td>18.</td>
<td>Seeks various views when solving problems</td>
<td>4.37</td>
<td>0.81</td>
<td>10.05</td>
<td>0.00</td>
</tr>
<tr>
<td>19.</td>
<td>Proposes new ways to look at how to accomplish tasks</td>
<td>4.06</td>
<td>0.84</td>
<td>7.46</td>
<td>0.00</td>
</tr>
<tr>
<td>20.</td>
<td>Intellectual stimulation</td>
<td>3.95</td>
<td>0.59</td>
<td>8.50</td>
<td>0.00</td>
</tr>
<tr>
<td>21.</td>
<td>Expresses confidence that goals will be achieved</td>
<td>3.97</td>
<td>0.92</td>
<td>6.23</td>
<td>0.00</td>
</tr>
<tr>
<td>22.</td>
<td>Talks with enthusiasm about what will be done</td>
<td>2.11</td>
<td>1.51</td>
<td>-3.47</td>
<td>0.00</td>
</tr>
</tbody>
</table>
7.2 Analysis of the second hypothesis:

There is an existence for the transformational leadership among managers of tourist companies:
1. That all paragraphs that make the cognitive reward/conditional were statistically significant. The arithmetic mean was greater than 3.00 and (p-value) less than significance level (0.05).
   As for all the paragraphs combined arithmetic mean was 3.61 and (p-value) 0.00 that means managers apply the conditional cognitive reward.
2. For management by exception (active), paragraph 25 and paragraph 28 were statistically significant. The arithmetic mean was greater than 3.00. (p-value) less than significance level (0.05).
   Paragraph No. 26 and No. 27 have obtained arithmetic mean less than 3.00, which means that it is not statistically significant, meaning that managers are not fully focused on dealing with the mistakes, complaints and failures, and do not follow up all the errors.
   As for all the paragraphs combined arithmetic mean was 3.56 and (p-value) 0.00. That means managers do not apply management by exception (active).
3. For management by exception (negative) paragraph No. 29 and No. 31 were statistically significant, arithmetic mean was greater than 3.00 and (p-value) less than significance level (0.05).
   Paragraph No. 30 and No. 32 - although they obtained arithmetic mean greater than 3.00, the (p-value) is greater than significance level (0.05); which means that directors do not wait for things to deteriorate before taking action and do not wait for problems to be chronic before taking any action.
   As for all the paragraphs combined, arithmetic mean was 3.19 and (p-value) 0.02. This means that department managers apply management by exception (negative).
4. For transactional leadership as a whole related to the second hypothesis that for all paragraphs combined arithmetic mean was 3.46 and it is equivalent to the rate of 69.2%, and (p-value) 0.00. The second hypothesis is accepted, meaning that there is a transactional leadership to the managers of tourist companies.

Table 2 Statistical indicators for Transactional leadership

<table>
<thead>
<tr>
<th>No</th>
<th>Paragraph</th>
<th>arithmetic mean</th>
<th>standard deviation</th>
<th>t value</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Manager helps other for their efforts</td>
<td>3.97</td>
<td>1.04</td>
<td>5.51</td>
<td>0.00</td>
</tr>
<tr>
<td>2</td>
<td>Specifically discusses who will be the next person responsible of achieving the goals</td>
<td>3.46</td>
<td>0.78</td>
<td>3.47</td>
<td>0.00</td>
</tr>
<tr>
<td>3</td>
<td>Explains what rewards the individual should expect when the goals are achieved.</td>
<td>3.40</td>
<td>0.91</td>
<td>2.59</td>
<td>0.01</td>
</tr>
</tbody>
</table>
8. Conclusion

1. There is a transformational leadership among managers of tourist companies; they have an advantage of idealized influence (behavior) except that they do not take into account the moral and ethical consequences of decisions. They have idealized influence (attributed) and practice intellectual stimulation and inspirational motivation.

2. There is a transactional leadership among the managers of tourist companies, as managers apply contingent reward /conditional and apply management by exception (active).

   Except they are not focused entirely on handling mistakes, complaints and failures, and do not follow all the errors. They apply management by exception (negative), except that managers do not wait for or until those things deteriorate before taking action. And they do not wait for problems to become chronic before taking any action.

3. There is a presence of laissez-faire leadership among the managers of tourist companies, where the manager avoids interference when there is an important issue, is absent when needed, avoids making decisions, and delays the response to urgent questions.

4. There is a positive correlation between transformational leadership and affective commitment 0.51, normative commitment 0.64 and continuous commitment 0.43.

5. There is a positive correlation between transactional leadership and affective commitment 0.59, normative commitment 0.71 and continuous commitment 0.44.
9. Recommendations

1. Jordanian tour enterprises should urge its managers to take into account the moral and ethical consequences of their decisions.

2. Although there is a laissez-faire leadership in Jordanian tour enterprises, it does not affect employee loyalty negatively; but it is recommended to finish or reduce it because of its other negative effects which are generally agreed on and installed in other studies.

3. The managers of the Jordanian tourism companies should focus their attention entirely on handling mistakes, complaints, and failures.

REFERENCES


MANAGERIAL STRATEGIES TO ADAPT
THE ACADEMIC CURRICULUM TO THE LABOR MARKET

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ABSTRACT. Involvement of the higher education management in adapting educational systems to the expectations of the labor market is not only a necessity, but also a duty, given that most students attend a university wishing to increase their employability. In this paper the issue has been addressed in terms of active involvement of higher education institutions in the training of employable graduates, able to become useful for economy and to obtain job satisfaction. Thus, it was presented and analyzed how the curriculum can be used as a suitable tool for the assimilation of employability as a fundamental objective of higher education institutions.

JEL Codes: I23

Keywords: higher education management; curriculum; employability

1. Introduction

Employability of higher education graduates is a responsibility of higher education institutions, remarks in this regard being numerous. Thus, Archer & Davison (2008) state: “Universities need to equip graduates with strong intellectual capacities and a set of skills that will prepare them for the labor market.” Also, in a 2006 paper, Yorke said: “Employability derives from a complex learning process and is a more comprehensive concept than implying so-called key competencies. Employability is directly and strongly linked to a long complex and serious learning process.” Moreover, it is the widely accepted view that all majors university courses should be organized to contribute to increasing the employability of future graduates.
Academic curriculum is the major instrument through which employability is integrated into the educational process. Therefore, modern and efficient university curriculum must focus on skills training according to the individual peculiarities of the trainees, in order to integrate them into the labor market.

This paper tackles the reform of the curricular academic content, particularly in the field of economics. Thus, we present a series of steps specific to university management, and also able to ensure such an intertwining of the contents, objectives, methodology and evaluation so to contribute to increasing the employability of future graduates.

2. Established Models of Employability Integration into the Academic Curriculum

Following the fact that employability of graduates is a common concern of many higher education institutions, worldwide there have been developed and proposed a number of models for integration of employability in the university curriculum. We do a review of three of the most commonly used models, namely: the DOTS model, the USEM model and the CareerEDGE model.

➢ The DOTS Model

This model was founded in 1977 by Watts and Law in their paper *Schools, Careers and Community* and involves planning learning activities so that they contribute to the ability of learners for:

- Decision learning – ability to make decisions on development through learning a set of skills;
- Opportunity awareness – ability to identify opportunities on the labor market and to understand the ways in which one can take advantage of these opportunities;
- Transition learning – ability to transfer into real context learned knowledge and skills, including the ability to search for a job and to report favorably to prospective employers;
- Self-awareness – an accurate picture of their interests, skills, values, etc.

The value of this model lies in its simplicity that allows the organization and management of a complex process such as that of career development. Among the criticisms there is that of an excessive concentration on making sure that the individual is “suitable” for a specific working environment, without taking into account wider social and even political aspects.
USEM Model

This model was developed in UK universities; Knight and York presented it in a paper from 2004, Embedding Employability into the Curriculum. The model is probably the best known and appreciated in this area. USEM is an acronym for the four interrelated components of the model that the authors consider that are necessary to develop an employable graduate at the end of a learning program, namely:

- Understanding – involves a correct understanding of specialized knowledge, knowledge retention and the ability to apply them;
- Skills – involves development of specific and generic competencies;
- Efficacy beliefs – awareness and understanding of their skills;
- Meta-cognition – the ability to reflect on their own learning and on the learning behavior.

The main weakness of the model is considered to be that it uses specific concepts of the educational research, which makes it harder to understand by students and their parents.

CareerEDGE Model

The model was presented by Dacre Pool and Swell in 2007 in their work The key to employability: Developing a practical model of graduate employability, and further developed in the 2010 paper: Moving from conceptual ambiguity to clarity: Employability, Enterprise and Entrepreneurship in Higher Education. The model is based on five key components and encourages Personal Development Plans as the best tool for the model to be operationalized.

The model name summarizes the five components, namely:

- Career Development Learning – including this element in the model indicates that in order to obtain a job in which the employees are satisfied and successful, it is essential to for employees to be educated in managing their own career direction.
- Experience – work and life – the model suggests that employability at a graduate level increases as they gain work experience.
- Degree subject knowledge, understanding and skills – this is the core of the model and shows that employment opportunities increase significantly for those who have solid specialized knowledge.
- Generic skills – they add to the professional knowledge specific to a small area of knowledge and are likely to be used in various fields.
- Emotional Intelligence – model argues that the introduction of emotional intelligence is essential to any action that aims to develop employability, and even implies that its importance will grow over time, as the activities involving direct contact with the customer and human interaction will expand, too.
3. Lines of Action for Adapting University Curricula to the Labor Market

After analyzing previous models we conclude that introducing employability in the university curriculum includes:
- To develop a range of knowledge and skills specific to the field of study and to the future profession of the graduates;
- To develop a set of transversal competencies;
- To develop students’ ability to realize progress that they make towards developing their skills, knowledge and practical expertise;
- To develop the capacity to understand their interests and ability to organize work and career as a whole;
- To develop the ability to transfer those skills developed over years of study in a real work environment
- To develop the ability to socialize.

Based on these observations, in this work we present a series of concrete measures to adapt the academic curricula for economics students in order to develop the graduates’ level of employability. Thus, we consider that the four major directions of action are:

A. Identify those skills typically associated with employability and their integration into the university curriculum;
B. Organization within higher education institutions, of Careers and Employability Units, providing support to students / graduates in the labor market integration;
C. Creating opportunities for carrying out practical activities specific to the study program, either as a part of it or outside of the study program;
D. Continuous assessment of the process by highlighting performances, failures and issues for improvement.

A. Identify skills typically associated with employability and their integration into the university curriculum

Given the fact that curriculum includes planning the teaching activity, and starting from the needs of the trainee, the curricular development and modernization involve the intervention on:

Educational objectives – the main objective of the educational process is the formation of employable graduates. Subsequently, the higher education institution should agree on guidelines regarding how employability skills will be assimilated in the context of teaching. Specialized literature (Cranmer, 2006) highlights two major directions:
- Develop skills through the curriculum, delivered by subject lecturers (mandatory), opting for: total embedding of employability skills, explicit embedding or bolt – on professional/generic skills;
- Develop skills by the Careers and Employability Units personnel (optional), that means through parallel activities.

**Teaching-learning process** – the methods of teaching - learning used in the development of employability of graduates must meet the following requirements:
- to provide the assimilation of the basic theoretical concepts specific to the profession;
- to determine the active involvement of students through the use of interactive teaching and learning methods;
- to convey the reality of the labor market; this requires the involvement, as much as possible, of the employers' representatives in the teaching and learning process.

**Assessment system** - As regards the methods of assessment used, these methods can be considered formative or summative.

*Formative methods* monitor student's learning throughout the semester, watching how students evolve. *Summative methods* assume that evaluation takes place at the end of the course module and evaluate the manner in which the student has assimilated a number of concepts taught during the semester. While formative assessment seeks learning, summative assessment aims at the learning product.

**B. Careers and Employability Units**

Careers and Employability Units bring a new dimension to the institutional strategies designed to increase the employability of students. Regarding how these units are integrated into academic work, specialized literature presents four types of options (Watts, 1997): The integrated guidance model; the integrated placement model; the curriculum model; the learning organization model.

**C. Specialized practice to develop related employability skills**

Student participation in real work activities, or engagement in activities similar to those conducted effectively, is strongly correlated with higher levels of employability, since work experience is among the criteria most valued by employers. Examples offered by national and international practice illustrate the following forms of organization of professional practice: organizing internships as a compulsory module in the curriculum; internships; “sandwich” work placements; part-time jobs.

**D. Assessment of the integration process of employability in the university curriculum**

The process of employability assimilation as a fundamental objective of higher education institutions is not complete unless there are certain
established assessment procedures of the measures taken in order to accomplish this purpose, and also to assure the continuous improvement. Evaluation activities can be developed around the following areas:

- Regular consultation of the students;
- Requested feedback from students at the end of each course module, in relation to the relevance of the course for the development of the skills associated with employability;
- Regular consultation of the graduates;
- Monitoring of graduates two years after graduation;

Given the above, we present a schematic view of the action lines taken by the university management in order to ensure the implementation of the goals of ensuring employability of graduates through curriculum.

**Figure 1** The schematic view of the embedding employability into curriculum
4. Conclusions

Therefore, the assimilation of the objective of training employable graduates as a main objective of higher education institutions requires, in our opinion, the following:

- **Explicit embedding and integration** of the specific employability skills in the teaching-learning process – it means to provide a clear correlation between teaching-learning activities and employability skills; the assessment of these skills is obvious, while its impact on curricular change is high;
  - **Methods of assessment**: formative methods;
  - **Enhancing the collaboration between universities and business environment**.

- As main forms of collaboration, the following can be mentioned: Collaboration for integrating students/graduates in the real work activities; Collaboration to conduct joint study programs; Collaboration for research programs; Collaboration to carry out counseling and guidance activities; Involve representatives of the business environment in managerial bodies and advisory bodies inside higher education institutions; Collaboration between university and professional associations.

- **Organization of the Careers and Employability Units as the integrated guidance model**, in which the careers service becomes an integral part of a continuous guidance process available to students before, during, and throughout the students’ course, as well as after they finish it. Another important aspect in this model is the use of **Personal Development Planning** through which skills developed by students in curricular and extra-curricular activities can be centralized. By doing so, university is involved in helping students to monitor, to build and to reflect on their professional career development and, ultimately, on personal development.

- **Permanent assessment of the process** to correct the negative and positive issues integrated in it.

REFERENCES


IDENTIFICATION OF EMPLOYABILITY SKILLS – STARTING POINT FOR THE CURRICULUM DESIGN PROCESS

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ABSTRACT. Successful universities of 2020 will be able to bring on the labor market graduates with competencies expected by employers and society, as a whole. Thus, as the pressure exerted by the representatives of the labor market is increasing, universities are forced to act in the context of the policies and strategies targeted according to social needs. Among these, a significant proportion is held by policies that are related to the involvement of higher education institutions in increasing the employability of future graduates by developing academic programs based on the development of competencies and skills necessary for the labor market. This paper presents the results of some relevant global and national studies on transversal skills expected by employers of university graduates in economics. The usefulness of this study, in terms of university management approach, is justified by the fact that skills identification represents the first stage, and a very important one, to be covered in the process of curriculum redesign.

JEL Codes: I23

Keywords: higher education management; transversal competencies

1. Introduction

Faced with a number of new challenges posed by the unprecedented expansion in the number of students and graduates and labor market pressures, universities are forced to act in the context of appropriate policies and strategies targeted according to social needs. Among these, a significant proportion have policies that are related to the involvement of higher education institutions in increasing the employability of future graduates by
developing academic programs based on the development of competences and skills for the labor market (Lowden et. al, 2011).

In this context, one of the fundamental objectives of university management is the introduction of *competency-based approach in identifying and defining learning results* in order to improve the employability of graduates.

To meet this challenge, a first step is to identify a specific set of skills that employers appreciate at the young graduates looking for a job. The present paper summarizes a series of worldwide studies on the subject and adds the national employers’ perspective in order to formulate a set of skills that economics faculties should develop in their graduates (Cranmer, 2006).

2. Competencies – A Bi-Dimensional Approach

Romania, as a member state of the European Union, has joined the objectives set by Lisbon Strategy and Bologna Process which aim to reform higher education. According to the requirements imposed by this goal, the National Qualifications Framework in Higher Education (NQFHE) operates in our country, it is a unique tool that establishes the structure of qualifications and provides national recognition and international compatibility and comparability of qualifications acquired in the higher education system. With its help, all learning results acquired in the higher education system (Bachelor, Master, and Doctorate studies) can be recognized, measured and related, and at the same time the consistency of qualifications and certificates awarded is ensured.

Competencies approach in this paper was based on the perspective offered by the NQFHE on them. Thus, *competency* is the proven ability to select, combine and properly use knowledge, skills and other acquisitions (values and attitudes) in order to successfully solve a certain type of work or learning situations and for professional or personal development in terms of effectiveness and efficiency.

Competencies can be divided into two categories:

a) *Professional competencies* - the proven ability to select, combine and properly use knowledge, skills and other acquisitions (values and attitudes) in order to successfully solve a certain type of work or learning situations circumscribed to a certain profession, in terms of effectiveness and efficiency. Professional competencies represent the unitary and dynamic whole of knowledge and skills.

Each qualification related to a particular course of study (bachelor, master and doctorate) is defined under the general description of learning results and is expressed by:
- General professional competences, developed in the wider field of study;
- Specific professional competences, developed in the narrower context of a study program.

b) Transversal competencies – those values and attitudes acquisitions which transcend a particular field or study program having a transdisciplinary nature. This is expressed by the following descriptors: autonomy and responsibility, social interaction, personal and professional development.

Analyzing the National Register of Qualifications in Higher Education (NRQHE), it is noted that, in terms of professional skills, their identification is sufficiently concrete and relevant for different fields of economics studies. However, regarding transversal competencies, those are only three in number, in a somewhat vague expression.

That is why this paper focuses on the identification of transversal competences (“soft” skills) expected by the employers of economics graduates. Another reason to study these skills in detail, in addition to the fact that at national level they are not defined enough, is something that it is noted both in the literature review on the subject and in the materials developed by employers and used at job fairs and job advertisements: i.e. the fact that new employees’ transversal skills are more important in the hiring decision than professional skills.

3. Studies on the Importance of Transversal Competencies

To identify those transversal skills valued by the employers who act in the knowledge economy, we selected a number of studies considered relevant for their amplitude, for their results, and for the geographical area represented. The goal of this work was to identify the national employers' opinion about various types of transversal skills of the economics graduates and, on this basis, to formulate, finally, a fundamental and coherent opinion about the transversal competences that should be developed by the Romanian economics faculties.

Thus, the results of some worldwide surveys were analyzed and synthesized:

➢ Connecting Work and School: Findings from the National Employers Survey - The results of this study were presented in 1998 at the annual meeting of the American Education Research Association, and its aim was to highlight the evolution tendency, in the period 1994-1998, of the importance level that employers attach to various attributes/characteristics of the potential staff. Those who answered the questions of this study were representatives of the U.S. employers. The main question of the survey was: Once you were convinced that the potential employee has the required
professional expertise to fill a certain position, which are the characteristics/attributes that you think are most important in the hiring decision? (Saphiro, 1999).

- **Business Graduate Competencies Survey: Employers’ Views on Importance and Performance** – A relevant study whose results were developed to identify the competencies required from the graduates in business. The study was conducted in 2003 and included representatives of companies employing about 1,303 in New Zealand, covering various fields. (Hodges, D & Burchell, N, 2003).

- **International Employer Barometer – IEB** – is a study that examines the perceptions and needs of the employers in different sectors and in different types of companies. The study aims to identify the types of skills (both transversal and professional skills) valued by employers. This study was conducted in 2007 on the 233 employers who employ over 750,000 employees. (Archer, W. & Davison, J. 2008)

- **Institute of Directors’ Survey – Graduates’ employability skills** – The study was implemented in 2007, on the 500 members of the Institute of Directors and revealed an increased interest of employers to hire well-trained graduates. The study aimed to identify the skills and competencies, other than professional ones, which employers are looking for when hiring fresh higher education graduates and how each of them are appreciated.

- **The Employability Challenge Survey** – The UKCES Report (UK Commission for Employment and Skills) from 2009 - The Employability Challenge synthesizes the most common skills that make a person employable and which are shared in almost any type of activity.

- **OECD Survey** – The study, conducted in 2001, based on the competencies identified as required in the labor market by various countries like USA, Australia, Canada, the UK, provides a summary of transversal competences expected labor market, which are divided into two categories, namely: inter-personal skills and intra-personal skills.

- **CBI Survey - Education and Skills Survey** – The study, conducted in 2011, highlights the degree of satisfaction of employers in terms of employee skills.

- **Pricewaterhouse Cooper’s Survey – 15th Annual Global CEO Survey** – The study was conducted in 2012 and included 1,250 executives from 60 countries, highlighting important conclusions regarding the workforce.

Based on the findings of the studies mentioned above, and in conformity with the current European and national specific requirements, we identified a set of 15 transversal competencies, which must be developed by the economics graduates, namely:

TC 1 – communication skills;
TC 2 – team-working skills;
TC 3 – foreign languages;
TC 4 – spirit of initiative;
TC 5 – ability to work under pressure;
TC 6 – ability to pursue and achieve goals;
TC 7 – creativity and innovativeness;
TC 8 – proactive attitude;
TC 9 – assuming new challenges;
TC 10 – disposition to sustained effort;
TC 11 – distributive attention;
TC 12 – ability to negotiate;
TC 13 – assuming responsibilities;
TC 14 – ability to propose effective solutions;
TC 15 – ability to generate effective decisions.

Related to these competences, the business representatives were asked to rank the importance they attached to each of 15 competencies analyzed in the recruitment and selection process. Thus, employers gave scores of importance on a scale from 1 (least important) to 5 (very important). Then, for each of these factors a total score, which may range from 121 points (in the case in which a certain transversal competency would be given 1 point by all employers) to 605 points (in the case in which a certain transversal competency would be given 5 points by all employers), was calculated.

A defined questionnaire to collect data from employers was applied to a number of 121 organizations in three development regions, namely south-east, south-west Oltenia and Bucharest-Ilfov. Organizations in various industries, public and private entities, large corporations, medium and small enterprises were selected to participate at the questionnaire; therefore, the samples are representative for the occupations and regions studied.

The statistical analysis of the employers’ responses is shown in the following figure:
In addition, in terms of transversal skills, employers were surveyed about the frequency with which they meet the transversal competences expected at recent graduates in economics. The results are summarized in the following table.

**Table 1** Frequency with which employers meet transversal competences at recent graduates in economics

<table>
<thead>
<tr>
<th>Competences</th>
<th>Very often</th>
<th>Often</th>
<th>Rare</th>
<th>Very rare</th>
</tr>
</thead>
<tbody>
<tr>
<td>Communication skills</td>
<td>33%</td>
<td>37%</td>
<td>22%</td>
<td>8%</td>
</tr>
<tr>
<td>Team-working skills</td>
<td>30%</td>
<td>26%</td>
<td>31%</td>
<td>13%</td>
</tr>
<tr>
<td>Foreign languages</td>
<td>25%</td>
<td>32%</td>
<td>20%</td>
<td>23%</td>
</tr>
<tr>
<td>Spirit of initiative</td>
<td>24%</td>
<td>35%</td>
<td>20%</td>
<td>21%</td>
</tr>
<tr>
<td>Ability to work under pressure</td>
<td>17%</td>
<td>32%</td>
<td>16%</td>
<td>35%</td>
</tr>
<tr>
<td>Ability to pursue and achieve goals</td>
<td>18%</td>
<td>32%</td>
<td>16%</td>
<td>34%</td>
</tr>
<tr>
<td>Creativity and innovativeness</td>
<td>13%</td>
<td>28%</td>
<td>15%</td>
<td>44%</td>
</tr>
<tr>
<td>Proactive attitude</td>
<td>16%</td>
<td>35%</td>
<td>11%</td>
<td>28%</td>
</tr>
<tr>
<td>Assuming new challenges</td>
<td>10%</td>
<td>24%</td>
<td>23%</td>
<td>43%</td>
</tr>
<tr>
<td>Disposition to sustained effort</td>
<td>30%</td>
<td>37%</td>
<td>10%</td>
<td>23%</td>
</tr>
<tr>
<td>Distributive attention</td>
<td>14%</td>
<td>24%</td>
<td>32%</td>
<td>30%</td>
</tr>
<tr>
<td>Ability to negotiate</td>
<td>6%</td>
<td>17%</td>
<td>12%</td>
<td>65%</td>
</tr>
<tr>
<td>Assuming responsibilities</td>
<td>32%</td>
<td>29%</td>
<td>33%</td>
<td>6%</td>
</tr>
<tr>
<td>Ability to propose effective solutions</td>
<td>16%</td>
<td>23%</td>
<td>24%</td>
<td>37%</td>
</tr>
<tr>
<td>Ability to generate effective decisions</td>
<td>10%</td>
<td>18%</td>
<td>19%</td>
<td>53%</td>
</tr>
</tbody>
</table>
It is noted that the first five skills expected by employers are, in order, the following:

TC 13 - assuming responsibilities;
TC 6 - ability to pursue and achieve goals;
TC 1 - communication skills;
TC 5 - ability to work under pressure;
TC 2 - team-working skills.

Regarding the less frequent skills of recent university graduates, employers consider that they are the following:

TC 12 - ability to negotiate;
TC 15 - ability to generate effective decisions;
TC 7 - creativity and innovativeness;
TC 9 - assuming new challenges;
TC 14 - ability to propose effective solutions;
TC 6 - ability to pursue and achieve goals.

The responses to the open questions asked in the questionnaire allowed the identification of a set of skills, knowledge and competences expected from the graduates in financial accounting and management. These, added to the previously presented results, can serve as a basis for a new curriculum design in undergraduate studies in economics.

We present these results:

- List of the knowledge, skills and abilities expected from the average graduate of studies in financial accounting:
  - To have the ability to critically evaluate arguments and evidences;
  - To be able to analyze the existing data and understand what data are needed to draw conclusions on relevant issues;
  - To identify, collect and analyze data from various sources;
  - To be able to self-manage the learning process;
  - To easily manipulate numbers, numerical and financial data and be able to interpret various statistical concepts;
  - To be a good user of Word and Excel software;
  - To be able to analyze and present quantitative and qualitative information, formulating their comments in a form that interest the audience;
  - To have interpersonal skills, in particular the ability to work in a team;
  - To understand the context in which accounting works, including knowledge on social environment, on the legislative framework, on the accounting profession, on the concept of the firm, the capital market and the public sector;
  - To understand and be able to use specific technical accounting language and basic knowledge of accounting practices.
Potential employers of graduates in Finance and/or Accounting claim that are eager and they are looking forward to meeting graduates and even undergraduates who can transmit through speech and knowledge the message that they understand finance and accounting as a process of collecting and analyzing information that helps decision making regarding allocation of resources in a firm.

- List of the knowledge, skills and abilities expected from the average graduate of studies in management:
  - To understand the concept of organization and environment (internal and external) in which organizations operate, as well as the need and essence of strategic thinking;
  - To have the ability to think critically, the capacity for analysis and synthesis which involves the ability to formulate hypotheses, to evaluate various assertions, to detect false logic, to identify implicit ideas;
  - To have the ability to effectively solve various problems, be able to make decisions on the evaluation of different views and situations;
  - To have the ability to implement decisions;
  - To communicate effectively, to know how to use computers and various computer programs used in management;
  - Be able to use mathematical skills and quantitative methods like modeling, data analysis, interpretation and extrapolation;
  - To know how to manage their time, to control their behavior, to have initiative;
  - To be trainable or have the capacity and appetite for learning;
  - To have the ability to evaluate their own training needs of continuous education in order to adapt to the dynamics of organizational environment and the labor market;
  - To have self confidence, be empathetic;
  - To have leadership qualities, of team coordinator and the ability to influence people;
  - To have the inclination to assimilate business type of research;
  - To be fluent enough in at least one foreign language.

Potential employers of graduates in management claim that are eager and that they are looking forward to meeting graduates and even undergraduates who can transmit through speech and knowledge the message that management is a system of goals and a set of activities of planning, organization, motivation and evaluation within which decisions are based, made and implemented; these decisions are aimed to achieve the objectives of the organization.
4. Conclusions

The employability of higher education graduates is a responsibility of all universities nowadays, and this is also confirmed by employers' assessments that a good university/college is concerned with the employability problem and with the integration of its objectives into the curriculum design. Consequently, employability should be integrated into educational processes through the academic curriculum.

But the current economic development dynamic makes it difficult to conclude on a strict list of attributes that employers expect from prospective employees and the extent to which the lack of certain professional competences could be compensated by the transversal competences. However, summarizing the findings of the numerous studies in the field and adding the results of another study to capture the national characteristic in the field, this paper presents employers’ requirements regarding the transversal competences of graduates in economics, employable in the current socio-economic context.

The acknowledgment of this set of skills can be very useful in the context of university management whose main aim is to redesign the curriculum in line with the expectations of the knowledge economy.

NOTES

1. Institute of Directors is a professional organization comprising businessmen and managers from around the world, with around 40,000 members.
2. CBI is the largest lobbying organization for UK business, representing national and international employers’ views.

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MULTI-CRITERIA DECISION MAKING SELECTION MODEL
FOR RAILWAY COMPANIES

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ABSTRACT. The purpose of this study is to improve the selection process of railway companies’ managers by developing a multi-criteria decision making model. Our model tries to solve the main issue in the selection process of managers who have the same score after the peer review process and similar results in the quantitative evaluation parameters of selection. This model was built up as a multi-criteria decision tree, each criterion being based on utility functions and on DEXi expert system support. To increase the efficiency of the human resource management, we appreciate the implementation of the created decision-making model as being very useful; with some specific adjustments to optimize the professional training of all categories of employees, both for executives and management positions.

JEL Codes: C44; M12; M53

Keywords: human resources management; railway manager; decision tree; DEXi expert system

1. Introduction

The traditional approach to multi-attribute decision making involves quantitative concepts such as probabilities, utilities, scores and weights. The qualitative methods deal with descriptive values expressed by ordinal symbols or words (Bohanec et al, 1992).

Regarding selection criteria for the managers in the Constanta Regional Railways Operations Center for Maintenance and Repair (CRROCMR), we have observed that: the evaluation of human resources selection process is inappropriate, being done globally, not on categories of employees and railway staff selection methodology is outdated and does not take into account the new demands of HRM in rail transport.

For the managers’ evaluation process for selection we used the DEXi software tool.
We mention the fact that the DEXi expert system was first time used in Romania by Silviu Mihai Tita to assess Public Research Institutions and the original DEXi model was created by Katerina Taškova and Jozef Stefan.

The good graphics and reporting capabilities of the DEXi program allow easy explanation and understanding of the multi-criteria model and of the decision rules (Taškova et al, 2007).

Constanta Regional Railways Operations Center for Maintenance and Repair (CRROCMR) is part of the Romanian Railways Infrastructure (RRI), public company.

Regarding the CRROCMR, which was the subject of this present research work, the identified issue was the decision-making of selection for the most appropriate manager who must have the qualities required to participate to a specialized scientific event. In this respect, the Regional Manager together with the Traffic Division head decided to select the manager from the organizational structure of the Division, in order to choose the best placed manager from the point of view of professional and managerial performance evaluation process in 2011.

The logical schema of the scientific research on decision-making process for appropriate selection of railway managers based on multi-criteria model and with DEXi expert system program support is shown in Figure 1.

The shortlist of candidates included heads of departments and services subordinate to the Traffic Division, with responsibilities in the organization, management, and traffic control on the railway infrastructure, as well as with high experience in the field. The six managers selected for the decision to choose the best alternative manager, were rail technology engineers like specialty and results: Head of Infrastructure Access Control Department (IAC), Head of Infrastructure Access Regulations Department (IAR), Head of Traffic Service Department (TS), Head of Traffic Control Department, Constanta branch (TC), Head of Constanta Railway Station (RS) and Movement District Auditor (MDA).

Given the manner of choosing the most appropriate manager, determined by the Regional Manager with the Traffic Division head, we initiated desk research by collecting and structuring information from reports and records of the Traffic Division. In this respect, the professional performance evaluation forms of the Traffic Division employees, completed annually by the immediate superior, have been studied. This form is processed with the model (Pitariu, 2006) and applied to all employees, regardless the position held. The form includes evaluation criteria, numerically scaled and with quantified scores, and total score value allows the ranking of each employee, in terms of professional performance. It is necessary to mention the fact that the authors disagree with a uniform assessment of the staff, their opinion being a particular evaluation on personnel categories or at least differentiated for executives and leading personnel.
From the study and interpretation of evaluation forms results of the work of the six managers in 2011, it was not possible to differentiate them in order to identify the best candidate, since two of them achieved the same highest score, as follows: IAC 34 points, IAR 34 pts, TS 28 pts, TC 25 pts, RS 24 pts, MDA 20 pts.

In case of recording even scores, in order to tie off the candidates, bias occurs, both the evaluators, who can treat candidates unfairly, but also the decision makers, during the decision process of selection. Consequently, *this method of selection for the appropriate manager*, based only on the consultation of the professional performance annual evaluation form, as they usually did in the analyzed branch, was considered *inefficient and inconclusive for the identified problem*.

In order to provide a solution, scientifically and objectively determined, of the identified problem, we built our own model of multi-criteria tree having utility functions for professional performance assessment and used DEXi expert system in order to obtain the optimal choice and the selection decision-making.
2. Multi-Criteria Modeling Methodology

The choice of selection criteria or attributes requires their correlation with the direction and strategic culture of the organization.

The basic principle of decision modeling was the decomposition of the decision issues into smaller and less complex sub-issues expressed through performance appraisal criteria. (See the theoretical model of Jereb et al, 2005, 198-205)
Our approach was based on the use of a qualitative decision model that differs from quantitative models in two important aspects: instead of numeric attributes, used in quantitative models, multi-criteria quality model turns to those used as cardinal or ordinal ratings attributes; and instead of numerical utility functions represented analytically, for instance as a sum of weights or of relative importance, qualitative models use discrete functions defined point by point in the form of tables, where each row represents a decision expressed by a production rule or by a simple logical expression in the form ‘If premise Then conclusion.’ In order to create and apply the decision model the qualitative DEXi expert system was used. Expert systems are software based on artificial intelligence techniques, which stores knowledge of human experts in a defined area and then use them to solve difficult problems in that particular area (Zaharie et al, 1999).

3. Presentation of the Performed Steps and of the Obtained Results

Step 1. Problem identification - This first step began when the decision problem regarding the selection of the most appropriate manager to attend the training course appeared, and it was considered as being difficult and important enough to require a systematic approach, using a modeling of decision problems support.

Step 2. Setting the project team - Generally speaking, decision support projects include three kinds of collaborators or groups: problems holders, individuals or representatives of organizations who need to make the final decision; experts, people with experience in decision analysis who do not make the final decision, but help to create the model by suggesting some decompositions of problems and utility functions; users, that is those who are affected by the respective decision. Theoretically, these groups are distinct, but in practice they often mingle at individual or group level. In our case, the problems holder was the regional manager; the head of Human Resources of CRROCMR branch was involved with us in creating the decision model, and the railway company as a whole was considered the user, as the model created and validated can be used in any organizational structure of the Romanian Railway Co. (RR).

Step 3. Modeling - In this stage of the research the multi-criteria assessment model for railway managers was created. Its construction was done manually, based on the collaboration of all project team members, including new ideas and arguments that had been obtained from meetings and interviews with experts in the analyzed branch. The Regional Manager and the Head of Traffic Division set targets and restrictions, the experts suggested attributes and criteria, and the result was to centralize and formalize the answers in creating a quality model as the decision tree model presented in Figure 2.
The criteria identified by yellow markings and oval shapes those placed at basement of the decision tree and only for these criteria were introduced in DEXi values, as defined by evaluation scales used. For other criteria, from the bottom up, values are obtained using utility functions, so that, finally, it will be obtain the necessary rating result of evaluation and selection of the appropriate manager related to the identified problem. Orange criteria were introduced later to tie the final candidates.

![Figure 2](image) Multi-criteria model used for assessment of the railway managers

Stage model building steps was assumed milestones presented in logical schema from Figure 3.

*Item 1. Identifying the attributes* - the objective was to obtain all the relevant attributes necessary for the evaluation of railway managers.

This was achieved by three sessions of ideas in which we asked a group of evaluators, to fill in a standard form with ten criteria they considered to be the most important in railway managers’ professional performances evaluation, as well as to set a score from one to ten, showing the order of importance of each criterion. The result was a list of twenty attributes, including additional or duplicated attributes, which were structured in the next step.

![Figure 3](image) Logical scheme for construction of multi-criteria model selection
Item 2. Structuring the attributes - the objective was to create a hierarchy of attributes based on inter-conditioned and previous influences over the final decision. The process included the use of structuring techniques, comparison, decomposition up and down and cleaning up the list of attributes. To avoid an explosion of combinations in step four of this stage, DEXi requires that each aggregate attribute to depend on as few basic attributes as possible. For this purpose, we used two or three attributes; the result of this stage was to create the multi-criteria tree together with the corresponding scale system, as shown in Figure 4.

Item 3. Scaling attributes - aimed at providing a scale ordinal or nominal value of each attribute multi-criteria tree structure created. The number of values, represented by rating grades expressing the position on the scale, was maintained as small as possible, but at the same time still sufficient to distinguish qualitative statements. In our case, the hierarchy scale attributes increase gradually from the bottom up, from three values in the basic level, “low,” “medium,” “high,” to five root attribute values: “very poor,” “weak,” “satisfactory,” “good,” “very good.”

The introduction of attributes in the DEXi program for basic criteria was possible as a result of consulting all professional performance evaluation forms, of the individual interviews with all six candidates and of correlating the rating grades obtained with each individual score from the evaluation forms, according to: low 1-2 pts; medium 3pts; upper 4-5 pts.

Please note that, in DEXi program, attribute values have been entered directly only for criteria from the root of the tree, aggregated attributes of higher hierarchy receiving higher values as a result of the action of utility functions. The rating grades of the basic criteria entered in DEXi system, obtained by quantifying the scores of the evaluation forms and the interviews held with the six candidates, are shown in Figure 5.

![Figure 4 Multi-criteria tree structure and scale system created by DEXi](image-url)
**Item 4.** Establishing the utility functions for each criterion conditioning by others sub-criterion was the most laborious stage in model construction. The purpose of utility functions was to provide values figures as rating qualifiers, to all aggregated attributes from the lower levels until the highest aggregate value. In DEXi, the utility function of each attribute aggregate is presented line by line in a table where each row represents a logical expression.

Construction of the utility function begun by weighting each basic criterion; represented by its relative importance in determining the aggregate criterion, the estimated percentage being done by persons with experience in decision analysis.

The continuation of the construction aimed at using production rules like:  
‘**If** values for basic attributes ratings are **low**  
**Then** aggregate rating criterion is **weak**.’

In the example in Figure 6, based on the new utility function built by us, with equal weighting of 50% for each sub-criterion, line thirteen is interpreted and understood as follows:

‘**If** the attribute level of education is estimated to be **high**,  
**And** attribute for work skills is estimated with grade rating criterion **good**  
**Then** aggregated rating criterion for professional knowledge is **high**.’

DEXi allows both changing the scale values for each utility function and also sharing of each sub-criterion’s weight, according to the users options.

Generally speaking, the modeling stage is the most demanding and difficult of all decision making process, because it relies heavily on experts’ knowledge and skills of decision analysts, however, we consider that it represents more art than science. Anyhow, successful development of the model usually leads to a smooth application and even to the completion of the project.

**Step 4. Identification of option** - This stage aimed to create the database with the six branch managers nominated by the management of CRROCMR branch for the evaluation process before the selection decision-making. To
determine the characteristics corresponding to the basic attributes, a thorough investigation of all candidates was made, detailed interviews with the candidates and the consultation of the professional performance evaluation forms being initiated.

**Step 5. Options evaluation and analysis** - At this stage, multi-criteria model and information about the options were used for final resolution of the problem, the approach evolved further into two stages:
- The evaluation and simultaneous analysis of options, from which we obtained an identical rating for the first two candidates; and as a result the final selection decision, could not be made;
- A comparing analysis of the two remaining candidates, by adding new criteria based on multi-criteria tree structure, measure that allowed the differentiation of options and the possibility of moving to the next step, namely making the selection decision.

According to the results shown in Figure 6, one of the candidates was assessed as inappropriate being rated as “weak,” two were rated as “satisfactory,” one was assessed as “good,” and two were rated as “very good.”

Each option representing a candidate manager has been evaluated from the bottom of the tree to its top, according to decision rules given by the utility functions. As a result, each option received a rating grade consisting into a rating value of all individual professional skills. DEXi allows the facility of an immediate understanding of the evaluation outcome, if we use the “Graphic” menu. According to it, selecting uni-dimensional display, just in terms of aggregate root attribute, the final situation of candidates is presented in the graphic shown in Figure 7. We shall note the same “very good” result was obtained by the head of IAC department and the head of IAR department.

By selecting two criteria which have influences over the final aggregate attribute value corresponding to the identified problem, we arrange the candidates into an orthogonal axes system represented by the two attributes as shown in Figure 8.

According to Figure 8, in terms of professional knowledge and personal characteristics, the head of IAC department stands out from the other candidates. Red in the graphic expresses an unfavorable position, blue, an intermediate one, while green indicates a high level of qualifications for both specified criteria. DEXi allows the combination of any of two criteria of the decision tree, basic or aggregate ones, thus facilitating various form or content analyses.
By selecting all the three criteria that influence the final aggregate attribute value, the arrangement of all the candidates in a three-dimensional system is shown in Figure 9. In terms of criteria of professional knowledge, personal skills and other features, the head of IAC department stands out clearly in front of the worst positioned candidate, by the size and color of the area occupied on the graphic. In this case, too, for detailed analyses, DEXi system allows the combination of any of the three criteria in the decision tree.

Since as a result of the simultaneous assessment, the developed model did not allow the clear differentiation of the candidates, we initiated the second stage of the approach for options evaluation and analysis, identifying strengths and weaknesses of the first two managers left in the competition. Figure 10 presents a comparative analysis of ratings, from which the head of IAC department defeated his counter-candidate in almost all criteria, being just a little poor at cooperation skills, where he recorded a medium rating against the maximum which was obtained by the head of IAR, and because of poor health state compared with the very good one of the counter candidate, at the aggregate attribute other skills he obtained the overall rating good in comparison to the very good received by the second best candidate.
For an objective selection of the best manager, due to an inter-system activity of DEXi system, which allows completion of the model created at any stage, we initiated addition of new criteria for two specific attributes, namely: basic attribute communication skills has been transformed into aggregate attribute by dividing into the ascendant communication attribute and descendent communication attribute, and cooperation attribute was divided into negotiation skills and resolving states of conflicts attributes.

The considerations for introducing the new attributes were the following: in the assessment of social relationship of the manager, aspects such as general evaluation of the manager’s communication skills are not so important, but especially aspects regarding how they communicate the tasks and objectives to the subordinates have bigger importance; this way, descendent communication was being measured, but also the results or the resources needed to achieve the objectives by the senior managers, thus ascendant communication being measured; and in the structure of a manager’s personal skills, cooperation skills are influenced by the negotiation skills and by the involvement degree in resolving state of conflicts when they occur.

In order to distinguish qualitative statements as objective as possible, the model has been completed with the addition of new modified scalar values criteria, whose further quantification was achieved by the action of utility functions.

Step 6. Implementation of model

After some model adjustments applied for the decision tree structure and in the utility functions form, multi criteria model presented in Figure 11 became fully operational. Under this conditions; by the final completion with

<table>
<thead>
<tr>
<th>Attribute</th>
<th>Head of UCC Department</th>
<th>Head of UCC Department</th>
</tr>
</thead>
<tbody>
<tr>
<td>management</td>
<td>very good</td>
<td>upper</td>
</tr>
<tr>
<td>leadership</td>
<td>upper</td>
<td>medium</td>
</tr>
<tr>
<td>managerial skills</td>
<td>upper</td>
<td>moderate</td>
</tr>
<tr>
<td>organizational skills</td>
<td>upper</td>
<td>management</td>
</tr>
<tr>
<td>management skills</td>
<td>upper</td>
<td>moderate</td>
</tr>
<tr>
<td>communication skills</td>
<td>upper</td>
<td>medium</td>
</tr>
<tr>
<td>negotiation skills</td>
<td>upper</td>
<td>moderate</td>
</tr>
<tr>
<td>cooperation skills</td>
<td>upper</td>
<td>moderate</td>
</tr>
<tr>
<td>cognitive skills</td>
<td>moderate</td>
<td>excellent</td>
</tr>
<tr>
<td>problem solving</td>
<td>moderate</td>
<td>excellent</td>
</tr>
<tr>
<td>social skills</td>
<td>moderate</td>
<td>excellent</td>
</tr>
<tr>
<td>communication skills</td>
<td>very good</td>
<td>very good</td>
</tr>
<tr>
<td>negotiation skills</td>
<td>excellent</td>
<td>excellent</td>
</tr>
<tr>
<td>cooperation skills</td>
<td>excellent</td>
<td>excellent</td>
</tr>
</tbody>
</table>

Figure 9 Three-dimensional graphs for simultaneous evaluation of candidates

Figure 10 Comparative analysis of the first two candidates’ ratings
the best performing manager, according to the graph in Figure 12, proved to be the head of IAC.

![Figure 11](image1.png) The final structure of multi-criteria tree introduced in DEXi

![Figure 12](image2.png) The final result of railway managers’ evaluation

At the end of the approach, based on the options facilitated by using DEXi expert system, but also being in agreement with our multi-criteria proposed model, the top management of the branch made the final decision by choosing the head of IAC to attend training course abroad.

4. Conclusions

What characterizes the created decision tree model is not only the profound simplicity of its visual presentation, but especially the high degree of complexity and difficulty in its use, a lot of skills and knowledge being necessary to solve the multiple problems in which it is required. Enhancing the participatory dimension of Human Resource Management’s activities requires the use of appropriate decision-making techniques and the proposed model corresponds to these requirements as it allows, on the one hand, considering the specialists of the branch management in establishing and analyzing decision variables and, on the other hand, the effective use of the time they have at their disposal.

The topics studied in this paper urges us to continue our efforts to improve this model by adding other criteria in determining the basic evaluation criteria, taking into account the complexity of human resource management activity of the railways transportation.

Acknowledgements

We would like to express our entire gratitude and appreciation to the Branch Manager of CRROCMR Constanta for providing the data needed for our research and allowing discussions with the managers of the branch railway.
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VALIDATING THE MULTI-CRITERIA DECISION MAKING MODEL IN THE SELECTION PROCESS OF LARGE COMPANIES’ MANAGERS

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ABSTRACT. We have developed a model for the selection of large companies’ managers by using information from one of the Romanian Railway Co. Branch. In Romania the formal staff evaluation procedure inside large companies includes a peer review process and mainly quantitative assessment methods. The traditional approach to multi-attribute decision making involves quantitative concepts such as: probabilities, utilities, scores and weights. For an improved selection process of managers who have similar results in the quantitative evaluation parameters of selection we have introduced in our model some qualitative concepts (i.e. descriptive values expressed by ordinal symbols or words). The model was implemented in a public company. In this study we have validated our model using two methods: the merit order ranking system and the global utility.

JEL Codes: M12

Keywords: selection process; merit order ranking system; global utility

1. Introduction

Over the last twenty years, the restructuring of the Romanian economic system has generated not only a massive privatization of state economic sector, but also, the insertion of the multinational companies on the market. At the same time with the capital invested in Romania, they have brought here a new and modern vision of human resource management which has expanded and developed mainly in the large companies.

The specialized literature of the domain has permanently underlined the outstanding differences between the approaches to the human resource management according to the firm size by the number of employees (Welsh
et al, 1981; Tung, 1982; Deshopande et al, 1984; Rossiter, 1996; Grigore, 2008; Barrett et al, 2007). Thus, it was shown that unlike large companies, small and medium enterprises (SMEs) are more careful in terms of human resources policy. Overall in SMEs human resources evaluation and selection process is based primarily on subjective criteria, while in large companies a transparent, objective and easier to understand selection criteria are more than necessary.

The current economic environment led to a significant decrease in open positions on the labour market corroborated with the reconstruction that many organizations were forced to make. The consequences have not cease to appear, taking into account that presently, there are many candidates with experience who held managerial positions in other companies and who are unemployed at present. Some organizations have frozen the employing process, as it is the case of Romanian Railway Co. (RR), too, and those which still have open positions for recruitment focus on skills, multiple competences and proven expertise in a particular field. On the labour market, this means that those candidates who have skills and proven expertise are the most sought after.

We created a model for improving the selection process of managers based on the use of qualitative attributes. The model was conceived as a multi-criteria decision tree, each criterion being based on utility functions and on DEXi expert system support.

The six managers selected were: Head of Infrastructure Access Control Department (IAC), Head of Infrastructure Access Regulations Department (IAR), Head of Traffic Service Department (TS), Head of Traffic Control Department Constanta branch (TC), Head of Constanta Railway Station (RS) and Movement District Auditor (MDA).

The model provides a solution to the following problem: ‘The evaluation of human resources selection process is inappropriate, being done globally, and not on categories of employees’.

To validate our model, which had been determined scientifically and objectively, we used a ranking system of all personnel. This system was based on merit as a means of assessing professional skills, and it used the global utility method for selection decision under certain conditions.

Figure 1 shows the logical schema of validation of the multi-criteria selection model and its related solution, using established techniques and methods in the specialized literature.
2. Methodology for Selection Decision

*Merit order ranking system*, known as ‘comparing the entire group’ (Pitariu, 2006), consists in writing the names of the assessed persons on an individual note each, then the set of notes is given to the evaluator to rank them according to a certain criterion, beginning with the best individual, the inappropriate one being the last. The remaining subjects are classified alternatively again, one by one, by comparison appropriate – inappropriate to the exhaustion of the lot. The result of the evaluation system by comparison is a hierarchy scale in which the best individual receives the first rank, the next individual position rank second, and so on. Ranks are then converted into scalar values normalized or classified into several graduation groups according to a specific criterion.

*Global utility method*, developed by researchers I. Von Neuman and O. Morgestern in 1947, is used to optimize the economic decision under certainty conditions, by determining the optimal number of possible variants. The concept of utility measures its importance for the decider person, a certain decision belonging to a set of variables. (Ipate, 2007)

The processing and adaptation of data from specialized literature, of the overall stages of the global utility method, allowed us to obtain a *proper algorithm consisting in seven steps*, shown in the logical schema from Figure 2.

---

**Figure 1** Sub-model validation solution obtained by multi-criteria selection model
The calculation for all intermediate utilities was done by using a linear interpolation formula:

$$U_{ij} = \frac{x_{ij} - x_{\min}}{x_{\max} - x_{\min}}$$  \hspace{1cm} (1)

where:

- $u_{ij}$ is the intermediate utility calculated for variant $i = 1, \ldots, n$ and criterion $j = 1, \ldots, m$, having the property that $0 \leq u_{ij} \leq 1$;
- $x_{ij}$ represents the key value from the matrix of economics consequences on the line $i$ and column $j$;
- $x_{\min}$ is the result of unfavorable economic consequence as per column for $j$ criterion;
- $x_{\max}$ is the result of favorable economic consequence as per $j$ column criterion.

The favorable economic consequences of the criterion $j$ from the consequences matrix is the maximum value of column $j$ criterion, if that criterion is a criterion for maximum - turnover, profit, revenue - or the minimum value of criterion $j$ column, if is to be the minimum criterion - cost, expenses, losses, consumption.

Calculation of global utility, $UV(i)$ for each decisional variant particularly was done according to the formula:

$$U_{V(i)} = \sum_{j=1}^{m} u_{ij} \times k_j$$  \hspace{1cm} (2)

where: $k_j$ - coefficient of importance of each criterion.

Figure 2 The global utility algorithm
3. Presentation of Results

1. Establishing the criteria for assessment of candidates was carried out using different approaches of the research literature on this topic (Roșca et al, 2005; Pitariu, 2006; Manolescu et al, 2004) but also consulting the information in personnel records of the Human Resources Department and the criteria used for performance evaluation forms, from Traffic Division archive. Synthesizing the information obtained this way allowed us to determine the three criteria for professional performance appraisal of managers, namely: professional skills, personal skills and abilities and managerial efficiency.

2(a). To determine the scores of candidates needed in the construction of matrix for global utility algorithm method, we used the merit order ranking system for each of the three criteria and then given a score corresponding to each level of rank obtained. The ranking of candidates after each test was performed by three evaluators, who are very familiar with the six candidates, namely: Regional Manager, Head of Traffic Division and head of Human Resources. We gave each of them a set of six notes with the names of managers’ candidates and asked them to rank them according to each evaluation criterion. According to the merit order ranking system, each candidate received a rank from one to six for each criterion, rank which we then converted into scores such us: Rank 1 (most important) -100 pts; Rank 2 - 80 pts; Rank 3 – 60 pts; Rank 4 – 40 pts; Rank 5 – 20 pts; Rank 6 (least important) – 0 pts.

The calculation method and results obtained in ranking the candidates according to the three criteria are presented in Table 1.

<table>
<thead>
<tr>
<th>Table 1 Scoring candidates using hierarchy based on merit order ranking system</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Criterion</strong></td>
</tr>
<tr>
<td>-----------------</td>
</tr>
<tr>
<td><strong>Criterion I</strong></td>
</tr>
<tr>
<td><strong>Professional Skills</strong></td>
</tr>
<tr>
<td>TS 3 3 3</td>
</tr>
<tr>
<td>RS 6 4 5</td>
</tr>
<tr>
<td>IAC 2 1 1</td>
</tr>
<tr>
<td>MDA 4 5 4</td>
</tr>
<tr>
<td><strong>Criterion II</strong></td>
</tr>
<tr>
<td><strong>Personal skills and abilities</strong></td>
</tr>
<tr>
<td>TS 3 3 3</td>
</tr>
<tr>
<td>RS 6 4 5</td>
</tr>
<tr>
<td>IAC 2 1 1</td>
</tr>
<tr>
<td>MDA 4 5 4</td>
</tr>
<tr>
<td><strong>Criterion III</strong></td>
</tr>
<tr>
<td><strong>Managerial efficiency</strong></td>
</tr>
<tr>
<td>TS 3 3 3</td>
</tr>
<tr>
<td>RS 6 4 5</td>
</tr>
<tr>
<td>IAC 2 1 1</td>
</tr>
<tr>
<td>MDA 4 5 4</td>
</tr>
</tbody>
</table>

Source: Performance Assessment Forms Division Traffic managers of 2011 and authors’ own calculation
To establish the coefficients of importance of each criterion, the authors interviewed all the three evaluators’ managers, asking them to answer questions using a questionnaire as tool, and then the authors centralized their answers and calculated the total share of each criterion in the overall score. The coefficient of importance of each criterion, \( k_j \), was determined as the value of each share, so that \( k_1 = 0.35 \), \( k_2 = 0.40 \) and \( k_3 = 0.25 \), as shown in calculations and presented in Table 2.

### Table 2 Calculation of importance coefficients for evaluation criteria

<table>
<thead>
<tr>
<th>Criterion</th>
<th>Evaluator 1</th>
<th>Evaluator 2</th>
<th>Evaluator 3</th>
<th>Total points</th>
<th>Coefficient of importance, ( K_j )</th>
</tr>
</thead>
<tbody>
<tr>
<td>C I</td>
<td>5</td>
<td>4</td>
<td>3</td>
<td>12</td>
<td>( K_1 = 12/35 = 0.35 )</td>
</tr>
<tr>
<td>C II</td>
<td>4</td>
<td>5</td>
<td>5</td>
<td>14</td>
<td>( K_2 = 14/35 = 0.40 )</td>
</tr>
<tr>
<td>C III</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>9</td>
<td>( K_3 = 9/35 = 0.25 )</td>
</tr>
<tr>
<td>Total</td>
<td>35</td>
<td></td>
<td></td>
<td>1.00</td>
<td></td>
</tr>
</tbody>
</table>

Source: Performance Assessment Forms Division Traffic managers of 2011 and authors’ own calculation

Having now calculated all candidates’ scores in accordance with the hierarchy based on merit order for each evaluation criterion and the importance coefficient values, obtained by interviewing of the three evaluators managers, the next step was the construction of the matrix to which the global utility algorithm method was applied. This matrix, which has seven lines, corresponding to the six types of decision variants and a line represented by the coefficients of importance of criteria, with three columns corresponding to evaluation criteria is presented in Table 3.

### Table 3 Evaluation criteria and decision variants matrix

<table>
<thead>
<tr>
<th>Criterion, ( C_j )</th>
<th>Decisional Variants, ( V_i )</th>
<th>C I maxim Professional skills</th>
<th>C II maxim Personal skills</th>
<th>C III maxim Managerial efficiency</th>
</tr>
</thead>
<tbody>
<tr>
<td>( V_i ), TC</td>
<td>40</td>
<td>0</td>
<td>40</td>
<td></td>
</tr>
<tr>
<td>( V_i ), IAC</td>
<td>80</td>
<td>80</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>( V_i ), TS</td>
<td>60</td>
<td>60</td>
<td>60</td>
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<td>( V_i ), RS</td>
<td>20</td>
<td>20</td>
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<td></td>
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<tr>
<td>( V_i ), IAC</td>
<td>100</td>
<td>100</td>
<td>80</td>
<td></td>
</tr>
<tr>
<td>( V_i ), MDA</td>
<td>0</td>
<td>40</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>35</td>
<td>1.00</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Performance Assessment Forms Division Traffic managers of 2011 and authors’ own calculation

All three evaluation criteria are maximum criteria because, the higher the scores for these criteria, the more the high level of professional skills and managerial performance is reflected. Under these conditions, for the calculation of all intermediate utilities, by linear interpolation according to relation 1, the favorable value in the column of each criterion is considered as maximum value, and the unfavorable value is considered as minimum value. The calculation of all intermediate utilities, whose values form the matrix, is represented in Table 4.
Table 4 Intermediate utilities matrix

<table>
<thead>
<tr>
<th>Criterion, $C_j$</th>
<th>Decisional variants, $V_i$</th>
<th>$C_{I}$ maxim Professional skills</th>
<th>$C_{II}$ maxim Personal skills</th>
<th>$C_{III}$ maxim Managerial efficiency</th>
</tr>
</thead>
<tbody>
<tr>
<td>$V_1$ TC</td>
<td>0.4</td>
<td>0</td>
<td>0.4</td>
<td></td>
</tr>
<tr>
<td>$V_2$ IAC</td>
<td>0.8</td>
<td>0.8</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>$V_3$ TS</td>
<td>0.6</td>
<td>0.6</td>
<td>0.6</td>
<td></td>
</tr>
<tr>
<td>$V_4$ RS</td>
<td>0.2</td>
<td>0.2</td>
<td>0.2</td>
<td></td>
</tr>
<tr>
<td>$V_5$ IAC</td>
<td>1</td>
<td>1</td>
<td>0.8</td>
<td></td>
</tr>
<tr>
<td>$V_6$ MDA</td>
<td>0</td>
<td>0.4</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td><strong>Coefficient of importance, $K_j$</strong></td>
<td><strong>0.35</strong></td>
<td><strong>0.4</strong></td>
<td><strong>0.25</strong></td>
<td></td>
</tr>
</tbody>
</table>

Source: Performance Assessment Forms Division Traffic managers of 2011 and authors’ own calculation

Using data from utilities intermediate matrix in relation 2, the following calculation of global utility values for each decision option, as follows: $U(V_1)$ is 0.24, $U(V_2)$ is 0.85; $U(V_3)$ is 0.60; $U(V_4)$ is 0.20, $U(V_5)$ is 0.95, $U(V_6)$ is 0.16.

5. According to the last step of the algorithm of global utility method, was determined the best solution, as the maximum global utility variant. Since $U(V_5) = 0.95$ we established that head of IAC, is the best manager of the RR branch to attend the training course organized abroad.

4. Conclusion

We are planning to develop a methodology of calculating the graduation of a specific railway station and the hierarchies system for the position movement clerk, leading to increased motivation of the railway staff used in this position and to obtaining cost savings, with positive influences over the business performance of railway companies.

Using a proper ranking scale will comply with the current amount of railway activity, smaller railway stations with reduced workload can be ascribed to large stations, the surplus staff being distributed to units requesting training courses in specialized professions specific to railway activity. All economic requirements related to cost savings (overheads, managers’ salaries and training costs for new people) and social costs, in relation to the existing staff, are thus fulfilled. The hierarchies system for the position of movement clerk using proper corresponding criteria related to new introduced technologies in railway infrastructure and taken into account the workload and the complexity of the activities of each railway station, will determine the possibility that the employer could sign individual contracts including certain performance criteria and a differentiated reward system associated to each employee.

The amendments to the Romanian Labour Code, adopted in 2011, stipulate in terms of employer’s rights: ‘to establish responsibilities for each employee under the law’ and ‘to establish individual performance objectives
and criteria for evaluating their achievement’ (art. 40, point b and f) for a better performance management in Romanian firms.

The result will be the adequate remuneration of each employee depending on what and how they carried out their duties, encouraging participatory management activities. Further on, the hierarchy can be developed and applied to other types of specialized positions in the railway transportation system.

Our future prediction for this field is that further researches and studies will develop among private rail operators as well, which we predict will have an increasing ratio share within the whole railway system, revealing and detecting the differences in the HRM’ activities of the private companies compared to the public system.

REFERENCES


TECHNICAL PROGRESS AS AN IMPORTANT TOOL FOR QUALITY MANAGEMENT

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ABSTRACT. In the few decades, modern flow of the world economy has continuously diversified forms of running, moving his center of gravity of the movement of goods in the sphere of production, as in stage. Creativity as a specific human activity is the ability of a subject of reorganizing the unique perception of the framework elements and design-build of new elements compared to the old framework in which it occurs. Scientific and technical creation manifested from ancient times, the most prolific proving especially Ancient Orient and ancient China, which owns more than half of practical inventions and fundamental discoveries on which the modern world. This paper aims to show that there is currently an indissoluble link between technical progress that increases product quality and the development of societies based on the implementation of sound management.

JEL Codes: M11

Keywords: technical progress; product quality; quality management

1. Introduction

The History of Economic Thought delay record as certain economists have considered technical progress as a factor of economic growth and socio-economic development in general. In most part, theorists and economists concerned with the mechanism of the capitalist economy remained limited in explaining the balance between supply and demand and the general economic equilibrium. Jean Fourastie and other economists in the years before 1950 were awarded merit capital and thus, economic progress gradually came to regard capital as the dominant factor in modern economic life.

Only in the twentieth century, especially after the Second World War, economists began to be concerned with issues of technical progress and its role in the economic development. Although supporters of a dynamic view on economy, the contemporary theorists of economic growth incorporated
technical progress rather late in their models, because they considered the economic system an exogenous factor. The first economist who saw the technical progress of the growth factor was Joseph Schumpeter.

2. Technical Progress - Concept and Features

It is true that technical progress was present throughout the evolution of human society, but the implications and effects have never been as strong and extensive as in the present period. Virtually, there is no area of human activity where you do not find it useful and involved. Its multilateral character is found, first, in the important changes that happen in all factors of production: technical means, materials, fuel, energy and the place and role of human factor in the development of production processes.

Second, although materialized in production, technical progress penetrates the field that currently exceeds all the other economic activities: organization, management, movement of goods, etc.

Third, technical progress is now contemporary and beyond economic life, its results being used in education, research, healthcare, art, etc.

Fourth, creation of the human mind, humans use the current technical progress in all activities and attempt to learn more about the natural environment, to protect and better utilize it in order to meet its ever-increasing needs. Thus, new technical means and materials have been obtained due to technical progress and they currently broke in the universe, in the planetary ocean, not only in all the areas of life and human activity carried out on the Earth.

The main defining features of modern technical progress can be summarized as follows:

a) a prominent feature of the current technical progress is to explain its role, largely determinant, of economic growth in particular, and the general progress of society as a whole.

b) another feature of the contemporary technical progress is its unprecedented speed, resulting in considerable time between scientific discovery and its application in practice (if new findings on the phone, radio, television, nuclear power, integrated circuits, the laser, that period was reduced in time, from 10 years to 1-2 years).

3. The Need for Change and Contemporary Directions of Technical Progress

Today we live in a society with an economy different from the 1970s, defined as a knowledge-based economy.

The new economy may be characterized by:
a) the emergence of new industrial branches, mainly information and communication technologies;

b) a change in emphasis of management activity, now focused primarily on the sound management of resources, technology and innovation activity;

c) a change in the nature of the products containing ingredients from the most diverse industries;

d) a considerable period between the researchers discovered a new physical / chemical / biological phenomenon and its application in industry;

e) the emergence of more powerful constraints on management activity, evidenced by a globalization of competition and what must be taken into account as a factor, the interaction with the environment and its protection requirements.

The main way of achieving technical progress in the current period: technical means, processes, materials and fuel, energy, goods (products, services, information).

The administration of technical progress in the modern technical means and processes represents the main directions of progress since the underlying accomplishment in other areas (materials, fuel, energy, goods). Getting new materials, new energy sources and fuel, their high capitalization and creating new products or upgrading existing ones can only be achieved through technical means and new processes to performance.

Technical progress in both areas recorded impressive achievements in the recent decades and are about to radically change the configuration of work and life of man. It is undeniable that technical progress has led to increased product and service quality. Also, the current economic development emphasis is increasingly more on the relationship between technical progress, product quality, environment and ensuring health and safety.

4. The Emergence and Development of the Concept of Quality

In the current socio-economic context, the quality of products has established itself as a determinant of business competitiveness, as it provides the ability to adapt to more dynamic market requirements.

The socio-economic conditions in the current context are:

• increasing competition through globalization of markets;

• increasing demands of users (customers, clients) due to technical progress in general, development of communications, increasing the culture;

• increasing demands of society for the protection of life, health and environment; in this sense, restrictions and regulations on environmental characteristics of products and manufacturing processes are introduced.

Competitive advantage is achieved by:

✓ customer confidence in products supplied - the certification of quality;
✓ providing customer confidence in the company - through the implementation and certification of quality management system;
✓ end user’s satisfaction - by producing a product meeting the requirements.

Quality is not an end in itself, but on the quality of all activities of the enterprise the whole system of organization and management depends. Quality characteristics are: marketing, design, production and maintenance of complex products and services in use, and that they should meet customer needs. Product quality is measured by a set of characteristics or contracts, orders or requests, direct relationship between customer and manufacturer; it is explained by standards or regulations or by the existence of that state of affairs caused by similar products at some point market:

➤ intrinsic characteristics that define quality of products and technical performance;
➤ selling price, which should be linked to performance;
➤ delivery deadlines to be met;
➤ services, consisting of facilities, warranty, delivery of spare parts, service activities.

Quality requirements are expressions of needs relating to the market equally (default), the contract (explicit), the internal requirements of the company concerning profitability and the requirements for protection of society and environment. Therefore, requirements can take different aspects as they relate to performance, reliability, profitability, economic aspects of production costs and maintenance costs, and operating environment.

5. Strategies for Engineering Excellence

There are strategies in placing technological optimization in conditions of uncertainty or risk. The literature describes different methods of choosing a strategy, methods based on overall assessment, the overall situation.

Depending on the effort to obtain technology we can distinguish between technological development strategy and a strategy of acquisition / sale of technology and technology transfer. Strategy development is a strategy of innovation, as a result of continuous research and development. It ensures a clear competitive advantage and the form of leadership (national or global) that the company adopts. Technology acquisition strategy aimed at:

- Cooperation with other companies to develop new technologies;
- Purchase of licenses, which allows access to technologies developed by others and reduce the period of implementation of new technologies;
- Purchase of components that include new technology, assembly and sale of any branded company.
Firm-specific sales strategy is unwilling to assert, with their effort, the technology we have developed and offered for purchase to those interested. Appropriate technology is offered by companies made strong by less developed countries. The offer is often made when technology remains at the same time limit at home. Typically, advanced technologies cannot be purchased by less developed countries due to prohibitive costs or to prevent further entry.

But technology transfer can occur within the company, from research to productive sectors, in global enterprise development strategies that take into account when to introduce new technologies and the production character (continuous, homogeneous, heterogeneous, etc.)

6. The Positive Effects of International Scientific and Technical Cooperation

In recent decades, the strong international cooperation – scientific and technical can be explained by its many positive effects, among which we mention the most important:

Scientific progress - is very expensive, modern, and technical. It consumes significant resources, human and financial, and recovery costs incurred can be achieved only after long periods of time. International scientific and technical cooperation, especially the joint development achieved by science and technology, allows, on the one hand, to avoid comparisons in research and the implementation of technical progress, saving large amounts of resources and, on the other hand, allows the creation of financial resources, human and material facilities to carry out large projects; but technological development cannot be ensured by itself (by a company and even by a single country).

The accelerated pace of modern technological progress, which has come to advance the pace of development of production, determines the accelerating depreciation of technical means and used technology. Therefore, devices and equipment that are new in a particular company or country, other countries are already undertaking or about to be discarded due to the creation of others with superior technical parameters - functional managers. As a result of this international cooperation in science and technology, help is needed to avoid or reduce the occurrence of such situations.

7. Conclusions

Clearly, technical progress is the starting point of contemporary innovation and creativity.
At present, innovation is not a unique phenomenon, but it has become systematic. It occurs as a result of the complex interdependencies among a multitude of people, organizations and environmental factors.

Certainly, there can be a positive correlation between all forms of technical progress and social structures, which may arise as a consequence of the new technologies. For example, national and regional financial markets evolving towards a single global financial market would not have been possible without communication and computing technologies offered by the computer industry and the interconnected Internet.

Technical progress contributes to the competitiveness of the company, thus increasing its capacity to withstand competition. Technologies will have to reduce costs, increase product quality, operational safety, consumer and environmental protection, decrease human exercise, etc., and competitive advantage is sustainable. To survive on the market, a company must first be informed of a variety of issues. The amount of information is very large, diverse and should be organized to understand the complex phenomena.

Successful firms and large corporations have achieved a total return through both technology and processing the human potential and the development of quality, marketing and customer relations. Quality is a continuous variable, both in time and space, which is considered at present but cannot be met in future, which is a specific market segment that can be completely refuted elsewhere. Quality is:

- Dynamic - evolving over time;
- Relative - depending on requirements;
- Complex - influenced by numerous business activities.

The management of an organization must be focused on quality, continuous improvement of all processes and activities. However, in the current economic climate, it should be take into account that technical progress cannot be ignored.

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MODELING DECISION-MAKING UNDER RISK
AND UNCERTAINTY

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Spiru Haret University, Constanta

ABSTRACT. The economic organization regarded as a system has to adapt permanently to the influence of exogenous or endogenous disruptive factors which hinder or even prevent achievement of the objectives. Adaptation, self-regulation of the firm’s employees is accomplished through the management activity of which endpoint is the decision. If at first the Manager has stood in front without constraint, decision is conditioned by existing information and restrictions imposed. Quality management activities within the system of resources which define the enterprise related resources and inter-conditioned through social and economic relations depend to a great extent on information as resource.

JEL Codes: C44

Keywords: decision; quality; risk; uncertainty

1. Introduction

The decision-making system is defined in literature as a set of interconnected decisions made and implemented in an organization, structured according to objective and system configuration management hierarchy, for the purpose of carrying out management processes (Nicolescu O., Verboncu I. 2001).

A special category for the organization is the managerial decision, which is characterized by high complexity.

Analyzing organizational issues, Simon developed the concept of limited rationality showing that it is impossible for a buyer to purchase all the pertinent elements for making the decision in terms of the existence of an uncertain environment, as well as some hard information formalized.
2. The Selection of the Firm of Auditors at the Entrance to the Effectiveness of a Contract of Concession at S.C. FORTE SYSTEMS S.R.L.

Thus, regarding selection, 10 criteria have been proposed for rulemaking:

1. Audit duration (days).
2. Value of audit (euro).
3. Number of previous audits.
4. Number of audits at companies with foreign equity majority.
5. Social capital.
6. Average turnover over the last three years (euro).
7. Average profit over the past three years (euro).
8. Number of employees.
9. Size of the audit firm (local, regional, national or international).
10. Location of the nearest office of the firm of auditors (at the local, regional or national level).

On the basis of the above criteria, 8 offers have been analyzed, as seen in table 1.

Table 1. The scores for decision alternatives for a set of specific criteria to specific decision-making problems

<table>
<thead>
<tr>
<th>Criteria</th>
<th>F1</th>
<th>F2</th>
<th>F3</th>
<th>F4</th>
<th>F5</th>
<th>F6</th>
<th>F7</th>
<th>F8</th>
</tr>
</thead>
<tbody>
<tr>
<td>During the audit</td>
<td>40</td>
<td>45</td>
<td>40</td>
<td>35</td>
<td>55</td>
<td>60</td>
<td>45</td>
<td>50</td>
</tr>
<tr>
<td>Value of the audit</td>
<td>25</td>
<td>30</td>
<td>15</td>
<td>35</td>
<td>45</td>
<td>40</td>
<td>30</td>
<td>45</td>
</tr>
<tr>
<td>Number of previous audits</td>
<td>5</td>
<td>7</td>
<td>8</td>
<td>10</td>
<td>12</td>
<td>9</td>
<td>7</td>
<td>14</td>
</tr>
<tr>
<td>Number of audits at companies with foreign equity majority</td>
<td>2</td>
<td>3</td>
<td>3</td>
<td>5</td>
<td>4</td>
<td>6</td>
<td>3</td>
<td>7</td>
</tr>
<tr>
<td>Social Capital (EUR)</td>
<td>60</td>
<td>40</td>
<td>30</td>
<td>75</td>
<td>95</td>
<td>110</td>
<td>90</td>
<td>10</td>
</tr>
<tr>
<td>Turnover on average over the last three years (EUR)</td>
<td>35</td>
<td>60</td>
<td>25</td>
<td>80</td>
<td>10</td>
<td>90</td>
<td>55</td>
<td>110</td>
</tr>
<tr>
<td>Average gross profit over the last three years (EUR)</td>
<td>20</td>
<td>35</td>
<td>10</td>
<td>45</td>
<td>60</td>
<td>35</td>
<td>20</td>
<td>50</td>
</tr>
<tr>
<td>Number of employees</td>
<td>10</td>
<td>15</td>
<td>12</td>
<td>20</td>
<td>25</td>
<td>15</td>
<td>13</td>
<td>22</td>
</tr>
<tr>
<td>Size of the firm of auditors</td>
<td>Loc</td>
<td>Loc</td>
<td>Reg</td>
<td>Reg</td>
<td>Int</td>
<td>Nat</td>
<td>Reg</td>
<td>Int.</td>
</tr>
<tr>
<td>Location of the nearest office of the firm of auditors</td>
<td>Loc</td>
<td>Loc</td>
<td>Reg</td>
<td>Nat</td>
<td>Loc</td>
<td>Reg</td>
<td>Reg</td>
<td>Loc</td>
</tr>
</tbody>
</table>

Source: Adapted from: Radu I., Ursăcescu M. et. al., 2005
For outputting optimal selections, the algorithm derived from the theory of fuzzy maiprany has been used, establishing the following input data:

a. number of alternatives in decision - N
Decisional alternatives are represented by audit firms (N = 8).

b. number of decision-making criteria for decision-making - M
Decision-making criteria are the criteria according to which the selection of audit firms is made (M = 10)

c. nature of the criteria taken into account - T(M)
Criteria 1, 2, 10 will be the MINIMUM criteria, and criteria 3, 4, 5, 6, 7, 8, 9 MAXIMUM criteria (table 2).

Table 2 The nature of the criteria according to which the selection of alternatives for a decisional problem will be made

<table>
<thead>
<tr>
<th>Current No.</th>
<th>Criterion name</th>
<th>Nature of the criterion</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>During the audit</td>
<td>Minim</td>
</tr>
<tr>
<td>2</td>
<td>Value of the audit</td>
<td>Minim</td>
</tr>
<tr>
<td>3</td>
<td>Number of previous audits</td>
<td>Maxim</td>
</tr>
<tr>
<td>4</td>
<td>Number of audits at companies with foreign equity</td>
<td>Maxim</td>
</tr>
<tr>
<td></td>
<td>majority</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Social Capital (EUR)</td>
<td>Maxim</td>
</tr>
<tr>
<td>6</td>
<td>Average turnover over the last three years (EUR)</td>
<td>Maxim</td>
</tr>
<tr>
<td>7</td>
<td>Average gross profit over the last three years (EUR)</td>
<td>Maxim</td>
</tr>
<tr>
<td>8</td>
<td>Number of employees</td>
<td>Maxim</td>
</tr>
<tr>
<td>9</td>
<td>Size of the firm of auditors</td>
<td>Maxim</td>
</tr>
<tr>
<td>10</td>
<td>Location of the nearest office of the firm of auditors</td>
<td>Minim</td>
</tr>
</tbody>
</table>

Source: Adapted from Radu I., Ursăcescu M. et. al., 2005

d. Coefficients of Belonging – K (M)

They reflect the importance given by the decision-maker, on a scale from 2 to 6, to the 10 criteria for the selection of the firm of auditors (table 3).

Table 3 Coefficients of belonging established by the decider in order to identify optimal decision-making alternative

<table>
<thead>
<tr>
<th>Current No.</th>
<th>Criterion name</th>
<th>Coefficients of belonging</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>During the audit</td>
<td>Minim</td>
</tr>
<tr>
<td>2</td>
<td>Value of the audit</td>
<td>Minim</td>
</tr>
<tr>
<td>3</td>
<td>Number of previous audits</td>
<td>Maxim</td>
</tr>
<tr>
<td>4</td>
<td>Number of audits at companies with majority foreign</td>
<td>Maxim</td>
</tr>
<tr>
<td></td>
<td>equity</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Social Capital (EUR)</td>
<td>Maxim</td>
</tr>
<tr>
<td>6</td>
<td>Average turnover over the last three years (EUR)</td>
<td>Maxim</td>
</tr>
<tr>
<td>7</td>
<td>Average gross profit over the last three years (EUR)</td>
<td>Maxim</td>
</tr>
<tr>
<td>8</td>
<td>Number of employees</td>
<td>Maxim</td>
</tr>
</tbody>
</table>

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e. Matrix of Absolute Consequences – CA (N, M)

This includes absolute consequences (actual values) of each of the eight firms of auditors for each of the 10 selection criteria taken into consideration.

The array can contain only numeric values, which means that it is necessary to express the scale of numeric values and all the consequences. This is difficult because, in this case, we are dealing with two criteria whose consequences are expressed in natural language terms: size of the audit firm and location of the nearest office of the firm of auditors.

Consequently, we use the following representations (Radu I., Ursăcescu M. et. al., 2005):

- Participating audit firms are divided, depending on the market, in four categories: local, regional, national or international.
- In order to use the algorithm derived from fuzzy maiprany theory, it is necessary to express these types numerically. Thus, one can use the following scoring system: 1 p - local or regional firms; 2 p - national firms; 3 p - international companies.
- Depending on the location of the nearest office, we divide audit firms into the following categories: firms with headquarters in the country (1 p), firms with headquartered in the County (region) (2 p), firms based outside the region (3 p).

Considering these representations, the matrix of absolute consequences is presented in table 4.

<table>
<thead>
<tr>
<th>CA(8,10)</th>
<th>C1</th>
<th>C2</th>
<th>C3</th>
<th>C4</th>
<th>C5</th>
<th>C6</th>
<th>C7</th>
<th>C8</th>
<th>C9</th>
<th>C10</th>
</tr>
</thead>
<tbody>
<tr>
<td>A1</td>
<td>40</td>
<td>25000</td>
<td>5</td>
<td>2</td>
<td>60000</td>
<td>35000</td>
<td>20000</td>
<td>10</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>A2</td>
<td>45</td>
<td>30000</td>
<td>7</td>
<td>3</td>
<td>40000</td>
<td>60000</td>
<td>35000</td>
<td>15</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>A3</td>
<td>40</td>
<td>15000</td>
<td>8</td>
<td>3</td>
<td>30000</td>
<td>25000</td>
<td>10000</td>
<td>12</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>A4</td>
<td>35</td>
<td>35000</td>
<td>10</td>
<td>5</td>
<td>75000</td>
<td>80000</td>
<td>45000</td>
<td>20</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>A5</td>
<td>55</td>
<td>45000</td>
<td>12</td>
<td>4</td>
<td>95000</td>
<td>100000</td>
<td>60000</td>
<td>25</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>A6</td>
<td>60</td>
<td>40000</td>
<td>9</td>
<td>6</td>
<td>110000</td>
<td>90000</td>
<td>35000</td>
<td>15</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>A7</td>
<td>45</td>
<td>30000</td>
<td>7</td>
<td>3</td>
<td>90000</td>
<td>55000</td>
<td>20000</td>
<td>13</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>A8</td>
<td>50</td>
<td>45000</td>
<td>14</td>
<td>7</td>
<td>100000</td>
<td>110000</td>
<td>50000</td>
<td>22</td>
<td>3</td>
<td>1</td>
</tr>
</tbody>
</table>

Based on the input data, we can solve the problem using the following sequence of decision steps:
**STEP 1**

**Calculate the elements of the relative matrix of consequences CR (8, 10)**

This stage aims at transforming the absolute values in relative value, belonging to the interval of real numbers \([0.1]\), in order to quantify the criteria taken into consideration in the selection process of the firm of auditors. The elements of the array of absolute consequences will apply the formula:

\[ Cr_{ij} = \frac{Ca_{ij}}{\sum_{i=1}^{n} Ca_{ij}} \]  

obtaining the relative consequences matrix (table 5).

**Table 5** The matrix of relative consequences for a set of alternative and decision-making criteria

<table>
<thead>
<tr>
<th>CR(8,10)</th>
<th>C1</th>
<th>C2</th>
<th>C3</th>
<th>C4</th>
<th>C5</th>
<th>C6</th>
<th>C7</th>
<th>C8</th>
<th>C9</th>
<th>C10</th>
</tr>
</thead>
<tbody>
<tr>
<td>A1</td>
<td>0.11</td>
<td>0.09</td>
<td>0.07</td>
<td>0.06</td>
<td>0.10</td>
<td>0.06</td>
<td>0.07</td>
<td>0.08</td>
<td>0.08</td>
<td>0.07</td>
</tr>
<tr>
<td>A2</td>
<td>0.12</td>
<td>0.11</td>
<td>0.10</td>
<td>0.09</td>
<td>0.07</td>
<td>0.11</td>
<td>0.13</td>
<td>0.11</td>
<td>0.08</td>
<td>0.07</td>
</tr>
<tr>
<td>A3</td>
<td>0.11</td>
<td>0.06</td>
<td>0.11</td>
<td>0.09</td>
<td>0.05</td>
<td>0.05</td>
<td>0.04</td>
<td>0.09</td>
<td>0.08</td>
<td>0.14</td>
</tr>
<tr>
<td>A4</td>
<td>0.09</td>
<td>0.13</td>
<td>0.14</td>
<td>0.15</td>
<td>0.13</td>
<td>0.14</td>
<td>0.16</td>
<td>0.15</td>
<td>0.08</td>
<td>0.21</td>
</tr>
<tr>
<td>A5</td>
<td>0.15</td>
<td>0.17</td>
<td>0.17</td>
<td>0.12</td>
<td>0.16</td>
<td>0.18</td>
<td>0.22</td>
<td>0.19</td>
<td>0.23</td>
<td>0.07</td>
</tr>
<tr>
<td>A6</td>
<td>0.16</td>
<td>0.15</td>
<td>0.13</td>
<td>0.18</td>
<td>0.18</td>
<td>0.16</td>
<td>0.13</td>
<td>0.11</td>
<td>0.15</td>
<td>0.14</td>
</tr>
<tr>
<td>A7</td>
<td>0.12</td>
<td>0.11</td>
<td>0.10</td>
<td>0.09</td>
<td>0.15</td>
<td>0.10</td>
<td>0.07</td>
<td>0.10</td>
<td>0.08</td>
<td>0.21</td>
</tr>
<tr>
<td>A8</td>
<td>0.14</td>
<td>0.17</td>
<td>0.19</td>
<td>0.21</td>
<td>0.17</td>
<td>0.20</td>
<td>0.18</td>
<td>0.17</td>
<td>0.23</td>
<td>0.07</td>
</tr>
</tbody>
</table>

Source: Adapted from Radu I., Ursăcescu M. et. al., 2005

**STEP 2**

**Calculation of the helpful matrix elements**

The elements of the helpful matrix are calculated by the formula:

\[ Z_{ij} = \frac{cr_{ij} - c_{j}^*}{c_{j}^*} \]  

where: \( c_{j}^* \) = the relatively consequentially most favorable for criterion j, which indicates the relative lowest consequence if the criterion is minimal, respectively the largest if the criterion is maximum.

Thus, we obtain the matrix of helpful Z (table 6).

**Table 6** The matrix of helpful for a set of alternative and decision-making criteria

<table>
<thead>
<tr>
<th>Z(8,10)</th>
<th>C1</th>
<th>C2</th>
<th>C3</th>
<th>C4</th>
<th>C5</th>
<th>C6</th>
<th>C7</th>
<th>C8</th>
<th>C9</th>
<th>C10</th>
</tr>
</thead>
<tbody>
<tr>
<td>A1</td>
<td>0.14</td>
<td>0.67</td>
<td>0.64</td>
<td>0.71</td>
<td>0.45</td>
<td>0.68</td>
<td>0.67</td>
<td>0.60</td>
<td>0.67</td>
<td>0.00</td>
</tr>
<tr>
<td>A2</td>
<td>0.29</td>
<td>1.00</td>
<td>0.50</td>
<td>0.57</td>
<td>0.64</td>
<td>0.45</td>
<td>0.42</td>
<td>0.40</td>
<td>0.67</td>
<td>0.00</td>
</tr>
<tr>
<td>A3</td>
<td>0.14</td>
<td>0.00</td>
<td>0.43</td>
<td>0.57</td>
<td>0.73</td>
<td>0.77</td>
<td>0.83</td>
<td>0.52</td>
<td>0.67</td>
<td>1.00</td>
</tr>
<tr>
<td>A4</td>
<td>0.00</td>
<td>1.33</td>
<td>0.29</td>
<td>0.29</td>
<td>0.32</td>
<td>0.27</td>
<td>0.25</td>
<td>0.20</td>
<td>0.67</td>
<td>2.00</td>
</tr>
<tr>
<td>A5</td>
<td>0.57</td>
<td>2.00</td>
<td>0.14</td>
<td>0.43</td>
<td>0.14</td>
<td>0.09</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>A6</td>
<td>0.71</td>
<td>1.67</td>
<td>0.36</td>
<td>0.14</td>
<td>0.00</td>
<td>0.18</td>
<td>0.42</td>
<td>0.40</td>
<td>0.33</td>
<td>1.00</td>
</tr>
</tbody>
</table>
STEP 3
Calculate the elements of characteristic functions matrix FC (8, 10)
The objective of this stage is the fuzzification of helpful matrix elements, depending on the membership of each criterion in the interval [0.1], in order to determine the extent to which audit firms meet the selection criteria. For this we use the formula:

\[ f_{c_{ij}} = e^{-k_i z_0} \]  \hspace{1cm} (3)

Thus, we obtain the matrix of characteristic functions, shown in table 7.

Table 7 The matrix of characteristic functions for a set of alternative and decision-making criteria

<table>
<thead>
<tr>
<th></th>
<th>C1</th>
<th>C2</th>
<th>C3</th>
<th>C4</th>
<th>C5</th>
<th>C6</th>
<th>C7</th>
<th>C8</th>
<th>C9</th>
<th>C10</th>
</tr>
</thead>
<tbody>
<tr>
<td>A1</td>
<td>0.56</td>
<td>0.02</td>
<td>0.04</td>
<td>0.05</td>
<td>0.16</td>
<td>0.05</td>
<td>0.19</td>
<td>0.16</td>
<td>0.07</td>
<td>1.00</td>
</tr>
<tr>
<td>A2</td>
<td>0.32</td>
<td>0.004</td>
<td>0.09</td>
<td>0.10</td>
<td>0.07</td>
<td>0.13</td>
<td>0.35</td>
<td>0.30</td>
<td>0.07</td>
<td>1.00</td>
</tr>
<tr>
<td>A3</td>
<td>0.56</td>
<td>1.00</td>
<td>0.13</td>
<td>0.10</td>
<td>0.05</td>
<td>0.03</td>
<td>0.12</td>
<td>0.21</td>
<td>0.07</td>
<td>0.10</td>
</tr>
<tr>
<td>A4</td>
<td>1.00</td>
<td>0.001</td>
<td>0.26</td>
<td>0.32</td>
<td>0.28</td>
<td>0.30</td>
<td>0.53</td>
<td>0.55</td>
<td>0.07</td>
<td>0.01</td>
</tr>
<tr>
<td>A5</td>
<td>0.10</td>
<td>0.001</td>
<td>0.51</td>
<td>0.18</td>
<td>0.58</td>
<td>0.67</td>
<td>1.00</td>
<td>1.000</td>
<td>1.00</td>
<td>1.00</td>
</tr>
<tr>
<td>A6</td>
<td>0.05</td>
<td>0.001</td>
<td>0.18</td>
<td>0.56</td>
<td>1.00</td>
<td>0.45</td>
<td>0.35</td>
<td>0.302</td>
<td>0.26</td>
<td>0.10</td>
</tr>
<tr>
<td>A7</td>
<td>0.32</td>
<td>0.004</td>
<td>0.09</td>
<td>0.10</td>
<td>0.48</td>
<td>0.11</td>
<td>0.19</td>
<td>0.238</td>
<td>0.07</td>
<td>0.01</td>
</tr>
<tr>
<td>A8</td>
<td>0.18</td>
<td>0.001</td>
<td>1.00</td>
<td>1.00</td>
<td>0.69</td>
<td>1.00</td>
<td>0.66</td>
<td>0.698</td>
<td>1.00</td>
<td>1.00</td>
</tr>
</tbody>
</table>

Source: Adapted from Radu I., Ursăcescu M. et al., 2005

STAGE 4:
Determination of the optimal alternative - In order to establish the optimal alternative, the elements of the matrix of characteristic functions of a number of techniques outlined below, have been applied.
a. Balance technique (Bayes-Laplace)
\[ V_{opt} = \max_i \frac{1}{n} \sum_{j=1}^{n} FC_{ij} \]  \hspace{1cm} (4)

We obtain the following average characteristic function (table 8).

Table 8 Prioritizing a set of decision alternatives using the Bayes Laplace technique

<table>
<thead>
<tr>
<th></th>
<th>FC (8,10)</th>
<th>C1</th>
<th>C2</th>
<th>C3</th>
<th>C4</th>
<th>C5</th>
<th>C6</th>
<th>C7</th>
<th>C8</th>
<th>C9</th>
<th>C10</th>
</tr>
</thead>
<tbody>
<tr>
<td>A1</td>
<td>0.56</td>
<td>0.02</td>
<td>0.04</td>
<td>0.05</td>
<td>0.16</td>
<td>0.05</td>
<td>0.19</td>
<td>0.16</td>
<td>0.07</td>
<td>1.00</td>
<td>0.234</td>
</tr>
<tr>
<td>A2</td>
<td>0.32</td>
<td>0.004</td>
<td>0.09</td>
<td>0.10</td>
<td>0.07</td>
<td>0.13</td>
<td>0.35</td>
<td>0.30</td>
<td>0.07</td>
<td>1.00</td>
<td>0.246</td>
</tr>
<tr>
<td>A3</td>
<td>0.56</td>
<td>1.000</td>
<td>0.13</td>
<td>0.10</td>
<td>0.05</td>
<td>0.03</td>
<td>0.12</td>
<td>0.21</td>
<td>0.07</td>
<td>0.10</td>
<td>0.240</td>
</tr>
<tr>
<td>A4</td>
<td>1.00</td>
<td>0.001</td>
<td>0.26</td>
<td>0.32</td>
<td>0.28</td>
<td>0.30</td>
<td>0.53</td>
<td>0.55</td>
<td>0.07</td>
<td>0.01</td>
<td>0.333</td>
</tr>
<tr>
<td>A5</td>
<td>0.10</td>
<td>0.001</td>
<td>0.51</td>
<td>0.18</td>
<td>0.58</td>
<td>0.67</td>
<td>1.00</td>
<td>1.00</td>
<td>1.00</td>
<td>1.00</td>
<td>0.605</td>
</tr>
</tbody>
</table>

Source: Adapted from Radu I., Ursăcescu M. et al., 2005
Referring to the case study, as a result of using this criterion, we recommend the choice of the third variant.

b. Pessimistic technique (Abraham Wald)

\[ V_{opt} = \max \min FC_{ij}, \quad (5) \]

We obtain the situation from table 9.

Table 9. Prioritizing a set of decision alternatives using the pessimistic technique

<table>
<thead>
<tr>
<th>FC (8,10)</th>
<th>C1</th>
<th>C2</th>
<th>C3</th>
<th>C4</th>
<th>C5</th>
<th>C6</th>
<th>C7</th>
<th>C8</th>
<th>C9</th>
<th>C10</th>
<th>(\min FC_{ij})</th>
</tr>
</thead>
<tbody>
<tr>
<td>A1</td>
<td>0.566</td>
<td>0.026</td>
<td>0.049</td>
<td>0.058</td>
<td>0.163</td>
<td>0.050</td>
<td>0.190</td>
<td>0.166</td>
<td>0.070</td>
<td>1.000</td>
<td>0.02585</td>
</tr>
<tr>
<td>A2</td>
<td>0.320</td>
<td>0.004</td>
<td>0.096</td>
<td>0.102</td>
<td>0.079</td>
<td>0.136</td>
<td>0.354</td>
<td>0.302</td>
<td>0.070</td>
<td>1.000</td>
<td>0.00416</td>
</tr>
<tr>
<td>A3</td>
<td>0.566</td>
<td>1.000</td>
<td>0.134</td>
<td>0.102</td>
<td>0.055</td>
<td>0.034</td>
<td>0.125</td>
<td>0.211</td>
<td>0.070</td>
<td>0.101</td>
<td>0.03372</td>
</tr>
<tr>
<td>A4</td>
<td>1.000</td>
<td>0.001</td>
<td>0.262</td>
<td>0.320</td>
<td>0.281</td>
<td>0.302</td>
<td>0.536</td>
<td>0.550</td>
<td>0.070</td>
<td>0.010</td>
<td>0.00067</td>
</tr>
<tr>
<td>A5</td>
<td>0.102</td>
<td>0.001</td>
<td>0.512</td>
<td>0.181</td>
<td>0.581</td>
<td>0.671</td>
<td>1.000</td>
<td>1.000</td>
<td>1.000</td>
<td>1.000</td>
<td>0.00002</td>
</tr>
<tr>
<td>A6</td>
<td>0.058</td>
<td>0.001</td>
<td>0.188</td>
<td>0.566</td>
<td>1.000</td>
<td>0.450</td>
<td>0.354</td>
<td>0.302</td>
<td>0.265</td>
<td>0.101</td>
<td>0.00011</td>
</tr>
<tr>
<td>A7</td>
<td>0.320</td>
<td>0.004</td>
<td>0.096</td>
<td>0.102</td>
<td>0.484</td>
<td>0.112</td>
<td>0.190</td>
<td>0.238</td>
<td>0.070</td>
<td>0.010</td>
<td>0.00416</td>
</tr>
<tr>
<td>A8</td>
<td>0.181</td>
<td>0.001</td>
<td>1.000</td>
<td>1.000</td>
<td>0.696</td>
<td>1.000</td>
<td>0.660</td>
<td>0.698</td>
<td>1.000</td>
<td>1.000</td>
<td>0.00002</td>
</tr>
</tbody>
</table>

Source: Adapted from Radu I., Ursăcescu M. et. al., 2005
Figure 2 Prioritizing a set of decision alternatives using the pessimistic technique

After processing the results we obtain the situation from table 10.

Table 10 Comparative analysis of the results of applying multiple optimization techniques

<table>
<thead>
<tr>
<th>Position</th>
<th>Technique used</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Laplace</td>
</tr>
<tr>
<td>1</td>
<td>Firm of audit 8</td>
</tr>
<tr>
<td>2</td>
<td>Firm of audit 5</td>
</tr>
<tr>
<td>3</td>
<td>Firm of audit 3</td>
</tr>
<tr>
<td>4</td>
<td>Firm of audit 6</td>
</tr>
<tr>
<td>5</td>
<td>Firm of audit 2</td>
</tr>
<tr>
<td>6</td>
<td>Firm of audit 4</td>
</tr>
<tr>
<td>7</td>
<td>Firm of audit 1</td>
</tr>
<tr>
<td>8</td>
<td>Firm of audit 7</td>
</tr>
</tbody>
</table>

Source: Adapted from Radu I., Ursăcescu M. et. al., 2005

3. Conclusions

In conclusion, if the company wants to have a balanced approach, it will proceed to contacting the eighth firm of auditors and if you consider a pessimistic approach, or with a low degree of optimism, the third firm of auditors will be chosen as an optimal alternative.

REFERENCES


GENERIC MODEL OF COMPETENCE-PERFORMANCE FOR THE ROMANIAN ENTREPRENEUR

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ABSTRACT. Any organization, management and economic performance is able to satisfy fully the economic interests of main stakeholders - employees, managers, shareholders, government, local authorities, banks, suppliers, customers - in terms of optimization of the two fundamental trends marking its function: getting value for the customer and getting value for their shareholders. The two approaches are oriented towards operational excellence, the fundamental strategic management. The private entrepreneur is the catalyst of change in the business world, and the French one was considered by some a hero. Romanian entrepreneurs cannot be included in full in the robot portrait that specialists have mapped out over time.

JEL Codes: M14

Keywords: competence; performance; entrepreneurs

1. Introduction

In order an organization to be managed successfully it is necessary to be coordinated and controlled consistently and transparently. The success can result from implementing and maintaining a quality management system that is designed for the continuous improvement of performance, taking into account the needs of all stakeholders (Drucker, 2006). Starting from the conception that the performance of an organization can be defined as the degree of achievement of the objectives pursued, in terms of efficiency, effectiveness and competitiveness, superior to previous periods, those obtained by the competition or the standards set a correlative relationship measurement. What we are interested in the theory and practice of management in Romania is the managerial performance - without which it is not possible to obtain economic and financial performance in the leading areas. The fundamental task of management is to make people able to work together effectively, giving them shared objectives, shared values, right organization, continuous training and the development that they need.
2. A Possible Model of “Competence–Performance” for the Romanian Entrepreneur

The generic model of competence-performance for the Romanian entrepreneur was inspired by the model applied by the Agency for International Development of the United States (USAID). Lectures should keep in mind the present context of the Romanian economy in which a private entrepreneur operates, the cultural specificity, but also the effects of the integration of Romania into the European Union. The application of the model was made possible with the help of a questionnaire. The questionnaire highlighted the following characteristic traits of the Romanian entrepreneur:

I. Achievement;
II. Analyzing and solving problems;
III. Influence;
IV. Rewarding;
V. Orientation towards others.

2.1 Achievement

2.1.1 Initiative

As a result of processing the questionnaire the values in table 1 were obtained; it is noticeable that Romanian entrepreneurs are not particularly proactive.

<table>
<thead>
<tr>
<th>Initiative</th>
<th>Number of answers</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of response</td>
<td>1</td>
<td>5%</td>
</tr>
<tr>
<td>Acts prior to events</td>
<td>8</td>
<td>38%</td>
</tr>
<tr>
<td>Action for development</td>
<td>12</td>
<td>57%</td>
</tr>
<tr>
<td>Total observations</td>
<td>21</td>
<td></td>
</tr>
</tbody>
</table>


Table 1 shows that only 38% of those who attended the survey act before being forced by events. However, a significant percentage of 57% acts to expand business into new areas, products or services.

A graphical representation of this indicator is shown in Figure 1.
Romanian entrepreneurs’ initiative

2.1.2 Find and act on the basis of the opportunities

Information obtained in this way, as a result of processing the questionnaire, was introduced in table 2.

Table 2. Harnessing the opportunities of the Romanian entrepreneurs

<table>
<thead>
<tr>
<th>Harnessing the opportunities</th>
<th>Number of answers</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of response</td>
<td>1</td>
<td>5%</td>
</tr>
<tr>
<td>Search for opportunities</td>
<td>13</td>
<td>62%</td>
</tr>
<tr>
<td>Measuring opportunities</td>
<td>7</td>
<td>33%</td>
</tr>
<tr>
<td><strong>Total observations</strong></td>
<td><strong>21</strong></td>
<td></td>
</tr>
</tbody>
</table>


Thus, 62% of the entrepreneurs answered that it is concerned with looking for opportunities, but there is a difference between search and measurement opportunities, which means that less attention is paid to the latter activity.

Representation of the evolution of this aspect is achieved using the graph in Figure 2.

Figure 2 Harnessing the opportunities of the Romanian entrepreneurs
2.2 Analyzing and Solving Problems

2.2.1 Systematic Planning

As shown in Table 3, entrepreneurs realize only 52.38% of the business plans, thus, lack of a plan can be one of the causes of the lack of performance.

<table>
<thead>
<tr>
<th>Systematic planning</th>
<th>Number of answers</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of response</td>
<td>1</td>
<td>5%</td>
</tr>
<tr>
<td>Planning tasks-subtasks</td>
<td>17</td>
<td>81%</td>
</tr>
<tr>
<td>Plans</td>
<td>11</td>
<td>52.38%</td>
</tr>
<tr>
<td>Alternatives</td>
<td>16</td>
<td>76.19%</td>
</tr>
<tr>
<td>Logical and systematic approach</td>
<td>13</td>
<td>61.90%</td>
</tr>
<tr>
<td><strong>Total observations</strong></td>
<td><strong>21</strong></td>
<td></td>
</tr>
</tbody>
</table>


A graphical representation of this indicator is shown in Figure 3.

![Systematic planning graph](image)

2.2.2 Troubleshooting

In solving problems, Romanian entrepreneurs prefer looking for alternative strategies and less innovative solutions (table 5).

<table>
<thead>
<tr>
<th>Troubleshooting</th>
<th>Number of answers</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of response</td>
<td>1</td>
<td>5%</td>
</tr>
<tr>
<td>Alternative strategy</td>
<td>15</td>
<td>71.43%</td>
</tr>
<tr>
<td>Innovative solutions</td>
<td>5</td>
<td>23.81%</td>
</tr>
<tr>
<td><strong>Total observations</strong></td>
<td><strong>21</strong></td>
<td></td>
</tr>
</tbody>
</table>


This is reflected in the graph in Figure 4.
2.3 Influence

2.3.1 Persuasion

The data in Table 5 shows that, among the abilities of persuasion of the private entrepreneurs in the sample analyzed, client’s conviction to buy stands out in a rate of 48%.

Although entrepreneurs have a high degree of self-confidence, only 10% of them declare their own competence, trust or other enterprising or personal qualities, and only 14% said that they have a strong confidence in their companies’ products or services (Corodeanu D.T., 2007).

Table 5. Abilities of persuasion of entrepreneurs

<table>
<thead>
<tr>
<th>Persuasion</th>
<th>Number of answers</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of response</td>
<td>1</td>
<td>4%</td>
</tr>
<tr>
<td>Persuade customers to buy</td>
<td>10</td>
<td>48%</td>
</tr>
<tr>
<td>Convince for funding</td>
<td>3</td>
<td>14%</td>
</tr>
<tr>
<td>Persuade to do something else</td>
<td>2</td>
<td>10%</td>
</tr>
<tr>
<td>Declare their competence</td>
<td>2</td>
<td>10%</td>
</tr>
<tr>
<td>Declare confidence in products/services</td>
<td>3</td>
<td>14%</td>
</tr>
<tr>
<td><strong>Total observations</strong></td>
<td><strong>21</strong></td>
<td></td>
</tr>
</tbody>
</table>


Not very encouraging is the percentage of those who say that they have the ability to convince anyone to finance, only 10% of the business fits in this category. Another aspect is related to skills to convince others to do something, which are specific to leadership. Only 10% of entrepreneurs say that they have this skill. A graphical representation of this indicator is provided in Figure 6.
2.3.2 The use of influence strategies

This aspect is very important in the accumulation of social capital as connections with other business partners can help a private entrepreneur to develop and strengthen his business.

Table 6. Use of influencing strategies

<table>
<thead>
<tr>
<th>Influencing strategies</th>
<th>Number of answers</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of response</td>
<td>1</td>
<td>5%</td>
</tr>
<tr>
<td>Business contacts</td>
<td>11</td>
<td>52%</td>
</tr>
<tr>
<td>Influential people</td>
<td>3</td>
<td>14%</td>
</tr>
<tr>
<td>Select the information provided</td>
<td>4</td>
<td>19%</td>
</tr>
<tr>
<td>Use advocacy strategies</td>
<td>2</td>
<td>10%</td>
</tr>
<tr>
<td><strong>Total observations</strong></td>
<td><strong>21</strong></td>
<td></td>
</tr>
</tbody>
</table>


As it can be seen from table 6, 52% of the entrepreneurs act to develop business contacts, 14% use influential people in order to achieve the objectives, but it would seem that these actions are not part of the flair for private entrepreneurs, and it is not substantiated or planned in advance, for only 10% use a strategy to influence others.

A graphical representation of this indicator is provided in Figure 6.

Figure 6. Using the strategies of influence
2.4 Rewarding

2.4.1 The current Romanian entrepreneurs’ satisfaction

According to the results of experimental research in table 7, 52% of the Romanian entrepreneurs have come to be their own boss without having to depend on anyone else. At the same time, 24% do what they like, their potential is used by 10%, and 10% even feel “somebody.”

<table>
<thead>
<tr>
<th>Satisfactions of entrepreneurs</th>
<th>Number of answers</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of response</td>
<td>1</td>
<td>5%</td>
</tr>
<tr>
<td>I do what I like</td>
<td>5</td>
<td>24%</td>
</tr>
<tr>
<td>I am my own boss</td>
<td>11</td>
<td>52%</td>
</tr>
<tr>
<td>I use potential</td>
<td>2</td>
<td>10%</td>
</tr>
<tr>
<td>I am “someone”</td>
<td>2</td>
<td>10%</td>
</tr>
<tr>
<td><strong>Total observations</strong></td>
<td><strong>21</strong></td>
<td></td>
</tr>
</tbody>
</table>


2.5 Orientation towards others

2.5.1 Concern for honesty

Without doubt, Romanian entrepreneurs consider themselves credible, and their own honesty in a rate of only 57%, which is slightly more than half of the entrepreneurs, questioned -21. In addition, only 14 interact to ensure honesty and fairness in transactions with others.

<table>
<thead>
<tr>
<th>Credibility, integrity</th>
<th>Number of answers</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of response</td>
<td>2</td>
<td>10%</td>
</tr>
<tr>
<td>Their own honesty</td>
<td>12</td>
<td>57%</td>
</tr>
<tr>
<td>Ensuring honesty in transactions with others</td>
<td>3</td>
<td>14%</td>
</tr>
<tr>
<td>Rewards/penalties</td>
<td>3</td>
<td>14%</td>
</tr>
<tr>
<td>Speak directly and frankly</td>
<td>1</td>
<td>5%</td>
</tr>
<tr>
<td><strong>Total observations</strong></td>
<td><strong>21</strong></td>
<td></td>
</tr>
</tbody>
</table>


2.5.2 Concern for employee welfare

Employees represent one of the most important resources of a company. However, research has showed that the Romanian entrepreneurs don not show very great concern for their employees, the percentage of those who take actions to ensure their employees’ welfare is only 43% (Tanțău, A. D.,
2003). Any positive attitude of employers towards their employees is not a priority matter; this level of 33% of all those who were questioned is shown in table 9.

### Table 9. Concern for employee welfare

<table>
<thead>
<tr>
<th>Employee welfare</th>
<th>Number of answers</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of response</td>
<td>2</td>
<td>10%</td>
</tr>
<tr>
<td>Actions to ensure welfare</td>
<td>9</td>
<td>43%</td>
</tr>
<tr>
<td>Positive attitude towards employees’ problems</td>
<td>7</td>
<td>33%</td>
</tr>
<tr>
<td>Care for employee welfare</td>
<td>3</td>
<td>14%</td>
</tr>
<tr>
<td><strong>Total observations</strong></td>
<td><strong>21</strong></td>
<td></td>
</tr>
</tbody>
</table>


### 3. Conclusion, Limitations and Future Research

As a result of the survey conducted in terms of personality characteristics, confirming McCleland’s theory about Romanian entrepreneurs as being motivated by desire for achievement, wish to be independent and having a spirit of initiative, 57% of them behaved as such.

In terms of critical issues concerning the behavior of main Romanian entrepreneurs and how they can influence business performance, they are reproduced below.

1. Romanian entrepreneurs do not plan enough; as results of the survey showed, entrepreneurs develop just 52.38% of their business plans. Lack of a plan can be one of the causes of the lack of performance. Many of the factors contributing to the failure of entrepreneurs’ businesses could be avoided if they would draw up a well founded business plan.

   The business plan must represent the most important step for any entrepreneur; considering that if a plan is developed and designed properly, that is an effective way of communication - to make the business known, to raise funds, and it is also a measurement instrument through which to assess changes needed to be made for the progress of the business (Paraschivescu A. O., 2009).

2. Romanian entrepreneurs do not engage fully in activities which imply social responsibility. The survey showed, however, that Romanian entrepreneurs do not show very great concern for their employees, the percentage of those who take actions to ensure employees’ welfare is only of 43%. Any positive attitude of employers towards their employees is not a priority, and this is proved by the level of 33% of all surveyed.

   On the other hand, social responsibility cannot be confined to the internal area and to the perimeter of an organization’s payroll. The main purpose for an enterprise that is engaged in a process of social responsibility lies in its
ability to reconcile the interests of economic competitiveness and in taking into account the impact of decisions on all its economic partners of a responsible manner.

To determine whether the company is liable, Romanian entrepreneurs should ask themselves if the company receives or is affected negatively by whatever actions the company performs; in what degree the enterprise takes environment into account in its business operations, and on whom the general economic effect generated by the company’s actions will be.

REFERENCES


THE IMPORTANCE OF REDUCING FREIGHT RATES AND MARITIME TRANSPORT COSTS

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Spiru Haret University, Constanta

ABSTRACT. Freight rates in 2011 and at the beginning of 2012 often remained at unprofitable levels. Within containerized cargo substantial freight rate drops have been reported. Vessel oversupply can be indentified as a driving factor behind this development. The investment in large capacity within container segment accelerated competition as ship operators were willing to accept freight rates below or close to operating costs. While freight rates have declined or remained at historically low levels, ship operating costs have grown moderately. In addition, bunkering prices continue to recover from their collapse during the economic crisis, offsetting temporary freight-rate increases. This paper proposes and discusses three strategies for individual countries to influence transport within their seaborne network. These include development of costal shipping and efficiency programmes for ports. In addition, policies should be applied that aim at improving the port connections with hinterland markets.

JEL Codes: N70; R41; R42; R48

Keywords: freight rate; container shipping; transport cost; costal shipping; port connection

1. Introduction

This paper presents an analysis of maritime freight rate developments for containers shipping. It highlights significant events leading to major price fluctuation, discusses industry trends and gives a selective outlook on future developments of freight markets.

Transport costs remain an important component of the price of the goods when purchased by the final consumer. High maritime transport costs for imported goods impact the price level of the basket of consumer goods. Conversely, excessive freight rates for exports affect the trade competitiveness of the products of a country in the global markets. Hence,
countries may want to define approaches to reduce inbound and outbound maritime transport costs in their trade with partners.

2. Container Freight Rates

Having experienced one of the steepest freight rate cuts in history in 2008, the recovery remains sluggish in 2011. Current freight rates are still far from reaching pre-crisis levels, having experienced another downturn in the second half of 2011 after a temporary resurgence. Time charter rates for container ships declined from May to December 2011 for most ship types, reaching a loss of 66% within the 2,300-3,400 20-foot equivalent units (TEUs) class (see Table 1 and Table 2). This is reflected by the New Con Tex index, a condensed container freight rate indicator covering a wide range of ship sizes, which experienced a dip of 60% of its value from May to December 2011. New Con Tex is a container ship time charter assessment index calculated as an equivalent weight of percentage change from six Con Tex assessments, including the following sizes: 1,100, 1,700, 2,500, 2,700, 3,500 and 4,250 TEUs. The purpose of the coverage of more vessel sizes within the New Con Tex index is to give a more comprehensive picture of container shipping market developments.

An overstretched container cargo market on the supply side precipitated the low freight rate levels in 2011. While the demand is currently still recovering from the seaborne collapse during the financial crisis, the growth rates of the global container carrier have remained relatively stable, due in part to shipowners not being able to withdraw from their buying contracts. In addition, ship operators suffer from substantial bunkering price increases that are not reflected in developments in freight rates.

As a result, the industry has experienced aggressive pricing policies of boxship operators competing for market shares (Drewry, 2011). Many box carriers are still operating at a loss, incenting them to cull capacity on unprofitable trade routes and/or raise prices for shippers. An example is Hanjin, which announced freight price increases of between $200 and $400 on routes linking Asia to Northern Europe and Western Africa.

Table 1. Container ship time charter rates (Dollars per 14-ton slot per day)

<table>
<thead>
<tr>
<th>Ship type and sailing speed (TEUs)</th>
<th>Yearly averages</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2007</td>
<td>2008</td>
<td>2009</td>
<td>2010</td>
<td>2011</td>
<td></td>
</tr>
<tr>
<td>Gearless 200–299 (min 14 kn)</td>
<td>27.2</td>
<td>26.0</td>
<td>12.5</td>
<td>12.4</td>
<td>12.4</td>
<td></td>
</tr>
<tr>
<td>Gearless 300–500 (min 15 kn)</td>
<td>22.3</td>
<td>20.0</td>
<td>8.8</td>
<td>9.9</td>
<td>12.8</td>
<td></td>
</tr>
<tr>
<td>Geared/gearless 2 000–2 299 (min 22 kn)</td>
<td>11.7</td>
<td>10.0</td>
<td>2.7</td>
<td>4.8</td>
<td>6.3</td>
<td></td>
</tr>
<tr>
<td>Geared/gearless 2 300–3 400 (min 22.5 kn)</td>
<td>10.7</td>
<td>10.7</td>
<td>4.9</td>
<td>4.7</td>
<td>6.2</td>
<td></td>
</tr>
<tr>
<td>Geared 200–299 (min 14 kn)</td>
<td>29.8</td>
<td>32.1</td>
<td>16.7</td>
<td>18.3</td>
<td>22.1</td>
<td></td>
</tr>
</tbody>
</table>
Companies such as CMA CGM, CKYH and OOCL cut their capacity on the transatlantic lanes (Lloyd’s List, 2011). These measures did not, however, lead to a substantial freight rate increase in the overall container shipping market in 2011. It is estimated that the total loss to the total loss to the industry will reach 5.2 billion dollars this year (Journal of Commerce, 2011). High-volume routes, in particular, are experiencing an increasing competition. Operators place their largest ships in these networks and aim at offering more regular services. As a result, shipping lines build alliances to share costs, bundle capacity and streamline their operations. Examples of this industry trend include the partnership of MSC and CMA CGM, or the merging of Asia–Europe services between the Grand Alliance (Hapag-Lloyd, NYK and OOCL) and the New World Alliance (HMM, APL and MOL) (Journal of Commerce, 2011). Individual shipping lines with smaller vessel will find it increasingly difficult to remain competitive on the world’s busiest shipping lanes. Furthermore, with a growth rate predicted at 25% for the above – 8,000 TEUs fleet in 2012; large-scale capacity is continuing to enter this market segment (Drewry, 2011).

---

Table 2. Container ship time charter rates (Dollars per 14-ton slot per day)

<table>
<thead>
<tr>
<th>Ship type and sailing speed (TEUs)</th>
<th>Monthly averages for 4th trimester of 2011</th>
<th>Monthly averages 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Oct</td>
<td>Nov</td>
</tr>
<tr>
<td>Gearless</td>
<td></td>
<td></td>
</tr>
<tr>
<td>200–299 (min 14 kn)</td>
<td>15.1</td>
<td>12.6</td>
</tr>
<tr>
<td>300–500 (min 15 kn)</td>
<td>12.4</td>
<td>11.9</td>
</tr>
<tr>
<td>Geared/gearless</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2 000–2 999 (min 22 kn)</td>
<td>4.8</td>
<td>4.3</td>
</tr>
<tr>
<td>2 300–3 400 (min 22.5 kn)</td>
<td>2.7</td>
<td>2.7</td>
</tr>
<tr>
<td>Geared</td>
<td></td>
<td></td>
</tr>
<tr>
<td>200–299 (min 14 kn)</td>
<td>19.5</td>
<td>19.1</td>
</tr>
<tr>
<td>300–500 (min 15 kn)</td>
<td>13.2</td>
<td>13.6</td>
</tr>
<tr>
<td>600–799 (min 17 – 17.9 kn)</td>
<td>9.8</td>
<td>8.9</td>
</tr>
<tr>
<td>700–999 (min 18 kn)</td>
<td>9.5</td>
<td>8.7</td>
</tr>
<tr>
<td>800–999 (min 18 kn)</td>
<td>9.0</td>
<td>8.7</td>
</tr>
<tr>
<td>1 000–1 260 (min 18 kn)</td>
<td>7.9</td>
<td>6.9</td>
</tr>
<tr>
<td>1 261–1 350 (min 19 kn)</td>
<td>7.3</td>
<td>6.1</td>
</tr>
<tr>
<td>1 600–1 999 (min 20 kn)</td>
<td>5.7</td>
<td>4.8</td>
</tr>
</tbody>
</table>

2.1. Container Ship Operators Entering the Reefer Business

The decline in freight rates in the container shipping business increasingly puts competitive pressures on specialized reefers. Refrigerated cargo is used by container ship operators as an opportunity to fill some of the idle capacity in the business. This trend is also reflected in the ship buyers’ orderbook which contains an increasing share of vessels with large reefer capacity (Lloyd’s List, 2011).

Industry-leader reefers such as Star Reefers have described 2011, as for 2010, as one of the poorest years in the industry’s history, companies being hit hard by the low freight rates and increased competition from container ship operators (Journal of Commerce, 2011). The spot market rates for larger reefer ships reached an average of 43 % cubic feet per 30 days in 2011, following 42 cents in 2010 (Shipping Herald, 2012). The near collapse of banana exports from Ecuador and Central America since April 2011 brought additional stress to reefer freight rates. Although a strong growth in demand for the transport of perishable goods is being predicted, the shipping industry will most likely also experience an ongoing cargo shift from specialized reefers to container ships. International container lines are constantly introducing new regular services for the transportation of perishable goods connecting the major production centers with the largest consumer markets, such as Europe and North America. According to Drewry, in 2014 about 74% of perishable reefer goods will be transported by container ships, these providing some 95% of the entire reefer market cargo capacity.

This industry trend is also reflected in the structure of the reefer fleet and the orderbook for specialized reefer vessel. The reefer fleet is comparably old with 50% of the tonnage having operated for more then 20 years and only 2% of the ships with an operating age below six years (Lloyd’s List, 2011). Despite this fact, most carriers were not willing to invest in modern vessels to upgrade their ageing fleets and the orderbook dropped to zero in September 2011 for the first time. In addition, an annual average of 36 reefer ships was sent for scrapping between 2008 and 2010 (Drewry, 2011).

3. Container Freight Market and Transport Costs

The uniqueness of freight rate patterns for container ships can be quantified through the fluctuation of freight rate. The maximum freight rate fluctuation refers to the divisor between the highest and the lowest freight rate reported between March 2011 and April 2012. Freight rates have fluctuated in the container segment, with rates being 1.87 times higher at the top level when compared with their lowest value.
Three major factors can trigger price fluctuations in a competitive market environment:

- first, the costs of running a maritime shipping business;
- second, to break even the freight rates must cover all incurred expenses;
- third, the minimum freight price range that a vessel operator is willing to accept.

To other major external factors determine the price in a fundamental way: the demand and the supply in the maritime transport market.

3.1 Maritime Transport Costs Components

Maritime transport service providers that invest in the procurement and operation of a vessel aim at creating a profit on their capital employed. Fluctuations in the costs of buying and maintaining a vessel will impact on the freight rate a ship operator is willing to accept to ensure cost recovery and profit. A cost breakdown of the total vessel expenses allows an assessment of how each component affects freight rates and contributes to the total vessel costs. In addition, the volatility of each cost component is of importance when assessing freight fluctuations. Freight rate components for a container ship of 3,400 TEUs with an assumed operating life of 20 years include, first of all, fuel consumption, representing 35% of total expenditures which is the largest cost factor. Crewing is the second largest, contributing 18.5%, followed by port charges at 10%. Most cost input factors do not appear to be subject to major price fluctuation. The price of crude oil is an exception and is a major influencing factor.

3.2 Maritime Transport Cost and Revenue Comparison

Based upon the information from the freight rate cost breakdown, a more comprehensive cost and revenue comparison is conducted below for the container shipping sector and their different vessel sizes. Such an analysis allows the identification of characteristic cost structures for different vessel types and potential changes in the cost structure over time illustrates the results of the calculations for 2006 and 2011.

The yearly time charter rate represents the revenue side of the analysis. The ship operating costs have been derived from a yearly survey that is based on indications from ship operators, owners and brokers for over 2,600 vessels (Moore Stephens, 2011). As bunker costs and port handling charges are usually not included in the time charter rates, these expenses have also been excluded from the calculations. Assumptions have been made for several variables influencing cost, such as ship utilization rates, interest rates
or the commercial life expectancy of the ship, with the aim of obtaining a comparable dataset.

The results of the study (Moore Stephens, 2011) illustrate the effect of economies of scale that can be reached with large scale vessels.

The ship profitability figures for 2011 illustrate that year’s unfavourable economic environment for maritime transport service providers and show that all container ship segments have had negative profitability rates. The results also show that, in 2011, larger ships sizes mostly operated on a lower profitability rate than smaller vessels. The reason for this is that, in 2011, the advantage of economies of scale has been offset by a pronounced oversupply of larger vessels. When interpreting these numbers, it should be taken into consideration that the calculations are based on the assumption that the calculations are based on the assumption that vessels have been 100% utilized. However, among most operators utilization rates were much lower in 2011, which would translate into even lower profitability rates.

The calculations for 2006 illustrate that the cost and the revenue structure have changed significantly over the last five years. Freight rates have been considerably higher. Operators also benefit from lower operating costs, which demonstrated moderate and stable grows rates in the last five years. Therefore, profitability rates were much higher in 2006. The promising revenue figures leg to massive investments in additional tonnage, pushing up vessel prices. Hence, the share of ship procurement costs as a percentage of the total vessel expenses was considerably higher in 2006.

Second-hand prices were exposed to even higher volatilities as there is usually no significant gap between the ship being sold and handed over. Buyers can benefit directly from high profitability rates in a positive business environment, making them willing to accept elevated second-hand prices. A contrary effect occurs if freight rates are low: second-hand prices will then drop due to a lack of investors who are willing to operate a ship in an unprofitable market.

These calculations have quantified the effect of economies of scale on freight rates. In addition, the potential fluctuation of new buildings costs and their impact on the overall vessel expenses have been evaluated. The figures also illustrate that ship operating costs fluctuate only moderately over time. Finally the, pronounced profitability volatility between the years 2006 and 2011 underlines the large impact of structural changes in demand and supply on the maritime shipping, as discussed in the following section, when commensurate demand is present.

## 3.3 Transport Demand and Supply

During different stages in the shipping market cycle, diverging demand and supply lead to substantial fluctuation in freight rates. It can be observed that
freight rates and the volume of new ship orders often evolve in parallel. In times of high freight rates, ship owners tend to invest in new vessel capacity, this being also due to an increased willingness of banks to lend money, thus expanding the orderbook. With an increasing supply of capacity, freight rates fall and less efficient ships line up for cargo, thus reducing the industry’s appetite to invest in new vessel capacity (Stopford M, 2006). With this interplay between supply and demand in mind, this section will assess selected indicators for the two elements.

Growth rates of both supply (vessel capacity) and demand (shipped volumes) are illustrated in table 3. In container segment, vessel capacity has grown faster than the seaborne trade volume. The orderbook to current fleet size of container ships stands at 21.3%. This will put freight rates under additional pressure within already oversupplied container ship segment.

Table 3. Growth in transport supply, transport demand and market share for container ships

| Demand and supply | Transport supply growth per year (2000-2011, based on fleet growth in dwt) | 10.1% |
|                  | Transport supply growth per year (2009-2011, based on fleet growth in dwt) | 6.6% |
|                  | Transport demand growth per year (2000-2011, based on fleet growth in dwt) | 7.2% |
|                  | Transport demand growth per year (2009-2011, based on fleet growth in dwt) | 5.9% |
| Ratio of orderbook to fleet size (April 2012, based on dwt) | 21.3% |

| Market concentration (supply side) | Market share of the top 3 companies | 28.6% |
|                                   | Market share of the top 10 companies | 50.8% |
|                                   | Market share of shipping business (2012, based on fleet capacity in dwt) | 14.9% |

Source: Review of Maritime Transport 2011 and Lloyd’s List Intelligence

The supply side can also be assessed thorough a comparison of indicators that describe the structure of the fleet. The analysis of market concentration level, for example, reveals the degree of competition in the market, which may influence the pricing mechanism. Container shipping reaches a very high market concentration level. The 10 largest companies account more than 50% of the world’s containerized market. On routes to remote regions with low trade volumes in particular, this may lead to higher freight rates and less volatile price reactions to changes in transport demand.

4. Conclusion

The freight rate cost analysis illustrates major costs elements of freight rates and can assist when identifying policy measures aimed at reducing individual cost drivers. The policy options available to a single country that could produce a substantial reduction of freight rates are, nonetheless,
limited. Vessel operators can choose worldwide between many alternative suppliers when procuring the goods and services they need for their vessel operations, thus leveling comparative cost advantages of individual destinations. In most large ports, for instance, cheap fuelling services are offered and, even if these services are not provided, a ship can choose to use bunkering services at an alternative destination. If one country alone were able to offer goods and services at costs significantly below the level of other nations, these competitive advantages would probably not be reflected in the freight rate to or from that country. Hosting competitive insurance service providers, for example, will not assist a country to reduce its maritime transport costs. These cost advantages are likely to be passed on equally to the freight rates for all routes a vessel operator serves within his shipping network.

When evaluating the elements comprising freight rate costs, three major strategic options remain that countries can choose from, and by which maritime freight rates from and to that country can be influenced. Figure 1 and Table 4 summarizes these options and their effect on ship operating costs and freight rates.

**Option 1 – developing coastal shipping.** Individual countries can exercise only a limited influence on international maritime shipping, which operates as an open market with very little regulation other than relevant international rules on carrier liability, security and safety. An exception to this is costal shipping and specifically cabotage, which lies completely within the jurisdiction of a single nation. Country can directly influence the price level for these services through the design of ship registration requirements, industry development policies and infrastructural investments such as the development of a feeder port network.

In a market where cabotage is restricted to domestic carriers only, ship operators have no choice but to comply with the country’s regulatory set up. An improvement of the ship registration requirements will therefore directly affect operating costs. The potential monetary impact has been quantified by a study of the United States Department of Transportation. It estimates, for example, that the costs for United-flag vessel in 2010 were around 2.7 times higher than those of foreign flag equivalents (United States Department of Transportation, 2011).

Opening cabotage to international shipping lines is another policy option. The entrance of new market players may reduce freight rates for shippers and lead to better and more diverse services. However, most countries often give cabotage rights exclusively to domestic carriers with the aim of protecting and promoting the national shipping industry.

Another measure to support cabotage is the expansion of a country’s feeder port network. This will facilitate access of traders to coastal shipping
and encourage them to shift from land to maritime transport. The increased volumes may lead to higher utilization rates and lower freight rates.

**Option 2 – developing port competitiveness.** Countries with sea access can apply a wide range of policies that aim at increasing the operational and administrative efficiency of their port network. This includes decisions on the legal and institutional framework, the selection of an ownership model or the allocation of funds for infrastructure investments. The reforms should target all entities having a relevant role in the port, such as the landlord, regulator, operator, marketer and cargo handler, thus reducing port charges related to each function.

The negotiation of a balanced concession agreement between the terminal operator and the responsible regulatory institution is a critical element when shaping a performance-orientated port business environment. This should include appropriate incentives that promote a continuous improvement of operations, competitive price setting mechanisms and a comprehensive performance monitoring system. However, considering that port charges only 10% of the total freight rate, the lever of these measures appears to be limited – a reduction of port handling charges by 50% would only lead to a total reduction to a total freight rate reduction of 5%.

**Option 3 – developing port hinterland connections.** The first two options contain policy measures targeting directly the improvement of maritime transport chain elements. In contrast, the third option addresses other modes of transport that indirectly affect freight rates of ships through their role within the multimodal transport chain.

Inland transport linkages are the arteries of ports connecting them to regional markets. They enable ports to consolidate exports from the region and distribute import to their final destination in the hinterland. As an example, the port of Durban in South Africa offers more modern and extensive rail linkages than neighbouring port of Maputo in Mozambique, thus giving it an advantage when competing for customers. Another example is the structure of the transport network within Mozambique. It offers well-developed north-south road connections, which specifically serve the transport needs within the country’s territory. However, only a few east-west linkages exist that connects domestic entrepreneurs with ports along the country’s long coastline, making it difficult for them to present their goods on the international markets.

Improving transport connections to and from markets in the hinterland, therefore, enables ports to attract greater cargo volumes. This does not only lead to economies of scale within the ports. It may also attract larger vessels with lower unit transport costs or more alternative maritime transport service providers.
Figure 1. Strategies to reduce maritime container freight rates

Table 4 Policies options and their effect on transport container costs

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Selected field of policy making</th>
<th>Potential impact on freight rates</th>
</tr>
</thead>
</table>
| **Developing coastal shipping** | • Opening cabotage to global competition or restricting it to domestic operators  
• National ship registration policies  
• Institutional framework (e.g. maritime authority)  
• Investment policies and ownership model  
Maritime infrastructure (e.g. feeder ports) | • The compliance with new ship registration requirements may reduce or increase operations costs  
• Opening cabotage can increase competitive pressure thus reducing freight rates  
• Improving coastal shipping infrastructure connects remote regions to international trade networks → modal shift to maritime transport and better economies of scale |
| **Developing port competitiveness** | • Port administration related laws and regulations  
• Port management structures and ownership model  
• Institutional framework (e.g. port authority)  
• Port operations  
• Port infrastructure (e.g. links to other modes of transport) | • Reducing port related charges for maritime transport service providers through:  
➢ efficiency gains in port operations and port administration  
➢ reasonable profit margin of port operator in a more competitive business environment → includes charges for all port functions: landlord, regulator, operator, marketer and cargo - handler (e.g. cargo handling fees, channel fees) |
| **Developing port hinterland connections** | • Intermodal interface connecting port with national and regional markets (options: rail, road, waterway and air transport)  
• Regulatory and institutional framework for land transport modes  
• Regional transit and transport development agreements  
• Public private partnerships | • Improved port connectivity:  
➢ increases cargo handling volumes in ports → lower unit handling costs  
➢ attracts larger ships → lower unit transport costs  
➢ attracts new transport service providers → lower margins due to increased competition |
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EVOLUTION OF CRM IN SCRM

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ABSTRACT. An undeniable aspect is the particularly important role that effective management of customer relationships has in the sustainable development of the organization. One of the most relevant arguments that support the interests of managers and businessmen for CRM is that 5% reduction in the number of customers lost by the organization can result in an increase of 25% to 85% in organization profit. New web services allow users to combine real-life activities with the support offered by the Web. User-centered services change the way people use the Internet and influence how they organize their lives. Web 2.0 features, combined with current CRM system, are giving rise to a new business strategy, called Social CRM (SCRM). Social CRM creates a two-way interaction between the parts and gives customers the ownership of the conversation with the company. SCRM gives us what we need to gain a real perspective of the customer, which means an individual insight, a combination of activities and objects needed for an opportunity to become a successful business. It is based on historical roots, using internal and external knowledge bases, but also involves intelligence of others.

JEL Codes: M10; M21; M16; M30

Keywords: social CRM; CRM; strategy; organization; management

1. Introduction

We kept hearing about this social customer relationship management (SCRM). It is certainly a hot topic. Here are some important points to consider when thinking about CRM.

- Social CRM is primarily a strategy that is often sustained by various tools and technology strategy that is based on engagement and interaction with the customer.
Social CRM is a CRM, too, but evolved, which is a back-end process and a system of data and customer relationship management in an efficient way.

SCRM will mean different things to different organizations. The key is first to be able to understand the business challenges that we are trying to solve, and afterwards to solve them.

SCRM is part of developing a social or collaborative business, both internally and externally.

2. Understanding CRM

CRM consists of functions based on sales, marketing and service / support, the purpose of which was to lead the way with the client to ensure the client's return to buy more.

Traditional CRM was very much based on data and information that brands could collect from their customers, all of which are entered into a CRM system which then allowed the company to better target customers.

3. Understanding SCRM

Source: the own ideas outlined above
PR has now a very active role in SCRM (in fact, usually, Social PR has the authority of initiatives before any other department). In most organizations, PR departments manage the social presence of brands and customer engagement.

The development consists, in the first phase, of the support and experience that are essential components of SCRM which revolves around the customer. In the first image above, the one on CRM, it appears that between the client and CRM there is not really any collaborative relationship.

In SCRM this has changed completely. The client is actually the focal point of the functioning of an organization. In place of marketing or messages sending to customers, brands speak now and work with clients to solve business problems, encourage the clients to form their own experiences and build relationships with them, for which the company will support its customers.

It is very important to keep in mind that SCRM is not a new system that replaces CRM, it is simply an evolution of what has always been CRM.

4. The Purpose of CRM to SCRM Evolution

The challenge for organizations is now to adapt and evolve to meet the needs and demands of this new social customer. Unfortunately, many organizations still do not understand the social media value of CRM.

Following a study made by Gartner, an American company in IT consulting and research, has made the following prediction: “By 2012, more than half of the companies that have established an online community will not be able to manage that as an agent of change, ultimately eroding the customer value. The rush in Social computing initiatives without clearly defined benefits for both the company and the customer will be the biggest cause of failure.”

Social CRM is about the passing of the fans and followers to customers and supporters.

5. SCRM

According to S. Mohan (Mohan, 2008), a social CRM system combines the “Web 2.0 features and social networking with current CRM system.” However, Social CRM is not just a set of technologies, but rather a company strategy, specific to boost customer engagement and building strong relationships with them. Social CRM is a CRM strategy that uses Web 2.0 services to create engagement between client and company, leading to a mutually beneficial value. This commitment is about providing new means
of contact (or monitoring existing ones) through which commitment and involvement are encouraged.

Social CRM creates a two-way interaction between the parties and gives customers ownership of the conversation with the company. The strategy behind Social CRM is to be opened with the clients, to be visible to them, and give them space and information needed to make intelligent decisions for themselves about how to interact with the company. By following this strategy, the company can learn from its customers because they have more freedom in interaction with society and with other customers.

Companies can also look for their brand or their products (e.g. using forums) and learn from customers, watching through what they say about the company or products. Marketing and sales departments must think “2.0” because that is what customers are doing. Social CRM means in this case the content publishing on the Web Services 2.0 (e.g. Facebook), which the client considers relevant, tracking the customer feedback and responding accordingly, all the actions in which commitment and involvement should be encouraged.

Unfortunately, there is no single product “Social CRM” available. Social CRM is a mash-up of existing Web 2.0 services in a CRM environment. Web 2.0 complements other sales ‘tools’ by providing additional sources of Web 2.0 services for the CRM system in order to transform it into an environment of Social CRM.

Collaboration distances between customers and companies become less significant.

Web 2.0 services can help in creating this intimacy. Part of Social CRM strategy could be a blog operated by the CEO of a company in order to inform customers and to keep them involved (e.g. the blog of Jonathan Schwartz, CEO of Sun Microsystems). CEO can inform clients and can discuss issues with them. This provides customers with information, but also vice versa via comments. Another part of Social CRM strategy is the use of Web 2.0 services to encourage collaboration between colleagues, clients and partners in order to improve knowledge sharing. As a result, the company will have wider knowledge about the client and the client feels more involved in the company.

Now that we have described Social CRM we will focus more on its fundamentals. Because Social CRM is a combination of Web 2.0 and CRM, we have combined their fundamental aspects. This resulted in a combined list of 11 bases.

Some fundamentals seem to be more visible than others. We placed the foundations in order from the visible foundations to the least visible and we grouped them as follows: infrastructure (containing the least visible foundations), information, customer management and customer engagement (containing the visible foundations), the latter leading to customer retention.
and engagement - results of Social CRM. For each layer some fundamentals are responsible. Each layer backs the above, namely, infrastructure facilitates information, information facilitates management of clients and their commitment, and this ultimately leads to customers’ retention and their involvement - results of a Social CRM. The ones described above are illustrated in the figure below and the pyramid is chosen to highlight the fact that each layer is another progressive step in the development of a Social CRM.

The top of the pyramid resembles Social CRM results. Customer retention is related to CRM (customer management) because traditionally CRM refers to customer retention. Customer involvement is related to Web 2.0 (customer engagement), because Web 2.0 refers to the interactivity that can lead to involvement in society. Social CRM Organizations can use the model to help determine the current status of CRM.

Based on the above, we have defined that Social CRM is about creating a two-way interactions between customer and company. CRM is a strategy that uses Web 2.0 services to encourage active engagement of clients and their involvement.

**Figure 3 Social CRM model**

Source: the own ideas outlined above

6. Conclusion

“Social CRM is a philosophy and a business strategy, supported by a technology platform, business rules, processes and social characteristics, designed to engage the customer in a collaborative conversation in order to
provide mutually beneficial value in a reliable and transparent business. It's the company response to the customer’s property on the conversation.”

The need for a restructured CRM, for a Social CRM, assumes the existence of customer fundamentally different paradigm. This means that not only historical and operational capabilities based on CRM transactions must enter the game – but the social features, too - functions, processes and the specific characteristics of interactions between the client and his colleagues, and between the client and the company with suppliers and partners. Everything, including the technologies and related systems need to support the strategies that companies need to address when it comes to customers.

Table 1 gives us a quick comparative analysis of the differences between traditional CRM and Social CRM.

**Table 1 Fast comparative analysis of the differences Traditional CRM vs. Social CRM**

<table>
<thead>
<tr>
<th>Traditional CRM</th>
<th>SCRM</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Definition:</strong> CRM is a philosophy and a business strategy, supported by a system and a technology, designed to improve human interactions in a business environment</td>
<td><strong>Definition:</strong> Social CRM is a philosophy and a business strategy, supported by a system and a technology, designed to engage the customer in a collaborative interaction that confer benefits in a mutually beneficial business environment of trust and transparency</td>
</tr>
<tr>
<td><strong>Tactical and Operational Customer Strategy is part of corporate strategy</strong></td>
<td><strong>Customer Management strategy is itself the corporate strategy</strong></td>
</tr>
<tr>
<td><strong>Relationship between company and customer has been seen as a parent – child, in a broader context</strong></td>
<td><strong>Relationship between company and client is seen as a collaborative effort. And yet, the company must remain firm in all other aspects</strong></td>
</tr>
<tr>
<td><strong>The focus is on the company's relationship with the customer</strong></td>
<td><strong>The focus is on all the relationships (between the company, suppliers, business partners, customers) and in particular on the identification, recruitment and activation of all “nodes of influence”</strong></td>
</tr>
<tr>
<td><strong>The company aims to lead and shape the opinions of customers about products, services, and company-client relationship.</strong></td>
<td><strong>The client is seen as a partner from the beginning in the development and improvement of products, services and company-client relationship</strong></td>
</tr>
<tr>
<td><strong>Focus on products and services that satisfy customers</strong></td>
<td><strong>Focus on the atmosphere and experience that can engage customers</strong></td>
</tr>
<tr>
<td><strong>Customer facing features - sales, marketing and support.</strong></td>
<td><strong>The customer faces both features and the people dealing with the development and delivery of these features</strong></td>
</tr>
<tr>
<td><strong>Marketing focused on processes of improved, specific, corporate messages sending to customer.</strong></td>
<td><strong>Marketing focused on building the relationship with the customer - customer engagement in activities and discussions, observing and directing</strong></td>
</tr>
<tr>
<td>Conversations and activities among customers</td>
<td>Intellectual property is protected by all legal powers available</td>
</tr>
<tr>
<td>---------------------------------------------</td>
<td>---------------------------------------------------------------</td>
</tr>
<tr>
<td>intellectual property is created and held together with the customer, partner, supplier, etc.</td>
<td></td>
</tr>
<tr>
<td>Good knowledge and efficacy were performed optimally on a single customer view (of his data) on all channels by those who needed to know.</td>
<td>Effectiveness is a much more dynamic and is based on: 1) customer data 2) personal customer profiles on the web and social characteristics associated with them; 3) client participation in the activity</td>
</tr>
<tr>
<td>Reside in a business ecosystem, customer focused</td>
<td>Resides in a customer ecosystem</td>
</tr>
<tr>
<td>Technology is focused around operational aspects of sales, marketing, support</td>
<td>Technology is focused both on the operational aspects and social interaction</td>
</tr>
<tr>
<td>Instruments associated with automation functions</td>
<td>Integrate social media tools in applications / services: blogs, wikis, podcasts, social networking tools, content sharing tools, user communities</td>
</tr>
<tr>
<td>mostly uni-directional</td>
<td>always bi-directional</td>
</tr>
</tbody>
</table>

Source: CRM 2.0 Wiki

REFERENCES


ABSTRACT. Global business sectors are characterized by competitors who operate globally. Except the United States, companies and governments in the country of origin should be considered together when one resorts to competition analysis. Between companies and governments in their countries complex relationships are been established, involving various forms of regulation, subsidies and other forms of assistance. Governments of countries of origin were often targets of such employment and balances of payments, which are not strictly economic, viewed from the perspective of the firm. Sectoral policy objectives of government can set up companies, providing funds for research and development and, in many respects, the influence of their position in global competition. Origin country governments can negotiate the home for business in global markets (e.g. construction of complex aircraft production), financed by central bank sales (agricultural products, products for defense, ships) or apply political leverage to defend the other self-interested ways. In some cases, the government is directly involved in the company that owns, partially or completely, the firm. A consequence of this support could be to increase exit barriers.

**JEL Codes:** D40; F10

Keywords: environment; companies; competition analysis; firm

1. Introduction

Certainly the concept of competition has been and will be a challenge for all students in economic environment in general and business activity in particular. The essence of strategy formulation is the approach to
competition. But it is easy to consider competition in a too narrow and too pessimistic way. Fierce competition in an industry is neither a coincidence nor luck, although managers complain of the opposite (P. 2008: 23).

From the perspective of competitive environment, both economic theory and practice have shown and demonstrated that there are many factors that influence it in different proportions, in its analysis and operating mechanisms.

2. Analysis of Global Competitiveness Index

Worldwide, according to The Global Competitiveness Report, three main areas of analysis with different degrees of impact on the global competitiveness index analysis are considered. They are:

1) **Basic requirements** with a share of 40%;
2) **Efficiency promoters** with a share of 50%;
3) **Innovation and diversification** factors accounting for 10% of the total index of competitiveness (TGCR. 2011: 304).

Definitely, in analyzing these indexes, the factors disseminating is the best form for understanding the concept of competitiveness from a practical perspective. Thus, in the first factor (“basic requirements”) the most important elements are: institutions, infrastructure, macroeconomic environment, health and primary education.

A summary approach of the institutional components must emphasize that we can not fail to notice some of them that could cause fluctuations in the competitive environment and determine mechanisms in terms of competitive potential. Such ownership or intellectual property protection is the foundation of development and gain competition in a market economy. On the other hand, misappropriation of public funds, bribery, mistrust in politicians and public institutions, irregular payments made by businesses in turn causes a negative impact on the competitive environment. Addressing these elements in a more transparent and lucid perspective, it would certainly lead to an increase in firms’ competitive potential and, why not, an increase in national competitive advantage. We can not tackle this analysis without taking into account the involvement of government action that from the point of view of specialists can investigate issues of favoritism in decision of government officials, in wasteful government spending and regulatory burdens of government. Of course, transparency of government policies reflects an important component in assessing and strengthening the competitive environment. The latter can be directly influenced (from an institutional perspective) both positively and negatively by the efficiency of the legal framework in settling disputes, the efficiency of the legal framework of regulations and laws that govern the country and the economic
costs of terrorism, organized crime or violence. Finally, it must be shown that competitive environment can be analyzed and evaluated on the one hand in terms of judicial independence, of the ethical behavior of firms, and on the other hand in terms of auditing and reporting standards, the effectiveness of companies boards, the protection of minority shareholders and not least, the power or strength of investor protection. It appears that this complex competitive environment is determined decisively by the institutional component that leaves its mark in the development and capitalization of potential competition.

Another component of factor analysis (requirements) is the basic infrastructure. We address its analysis primarily based on what the quality of general infrastructure means on main parts, namely: quality of roads, rail infrastructure, port, air, etc. Not to be neglected in this approach to infrastructure is the quality analysis of electricity supply systems, systems of landline or mobile telephony. It is considered that this infrastructural component causes a strong influence on competitive environment, leading to an increased competitive potential, attracting investors in economy and of course an increase in macroeconomic indicators.

Regarding the macroeconomic environment, several particularly important factors are highlighted, with direct impact on competitive environment, namely the balance of government spending on the one hand, and economies of scale on the other. Interest rates and inflation should be highlighted, too, of course. Given the high rates, the environment becomes unstable and less attractive to competitors, since both high stability and competitive economic system are to be desired. Public debt and the rating of the country are also important factors in making fundamental decisions on the competitive potential and evaluation.

The last part of the basic requirements in terms of environmental factors is health and primary education. Certainly, in this context, one can address issues of population health impact on the economic environment and hence on the competitive environment. In the developed countries and not only, indicators such as life expectancy and mortality are items that are closely supervised and monitored. In terms of quality of primary education and the degree of education at this level, we can say that they represent factors with direct influence on the development and future competitive environment.

### 3. The Promoters of Efficiency

As regarding the efficiency promoters, we must mention the most important components factors of this relevant category in developing competitive environment. Thus, higher education and training, goods market efficiency, labor market efficiency, financial market development, technological
training, market size are the most important elements in the analysis of the competitive environment on the one hand, and the competitive potential on the other.

Therefore, addressing higher education and vocational training should take into account factors such as level of education in secondary and higher education. Given that the quality of learning and the educational system on the one hand, and the quality of management education on the other hand, depend on the results of that work in the business, we can say that competitive environment by representatives of the involved companies is directly dependent on these determinants. Access to research and training programs, facilities related to internet and to training degree of personnel, both reflects factors that characterize competitive environment in terms of both direct and indirect perspective.

For a meaningful analysis we can address the question of market efficiency goods. In this sense it can be analyzed some very important elements for their scale and impact that they have on the competitive environment. Some of these factors are related to the intensity of local competition, the degree of dominance of the market and the effectiveness of anti-monopoly policy. Another part is made of the extent and effect of taxation and the taxation rate. Certainly the competitive environment is directly affected by the ways and forms of taxation as their size and number depend on the investment decisions and strategies concerning economic development activities of companies both nationally and internationally. From this aspect we should highlight other 2 factors with direct feedback, such as the number of days required to develop a business, and also the number of procedures required to start a business. Looking forward to goods market efficiency issue from a competition perspective, we cannot address the topic of trade barriers and tariffs. Trade barriers are trade policy instruments that affect imports and exports (G & G, 2009: 109). Then, another determinant factor is the business impact on rules regarding FDI. If the pressure is higher in this point of view, the rules volatility suffers more. Also, the burden of customs procedures and import levels affect directly and decisive competitive environment. Finally, the degree of customer orientation and the level of diversification of buyers in analyzing competitive potential must be analyzed.

In terms of labor market efficiency it must be emphasized that cooperation plays a decisive role on employee-employer relationship. In a stable competitive environment this factor is crucial and very important. It can be said that flexibility in terms of how wages are set and hiring and firing practices of employees are essential factors in the analysis of labor market efficiency. In another vein, assessing the effectiveness of this market should take into account the relationship between labor productivity and wages, cost of firing employees and confidence in professional management.
It should also be mentioned the index on the relationship between women and men in the labor market and not least, the rigidity of employment index in the labor market as competitive factors in the analysis of environmental factors.

Researching further the efficiency promoters in understanding the competitive environment has highlighted an important financial market development. Definitely, financial market is actually a factor in the development of an efficient and attractive business environment. Therefore, the components that make up this factor are the availability of financial services on the one hand, and accessibility on the other. Competitive environment can be directly influenced by the way in which firms can have market access of financial services to what on the one hand leads to business financing through local equity market, and on the other hand facilitates access to credit where need. It should be noted that financial market development in terms of competitive environment is related to the risk propensity of the actors in the market and not at least the banking system soundness. It can be also noticeable that financial market legislation is an important pillar with regulations on this market activity correlated with competitive mechanisms.

Technological preparation is a component factor of efficiency. Certainly, technology is behind all major changes in economic activity. Technical progress is a key issue in economic cyclicality. Thus, competitive environment is influenced by companies’ access to the latest technology in the market and also by the absorption of technological perspective that competitors can touch. An important link can be made between the level of foreign direct investment and technology transfer. A high level of foreign investment would certainly lead to a transfer of technology and know-how in order to stimulate enough competition in the environment, or at national economy level. Competitive perspective would not be neglected, and also indicators on the number of Internet users and the number of Internet subscribers, given the fact that economic development is dependent on technological preparation of competitors. Any business requires a large number of technologies. All firms do require a certain type of technology, even if it appears that one or more technologies dominate product or production process. The importance of technology for competition does not depend on its scientific value or importance in achieving distinctive physical product (P. 1998: 167).

A final pylon in assessing the effectiveness of the competitive environment is the market size. In this respect, one can appreciate the size of the internal market on the one hand, and on the other the foreign market size. Coexistence of large, modern enterprises of international dimension with a vast network of SMEs in most cases generate partnerships through a
complex system of subcontracting in increments known as economic dualism (G & G, 2009: 102).

4. Factors of Innovation and Diversification

To emphasize the last part of the global competitiveness index we should highlight the factors of innovation and diversification. They are composed of two pillars that characterize business diversification on the one hand and the degree of innovation on the other.

Regarding the first element, i.e. business diversification, in its analysis we can highlight some key elements of major relevance in influencing competitive environment. The number of bidders and their quality is a factor worthy of consideration in the analysis of diversification. Another element is the development of the organization as this factor in the competitive environment may cause competitive advantage gain. Also the nature of competitive advantage is in turn a factor influencing competitive environment. In this analysis it is worth highlighting the value chain width given that it comprises several components such as internal component, operational component, external component, etc. However, if we mentioned the external component, we can draw attention on the control of international distribution as a determining element in the competitive environment research. Diversification approach can also be considered the “sophistication” of the market itself and the extent to which marketing activity is involved and how to delegate authority would boost the competitive environment perspective.

The last pillar of innovation and diversification factors evaluation is the right innovation. So what should be stressed in this regard relates to the innovative capacity of companies and to the quality of scientific research institutions. The innovation lies in the company’s expenses and research and development. Of course, an increase in expenditure in this sector would lead to an increase in innovation. Another aspect of the innovation pillar is the level of collaboration between universities and industries and companies in terms of research and development. Also, government involvement is particularly important in promoting innovation in economic activity. Thus, increasing government spending in the procurement of high-tech products is an engine of competitive environment development in that country. Finally, an important role in supporting this pillar is the availability of scientists that can cause the innovation activity development on the one hand and the number of patents for innovation on the other.

Competition is no longer limited to the company against company but rather supply chain against supply chain. Chain partners are members of the same team that attempts to optimize value. If one removes another chain the
members beat all fail. The members of a chain cooperate better with each other, the more they will be more competitive against rivals. This is a different vision of a broader partnership and the company itself (F et al., 2009: 69).

5. Conclusion

Thus, we conclude that the role of competitive environment is particularly important for economic development as it develops competitive potential on the one hand and, the efficiency of the market players on the other. With a strong market competition, stakeholders will demonstrate that effectiveness can be evaluated and measured against what each economy has achieved national or international.

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*** The Global Competitiveness Report 2011
PARTICIPATIVE MANAGEMENT EVALUATIONS FROM MANAGERS’ PERSPECTIVE IN ROMANIAN COMPANIES

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ABSTRACT. In this paper we propose to evaluate the current state of participative management in Romanian companies. In order to achieve that we used a questionnaire to evaluate managerial functions and we applied it in four Romanian companies.

JEL Codes: M52

Keywords: manager; leadership; participatory management; performance

1. Introduction

The strong expansion of participative management in some developed countries has led us to explore participatory management in Romanian companies, to identify the progress and extent of its forms and, especially, to make an assessment of the state of mind of the company, to see whether it favors or hinders the development of this type of management.

2. Participative Management

Romanian literature (Nicolescu, 2002) draws attention to the duties, powers and responsibilities of participatory management bodies. According to this distinguished author, there are a number of advantages and limitations of participatory management of these bodies:

- Increasing the overall level of information of employees vs. the great time spent in consultation and employee participation at meetings;
- Increasing any based decisions vs. decreasing the efficiency of solving problems;
- Increasing the number of employees in setting and achieving goals vs. amplifying the preparation costs of meetings, material multiplication costs and transportation costs of people who make up participatory bodies, etc.

Foreign literature (Gelinier, 1993) draws attention to other shortcomings of joint stock companies: in the past shareholders were rather incompetent and absent; 25 years ago it came to light a genuine business run by professional managers. Therefore, protection of capital control by the company became a major requirement of any thoughtful leadership that wishes to master long-term economic and social destiny.

Participative management does not mean only participatory management bodies. They refer only to top business management decision. But participative management does not refer only at this aspect, it refers to all levels, down to the lowest level, i.e. at work. According to our definition of participative management, it relates not only to decision, but it also has different functions such as: control, communication, goal setting, motivation etc. Thus, participative management refers to the executive team, as well: in order to achieve the objectives the team combines the new style of designing work with work performance, physical work with intellectual work in a team, contrary to the practice of separating them, typical to great Taylor.

This latest aspect of participatory management is today, after the experience of developed countries such as Japan, the main form of affirmation in terms of the knowledge. It is, therefore, natural that, in addition to other forms of participation, to pay most attention just to this non-Taylorist management system (participatory) and to the forms that it takes; the routes and factors stimulate or impede the emergence and development of participatory management in our country to the full extent that this management system experienced in other countries.

2.1 Participative Management in Romanian Companies

The first step in assessing the degree of penetration of the variety of forms of participatory management in Romanian companies is offered by the “Assessment questionnaire for managerial functions,” which we applied in four companies, named X, Y, Z and Q. The number of managers who completed the questionnaire is presented in the following table:

<table>
<thead>
<tr>
<th></th>
<th>X</th>
<th>Y</th>
<th>Z</th>
<th>Q</th>
</tr>
</thead>
<tbody>
<tr>
<td>The number of managers who completed the questionnaire&lt;sup&gt;3&lt;/sup&gt;</td>
<td>2</td>
<td>10</td>
<td>2</td>
<td>3</td>
</tr>
</tbody>
</table>

<sup>3</sup>middle level managerial personnel
Summary results of the questionnaire data processing for the four companies and the four quadrants (cases) reflecting an authoritarian management (quadrant 1 and 2) and a more cooperative, more democratic management (quadrants 3 and 4) are presented for the first time in the analysis and shown in the table below:

Table 2. Distribution of answers given by the interviewees on the 4 quadrants and in the 4 companies

<table>
<thead>
<tr>
<th>Quadrant 1</th>
<th>Quadrant 2</th>
<th>Quadrant 3</th>
<th>Quadrant 4</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total responses for the four companies</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Absolute value</td>
<td>51</td>
<td>66</td>
<td>85</td>
<td>86</td>
</tr>
<tr>
<td>Relative value</td>
<td>0.18</td>
<td>0.23</td>
<td>0.29</td>
<td>0.30</td>
</tr>
</tbody>
</table>

The data reflect the global distribution of responses in all 4 quadrants. But it is not difficult to notice that the preponderance of responses is concentrated in the last two quadrants (3 and 4), or nearly 60%; the difference of 40% is placed in the first two quadrants. This distribution leads to the conclusion that in the four companies, taken together, we can speak of a preponderant modern, democratic, and participatory management.

Table 3. Distribution of responses on the 4 quadrants and each company

<table>
<thead>
<tr>
<th>Quadrant</th>
<th>X</th>
<th>Y</th>
<th>Z</th>
<th>Q</th>
<th>Total answers</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>-</td>
<td>0.18</td>
<td>0.26</td>
<td>0.19</td>
<td>0.18</td>
</tr>
<tr>
<td>2</td>
<td>-</td>
<td>0.24</td>
<td>0.18</td>
<td>0.29</td>
<td>0.23</td>
</tr>
<tr>
<td>3</td>
<td>0.21</td>
<td>0.29</td>
<td>0.30</td>
<td>0.31</td>
<td>0.29</td>
</tr>
<tr>
<td>4</td>
<td>0.79</td>
<td>0.29</td>
<td>0.26</td>
<td>0.21</td>
<td>0.30</td>
</tr>
</tbody>
</table>

The note occasioned by these calculations is less than the aggregate net, and it only reflects the existence of a participatory management in company X, the whole (100%) concentrated in quadrants 3 and 4, i.e. 20% in quadrant 3 and 80% in quadrant 4. No answer for this company is dedicated to quadrants 1 and 2.

In contrast, other companies, (Z, Q and Y), without the prior conclusion, evade the preponderant character (up to 60%) of responses in quadrants 3 and 4; specifically, participatory management does not tell us anything other than that 42%, 44% and 48%, or almost half of the responses are placed in quadrants 1 and 2, reflecting that the management of these companies still belongs to a large extent to the classic, authoritative type.
This conclusion, relatively new, can be more thorough if we decrease the global nature of the responses of each company, introducing their separate managerial components (manager, motivation, communication, decision making, goal setting and control).

Table 4. Distribution of responses on the 6 managerial components within each of them, on the company and on the 4 quadrants

<table>
<thead>
<tr>
<th></th>
<th>Quadrant 1</th>
<th>Quadrant 2</th>
<th>Quadrant 3</th>
<th>Quadrant 4</th>
<th>Total (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Manager</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>X</td>
<td>-</td>
<td>-</td>
<td>0.67</td>
<td>0.33</td>
<td>1.00</td>
</tr>
<tr>
<td>Y</td>
<td>-</td>
<td></td>
<td>0.50</td>
<td>0.50</td>
<td>1.00</td>
</tr>
<tr>
<td>Z</td>
<td>-</td>
<td>0.11</td>
<td>0.56</td>
<td>0.33</td>
<td>1.00</td>
</tr>
<tr>
<td>Q</td>
<td>-</td>
<td>-</td>
<td>0.50</td>
<td>0.50</td>
<td>1.00</td>
</tr>
<tr>
<td>2. Motivation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>X</td>
<td>-</td>
<td>-</td>
<td>0.17</td>
<td>0.83</td>
<td>1.00</td>
</tr>
<tr>
<td>Y</td>
<td>-</td>
<td></td>
<td>0.50</td>
<td>0.33</td>
<td>1.00</td>
</tr>
<tr>
<td>Z</td>
<td>0.63</td>
<td>0.37</td>
<td>-</td>
<td>-</td>
<td>1.00</td>
</tr>
<tr>
<td>Q</td>
<td>-</td>
<td>0.26</td>
<td>0.37</td>
<td>0.37</td>
<td>1.00</td>
</tr>
<tr>
<td>3. Communication</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>X</td>
<td>-</td>
<td>-</td>
<td>0.13</td>
<td>0.87</td>
<td>1.00</td>
</tr>
<tr>
<td>Y</td>
<td></td>
<td></td>
<td>0.25</td>
<td>0.13</td>
<td>1.00</td>
</tr>
<tr>
<td>Z</td>
<td>0.08</td>
<td>0.25</td>
<td>0.42</td>
<td>0.25</td>
<td>1.00</td>
</tr>
<tr>
<td>Q</td>
<td>0.30</td>
<td>0.25</td>
<td>0.35</td>
<td>0.10</td>
<td>1.00</td>
</tr>
<tr>
<td>4. Decision</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>X</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1.00</td>
<td>1.00</td>
</tr>
<tr>
<td>Y</td>
<td></td>
<td></td>
<td>0.50</td>
<td>0.50</td>
<td>1.00</td>
</tr>
<tr>
<td>Z</td>
<td>0.67</td>
<td>0.33</td>
<td>-</td>
<td>-</td>
<td>1.00</td>
</tr>
<tr>
<td>Q</td>
<td>0.50</td>
<td>0.50</td>
<td>-</td>
<td>-</td>
<td>1.00</td>
</tr>
<tr>
<td>5. Goals</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>X</td>
<td>-</td>
<td>-</td>
<td>0.25</td>
<td>0.75</td>
<td>1.00</td>
</tr>
<tr>
<td>Y</td>
<td></td>
<td></td>
<td>0.25</td>
<td>0.50</td>
<td>1.00</td>
</tr>
<tr>
<td>Z</td>
<td>0.16</td>
<td>0.17</td>
<td>0.50</td>
<td>0.17</td>
<td>1.00</td>
</tr>
<tr>
<td>Q</td>
<td>0.15</td>
<td>0.55</td>
<td>0.05</td>
<td>0.25</td>
<td>1.00</td>
</tr>
<tr>
<td>6. Control</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>X</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1.00</td>
<td>1.00</td>
</tr>
<tr>
<td>Y</td>
<td>0.17</td>
<td>-</td>
<td>0.33</td>
<td>0.50</td>
<td>1.00</td>
</tr>
<tr>
<td>Z</td>
<td>0.22</td>
<td>0.11</td>
<td>-</td>
<td>0.67</td>
<td>1.00</td>
</tr>
<tr>
<td>Q</td>
<td>0.23</td>
<td>0.33</td>
<td>0.41</td>
<td>0.03</td>
<td>1.00</td>
</tr>
</tbody>
</table>

The responses of the four companies, where data differ depending on components and management, are the following:
- The component manager: all firms reflect the same behavior, concentration of responses in quadrants 3 and 4. In this situation, the total membership of a participative management is not just company X but Z, Y and even Q;
- They tend to disagree that, together with the first component (manager), they are all essential parts of management: motivation, but especially communication, setting goals and monitoring the correlated
responses in quadrants 3 and 4 of specific participatory management, they are attracted like a magnet to the quadrants 1 and 2 of the other specific type of management: classic, authoritative;

- In the decision component, only company X is in perfect correlation with total membership of participative management. For other companies: Z, Q and Y, total disagreement is that all responses are concentrated at the other end of the quadrants 1 and 2 at 100%.

Larger disagreements will occur if we remove the foreground managerial variables of each of the 6 components for all 4 companies. Thus, we constructed the chart below for each firm; quadrant 4 (gray) is one which focuses almost on ideal characteristics of participatory management. Outputs are represented by the shaded column of approximation, polarization or they even overlap with features of genuine authoritarian, classic management.

This time the graphs do not have to deal with global data at the firm level or management component, but with disaggregated data at their original level, i.e. managerial variables.

Even at company X you can note that all 3 variables are outside manager quadrant 4, (gray) shaded; the output is from an isolated case but for only 3 of the variables of other components.

Table 5. Quadrants specific to various types of management

<table>
<thead>
<tr>
<th></th>
<th>X</th>
<th>Y</th>
<th>Z</th>
<th>Q</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Manager</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>How much trust is given</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>How free they feel that they can talk to superiors about their work</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>How big the cooperation and the team spirit are</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Motivation</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>What prevails: 1.fear; 2.threat; 3.punishment; 4.award 5. involvement</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Where it feels great responsibility</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>How often constructive feedback to subordinates is examined and used</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
3. Communication

<table>
<thead>
<tr>
<th>What the usual direction of information flow is</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>How communication is accepted from top to bottom</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>How accurate bottom-up communication is</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>How well superiors know subordinates’ problems</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

4. Decision

<table>
<thead>
<tr>
<th>At what level decisions are taken</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Subordinates are involved in decision making concerning their work</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

5. Goals setting

<table>
<thead>
<tr>
<th>How we set goals</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>What resistance the objectives meet</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

6. Control

<table>
<thead>
<tr>
<th>How the functions of control are focused</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>There is an informal organization that opposes the formal one</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>What data are used to control cost, and productivity</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

For the other three companies, the shaded parts exit (columns 4), however, massive, relatively more variables than X neighbor are placed in quadrant (3). Surprisingly, many variables are placed in the second and fist quadrant. And here, we can ask, with much justification: if they have participatory management in these three companies, why the managerial components of most decisive variables are not correlated in quadrant 4? If the variable component manager reveals how to see a friendly atmosphere and close teamwork between managers and subordinates,
focusing in quadrant 4 and even 3, why not spend the same concentration for variables of other components, too? Conversely, excluding the company known as X, many variable components of motivation, communication, goal setting, control and, particularly, decision lie in quadrants 2 and 1.

Distribution rules almost all components of the responses for the variables in terms of all quadrants, which rather entitles us to conclude that, actually, in these three companies we are not dealing with participative management, but essentially with classic authoritarian management.

This, despite all appearances, is true for company X, i.e. for all four companies. Respondent subjects from this company seem not to be seduced by the practice of participative management in a company, but by the new theory of it. Furthermore, all respondents from all the four companies could not understand by now that participatory management in the firm involves a series of organizational changes like, for instance: decentralization, redefinition of job descriptions by which to reduce or eliminate the separation between conceptual work and physical labor, to achieve job descriptions in order to increase motivation and involvement, employment and household spirit, creative and innovative teams, and also individual work.

Only when this redefinition of job descriptions occurs in the company, we can talk about the possibility of participatory management of each substantial component or of the vast majority of variables, that is only when variables of other management components will really move in quadrant 4 or nearby, in quadrant 3.

3. Conclusion

The fact that the four companies that we have dealt with prove to share a rather authoritarian, classic type of management is not wrong, because under such firms, anywhere, especially in North America, good performance can still be achieved. Unfortunately, our regret lies primarily in the fact that in Romanian companies this type of management is not mastered and applied at the appropriate level of performance comparable to firms in other countries. Finally, our regret stems from the finding and conclusion that, although most companies in our country have increasingly defined it, they have not yet stepped towards authentic participatory management.

REFERENCES

THE IMPROVEMENT OF THE SATISFACTION EVALUATION PROCESS OF GRADUATES FROM THE FACULTY OF FINANCIAL ACCOUNTING MANAGEMENT CONSTANTA, SPIRU HARET UNIVERSITY

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ABSTRACT. The process chosen by our team is called satisfaction survey. To optimize this process, we examined how this procedure is currently conducted and proposed the establishment of a special department to monitor the labor market insertion of graduates at the Spiru Haret University, namely the Faculty of Financial Accounting Management Constanta.  

JEL Codes: I23; F16

Keywords: process; evaluation; database; graduates

1. Introduction

The mission of the Faculty of Financial Accounting Management Constanta, Spiru Haret University, is to shape and refine highly qualified specialists in economics.

However, this task involves taking responsibility in the development of scientific research in the field of administration and management of socio-economic organizations. Through all this we want to create an educational and research environment for students and teachers favoring creativity and innovation, communication, collaboration and achieving high performance and also to develop scientific staff that could strengthen our economic position in the Romanian higher education and ensure visibility at European level.
To achieve its mission, the Faculty of Financial Accounting Management Constanta assumes a fundamental strategic objective: “Training, training and training of future economists up to the European and global demands of scientific research and development in economy in general, and theory and practice management in particular.”

The specific objectives are focused on:

- **a)** Ensure continuous improvement of quality of education;
- **b)** Conduct a scientific research and effective performance;
- **c)** Ensure efficient infrastructure - a prerequisite for successful business;
- **d)** Turn students into faculty partners and beneficiaries in the process leading to science education;
- **e)** Maintain good relations with the faculty as a socio-economic environment and analyze its changes permanently.

To achieve its mission, the general and specific objectives, at the Faculty of Financial Accounting Management Constanta premises are created to equip these students with theoretical knowledge and practical skills which enable them to successfully face the challenges of economic and social life changing. These are:

- **a)** The level of performance achieved at Spiru Haret University, all faculties in general and that of Financial Accounting Management Constanta in particular;
- **b)** National and international context of development of higher education;
- **c)** Establishment of the following basic principles:
  - coverage, i.e. the formation of a qualified economic and social system, a system that will function in a knowledge society with a market economy integrated and globalized;
  - quality of knowledge, namely the production and transmission of knowledge for a dynamic company that is based increasingly on knowledge and technologies and, therefore, on highly skilled individuals;
- **d)** Efficiency - effectiveness by promoting a centered performance management.

The premises, from which the Faculty of Financial Accounting Management Constanta starts in the current context, nationally and internationally, can be decisive factors for its sustainable settlement among the faculties functioning in Romanian higher education.

The mission of education and research undertaken, the program coordinates within the overall mission of Spiru Haret University to prepare the future economists, and to conduct continuing education programs and scientific research in economics.

### 2. Process Identification

a. Description of the procedure alumni satisfaction survey

The procedure of graduate satisfaction survey is part of the quality processes and procedures found in the Quality Manual as the P 703.
b. Scheme of the unimproved process

1. Setting up the sample

2. Survey organization:
   - establish the responsible persons
   - prepare the questionnaires
   - program the distribution of questionnaires

3. Data collection:
   - by phone,
   - by internet,
   - through visits to organizations and direct interviews,
   - by filling in the forms given by the faculty delegate or directly by the interviewee

4. Centralization of data

5. Entering and processing data using SPSS software

6. Preparing the evaluation report

START
3. The Process Analysis to Identify the Problems

3.1. The Cause-Effect Method

The Cause-effect method is an analysis tool that provides a systematic way of looking at the effects and causes that contribute or lead to these effects.

This tool has the following main objectives: Determining the root causes of a problem; Focus on a specific problem; Identify areas with insufficient information. In the analysis of graduates’ satisfaction evaluation process, we identified a number of problems: Small number of respondents to the questionnaire; Multiple errors occurred during data collection; and Multiple errors occurred during the data processing.

3.2. Methods of Improving the Process

- Establishment of a monitoring department on the insertion of graduates into the labor market constituted as a special department at university, college and who have clear responsibilities in the evaluation of graduates’ satisfaction;
- Establishment of a comprehensive database on specializations for each class graduates
- Strengthening partnerships between universities and public and private institutions in the field, potential employers of graduates
- Introduction of process performance indicators such as: a quantitative level of the sample; the quality of data collection; and the quality of data processing.
4. The Improved Submission Process

START

1. Establishment of the department

2. Organize the database of graduates
   - database creation
   - data-entry of graduates
   - annual update of database

3. Data collection for all database:
   - by phone,
   - by internet,
   - through visits to organizations and direct interviews, by filling in the forms given by the faculty delegate or directly by the interviewee

Correct completion?

END

1
3. Conclusion

The socio-economic context, affected by the economic crisis and the world dominated by globalization, requires a new orientation, approach and positioning of higher education in Romania and in general, on all European Union countries.

One of the most important elements that define and determine the economic competitiveness of a country is the level of training of the workforce.

The project wishes to strengthen university relations with the economic environment and improve the quality of students’ training which corresponds to a
greater extent to the current labor market requirements; in addition, our project could help at diminishing the difference between academia and the private sector.

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STRATEGY OF PROTECTION OF THE BLACK SEA
IN THE PORT OF CONSTANTA

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Spiru Haret University, Constanta

ABSTRACT. In Constanta port and in the areas around it, more than 250 economic agents develop their activity, among which 230 in Constanta Port, the rest of them in Midia and Mangalia ports. Port activity, as other industrial activities, generates pollution, perturbing all environmental factors: air, water, soil and subsoil. This paper is the result of the studies conducted during the elaboration of the Ph.D. thesis entitled Studies Concerning the Impact of Industrial Activities on Areas with Touristic Potential. [1] A part of this research also refers to the activity from Constanta port. The measures for protecting the Black Sea presented in this paper are the results of some previous studies. Thus, the economic agents which act in the area of Constanta port: Have been classified according to the type of activity, the origin source of pollution, and the type of pollution produced; Have received a questionnaire, through which we have studied their attitude toward the use of harmless technologies, but also the investments distributed for the environmental protection; Leopold Matrix has been realized. As a result of these studies that will be shortly presented in this paper, we could identify the measures that can be adopted for the protection of the Black Sea in the port area.

JEL Codes: H32

Keywords: pollution; investments; protection policies; horizon of achievement; results

1. Introduction

Constanta port began its evolution more than 2,500 ago as a natural port. As V. Ciorbea (1994) shows [2] “The aborigines, known from ancient historical sources under the name of Getae, used the bays and the basins created by Constanta isle.” However, the underwater archaeological surveys conducted between “Poarta no. 1” and the area on the left of the Casino, have not certified the existence of some port rehabilitation during that period. We should notice the fact that all archaeological relics discovered in that period until the 2nd century BC, are situated outside the current area of Constanta port.
Within different levels for modernizing the port developed until 1939, constructions that today have patrimony value have been built, namely: “Carol the 1st” Lighthouse, The Royal Pavilion, The Old Silos, The Maritime Station or The Old Stock.

Constanta port evolution is closely related to the history of Dobrogea, starting with the beginning of the 20th century in the history of Romania, it became as Cotovu V. (1928) and Roșculeț M. (1939), showed [3.4.] “From a small shelter, extended with a 200 m length mole, ... with few railways and grain stores in 1878, Constanta port becomes a real communication “gate” between Romania and Europe and between Romania and the World. From an insignificant port, bearing the old times seal, Constanta could be compared with the great European ports, overcoming Trieste, Piraeus, Venice, and being on the same level with Marseille in 1934."

Constanta port was created with the specific purpose to assure Romania’s export and import during the entire year, and after 1906 to capitalize the Romanian oil. Great financial efforts from the Romanian state were necessary, so that, from 1896 until 1916, 69,778,940 lei in gold (almost 2 billion lei) were invested in constructions and port facilities. In spite of all the efforts made, the construction works projected in the general plan could not be entirely achieved; mostly because of the international events (the Balkan wars, the World War I), but also because of the internal ones (political or economic crises until 1916).

Because large tonnage ships needed to harbor in the port, the solution to extend the port toward south was chosen. The building of new basins and port areas began in 1960. The project stated that, within a period of twenty years, the existing structures would be extended with an enclosure of 523 ha, with five piers and seven basins - three of these with oil destination -, breakwaters with a total length of 5,334 meters, an access canal 14.5 meters deep, resized berths for large tonnage ships. Begun in 1963, the constructions at the new port finalized according to the project in four steps, in such a way that, in 1982, Constanta port reaches a surface of 16 nautical miles,² with open roadstead, traffic capacity calculated at 67,000 thousand tons, berths from 8.25 meters to 14 meters deep and with an operation capacity of 65,000 DWT (deadweight tonnage) for dry products, 90,000 for oil products, and in the south area, up to 150,000 DWT for the same products.
2. The Activity of Constanta Port Nowadays

Through the new port (Figure 1), actually a major expansion of that already existing, with a surface 3.5 times larger and an operation capacity four times bigger, the rational use of the perimeter was traced, as well as the assurance of efficient links between the fluvial, sea basins and the Danube - the Black Sea Canal. By building this canal, it became possible for both sea-going vessels and fluvial vessels to harbor in Constanta port, the merchandise being transported and transshipped in fluvial barges, heading to Central Europe on the Danube.

The free area was designed in the south of the canal opening area, an investment of large proportions approved in 1985; that investment was going to be accompanied by a 5000 meters extension of the dams and by the building of a unique access way capable to assure the ships direct circulation toward the port basins. After the events of December 1989, the projects of great importance that were developing at the time or were about to be developed, have been analyzed, modernized, rethought and echeloned.

2.1 Large Operators from Constanta Port

Constanta port disposes of specialized terminals for the operation of any type of merchandise. Bulk, solid and liquid goods, equipment and heavy machineries can be efficiently handled.

*Liquid bulk terminal.* Liquid bulk merchandise is transshipped on barges to different European destinations or transported through pipes in hinterland. The pipes network connects the port with the main refineries in the country, assuring a fast and safe transport. Large companies that operate in this terminal are OIL TERMINAL (over 9,782 thousand handled tons) and
ROMPETROL LOGISTICS SUC. TRANSPORT CONSTANTA (over 11,230 thousand handled tons). The oil terminal is equipped with the most modern and efficient facilities for pollution prevention and fire extinguish.

Solid bulk terminal. Constanta port is one of the main centers of solid bulk terminals in Europe. The fact that the port of Constanta is equipped with great storage capacities, the quays infrastructures with depths up to 17.6 m, as well as having the best facilities of south-eastern Europe, make this port a transit center for solid bulk merchandise. The main handled merchandise is: ores, coal, coke, chemical fertilizers, urea, phosphates, cement, and cereals. The ores terminals operate: ores, bauxite, coal, and coke. The main economic agents that operate in these terminals are COMVEX (over 4900 handled tons) and MINMETAL (over 653 thousand handled tons).

RO-RO/FERRY Terminals. In Constanta port there are two RO-RO terminals equipped for handling any type of vehicle and RO-RO merchandise. The vehicles exported to Brazil, Columbia, China and Turkey are handled in two specialized berths.

2.2 The Pollutant Economic Agents and the Pollution Sources in Constanta Port

Table 1. The main polluters in Constanta Port

<table>
<thead>
<tr>
<th>Name of economic agent</th>
<th>Type of Activity</th>
<th>Origin Source of Pollution</th>
<th>Types of Pollutions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tarmac S.R.L.</td>
<td>Manufacturing building materials</td>
<td>Production of cement loss, production of powders when handling</td>
<td>Soil pollution; air pollution with cement powders</td>
</tr>
<tr>
<td>Betina M S.R.L.</td>
<td></td>
<td>the cement in bulk</td>
<td></td>
</tr>
<tr>
<td>SICIM S.A.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agroexport silos</td>
<td>Cereals handling charging/dis-</td>
<td>Production of household waste and cereals; production of cereals</td>
<td>Soil pollution with cereal leftovers; air pollution with cereal powders; pollution</td>
</tr>
<tr>
<td>Barter Trading</td>
<td>charging</td>
<td>powders in the atmosphere;</td>
<td>risk of marine sediments with pesticides</td>
</tr>
<tr>
<td>România</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Alteea S.R.L.</td>
<td>Reparations of ships and port</td>
<td>Production of waste from the activity of repairing port vessels</td>
<td>Soil and port waters pollution with waste oil; soil and port waters pollution</td>
</tr>
<tr>
<td>Fergito S.R.L.</td>
<td>installations</td>
<td>and port installation</td>
<td>with: paint, waste oil and blast sand</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Accidental leak of waste oil from port installations</td>
<td></td>
</tr>
<tr>
<td>Comvex S.A. MinMetal</td>
<td>Ores charge/discharge operations</td>
<td>Ores storage on the soil, production of ores powders and bauxite in the air</td>
<td>Pollution of soil and port waters with ore and bauxite; air pollution with ore and bauxite powders; sewerage network clogging</td>
</tr>
<tr>
<td>S.R.L.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Oil waste leak into the</td>
<td></td>
<td>Pollution of soil, port</td>
</tr>
</tbody>
</table>
Through this study we pursued the object of activity of the economic agents from the area of Constanta port (fig. 2). We have noticed the predominance of activities of merchandise storing (where liquid fuel, lubricants and oil products fit in), followed by operations of charging/discharging ships with oil products, ores and cereals. From figure 2, it results that most economic agents pollute the soil.

<table>
<thead>
<tr>
<th>Envirotech</th>
<th>Ships cleaning operations</th>
<th>water and soil when cleaning the oil tankers</th>
<th>waters and sewerage network with oil waste.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tomini Trading S.R.L.</td>
<td>Collecting, storing and cutting the old iron</td>
<td>Production of dust and waste resulted from cutting the iron waste</td>
<td>Pollution of soil and port waters with iron waste</td>
</tr>
<tr>
<td>Tomini Trading S.R.L.</td>
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<td>Production of dust and waste resulted from cutting the iron waste</td>
<td>Pollution of soil and port waters with iron waste</td>
</tr>
</tbody>
</table>

Figure 2. Types of pollution in Constanta Port
Source: Author

The factors that generate pollution, along with those resulted from any declared activity, (manufacturing of building materials, storage and primary processing of old iron or waste cremation), and which are the best known, are waste from the activity of charging/discharging oil products, the ores or the cereals, followed by leaks of waste oil or chemical products. [5] As a result of this study, it seems that most economic agents that develop their activity in Constanta port have as object of activity “merchandise storage” - this referring to wood, chemical products, different materials, cereals, and other food products. The best known factors that generate pollution are “the production of waste from the activity of charging/discharging”; therefore, the best known type of pollution in the area of Constanta port is the soil one. Another factor that generates pollution is represented by “leaks of chemical products and waste oil resulted from ships repairs,” which also result in soil pollution.
Another study has highlighted the manner in which economic agents understand to protect the environment. This study has shown that most operators from the port consider that the technologies they are currently using do not pollute. However, only 14.8% have invested in the environment in the last three years, 30.4% have not done it, and 54.8% think it is not necessary. Therefore, as we have shown on other occasions [1], economic agents with great financial power (Oil Terminal) have the capacity to invest in the environmental protection. We cannot say the same thing about small and medium sized economic agents that could cumulatively pollute more than large economic agents.

Accumulating these studies, it has become possible to realize the Leopold Matrix. Generally speaking, as D. G. Popescu (2007) shows [6] “the impact matrix represents a double entry correspondence table that allows the unitary graphical view of the relations between different categories of elements that interfere in a process of evaluating the impact on the environment.” The environmental components that have been analyzed, divided and grouped into categories, will be represented in rows, and the elementary actions in which the activities have been decomposed, will be represented in columns.

When applying this method, a form of the Leopold matrix has been elaborated; within the matrix the main types of activities have been represented in columns (resulted from technological flows), specific to each economic agent, and also the actions common for these, resulted from environmental effects. Those environmental elements which are directly connected to the agents involved in the study and which they influence have been selected in rows. We would like to mention that this matrix comprised more economic agents, but we only refer here to Constanta port.
From the study it follows that sea waters are influenced by certain port activities with average impact (A), but also by illegal discharges of bilge waters, with significant impact (S), on small sections. Accidents or leaks and hydrocarbons leaks have a significant impact of great importance. The significance of knowing the interaction is major, being considered of great importance (GM) for all types of activities with impact on the Black Sea.

Table 2 Strategies for improving the sea water in the area of Constanta port

<table>
<thead>
<tr>
<th>Pollution sources</th>
<th>Prevention policies</th>
<th>Protection actions</th>
<th>Involved factors</th>
<th>The action/the project</th>
<th>Duration of achievement</th>
<th>Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>BLACK SEA WATER</td>
<td>General</td>
<td>1. Romanian Naval Authority; 2. Vessels; 3. Department for protecting the port environment; 4. Reeves for the elimination of waste oil spills; 5. Control of pollution of intervention units and bodies of waterfronts and ports.</td>
<td>1. Project concerning the introduction of the ships ballastifters for the installation of a system of ballast water treatment. 2. Installation of new ballast water treatment systems. 3. Control of pollution of intervention units and bodies of waterfronts and ports.</td>
<td>Short 5 years</td>
<td>Medium 10 years</td>
<td>Long 20 years</td>
</tr>
<tr>
<td>Port activities, towing, activities, tankers, and tanks</td>
<td>Specific</td>
<td>Control of pollution of intervention units and bodies of waterfronts and ports.</td>
<td>1. Economic agents that operate in ports; 2. Vessels; 3. Department for protecting the port environment; 4. Reeves for the elimination of waste oil spills; 5. Control of pollution of intervention units and bodies of waterfronts and ports.</td>
<td>1. Ports equipped with advanced facilities against pollution with quick action against pollution in case of accidental pollutions.</td>
<td>X</td>
<td>The protection of the port areas and access areas on the Romanian Black Sea coast</td>
</tr>
</tbody>
</table>

Source: Author

The studies conducted have shown that the Black Sea, as a natural collector, is extremely vulnerable. Therefore, in order to protect it in a better way, as many decision factors as possible have to be involved. We can mention the most important decision factors for protection: the Romanian Naval Authority, the economic agents that operate in the port, the vessels, the department for protecting the port environment, and so on. The protection of the Black Sea would create benefits not only for it but also for other seas and oceans. The existence of both highly qualified personnel who respect the legislation in force concerning the environmental protection and of certain harmless technologies can assure the accomplishment of this desideratum - that of an unpolluted sea with a hospitable seaside.

3. Conclusion, Limitations and Future Research

In Constanta port the following issues related to environmental protection have been identified so far:
1. Soil pollution, resulted from the activity of “production of waste from the activity of charge/discharge” and “leaks of chemical products and waste oil resulted from ships repairs,” is the best known.
2. Out of the 230 economic agents that operate in the port, most of them are small and medium size, with reduced possibilities of investments in
environmental protection. Therefore, altogether they can pollute more than large economic agents.

3. Sea water is polluted more because of wastewater and domestic water leaks and less because of bilge waters; that is so because for the discharge of bilge waters very strict rules exist and there are also special ships that meet the large ships anchored in the port roadstead in order to take over these bilge waters, which they modify afterwards in the bilge water treatment plant. In addition, there were some cases of introduction in the Black Sea of some exotic fish species which adapted perfectly to sea conditions, but unfortunately, because of predators’ absence they destroyed the zooplankton, fact that conducted to excessive flourishing of the phytoplankton.

The solutions that we have identified mainly refer to strictly respecting the legislation in force (Marpol 73/78). Equipping the fleet, and especially the navigable flotilla, with high-performance engines and special facilities represents a quite ambitious project that can be achieved, as it was projected in the plan, over a long period of time; the start of this project would refresh the shipyards activity and would create a modern fleet that meets the requirements of world standards.

Equipping the vessels ballast facilities with a system made of ultraviolet lamps that destroy the microorganisms from the ballast before discharging, as well as the strict control concerning the ballast water evacuation according to the rules established by Marpol 73/78, are compulsory conditions for the development of a civilized and harmless sailing.

While elaborating this paper we have tried to approach all the “sensitive” aspects related to the area of Constanta port. However, we are aware that there are still enough problems without an answer, such as: what are the consequences of the erosion of the coastal area and the stabs on the port water, but also on the touristic seaside area.

Therefore, in the future we would like to study further the consequences of port activity on the Romanian Black Sea coast from Midia Cape to Mangalia, with the objective of rehabilitating the seaside area between Vadu and Corbu.

NOTES

1. According to the Amendment to Order no. 2314/2004 of the Ministry of Culture and Cults, concerning the approval of the updated List of the historical monuments and of the List of disappeared historical monuments.

2. International nautical mile measures 1852 meters, which corresponds exactly to one minute of arc.

4. Sea water for charging the ship (in order to maintain the balance), when it leaves the port empty for ulterior charging and which represents 25% from the ship tonnage.

REFERENCES


ABSTRACT. The combination of global and local factors gives the modern financial and economic crisis specificity and uniqueness. The aim of this paper is to point to the urgent need of the consistent anti-crisis economic policy creation, which must take into account local and global crisis and risks factors. It points out the primary significance of institutionalization on economic policy as well as the hypotheses that the creation of efficient anti-crisis economic policy requires correct and timely identification of the problems and crisis process.

JEL Codes: E610

Keywords: anti-crisis; economic policy; institutionalization

1. Introduction

The institutional environment forms the framework in which human action takes place. “Institutions reduce uncertainty by providing a structure to everyday life,” writes North (1990, 3). “In the jargon of the economist, institutions define and limit the set of choices of individuals. Institutional constraints include both what individuals are prohibited from doing and, sometimes, under what conditions some individuals are permitted to undertake certain activities. ... They are perfectly analogous to the rules of the game in a competitive team sport” (North, 1990, 3-4).

Of these sets of rules, the legal environment has received the most attention. Economists have long been interested in the economic effects of laws (for instance, the effects of a price ceiling on equilibrium price and quantity), but only in the last few decades has economics been applied to the design of legal rules and the legal system itself.

Meanwhile, failures in the regulatory framework were identified as key for the build-up of the crisis and a new regulatory framework with enhanced prudential and supervision policies were therefore deemed essential. New
regulation and supervision frameworks were asked for to reduce the odds of repetition of a similar crisis in the future, or to deal with its control and resolution according to well defined rules and in a coordinated manner in case of failure to prevent a crisis. In a global crisis a main challenge will be, moreover, to align solutions tailored to the various national financial systems with a global regulatory framework that prevents regulatory arbitrage.

Hence a transparent and consistent set of policies needs to be set up as quickly as possible to strengthen the capital base of banks on a durable and self-sustained basis to restore a normal functioning of the banking system. Once clear signs emerge that financial and macroeconomic recovery is solid and self-sustained, coordinated “exits” from banking support and, subsequently, fiscal stimulus and temporary support in product and labor markets

Why the basic type of innovation in a model of anti-crisis economic policy must be focused on institutional innovation? Because only they can eliminate party-lobbyist influence and market constraints, the missing trigger control state and other mechanisms, the rule of law, economic freedom and increase the efficiency of the instrument of economic policy.

In this article we will give a brief analysis of the economic policy of the EU through a consideration of the role of fiscal, structural, within which sheds light on the business support and investment as well as policies on the market in the labor force.

Also, we believe to be most important ways under Macedonian conditions on the recessive environment it is necessary to pay a special light on the economic policy however, by reviewing the measures of the Government, as the designer of the economic policies directed toward regulatory reform from the perspective of improving the business environment.

Approach to the implementation of the analysis was the current institutional arrangements and practices, which analyzed the extent to which the defined competencies, commitments, decisions really apply, what is their effect and how they should be made to the extent the effective influence to reduce the recessionary attack.

2. Macroeconomic Policies Modeling

This framework, once fully developed, would include policy instruments in the pursuit of: (i) crisis prevention, (ii) crisis control and mitigation, and (iii) crisis resolution:

At the crisis prevention stage, financial policy would deliver the appropriate regulation and supervision of financial markets so as to minimize the risk of crisis conditions building up. Monetary and fiscal
policies would contribute by leaning against asset cycles, responding to a broad set of indicators of macro-financial stability such as credit growth and house prices. Structural policies would be geared to achieving robust potential growth and market flexibility to ensure that macroeconomic fundamentals remain strong.

Even the best of crisis prevention frameworks may fail. Therefore a framework for crisis control and mitigation is indispensible. Monetary policy would play its usual independent role. Monetary easing would be stronger than in “normal” recessions, as the policy transmission is weakened by the sore state of banks’ balance sheet. Non-conventional monetary measures (such as the provision of liquidity against a broader range of collateral or the outright purchase of securities by the central bank) might be necessary, especially if the zero interest rate bound is in sight. Fiscal space permitting, budgetary stimulus would need to be employed to support demand – provided this is targeted on liquidity constrained households and businesses (as their spending behavior will respond to variations in current income as opposed to ‘permanent income’). The fiscal stimulus should also be timely and temporary as income support that comes too late or does not come with a sunset clause is less likely to induce private spending. Automatic stabilizers are a complement to fiscal stimulus, although in a deep crisis automatic stabilizers may need to be strengthened, e.g. by extending the duration and level of unemployment benefits. Balance of payment support may be necessary for countries that have been cut off from external funding. Intervention in product markets may be employed to assist hard-hit but viable industries. Similarly, intervention in labor markets, e.g. temporary facilities for part-time unemployment compensation, may be needed in order to avoid hardship and socially costly human capital loss. Obviously, in all these cases distortions of competition should be avoided.

At the crisis resolution phase a coordinated roadmap for the exit from accommodative financial, macroeconomic and microeconomic (product and labor market) policies must be available. The extent and depth of policy support is determined by the severity of the financial crisis and the economic downturn that ensues. But these policies can be implemented effectively only temporarily, which implies that explicit plans should be made about how to phase them out. This does not involve announcing a fixed calendar, but rather defines direction of next moves and the conditions that must be satisfied for making them.
3. Structural Policies Modeling

3.1 Labor Market Policies

The assessment of crisis-related labor market policies needs to be seen in conjunction with the other features of the policy response to the crisis, in particular the financial markets measures, the fiscal expansion and structural reforms in product markets. In combination these measures are aimed at restoring confidence and supporting demand and potential growth – and hence indirectly would also support employment. Moreover, a set of overarching principles should be considered when assessing labor market measures. In particular: (i) measures should aim at reducing the costs of adjustment and speed up transitions on the labor market; (ii) they should support the income of the most disadvantaged groups and who have relatively high marginal propensity to consume; (iii) they should be consistent with long-term reform objectives such as the flexibility principles under the Lisbon Strategy; and, especially in euro area countries, (iv) they should facilitate the adjustment of the divergences in external competiveness through their impact on unit labor costs.

These guiding principles are the following types of measures and design features would be particularly appropriate:

- Financial support to temporary flexible working-time arrangements in line with production needs to raise labor flexibility. Such action needs to be combined with measures supporting employability and guiding people towards new jobs, empowering workers to take advantage of new opportunities when the economy recovers.
- Reinforcing activation and providing adequate income support for those most affected by the economic slowdown, making full use of social protection benefits, in line with the flexibility approach. In those countries where unemployment insurance is strictly limited in time, consideration should be given to its temporary expansion and/or a reinforcement of minimum income provisions.
- Ensuring the free movement of workers within the Single Market. It can help address the persistence of mismatches between skills and labor market needs, even during the downturn.

3.2 Business Support and Investment

The financial crisis affected companies and specific sectors through a severe contraction of credit and loans accompanied by a tightening of credit standards. The main drivers were the negative economic outlook, but also the impact of banks’ ability to obtain financing in the market. While large enterprises were more affected by the net tightening of credit standards, the
situation worsened for SMEs during the last quarter of 2008. As businesses and consumers are forced to scale down their investment plans in the face of tighter credit conditions, collapsing confidence, less favorable market conditions and considerable uncertainty surrounding future developments, investment – especially private investment – is forecast to decline.

The need for public intervention to support viable businesses during the crisis to ease financing constraints facing and to support specific credit services (e.g. export credit insurance) which markets were temporarily unable to provide, at least at economically viable conditions and prices. Beyond the aggregate demand support provided by macroeconomic instruments, there may also be a case for temporary government support targeted at sectors where demand has been disproportionately affected by the crisis and could cause important dislocations. Temporary public support could help prevent unnecessary and wasteful labor shedding and the destruction of otherwise viable and sound companies. These measures will help contain the negative effects of the crisis on potential output by preventing a permanent loss of knowledge and skills and a reduction of productive capacity far beyond what would be expected during a normal cyclical slowdown. Finally, there may be instances, where government support on the supply side is warranted for sectors and business where there are technological or other spillovers benefits to the economy. In that respect there can be done certain number of guiding principles:

- Maintaining openness within the internal market, continuing to remove barriers and avoid creating new ones.
- Ensuring non-discrimination by treating goods and services from other Member States in accordance with EU rules and Treaty principles.
- Targeting interventions towards longer-term policy goals: facilitating structural change, enhancing competitiveness in the long term and addressing key challenges such as building a low carbon economy.
- Sharing information and best practice.
- Pooling efforts and designing measures so that they generate synergies with those taken by other member states. Stronger co-operation at European level is the key in this respect.
- Keeping the Single Market open to trading partners and respect international commitments, in particular those made in the WTO.

4. Anti-crisis Economic Policy Based on Regulatory Reform in R. Macedonia

Even before the global economic crisis policies underdeveloped post-socialist countries is permeated through the relationship between global and national. During this period, the global influence mainly demonstrated
through various forms of economic assistance, foreign direct investment, creating the conditions for joining the European and North-Atlantic integration and external relations, dominated by imported component.

One of the most important institutional innovations is regulatory reform from the perspective of improving the business environment as a goal of economic policy, especially in crisis condition. In this respect the project identified the following specific objectives:

- To analyze the existing institutional arrangements and practices for regulatory reform;
- To develop recommendations for improving the regulatory reform and development action plan for implementation;
- To conduct assessment of the impact of the application of RIA specific laws that affect the business environment, both during their preparation and ongoing law enforcement;
- To strengthen the consultation process with the business community through the development of codes of Consulting and capacity building of stakeholders involved in it.

With the initiation of regulatory reform aimed at reducing the regulatory and administrative burden on businesses and citizens, as well as saving time and resources effectively introduce and guillotine regulations, institutional mechanism for reviewing decisions of rules for their simplification.

Efficient implementation of the “Regulatory Guillotine” is aimed at improving the business climate and is part of the benchmarks (benchmarks) for a date for starting negotiations for membership of the Republic of Macedonia to the European Union.

In the period 2006 to 2010, the Government implemented three phases guillotine of regulations, such as:

- First: Simplification of the system of formalities;
- Second: Reduction of customs burdens;
- Third: Reducing the administrative burden.

In the first phase of the regulatory guillotine measures are taken, including recommendations for changes, amendments or repeal of regulations (laws and regulations).

The second phase brought a package of measures that significantly contribute to the facilitation of the operation of firms, increase their competitiveness and accelerating cross-border flow of goods.

The third stage, in a transparent manner, meets the requirements of the business community, in order to improve the business environment and removing administrative barriers through further regulation of the legal framework, in particular legislation which is currently causing yield procedures or put excessive demands business entities.
Organizationally, each of the three phases of the guillotine took place in a different way, more formally defined structure in the first phase, up to one process with direct involvement of the business community in the third phase. Findings show that different approaches gave different effects in terms of representation, transparency and inclusion, but a common feature of all three phases of the guillotine is incomplete implementation of the measures adopted by the competent ministries and authorities.

4.1 Regulatory Impact Assessment (RIA)

Regulatory impact assessment - RIA is a systematic approach for evaluating the positive and negative effects of the proposed regulations and other non-regulatory measures. A key benefit from the introduction of policy-making process is necessarily made analyzes that serve as support / justification of the proposed measure.

Based on meetings with Secretary of State, as well as RIA teams, also expert analysis of some implemented regulatory impact assessments following challenges were identified, whose overcoming will lead to improve the RIA process in order to properly implement and achieve desired effects:

- inadequate understanding of the decision-making at all levels of the importance of regulatory impact assessment in the process of making the same at all levels and its pro-forma application for the preparation of the text of the regulation;
- lack of access defined in the implementation of the RIA process in all ministries;
- inadequate stakeholder involvement in the process and transparency effects of their involvement;
- setting tight deadlines for making regulations which do not allow proper implementation of regulatory impact assessment.

As a result of the current problems faced by RIA teams was discussed and possible recommendations to improve the RIA process. Parts of the aforementioned recommendations are as follows:

- In each ministry, a Sector whose primary responsibility will be implementing the RIA process (giving adequate support lawmaker in the assessment of the regulatory impact of proposed laws / amendments to the laws).
- Appropriate training for RIA teams which will include more practical examples conducted assessments. Also require training and tools that can be used in the identification of the expected costs for all parties concerned.

The identified challenges can be concluded that the existing approach to the implementation of regulatory impact assessment in the ministries is in
direct contradiction of its purpose and objective, and that it is a significant review of the conduct of RIA and providing conditions in individual ministries but also at the central level, as well as sanctions for non-compliance.

4.2 Recommendations for Improving the Regulatory Reform

Based on the findings from the analysis of regulatory reform, and presented successful international practices, we propose the following global recommendations:

- Establishment of a central body for better regulation, capacity building of staff in the central body, and clearly define the responsibilities and powers of the central body, with special emphasis on organizational structure, legal framework, capacity of staff to advise and control the implementation of RIA as well as facilitating communication channels with the business community.

- Improving the legal framework for the assessment of the impact of regulation defining the standard procedure for creating laws, modification of existing methodology for RIA adoption code for consultation and guidance consultation with the business community, maintain a register of regulations and other laws according to the needs.

- Expanding the scope of RIA application in the parliamentary process and when performing post-legislative (ex-post) analysis of the actual effects of the adopted laws.

- Continuous capacity building of ministries and central body for better techniques and methods for creating laws, providing transparency and support the consultation process, as well as check the impact of the regulation of various segments of society.

5. Conclusion

*Crisis prevention to prevent a repetition in the future.* This should be mapped onto a collective judgment as to what the principal causes of the crisis were and how changes in macroeconomic, regulatory and supervisory policy frameworks could help prevent their recurrence. Policies to boost potential economic growth and competitiveness could also bolster the resilience to future crises.

*Crisis control and mitigation to minimize the damage by preventing systemic defaults of banks or by containing the output loss and easing the social hardship stemming from recession.* Its main objective is thus to stabilize the financial system and the real economy in the short run.
Crisis resolution to bring crises to a lasting close, and at the lowest possible cost for the taxpayer while containing systemic risk, securing consumer protection and minimizing competitive distortions in the internal market. This in part requires reversing temporary support measures as well action to restore economies to sustainable growth and fiscal paths. Inter alia, this includes policies to restore banks’ balance sheets, the restructuring of the sector and an orderly policy ‘exit.’ An orderly exit strategy from expansionary macroeconomic policies is also an essential part of crisis resolution.

In the Republic of Macedonia adopted several mechanisms that contribute to the fulfillment of the commitment to regulatory reform. Fulfilling the commitment to better regulation began by introducing the concept of regulatory guillotine, and shortly after the introduction of mandatory regulatory impact assessment. Law-making process has been strengthened in the area of consultation with stakeholders, aimed at established web portal EN - single national electronic register of regulations. These are essential components in the process of actually “better business regulation” and they were analyzed for the purposes of this project.

REFERENCES


THE IMPORTANCE OF LOGISTIC VILLAGES IN INCREASING INTERNATIONAL TRADE: THE CASE OF TURKEY-ITALY

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ABSTRACT. The emergence of the phenomenon of globalization and global competition is not only a result of the developments in information technologies but also of logistic activities. With the effective use of the information technologies in the production and marketing processes of the businesses, the competition among enterprises has increased. Enterprises - in such a developed competitive environment- have recognized the importance of logistic activities in the point of minimizing their costs, supplying their products efficiently and quickly and also transporting these products to their customers at the same speed and efficiency. In this context, logistics has become one of the basic processes that the businesses emphasize importantly, ceasing to be support activity for the businesses. In this study in which the advantages provided by the logistic villages in the competition in question with the logistic activities’ beginning to be seen as a means of competition will be evaluated, the effect of the establishment of logistic villages on increasing the mutual trade by examining the international trade figures carried out between Turkey and Italy in the last ten years and the cost advantages to be provided with the establishment of logistic villages by conducting a survey on many enterprises trading between the two countries are evaluated for enterprises. It is presented with current data that international trade volume will increase and logistic costs will decrease between two countries in consequence of the completion of logistic villages in Turkey.

JEL Codes: M10; M30; D41; L90

Keywords: logistics; logistic village; cost advantage
1. Introduction

The event of globalization, which developments in information technologies have accompanied it with, has removed commercial limitations among countries. By removing commercial limitations enterprises face with both ruthless and enabling aspects of competition all around the world.

The event of global competition occurs when the world becomes a market. For enterprises operating in the environment of global competition to survive and to have the upper hand on opponents it is necessary to adjust the necessities of competition environment. For competitive superiority adopting one or a few of quality, cost, flexibility and service dimensions accepted as competition priorities and applying them to work processes present enterprises some advantages. Considering the fact that these conditions related with competition change as well as continually developing information technologies, enterprises should organize all processes towards changeability event, follow innovations brought by information age closely, and apply these to all work processes. Surely, it is impossible for enterprises to comply with continually changing competition conditions by developments in information technologies one by one. This situation is related with not only internal dynamics but also external dynamics of enterprises. Government policies of countries where enterprises operate are the primary ones on these dynamics. Profitability of enterprises has eventually direct relation with positive situation of country economy. International relations, geopolitical position of a country and governments’ eagerness to provide environment for enterprises operating in global competition environment present lots of advantages for enterprises. Maybe one of the important environments is ‘logistic village’ needs to be presented which provides the transmission of enterprises’ products to international markets at minimum cost and maximum speed (Ceran, 2010:1).

2. Concepts of Logistic and Logistic Village

Logistic gives possibility for the transmission of enterprises’ products to ultimate consumers at lower costs and on time without thinking distance in the world trade in which international competition is harsh and it is impossible to increase market shares, and also contributes to enterprises’ functioning for global aims (Engin, 2008:10).

Logistics management can focus on internal or external one or both ones in a flow based on a chain from supplier to end user (supply chain). The main functions of logistics management mean purchasing, carrying, storage, inventory input, providing correct information, organization and planning of these activities. Logistics managers associate information resulting from
each one of these functions by coordinating sources in an organization. Logistics basically have two different dimensions. One of them is storage which provides the continuity of material flow during transport network, while the other one coordinates the chain of sources for finalizing the project (Baziotopoulos, 2008:5).

Logistics management is accepted as a part of supply-chain management and defined as implementation, storage, controlling and planning of forward and opposite directional flow efficiently and effectively from starting point to consumption point about all kinds of products, service and information to meet customer needs (Erdal, 2008:30). Supply-Chain Management means strategic and systematic coordination of enterprise functions and plans belong to companies mentioned on consisting of all companies in chain to increase long-term performances of supply chain and all companies in this supply chain. It is integration of key work processes from the first supplier to the end user to provide production, service and information being valuable for customer and other shareholders (Tanyaş, 2005:25). Logistic village is defined as a certain field in which all activities are done by various managers about national and international transportation, distribution of logistics and goods. Logistic villages are defined as regions in which formal institutions related with logistics and transportation companies are located, have effective connections for transportation mode, have opportunities such as storage, repair-maintain, handling, charge-discharge, scale, dividing, compounding and packing loads, etc., and have equipments and transit areas at low cost, high speed, more security between transportation modes (TCDD, 2009)

The event of freight village has been put on the agenda in Europe from the last decades of 1960s. Considering service of freight village “Freight Village Quadrante Europa” in Verona/Italy for approximately 30 years, it can be said that there is a concept of freight village (logistic village) although EU concept was not available at that time (Aydın ve Öğüt, 2008:48). In determining which provinces logistic villages should be located in Turkey, current freight situations and freight potentials of freight centers have been examined, have been made predictions about freight for 10 years. As a result of feasibility researches, decisions have been made to build logistic village in provinces having positive criteria in terms of practicability and their practicability in added value for the country economy. Plant and field needs belonging to planned logistic villages have been determined and feasibility researches of these have been done. By Turkish State Railways (TCDD) logistic villages have been built in zones in which the potential of freight transport is high, associated with primarily organized industrial zones. Logistic villages make city breathe a sigh of relief in traffic as well as they contribute to economic and social development of the city (TCDD, 2009). In this context, logistic villages are to be established: Gelemen (Samsun)

3. Cost Advantages by Logistic Villages for Enterprises

Nowadays transportation system at the lowest cost is railway transportation except for overseas countries; that is why implementation of logistic village projects focused on railway transportation is evaluated as an important development in terms of decrease in cost and enhancement for enterprises. All around the world logistic costs are classified as 40-60% for transportation, 20-30% for storage/stock, 5-10% for order and handling and 5-10% for management. These percentage rates show the basic logistic cost in transport on the rate of 40-60% for enterprises. In this regard, railway connection of logistic villages is important due to the lowest cost for transport all over the world.

Enterprises which send their products to international markets through logistic villages have more advantages than their opponents. Today production costs offer approximate values for enterprises producing goods and service similar to each other. Since limitations are impossible in costs of technology usage, AR-GE activities and all activities aimed at keeping production quality at certain standards, enterprises create supply-chain to decrease their costs. By applying strategies towards both cost savings and strategically effectiveness in logistic value chain, some differences are presented for competition superiority. Here, an important activity of creative value is achieved for logistics, products and service aimed at transportation of correct product, in correct place in correct time without any damage. For long-term competition superiority of countries developing logistic strategies focused on customer satisfaction and low costs are significant. Maybe the most important reason for the emergence of logistic villages is stated to be increasing trade volume and pressure of logistic activity in city as well. All over the world increasing global trade affects country economies in a positive way, increases sales, dynamizes and balances work life. But this positive effect causes usage of heavy vehicles more, so air pollution occurs and for this inner-city traffic congestions destroy persons’ life quality.

Logistic villages increase regional competition and provide advantages such as cost, speed, flexibility and quality for enterprises to transmit their products to customers on international markets. As a parallel to increasing trade volume and freight shipment, it is necessary not to affect the quality of city life for vehicles, to decrease distance in city for heavy vehicles and congestion based on heavy vehicles. For this, various systems such as
intermodal transportation and multiple kinds of transportation become a part of activities. But it is only necessary to build logistic villages near the city rather than in the city within the bounds of possibility for usage of intermodal transportation. For applying this solution, on this subject associated with freight (multiple kinds, intermodal freight shipment, freight distribution and storage opportunities), reach at both transportation networks and city markets should be easy. Costs resulting from logistic activities having much importance to compete with their international opponents for enterprises are minimized through logistic villages.

4. International Trade Volume between Turkey and Italy

Turkey and Italy, which are located in the Mediterranean basin and in two important regions geopolitically, have commercial and political relations dating from old times. In Turkey’s international trade Italy has a very important role. According to IMF data for the year 2010, Italy has the eighth economy of the world, the fourth one of Europe. As a founding member of the European Union, Italy is included in the group of industrial countries called G8, together with USA, Germany, England, France, Canada, Japan and Russia. After World War II, Italy was confronted with a serious economic depression. Following this period, Italy obtained foreign capital. Italian economy needs about re-structuring industrial plants with Marshall Plan applied by USA, met labour force from immigrants coming from the south parts of country to be employed in industrial sector. As a result of the union of two important driving forces in 1950-1960 a weak agricultural economy was transformed into a strong industrial economy. In 1959 and in the three years following this year, the average economic growth was at the rate of 6.3% annually, and then this period started to be remembered as the Italian economic miracle (*il boom economic*).

In a process starting with the establishment of the European Economic Community (EEC) underlying EU, in 1957, due to customs union of France, Germany, Italy, Holland, Belgium and Luxemburg called ‘the six,’ the mentioned countries have developed trade among them continuously and also accelerated the economic development of Europe.

<table>
<thead>
<tr>
<th>Table 1: Italy-Distribution of GDP to Sectors (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
</tr>
<tr>
<td>Agriculture</td>
</tr>
<tr>
<td>Industry</td>
</tr>
<tr>
<td>Service</td>
</tr>
</tbody>
</table>

*Source: www.eiu.com, Italy Country Forecast (November 2009)*
*b EIU guess. c EIU projection.*
According to data in 2008 71% of GDP consists of service sector. It is predicted the share of service sector rises to 73.1%. But the rise for the share of service sector in GDP does not result from growth in this sector, and the share of service sector rises due to high rate of shrinkage in industrial sector. To the predictions by EIU, in 2009 industrial sector as 12.5%, agricultural sector as 3% and service sector as 12.5% have economic shrinkages.

Italian economy and firms in important sectors such as textile, furniture and white goods in economy became unable to compete with China producing at low cost. This situation affects the markets all over the world and Turkey is also faced with China’s competition in international markets. SMEs intensifying around North and Central Italia underlie Italian economy. Most of Italian SMEs intensify in industrial zones activating especially towards export. In these zones productive unions and local banks support industry requiring sectorial expertise. Expertise on the subjects of ceramics production in Sassuolo, woolen textile production in Prato, silk production in Como, shoes production in Verona, training shoes and boots production in Montebelluna, glasses production in Belluno, kitchen tools and equipment production in Marche, textile and textile machines production in Biella ve Bergamo gives possibility to study on sectors providing local finance and to determine needs. Similar zones are developed in the south: furniture in Bari, ceramic tile and glazed tile in Salerno, musical instruments and jewelry in Napoli, textile in Martina Franca and confection in other some zones are the most important production items. Sectors being known for quality and production flexibility, which produce towards export, have difficulties to compete with China and other countries producing at low cost recently. Global crisis also affects Italian industry seriously. Industrial production reduces at the rate of 19.5% as average from the first 10 months in 2008 to the same period in 2009.

According to international trade figures for Italy in 2007, on foreign trade its main harbors can be classified as: Gioia Tauro (3.45 million TEU*), Cenova (1.85 million TEU), La Spezia (1.2 million TEU), Taranto (755 thousand TEU), Livorno (745 thousand TEU).

Table 2: Distribution of Italy Container Trade to Harbors (2004, %)

<table>
<thead>
<tr>
<th>Harbor</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gioia Tauro (Calabria)</td>
<td>37.2</td>
</tr>
<tr>
<td>Cenova</td>
<td>18.5</td>
</tr>
<tr>
<td>La Spezia (Liguria)</td>
<td>11.7</td>
</tr>
<tr>
<td>Taranto</td>
<td>7.4</td>
</tr>
<tr>
<td>Cagliari</td>
<td>6.1</td>
</tr>
<tr>
<td>Livorno</td>
<td>4.7</td>
</tr>
<tr>
<td>Napoli</td>
<td>3.3</td>
</tr>
<tr>
<td>Salerno</td>
<td>2.8</td>
</tr>
</tbody>
</table>
According to the figures in 2010, Italy is on the position of the largest eighth exporter and importer in the world. Italy, which comes the first one from countries supporting EU membership of Turkey, is the second commercial partner of Turkey. The trade volume between the two countries increases over 20 percent annually. Italy is also on the position of the greatest fifth investor in Turkey. Relations between Italy and Turkey develop more recently. According to the Italian Chamber of Commerce’s data, Turkey is on a more significant position of investment and commercial partner for Italy than China, Russia or Brazil. The main cause of this situation is that Turkey is situated near Italy and it is an important central point for reaching neighbouring markets.

Having one of the most developed economies in the European Union, the relations between Italy and Turkey complement each other. Textile-confection, leather, machine manufacturing, food processing, chemicals can directly be said as an open field for Italian firms’ cooperation. In addition to these sectors, package, mining, furniture, automotive supply industry, electronics, security systems, jewellery, communication, engineering, logistics, metal processing, ship building, energy – transportation-environment projects, defence industry, health, financial services and tourism sectors can be also expressed as quietly open sectors for development. (Euractiv: 2011)

Table 3: Italia Foreign Trade Indicators (Billion Dollars)

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010b</th>
<th>2011b</th>
<th>2012b</th>
</tr>
</thead>
<tbody>
<tr>
<td>Export (fob, billion</td>
<td>418.1</td>
<td>501.3</td>
<td>546.3</td>
<td>407.2</td>
<td>453.5</td>
<td>488.9</td>
<td>486.3</td>
</tr>
<tr>
<td>Import (fob, billion</td>
<td>430.6</td>
<td>496.7</td>
<td>547.3</td>
<td>403.9</td>
<td>471.8</td>
<td>515.9</td>
<td>512.1</td>
</tr>
<tr>
<td>Foreign Trade Volume</td>
<td>848.7</td>
<td>998</td>
<td>1,093.6</td>
<td>811.1</td>
<td>925.3</td>
<td>1,004.8</td>
<td>998.4</td>
</tr>
<tr>
<td>Foreign Trade Balance</td>
<td>-12.5</td>
<td>4.6</td>
<td>-1.0</td>
<td>3.3</td>
<td>-18.3</td>
<td>-27</td>
<td>-25.8</td>
</tr>
</tbody>
</table>

Source: The Economist Intelligence Unit, Italy Country Forecast (April 2011)
b: EIU prediction

Looking at Table 3, Italy has export of approximately 470 billion dollars as annual average and import of 480 billion dollars annually with 2012 projection for six years. Considering foreign trade balance, it is estimated to have foreign trade deficits as about 25.8 billion dollars in 2012. In the lights
of data at Table 3, foreign trade values and trade balance between Turkey-Italy show the importance of trade between two countries.

Looking at Table 4, foreign trade values are given between Turkey-Italy to the years. Accordingly, foreign trade figures are not at enough level between Turkey-Italy, considering the foreign trade potentials of the two countries. Foreign trade volume is estimated to increase between Turkey-Italy through launching logistic villages.

Table 4: Turkey-Italy Foreign Trade Values (Billion Dollars)

<table>
<thead>
<tr>
<th>Year</th>
<th>Export</th>
<th>Import</th>
<th>Trade Volume</th>
<th>Trade Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>5.617</td>
<td>7.566</td>
<td>13.183</td>
<td>-1.950</td>
</tr>
<tr>
<td>2006</td>
<td>6.752</td>
<td>8.663</td>
<td>15.416</td>
<td>-1.911</td>
</tr>
<tr>
<td>2007</td>
<td>7.480</td>
<td>9.968</td>
<td>17.448</td>
<td>-2.488</td>
</tr>
<tr>
<td>2009</td>
<td>5.893</td>
<td>7.666</td>
<td>13.559</td>
<td>-1.773</td>
</tr>
</tbody>
</table>

Resource: TÜİK

5. Turkey-Italy Foreign Trade Following Logistic Villages

75% of Italy’s export to Turkey consists of industrial products. Italy, which traditionally exports machine to Turkey, aims at increasing its share in Turkish market with fashion, cosmetics, shoes, jewellery and furniture sectors form Italian life style in recent times. The main cause is that Turkey is ready for exporting luxurious products of Italy by experiencing vital economic changes in the last four years. Textile, jewellery, shoes, home and lighting tools, food products, motorcycle and automobile are some of the luxurious products.

Owing to Ro-Ro lines established with Italy, almost half of shipments from our country to EU as our greatest foreign trade partner are done over Italy Trieste Harbour. From Mersin Harbour to Italy Trieste Harbour regular services with Ro-Ro ships especially will be effective for increasing transit transport towards Iraq and Iran. Regular Ro-Ro services on Mersin-Trieste line is thought to increase transit trade towards Syria. Current working regular services and ship numbers are not enough between Turkey and Italy, ones wait for vehicles in both harbours. International trade volume will increase between the two countries with the establishment of logistic villages; that is why it is necessary to increase the number of ships and to create alternative harbours for both parties. In 2008, the number of Italian
firms reached 700 in Turkey. Most of Italian investors are active in service and production sectors in Turkey. They mainly prefer food, ready clothing, chemical products, electricity-electronics, machine manufacturing, furniture, iron and steel in industrial sector and trade, tourism, communication, banking and investment finance in service sector. The amount of direct investment by Italian firms is 5 billion dollars. Italian firms came first on the ranking of winning public tenders in 2008. Turkey’s direct investments were approximately 120 thousand dollars by March 2009 in Italy. The total number of Turkish firms reached 37 in Italy. Decrease in logistic costs of productions will make Turkey a more charming country for investment owing to logistic villages in Turkey.

It is expected to increase cooperation opportunities in different sectors between Turkey and Italy with the establishment of logistic villages in Turkey. Undoubtedly, the main factor for this will be a decrease in logistic costs. One of the sectors is furniture and furniture subsidiary industry. One of the significant problems for furniture sector in Turkey is not to create essential subsidiary industry due to the desire for manufacturing the final product with each producer’s demand to reach customer directly. The leading bathroom cabinet systems, wardrobe and door systems of Italy such as Ardeco, Artesi, Dierre continue their existence through agency. The sector of common investments in the field of subsidiary industry will present a more competitive environment in international markets by Italian firms expert on sale and distribution. In the event of cooperation it can be said to increase in quality standards and export potentials. The other field for sectoral cooperation is residential construction and marble industry having a parallel increase to new investments. Aforesaid factors for the increase in furniture demand are also valid for marble sector. Italy exports processed products after importing marble as a block from Turkey. In this context, they want to have more share from neighboring markets of countries with investments towards marble processing in Turkey. In shoes sector Italy loses its shares in the world market rapidly as a parallel to China’s competition rapidly increasing in international market and increase in euro’s value. Because of these threats, to keep current situation in shoes sector Italy is closely involved about design, production and export in the world; Italy has a tendency to manipulate the sector to the cities such as İstanbul, Bursa, İzmir, Manisa, Denizli, Konya, Ankara, Kayseri, Isparta, Hatay, Gaziantep, Şanlıurfa, Kahramanmaraş, Malatya, Trabzon and Samsun in which shoes sector becomes dense in Turkey. Rapidity and cost advantages from logistic villages will encourage Italy to invest in shoes sector in Turkey. Turkey gives larger opportunities about the field of food for Italian firms. Turkey is one of the countries which reply best to the necessary factors for organic agriculture and stockbreeding products having rapidly increasing market potential in terms of production, consumption and trade volume especially in
America, EU countries and Far East countries. Turkey, which has a corner on the production and export market in the field of organic agriculture in the world, produces products such as nut, figs, grapes, olive oil, and cotton at the amounts demanded by foreign markets and adopts contractual cultivation systems based on export.

As Italy is a member of the EU, foreign trade is performed in accordance with the EU norms and rules. Within the framework of Customs Union put into effect between our country and the EU in 1996, customs duty, amount limitations and limitations having similar effects on industrial products for our trade with Italy and also common customs duty towards the third countries are applied, and no important problem emerges from legislation and application among parties on trade. Commercial relations between enterprises are carried out regularly without any problem on our trade with Italy. But slow functioning of banking system, level of commissions and slow functioning of bureaucracy can sometimes lead to malfunctions in foreign trade processes. Ro-Ro transport, which was established between Turkey and Italy being a transition country for our country and an entry point for the European Union, is given much importance. Some of the products exported to Europe are transported by highway over Italy. As a result of the increase in trade volume of the two countries, highway transport quotas allocated with bilateral agreements are not enough to correspond to the needs. Some problems can emerge from possible delays due to the controls in Italian customs. To overcome this, exporting firms should prepare all of their documents meticulously. With the completion of logistic villages in Turkey, the mentioned highway transport will be transformed into maritime transport and bureaucratic obstacles will be overcome more easily without any doubt.

6. Conclusion

Among the countries having import-export relations with Italy, Turkey, which is the 10th country, rapidly continues cooperation works to reach an optimum level at commercial relations with Italy being the great 3rd partner of Turkey on strategic position. Similarly, Italy, which wants to destroy China’s negative affects in its economy, even though China makes progresses to become a great economic power, aims to create new investment fields and cooperation with key countries such as Turkey for itself on trade. It is clear that Turkish enterprises operating mainly in automotive subsidiary industry, shoes, metal processing and casting industry, food and textile sectors have lots of cooperation fields to develop with Italian investors. At the point of sustainable national developments for
countries, the best usage of cooperation opportunities should be primarily emphasized at international level one more time.

Turkey and Italy are two countries close to each other due to their geopolitical positions. Also, suitable sea route connections of both countries indicate that international trade will increase between the two countries in the future. Undoubtedly, the effect of logistic villages to be planned for building and to be completed for some parts in Turkey will be high. Logistic costs, which are the most important cost items of enterprises operating in Turkey, will decrease at a high rate due to completion of logistic villages. This situation will increase business volume in the world markets, especially in Italy market for Turkish enterprises. Owing to cheap, rapid and safe transport that logistic villages provide, Turkey-Italy sea corridor will be used frequently and efficiently. This will increase international trade between the two countries.

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SOCIO-ECONOMIC STRATIFICATION

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ABSTRACT. This article focuses on the analysis of some of the main concepts of social stratification, such as class and status. The paper then examines the particularities of social stratification in the US, including factors leading to the stratification of society (e.g. wealth, income, education, occupation) and the three types of social classes in this country: upper class, middle class and lower class. In comparison, social stratification in Romania is influenced by historic circumstances (e.g. ex-communist elite members identified in the upper class). There are three social classes in Romania, too, but the upper and middle class are still coagulating, while the lower class is well established.

JEL Codes: A14; Z13

Keywords: social stratification; class; status; US; Romania

1. Introduction

The analysis of social inequality is one of the most important concerns of sociologists, economists, scholars and many others. Inequalities have always existed and will continue to exist in human societies. Even in the most primitive communities, where wealth and property are minimal, there is inequality among individuals, men and women, young and old, and the list can go on. How certain groups in a society have became richer or more powerful than others, how unequal modern societies are, what chance someone coming from a less privileged background would have to reach the top of the economic hierarchy and for what reasons poverty still exists in developed countries – are questions that sociologists are attempting to answer in order to clarify the ways in which societies were stratified and the processes through which status was achieved.

In order to draw attention to the unequal positions occupied by individuals in society, sociologists speak of social stratification - structural
inequalities between different groups of people. Societies are composed of several “layers” in a hierarchy, the most privileged on top and the less privileged at the bottom.

2. Stratification

There are four major types of stratification systems: slavery, caste, estates and class (Giddens, 2010: 263-309). Slavery is an extreme form of inequality in which some individuals are actually owned by others. Caste is associated with the cultures of the Indian subcontinent. The term caste is not of Indian origin; it comes from the Portuguese word casta, meaning race or purebred. The caste system is highly complex and structurally varies so much from one area to another, that it is not basically a single system, but a diversity of insufficiently linked beliefs and practices. Estates were part of European feudalism and consist of social strata with different obligations and rights, some of these differences established by law (the nobility, the clergy and the commoners).

Class differs in many respects from slavery, caste or estates. It can be defined as a large-scale group of people who share common economic resources which strongly influence their lifestyle (Giddens, 2010:267). Unlike other stratification systems, class membership is not based on a position specified by law or by custom. Class systems are more fluid than other types of stratification, and the boundaries between classes are not clearly defined. Class membership is at least partially acquired. Classes depend on economic differences between groups of individuals (inequalities in the possession and control of material resources). Class systems mainly operate through large-scale impersonal links (e.g. unequal working conditions).

Specialists in various domains consider that society is made up of a certain number of classes. According to Giddens (2010), in a society we distinguish the upper class, the old middle class, the upper middle class, the lower middle class, the upper working class, the lower working class and the underclass.

The Goldthorpe class scheme is more intricate: 1) higher-grade professionals, administrators, and officials; managers in large industrial establishments; large proprietors; 2) lower-grade professionals, administrators, and officials, higher-grade technicians; managers in small industrial establishments; supervisors of non-manual employees; 3a) routine non-manual employees, higher grade (administration and commerce); 3b) routine non-manual employees, lower grade (sales and services); 4a) small proprietors, artisans, etc., with employees; 4b) small proprietors, artisans, etc., without employees; 4c) farmers and smallholders; other self-employed
workers in primary production; 5) lower-grade technicians; supervisors of manual workers; 6) skilled manual workers; 7a) semi-skilled and unskilled manual workers (not in agriculture, etc.); 7b) agricultural and other workers in primary production.

*From a structuralist point of view*, subclass/underclass comprises the individuals who possess low levels of indicators such as education, opportunities for skills training or skills upgrading, employment time, autonomy or authority in the workplace, health, social assessment, social inclusion. *From a culturalist perspective*, it encompasses individuals who, being spatially isolated from the dominant (mainstream) culture, develop a new (sub) culture, which has self-reproduction abilities (Vasile, 2008: 367).

Some sociologists argue that in industrialized countries: a) class has become relatively unimportant compared to the early development of industrial capitalism, when there were considerable differences between the poor employees and the rich who employed them, b) material inequalities have been reduced (e.g. taxes for the rich, combined with social benefits for those who cannot easily make a living) and c) due to the spread of public education, those who possess the necessary talent can find their way to the top levels of the economic and social system. Other sociologists even consider that because of easier access to science of an (increasingly) significant mass of individuals, the percentage is changing irreversibly in favor of the poor.

When analyzing the relevance of stratification theories for modern societies one can notice the influence of those developed by Karl Marx and Max Weber. For Karl Marx (1970), *social class* stands for a group of people who are in a common relationship to the means of production with which they earn their living. In pre-industrial societies, the two social classes were land owners (aristocrats, small country nobles, slave owners) and those engaged in land exploitation (serfs, slaves and free peasants). In industrial societies factories, offices, machines and wealth/capital are important. According to Marx’s theory, there are two main classes in a society: those who hold these new means of production (industrialists or capitalists) and those who earn their living by selling their work (working class or proletariat). In addition to the two main classes, there are transitional classes (remains from a previous type of production system, such as the peasantry in modern societies).

Max Weber (1968) believes that in order for a class to be created, a greater variety of economic factors are important (than those accepted by Marx). According to him, class divisions stem not only from control or lack of control over the means of production, but also from economic differences, such as skills or qualifications which affect the types of jobs that people get (e.g. people with managerial or professional occupations earn more and enjoy favorable working conditions). In addition to social class, Weber
distinguishes two other basic aspects of stratification: *status* (based on non-economical qualities like honor, prestige and religion) and *party* (refers to affiliations in the political domain).

*Status* in Weber’s theory refers to differences between social groups as to social honor or prestige granted by others and varies independently from class divisions. Groups can have a positive privileged status (people who enjoy a high prestige in a given social order, such as doctors, lawyers and individuals from aristocratic families who still enjoy considerable social esteem even if they lose their wealth) or a negative one (outcast groups, subject to discrimination which prevents them from taking advantage of benefits available to others, e.g. “the new rich” often regarded with contempt by those who acquired wealth over time).

*Occupational status friendship* (Vasile, 2008: 369-370) is an individual’s position in society according to their sociability. *Status order* is a structure of relations of superiority, equality and inferiority among individuals perceived and, to some extent, accepted. This order does not reflect personal qualities, but rather the degree of social honor attached to a particular assigned attribute (e.g. status acquired by birth). *Socioeconomic status* defines an individual’s place in society according to income and education. The distinction between social class and social status is important because the first term influences the stratification of economic opportunities in life (e.g. the risk of becoming unemployed, short-term variability of income, earning opportunities in the long run) while the second term influences the stratification of cultural consumption (e.g. music, art, theater, cinema).

*Access to technology* influences individuals’ socioeconomic status. Thus, the differential use of digital media has the potential to increase inequalities. Those who are already in advantageous positions will be privileged while access to better resources for the underprivileged will continue to be difficult (Grusky, 2008: 936-944). David B. Grusky addresses post-industrialization structural changes (the increasing importance of technical and educational expertise and the emergence of cultural elites in the West), but considers that, most likely, major economic, political and prestige inequalities will persist.

Floya Anthias (2001: 835-854) argues that not only *class* but also *gender* and *ethnicity* are the main differentiators in terms of social stratification in modern societies (e.g. an African-American man who is part of the working class is in a dominant position as to gender and in a subordinated position as to race and social class).

### 3. Social Stratification in the US

According to some American sociologists, social stratification is based on social factors such as wealth, income, education, occupation, but also on
physical and intellectual traits. Social position is also given by family 
lineage, race, ethnicity, age and gender. In the U.S. more features are added, 
such as IQ, appearance, personal abilities and achievements. Stratification, 
social status and living standards in the U.S. depend, in part, on the 
occupation of the individual. Working in areas such as medicine, law or 
engineering confers a higher status than working as a waiter, doorman or 
driver.

In general, sociologists have identified three types of social classes in the 
U.S.: upper/top class, middle class and lower class. Within each class, there 
are subcategories. Wealth is the most significant element in differentiating 
classes, being transferrable to children. According to various economists, 
20% of Americans have a high income (upper income), 20% have a low 
income (lower income) and 60% make up the middle class (with annual 
income ranging between 25,000 and 100,000 USD).

Another distinction between social classes is achieved by power and 
control over their own lives. Members of the top class have power and 
control over their own lives and their social status grants them power and 
control over others; representatives of the middle class have control over 
their own lives and not over others; lower class members have no control 
over their own work and lives.

Upper class in the U.S. consists of the elite with a considerable fortune 
and who, although representing just 1% of the population, owns a third of 
the country’s wealth. Money means not only access to material goods, but 
also power (e.g. corporate presidents’ decisions affect millions of people, 
moguls shape the collective identity of the entire nation and members of the 
top class can influence politicians in order to protect their own interests).

There is a differentiation in American society between the prestige 
enjoyed by people whose wealth was passed on from generation to 
generation (old money) and the prestige of people with a recently acquired 
wealth (new money).

The American middle class is divided into upper middle class and lower 
middle class. People in the first category generally have academic training, 
studied management, law, medicine, have comfortable incomes, big houses, 
expensive cars, can afford expensive holidays and their children have access 
to quality health and educational services. Those in the second category 
generally have jobs that are supervised by the upper middle class (e.g. 
technical support, administrative positions). The lower middle class affords a 
decent living, but makes sacrifices in order to keep it and cannot afford 
making substantial savings.

The lower class is divided into working class (people with a lower level 
of education than the lower middle class, they have lower income, their 
occupations require less experience and qualifications but are more 
physically demanding), the working poor (unlike the working class, their
occupations are often temporary and do not provide health insurance or pensions, some members did not finish high school, others are illiterate) and the subclass/underclass (unemployed or low paid individuals, some are living on the street, receiving state help).

Andreas Hess (2001:168-174) draws attention to the persistence of a severe structural problem in the U.S. i.e. large segments of the population are excluded or disadvantaged socially, even though the state puts emphasis on equality and freedom.

4. Social Stratification in Romania

According to Octavian-Marian Vasile (2008: 367), Romanian sociologists Stânceulescu and Berevoescu considered that the subclass concept was inappropriate for Romania because a lot of people were experiencing poverty and poverty characteristics were found in the majority of population. Living in poverty are members of the following segments of the population: low-wage workers (taxpayers who work and pay taxes), pensioners with low pensions, persons that are unable to work, single parents, people living on occasional income, those who do not want to work, Romanians, Hungarians, Roma and other ethnic groups. However, by analyzing the data provided by the Public Opinion Barometer of Soros Foundation in Romania, Stânceulescu (2007:368) talked about subclass with reference to the category of people who have a deficit in capital (human, economic, cultural, social, and symbolic).

Emerging subclass members are mostly people around 30 years of age (without qualifications or with an industrial qualification no longer in demand) and people around the age of 40 (too young for the early retirement program and too old to enter the labor market). They are excluded from the formal labor market, due to lack of education and skills, but are exploited in the informal market where jobs are insecure, dangerous and poorly paid. Similar to poor areas in western countries, Romanian poor areas are institutionally marginalized, avoided, have a negative prestige, being dominated by petty crime, domestic violence, the “deviance culture” and are poorly connected to the flow of information and change.

Stânceulescu (2007) believes that those who held political capital during communism are today’s elites. In post-communist Europe, the top of the social pyramid belongs to the communist technocracy, which is the core of the ruling class. Romania nowadays is socially polarized, most people being more or less poor and doing everything possible to make ends meet.

Laureana Urse (2003) argues that in the Romanian society the middle class formation process is underway, with two sources generating this class: private property and labor professionalization. According to her, Romanian
middle class consists of old social agents (trained in the communist period and best adapted to the new economic reality) and new social agents (one cannot ignore the effects of the private sector’s development).

Because the economic and social transformation process is underway in our country, the middle class composition is not well determined and limited access to property, unconsolidated property relations, ever changing legislative and institutional framework and low living standards are all aspects of the context in which middle class is formed. Therefore, Romania must: a) form the segment of the middle class represented by the medium entrepreneur b) avoid the impoverishment of professionals, who through their work, values and behaviors belong to the middle class, c) form as large a middle class as possible, both on a traditional level (related to private property and private initiative) and on a new level (managers, professionals, civil servants and so on).

As to the upper class, the “great owners” (the core segment of the upper class) are left to the press, which (through the publication of the list of one hundred richest Romanians) draws public’s attention upon the upper class layer in formation. The upper class represents all those who are grouped around a maximum scale status, have the highest income in society (they usually make money from oil and gas, banking, real estate, insurance, constructions, industry, trade, media, agriculture; the starting capital source in most cases is unclear and controversial) and have specific values and lifestyles. In addition to the one hundred richest Romanians, who belong to the upper class, there is a lower upper class segment with other successful entrepreneurs, such as bankers, managers of large companies, successful lawyers, doctors with exceptional professional achievements and representatives of the intellectual elite.

4. Conclusions

Although various types of stratification systems have been established, class is the prevalent one. While slavery, caste and estates are based on legally or religiously sanctioned inequalities, class divisions stem from economic factors which influence the material circumstances of human existence.

While class is objective (derived from the economic factors associated with property and income), social status depends on subjective assessments of social differences (a doctor versus a doorman).

In the US members of the upper class make up an extremely small number, but they are extremely influential. There is a very significant middle class segment (60%), but also many individuals belonging to the lower class. Although the general idea is that the US is a “middle-class society”, in
reality millions of Americans are still facing difficulties to ensure their existence.

In Romania the middle class and the upper class formation process is underway, with members pertaining to both classes still needing to be clearly determined. What is certain though is that some of the individuals who held political capital during communism are among today’s elites and that poverty characteristics are to be found in the majority of population (e.g. low-wage workers, pensioners, single parents, people without qualifications or with industrial qualifications no longer in demand, people too young for the early retirement program or too old to enter the labor market and so on).

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SOCIAL TECHNOLOGY AS A METHOD FOR MANAGEMENT OF THE SOCIAL PROCESSES

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ABSTRACT: The article discusses the social technology as a tool for management of the social processes and the methods for assessment of its effectiveness. It makes a review of general assessment analysis on each stage of the program realization-design, implementation and the evaluation of program benefits.

JEL Codes: H55

Keywords: social technology; social processes; social effectiveness

1. Introduction

Social technology is a tool for the management of the social processes that provides a framework of consistent actions of an individual, a team and authorities governing a region, an area, a community, city, town or other place of residence. The model of “technologization” or technological development of the social environment/arrangement/ via the social objects and processes represented in it aggregated by attributes, features, characteristics, methods of forming, manifestation and reproduction. The evaluation of these technologies should take into consideration the effectiveness of the methods used to reach the set goals and the extent to which they ensure the achievement of required results.

2. Material and Methods. Results

The effectiveness of the social technologies could be assessed using valuation analyses that have been widely adopted lately. A valuation analysis could be performed either by the sponsor of the project for design and implementation of a social technology or by the designer of the technology. It is important to note that an assessment review could be performed at the
design stage as well as at the implementation stage of the lifecycle of the technology.

The assessment review may focus on the technology end-to-end or only on a part of it. It has to be noted that the assessment review is concentrated on the internal characteristics of the technology, which allows drawing conclusions for its positive and negative qualities. The assessment strategy for the design stage and the implementation stage involve evaluation of the external effects and the program results.

The evaluation of the effectiveness of the technology could be based on different models. The goal assessment model is focused on the analysis of the program goals, the extent to which the social technology meets them and the extent to which they are realized. In this case, as a first step, an assessment of the potential goals of a specific social technology and their formulation is performed and, as a second step, the ability of the technological processes to ensure the accomplishment of the goals is reviewed. The effectiveness of a technology is as high as the extent to which it reaches its goals.

The general assessment review is targeted towards discovering the obvious and hidden effects of the social technology. The evaluation of the effectiveness of the social technology is closely related to the complexity of the expected benefits: while there is poly-modality of the real effects for the object, the subject and the social technology itself as a tool, there is no adequate valid document for their measurement.

The effectiveness of the social technologies could be measured via comparison of possible realization levels: the first level could be reached with the existing resources and limitations without implementation of technologies, while the second one is reached via implementation of specific technologies in the context of existing resources and limitations and eventually via development of applied technology tools and elimination of various impediments. In addition, the effectiveness of the social technology is strongly related to the availability of resources for its realization.

The effectiveness of the social technology is determined by subjective, as well as objective factors. The former are related to the individual skills of the experts participating in the implementation of the technology, the level of their professional skills and experience. The objective factors include the factual conditions of the environment, the work processes, the information flow and the control

3. Discussion

There have been a number of attempts to describe the methodology for assessment of the effectiveness of social initiatives (social projects and
A social initiative implies a specific activity of an organization aiming to change the social status of a community or a category of individuals. A social initiative would include the design of legal, technical and economic conditions for realization of specific goals. A set of social initiatives with common goals is aggregated into the so called social program.

When discussing the programs for social protection of the population executed by the public employment services in Bulgaria, it should be noted that the existing framework for provision of social protection and social services provided is focused on the “process.” The social protection authorities, social services and institutions would usually evaluate the effectiveness of their work based on the quantity of service recipients, the volume of provided services and the volume of spent state-budget financial resources or the financial resources attracted from other sources such as operational programs, etc., rather than on the benefits received from the provided services (i.e. how the provided services have affected the behavior, skills and the self-esteem of the targeted population group etc.). Despite the transition to performance management methods, the issues related to the measurement of the benefits of a social program and their comparison to the spent financial resources continue to remain outside the control of the authorities for social protection and financial management.

It is no secret that the lack of sufficient financing for existing and future programs is often underlined to be one of the most acute problems related to the provision of social services. At the same time, in spite of the pressing nature of this problem, it is often omitted that financing is only a resource required to achieve the final outcome – decreasing the pressure in the society, increasing of the welfare, etc.

The insufficient transparency of the budget spend and the strong attention to financial resources could be classified as one of the most crucial factors impacting the effectiveness of political decisions and the ability of the state authorities to improve the quality of social services. Even when social service authorities, the social worker or the employee in the employment agency are well aware of the actual benefits achieved in the provision of social support, the governing bodies would not require and, consequently, would not reward these achievements, but would at best incentivize the processes or at worst – the demonstration of the process. At the same time there are no effective mechanisms for motivation of the service supplier for his/her contribution to accomplish expected results or for his/her responsibility for achieving them.

One of the accessible instruments that could alleviate this situation and shift the focus onto the benefits obtained from financial resources spent is the assessment of the social programs. The assessment would not only transfer the attention of state authorities to the examination of the achieved results and benefits (both with quantitative and qualitative) but would also
improve the analytical skills and knowledge of the social service workers and officers. It provokes the right questions in a timely manner, triggers the application of an analytical approach to decision making regarding budget spend, as well as the development or the improvement of the social policy. Does the program achieve its goals? Has the social aid been granted to those intended to receive it? Is there a leakage of financial resources to those, who do not need aid? Are there administrative barriers, hindering the access to common wealth? To what extent do the achieved benefits match spent financial resources? All these and other questions, formulated in the performance of the assessment of the social program, form the group of significant, clear and measurable goals throughout the interim or long-term development of the system for social protection of the population.

The budget's limitations are only one of the external factors determining the need for assessment of the effectiveness of the budget spend. The social pressure coming from the citizens, who are also the potential electors, is another key factor stimulating the implementation of the assessment method. Each social program reflects certain social interests, for example, to have less homeless people, to decrease the number of young people addicted to drugs, to increase the number of elderly people who remain active in the local community, etc. The political pressure from the electors, on one hand, and the budget limits, on the other, determine the necessity to analyze the specific results of a social program, financed by the local budget and to control the purposeful spend of financial resources. The assessment gives the representatives of the local authorities full, meaningful and objective information about the results of the program and the effectiveness of it realization. Thus, the assessment becomes a tool for a feedback loop amongst the authorities, recipients and the program itself. The understanding obtained in the assessment process contributes to the recognition of the program in the local community as well.

The interim assessment aimed at analyzing the outflow of financial resources in the course of the program reveals the reasons for the variance between actual and budgeted spend. In some cases the variance could be due to unrealistic budgets, prepared on the basis of insufficient or inadequate external expenditure drivers. The assessment allows discovering such drivers early in the course of the program and update the expense budget on the basis of more accurate actual data.

The assessment also serves as basis for balanced economical and political rational decisions related to the realization of the program, as well to its timely amendment. Additionally, the assessment allows for a comparison between the social programs and other forms of social aid in cases of budget cuts, when decisions whether to continue the financing should be made.

In the course of a social program new service mechanisms are often used – systems for search and selection of clients, collection methods, models or
schedules for rendering a service, etc. A well-performed assessment could
discover imperfections in the design of the program or implementation
obstacles, thus helping to improve the service mechanism and ultimately to
achieve higher effectiveness at lower cost.

In addition, the assessment supports the program management and the
experts to gain an overall understanding of the program realization process,
including of the tools for achieving the final outcomes. It is important to note
that as the results from the assessment help to alter the perception for
ineffectiveness of the state governance and control and to create an
opportunity to eliminate the barriers between the business and the local
authorities.

It is often the case that both the population and the business have a
remote idea of what do the local authorities do to increase the wealth fare of
the city or region residents. The assessment forces various groups of
economic agents, and in particular the business, to consider the effectiveness
of the social programs, the possible options for their improvement to meet
local population needs and the opportunity to contribute to the solution of
local problems.

What are the requirements the assessment is expected to meet? The
assessment of the program effectiveness should be based on explicit criteria
and reference points expressed in specific indicators. The reference points
could include formally accepted standards for social services, but they could
also be indicators, developed specifically for the program, for example the
minimal quality standards for social services in UK have been developed by
the Ministry of Health and authorities such as the Social Services Inspection
/SSI/ and the Audit commission /AC/(SSI, 2001-2002) are constantly
checking the compliance of provided services with these standards.

The effectiveness of the assessment is dependent on the sponsor of the
project. The decision for initiation of the assessment should be taken by
manager’s superior to (with higher rank) the program management members.
Additionally, it is important to ensure the objectivity of the assessment by
involving independent experts, whose personal or professional interest is not
affected by the results of the assessment. The assessment should be practical
and have usable results, which require that it is performed with the
participation of on-the-field experts (for example social workers or
employees in the social services facing citizens on different topics) and,
above all, clients of the program. These two groups of stakeholders are able
to provide important information on different aspects of the realization
process; emerging obstacles and possible solutions for address them.
4. Conclusions

The reliability of the assessment’s results is ensured by assigning experts, who use adequate contemporary methodology tools. The assessment results should be accessible for all main stakeholders and should be subjected to discussions within a broad group of specialists involved in the realization, financing or the design of the social program. One of the main methods used to evaluate the effectiveness of the state programs for social support of the population is the assessment analysis of various indicators measuring the effectiveness on every stage in the lifecycle of the program:

1. Design stage: the design of the program is assessed using qualitative indicators to measure the main value reference points (compatibility of the goals of the program design with the goals related to the social and economical development of the country, the legal framework and principles and the expectations of the program beneficiaries)

2. Implementation (realization) stage: the effectiveness of the program is measured using qualitative indicators expressing the organizational, legal and management components (a prerequisite for effective state governance with regards to social issues is the usage of effective mechanism by the state social services engaged in the realization of the program to coordinate the social impact)

3. Closing (evaluation) stage: the effectiveness of the program is assessed using quantitative indicators for the economical component (comparison of the volume of services and their cost under restricted human and financial resources) as well as qualitative indicators (compatibility of the goals of the program managers with the actual needs of the program beneficiaries).

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INTRODUCING GAMES IN ESP CLASSES

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ABSTRACT. According to the dictionary, a game is a form of play or sport. But a game can be much more than that. A game can: a) help those who play develop their inner self, b) help them to relate to others more effectively and cooperatively, c) train them in creative freedom as they feel less embarrassed or afraid and thus, they become more confident, and finally, d) bring them and the facilitators closer, which will eventually help to lower the tension and anxiety that prevents students from acquiring the language.

JEL Codes: A23

Keywords: acquisition; practice; games; communication skills

1. The Role of Games in Language Acquisition

Although it is obvious that games can be used to practice certain language items at certain stages in the acquisition process, the main aim of games should be to develop communication skills. Thus, games will cease to be just a reward or relaxer after working hard on more ‘serious’ aspects of the course, and will become a stimulating and interesting way to help students to acquire the target language without even realizing it.

Games provide: first an enjoyable atmosphere, second a situation in which communication is essential and third a distraction from the study of the language as such. But I think that the most important gain is the fact that acquirers stop thinking about the language and use it in a relaxed atmosphere that favors communication.

However, we must remember that not all games have these characteristics. So, when we plan games, we must remember that for communication to take place, the players must find it essential to communicate.

In any game we can focus on words, discussion, action, problem solving, and guessing, or a combination of these.
2. Some Tips for Organizing Games

Before playing a game
- acquirers must understand what the rules and the final goal are
- students must have already acquired the language that they need in order to be able to play the game (when the instructions are more difficult for an acquirer than the language he will have to use, it would be a good idea to model the way it is played for a short time with the good acquirer so that the others realize what they are supposed to do)
- it may be helpful in some cases to write some of the most difficult vocabulary on the board.

It might also be a good idea that the teachers should keep a booklet of games. Whenever they come across a new interesting game, they can write it down there and they can even write down comments beside their descriptions of the games once they have tried them.

3. Games for ESP classes

Building words

A) Use of prefixes to form new words

a) over + verb = verb + more than

Example: to bid more money than = to overbid

Form the verbs corresponding to the rule given above. The root is given in bold. Then translate each derived word into Romanian.

<table>
<thead>
<tr>
<th>verb</th>
<th>over</th>
<th>translation</th>
</tr>
</thead>
<tbody>
<tr>
<td>to book seats/rooms</td>
<td></td>
<td>for too many passengers on a flight, train, in a hotel, etc.</td>
</tr>
<tr>
<td>to charge</td>
<td></td>
<td>(on an invoice) too high a price (more than is due)</td>
</tr>
<tr>
<td>to capitalize</td>
<td></td>
<td>too much a company</td>
</tr>
<tr>
<td>to draw</td>
<td></td>
<td>more money from a bank account than the amount it contains</td>
</tr>
<tr>
<td>to load</td>
<td></td>
<td>too much on a vehicle or ship</td>
</tr>
<tr>
<td>to pay</td>
<td></td>
<td>too much for something</td>
</tr>
<tr>
<td>to stock</td>
<td></td>
<td>too many goods in a store, shop, warehouse</td>
</tr>
<tr>
<td>to subscribe</td>
<td></td>
<td>for more shares than available</td>
</tr>
<tr>
<td>to tax</td>
<td></td>
<td>somebody too heavily</td>
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</tbody>
</table>

b) over + verb in the past participle = adjective showing more than the verb.

Example: to crowd too many people on a vehicle = overcrowd
Now form adjectives according to this rule. The past participle of the verb is given in bold. Translate it into the Romanian.

<table>
<thead>
<tr>
<th>verb in the past participle</th>
<th>over</th>
<th>translation</th>
</tr>
</thead>
<tbody>
<tr>
<td>an account from which you have <strong>drawn</strong> more money than it actually has in it</td>
<td></td>
<td></td>
</tr>
<tr>
<td>a factory that has been <strong>manned</strong> in excess of production necessities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>an office that is <strong>staffed</strong> with too many employees</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**B) Use of suffixes to form new words**

1. Write this on the board:

<table>
<thead>
<tr>
<th>-er</th>
<th>-hood</th>
<th>-age</th>
<th>-ing</th>
<th>-less</th>
<th>-al</th>
<th>-able</th>
<th>-ful</th>
<th>-ation</th>
</tr>
</thead>
<tbody>
<tr>
<td>neighbor</td>
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<td>stick</td>
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<td>post</td>
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<td>care</td>
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<td></td>
<td></td>
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<tr>
<td>penny</td>
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<td></td>
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<td>invite</td>
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</tr>
</tbody>
</table>

2. Students copy the table into their notebooks and complete the chart by putting check at all possible combinations.

3. In pairs, students brainstorm as many other words as they can think of that use these suffixes.

4. Then students ‘quiz’ each other by saying a suffix and the other student must say a word that uses that suffix. If a student cannot think of a suffix or of a word, he/she gets a penalty point. Suffixes can be repeated, but not the words. The student with the **fewest** penalty points wins.

**Example:**
- “-full” - Hopeful “-ation” - Information “-less” - Powerless. Etc.

**Definitions.** This game can be played in teams with the teacher reading the definitions, or, particularly in smaller classes, students can attempt to answer individually or in pairs. Each student is given in turn a definition consisting of a sentence related to economic or business terminology. He reads out the definition to the rest of the class. If anyone is able to give the correct term, he or she is awarded three points. If no one knows the answer, a second attempt to guess the answer is made for two points. The third and last attempt to give the correct answer is worth one point. Of course, if none of the students can come with the right word that corresponds to the definition, the teacher gives it. But no team gets any point if that is the case, obviously.

**Example:**
- a) The state of a company which is unable to pay its debts and has to be wound up. (Answer: bankruptcy)
- b) Inability to find a job. (Answer: unemployment)
c) A component of the market forces which when it prevails makes prices of goods rise. (Answer: demand)
d) A payment by the government to producers of certain goods to enable them to sell their products at a low price. (Answer: subsidy)
e) Rights over property. (Answer: ownership)
f) Employment of personnel in excess of the real necessities. (Answer: overstaffing)
g) A component of the market forces which when it prevails makes prices of goods fall. (Answer: supply)

Crossword puzzles

This game serves as an excellent means of review of key business terms or as revision before examination time.

The class is divided into two teams, and a point is awarded for each correct answer; the opposing team wins the point if the first team cannot find the correct word which corresponds to the definition.

Here is an example of a crossword puzzle:

<table>
<thead>
<tr>
<th>1</th>
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</thead>
<tbody>
<tr>
<td>2</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td></td>
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<td>3</td>
<td>x</td>
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<td>x</td>
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<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
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<tr>
<td>5</td>
<td>x</td>
<td></td>
<td>x</td>
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DOWN: 1. A company having too many employees (11 letters)
ACROSS: 2. Control of the whole or greatest part of an industry or market by only one large firm (8)
3. Hold a more important position than something else (7)
4. To give a job to someone. (6)
5. The percentage of a market held by a product, a company. (5)
6. Money paid by a government to support certain companies or keep prices low. (7)
7. To try to make people buy the goods of a company in preference of another. (7)
8. An economy that is the opposite of a free market economy. (7)
9. Not to succeed in doing something (4)
10. A market where prices are established by the interaction of supply and demand. (4)

11. Operation of a country’s money supply, trade, industry. (7)

12. One of the two market forces of a free market. (6)

60 Seconds

In this game students are each given on a piece of paper a relevant term or economic law related to business English. The students must then describe it to the rest of the class without saying the word written on the paper. Students are given no more than five minutes to prepare a description of their term because the essence of these games is their speed and lightheartedness whilst nevertheless providing useful review of the specialized vocabulary. The student has one minute in which to describe his or her subject. If after 15 seconds someone knows the answer, that student and the student who is speaking are both awarded three points. If it takes up to 30 seconds they are both given two points, and if up to a minute only one point. Otherwise, no one wins a point and the game moves on to the next player.

This game provides fun especially during the last few minutes of an ESP class or before the exam session exam begins. Although the game can involve a great many incorrect answers being called out, this should present no problem or distraction, as the student merely continues talking until he hears the right answer. The teacher, of course, controls the activity and stops each talk at the appropriate moment. Subject might range from general economic terms to more specialized vocabulary directly related to management, marketing, financing, accounting, etc.

4. Connecting ESP and the Subject Matter

All these games can be highly successful in encouraging whole-class participation. Like all other games, they are best used only very occasionally, so that enthusiasm does not pall. Definitions and Crossword puzzles may last up to 30 minutes or up to the whole period of 50 minutes if the teacher prepares enough definitions or a more difficult and large puzzle. Building words and 60 Seconds are especially useful as lesson “fillers” in which even the most reticent students are happy to compete.

In none of the games is specialized knowledge required by the English teacher once he or she has located the business terms to be used. The teacher can do some research in advance and look up the more difficult terms in dictionaries or other reference books. It is essential to highlight the fact that it is the students’ knowledge of the subject that is put to the test. Although such games may be thought to have no direct link with English language teaching, they are nevertheless a means of transferring the subject matter of students’ business classes into the ESP class, which is a prime objective of ESP but is not always so effectively achieved.
REFERENCES


ABSTRACT. The worldwide recession has damaged Romania’s economy, affecting all its economical branches like in so many other countries. At global level stock markets have fallen, large financial institutions have collapsed or have been bought out, and governments in even the richest countries have had to come up with rescue packages to bail out their financial systems. Knowing and understanding the global financial crisis, implies using and applying realistically all economic theories as part of the scientific knowledge. Practical action always guided humans to appropriate strategies molded on our current time and space according to the national and international context. At the present time this preliminary discussion about the crisis needs to be built upon the general economic theory, taking in consideration that this theory has both Romanian and European aspects incorporated which are to be applied to the current situation of Romania after joining the EU.

JEL Codes: A10; E00

Keywords: global economic crisis; economic rationality and hope; real economy; global consciousness

1. Introduction

The current social environment is very diverse, full of new labels and tags, characterized by large gaps, different categories of wealth and welfare. To fully understand and correctly evaluate the current flow of facts and future ones we need to take as a starting point the economic theory as a reference point so that we can ensure a correct guidance throughout the spider web of the modern surroundings. The economic theory contains numerous aspects, with central focus items needed for methodology guidance so that the economic study can be oriented to correct path of approach, ensuring rationality by including time aspect in the epistemological hierarchy.

In general terms thinking as an economist means to acknowledge the economic problems and having the urge to resolve them by positioning them at the beginning of all scientific investigations. This implies not necessarily studding things for the first time but meanly establishing solid connections
between the already-known facts and the facts to be clarified or studied. The process aims at gathering new data and systematization of the existing ones, the clarification of the so-called “eternal themes” and also building new concepts.

This process needs urgently the melting pot process of the international economic language, to diminish the language terminology and to universalize the economic language.

A fluid and heterogeneous language is required to be applied correctly for all economic specialists and also for the economic agents to ensure a fluid dialog in the current context of economic worldwide market and of free movement of the information and also the current trend of world globalization and economic integration worldwide.

2. Coordinates of Contemporary Crisis

The economic theory allows people to develop an elevated thinking model. An attitude towards the current situation leading to the progress of knowing and understanding the current economic complexity, its mechanism, and they are able to formulate hypothesis and finding pertinent solutions for the current situation.

Assimilating the economic theory is a current time requirement to be able to evolve on the long term. Solving an economic situation in this time of informational flood needs a harmonious balance between theory and practice taking also into consideration that if the theoretical problem is not solved the practical situation also will be impaired. Therefore we need to focus on the economic activity towards the key points like: the economic level and its structure of industry, administrative or regional branch; productive and administrative territorial or regional correlation between owner and manager, the relationship between extensive versus intensive growth, between the different field areas, between raw materials, energy and the degree of exploitation of each one; the status between the economic implication of the state and the economic freedom connected to the property structures, the status between the correct usage of the manufacturing materials at the traders level and the economic cycle; the fiscal system and other improvements at monetary-financial-currency level; the leverage between efficiency and income, the relation of economic growth, the demographic evolution and the labor force vacancy.

All EU countries and even the current Romanian economic environment require an open, transparent and dynamic theory. This theory needs to combine classic economic elements but also updated elements in a unique synthesis following the path to a new frame work of ideas, leading to a more
complex study of the economical issued through the glass of the balance and unbalance at different levels and economic structures.

Based on the type of factors who influence the change and the economical – financial dynamic we can take as main elements of the economic theory in the computer era following specific economic theory: the role of demand theory, role theory of supply, technical innovation and scientific creativity and ecological role of theory in business management factor economic and financial theory rarity factor, utility theory and tangible economic assets, especially intangible revolutionizing modern theory of management at all levels of aggregate economic and financial, in conjunction with institutional and spiritual reconstruction of the company, as a requirement of sustainable development wise scientific knowledge society.

With all these aspects some experts name this economic trend as “economy of rationality and hope,” which tends to change the individual and the communities, in which they work in, taking them to a healthy way of life coexisting with all the generations and also to strive to succeed.

The economic theory is a concept made to settle and stimulate the health of the entire eco system, the unity between people, environment, organizations, institutions and communities.

Grasping this complex concept which integrates the new directions of space and time are becoming rapidly a common way of life, work and love and they draw out the acute rationalization of economics through recalibrating the human mind and spirit as an endogenous growth factor. This implies knowing the changes from inside and outside of our own environment but also for the rest of the world surrounding us.

From this re-spiritualization process of the human being we need to move on to the consciousness transfer and change of the global mind and mentality as a starting point of understanding and acting proactively for keeping the human identity and diversity in the macro financial context of present and future.

The business environment imposes the need for clarification and a realist understanding of the economic theory which needs to be assimilated on the premised of an accurate education and economic overview.

The economic coordinates in the current period can be synthesized based on object, method and function. National and international experience all share the necessity of implementing in the process of understanding the current crisis of some characteristics:

a) The economic theory must be seen differently now as its main object of study was changed. Initially economic understanding was aimed at analyzing elements: Factors, institutions, components and assets from the static equilibrium. After some time this analysis went on tracking the phenomena and the conditions in which the balance sheet but also the theoretical and practical aspects of the economy. This means that the
tendencies of one period are intertwined with the general economic tendencies in the macroevolution process started in the early 90’s, as no clear predictions were ever made even if we can hint some important ones. The important fact is that the economic theory of the future will be a creative leap on the premises of scientific and technological revolution as a worldwide trend. The science-technique revolution is defined through deep transformation – biological, physical, chemical, informational, robotics, microprocessors etc. We also need to take into consideration the managerial economic-financial status which brings new ending to all the science including economics.

b) The economic and financial approach under the aspect of theory, methodology and learning techniques adds a new perspective in the economic theory and economics in general, and also between the economic theory and the enforcement of the economic – financial activity. This means catching the authenticity of the economic factor, taking out some oversized assumption and errors for some fundamental parts of the theory and economic practices such as: the productive function of the economic system, the role of the free market, the role of the consumer, the link between continuity and economic change and updating the technology and privatization.

c) Learning the economic theory is essential for students and for economic specialist and all the categories which come in close contact with real economy. This derives from the fact that the modern economy stores quality and structural changes which need to be understood by the specialist and so that they can come up with viable resolutions. Training the specialist is a proactive process to develop a behavior and mentality adapted to the modern marker and the economic freedoms, and also they need to be in concordance with following rules, loyalty principles, legal and accurate. Otherwise the economic chaos would lead and the negative downsides on a social m economic, moral and even cultural side would be tremendous.

d) The learning process of the economic theory needs to be a modern process, with means and instruments, techniques and advanced processes, compatible with high standard of educational process. The trained and the trainees must mold an elevated scientific and professional partnership, to allow creative thinking, to ask and formulate pertinent questions about the economic and financial models, to find answers and the appropriate solutions, starting from what they already know and what they assimilated, keeping up with the existing competition internal and external.

e) This process is going towards interdisciplinary and pluri-disciplinary actions. The causes of this trend are the complexity of the study, science in all economic departments, the updated technical process of the study, creating relations between pure science and practical one, between fundamentals and the applied ones in a modern learning curricula,
accentuating the dimensions of science, shifting towards structural theories made for the natural and human environment.

f) In these circumstances the economic theory needs to be in contact with all social and biological sciences. It will need to approach humans as consumers and work resources and also the decision factor in order to open new leads of investigation; more refines instruments of measurement, improvement of the economic analysis. We also need to develop communication paths between these sciences by correlating the concept system and notions and also amplifying the creative energy from all sides.

g) Another approach is the integration of the economic processed into the era of computers. This means changing from the classical approach to the synthetic integrated economic thinking way. This intertwines ads disciplines like: cybernetics, communication theory, system theory, semiotics which helps the transfer for methods, principles and concepts into the science areas.

h) Another important aspect is the flow towards logic. In practicing, developing and growing the economic theory there are empiric investigation and also logical involved patterns. So, more functions are in place in the same theory: methodological function, heuristic, explanatory and researching method.

i) In the current economic sciences we find more of the ideas of casuistry, profitability, and multiple interactions. At the same time logical patterns are used as axiom, shaping, molding, mathematical logic is also used in identifying the cycles, laws, theories and principles.

j) Another important step is testing the theory. This step presents high difficulty as of natural sciences in the economic theory testing is more specific due to the dynamics of the environment, of high costs and also of the economic particularities in which the human factor is more involved tagging along his own system of needs and interest points.

In this period of leveling the Romanian economy on the European patterns the role and functions of the economic theory rise in importance and there is a need to improve it and elaborate it on the long term. The economic theory is what offers to the economic sciences the power to anticipate and clarify. Without the theory we would need to find in the dark the way through economic problems, argumentative opinions and opposite political proposes.

The economic theory is a new trend in our country and also for others in the region where the decision and political view to reform and make the economy more efficient in order to surpass this current crisis are crucial for success. For this reason the theory helps in choosing the correct path to diminish the tension between limited, scarce, expensive, unreachable resources and the current growing and human needs. In this manner we can overcome the shortage and limitations imposed by nature and acting
rationally in the social economic environment, leveling goals, means and responsibility and also results in a coherent historic system.

Even if the direction of the Romanian economy cannot be taken out of the economic theory, the latter presents some gaps towards the communication mechanism between specific economic domains, and also between those domains and the decision makers at micro and macro level or mezoeconomic level. Theses gaps of communication generate dissatisfactions or even restrain to some sciences, components of the general system of economic sciences. It is important to observe the theories regarding the involvement of the state in economy, ways, processes and instruments and even the results obtained in the space –time loop.

Lifting the economic theory on a coherent theory allows a more accurate understanding of the dynamics of the economy on a long run and in a word wide view.

As such the decisions which are taken in order to smoothen the free market completion are complex and important as we need to keep in mind also a lot of other aspects such as adhesion, integration, harmonization, convergence, and globalization and also the need of a reconstruction of spiritual aspects to form a durable evolution of the knowledge society. In this context the ideology suffers mutations and they are still present as in the past. There is also the reverse where we make the role of the free market absolute and the balance is fragile, oscillatory.

When political decision of economic and financial aspects are taken it is taken out the dimension and the social impact of the economic processes which will generate sooner or later high costs, economical unbalance, social and ecological changes very hard to contain. Revealing certain processes are harmful, but considered as normal in the Romanian economic life, as deindustrialization, decooperativization, fraudulent privatization, corruption, etc. However, scientific and coherent economic theory to assess fair and realistic-scientific orientation further transformational economic and financial movements in a particular environment led sustainable development and European integration, national identity as authentic samples.

3. Traits of Global Crisis in Romania

With these aspects correlated to the Romanian economic financial status we shall synthesize some causes of the current crisis especially the internal ones. We shall take into consideration that the phenomena of the global crisis do strike the Romanian economy in its complexity. It involves a unitary system of human activities, finances and credit, and so we cannot treat them individually and even the financial banking aspects need to be studies at the
same time. The economy is a mix of rational activity, in which man selects what, how and when to produce for its goals of development and manifestation of personality in the community, the natural product itself and society.

Economy, involving systemic banking and financial phenomena with other areas of social life, reflects in time and space a struggle between man and nature and society in it, to adapt to the needs of biological life, the natural environment and social context is forced to live.

Without such a system to produce food, process it, package it and distribute it, to manufacture cloth, provide medical and educational services, to regulate and maintain order, to prepare the defense community - life would be very difficult.

Genesis and evolution of the economy consist of a constant process of valuation, made by a conscious man. Economy is therefore a real form of human action. It appeared and it was developed by man and for him, always with a human character. Human economy is a not a modern concept, it has a long history and has evolved in stages.

Content and continuous transformation of the economy reflects the way in which individuals fail to match their needs always growing, ever-diversifying, with scarce resources, but with alternative uses. Depending on the relatively limited resources, people act rationally to choose the most appropriate economic activity under defined conditions of time and space.

Stringent needs - resources are permanent, as manifested by the relative satisfaction and dissatisfaction, etc.

In the process of choice, everyone is in transition through life permanently recording joy, happiness, dissatisfaction, failures, failures or bitterness. Economy as real as human action itself is, in transformation and in a continuous transition. In this context the economic crisis takes place.

Economic life is a constant struggle of man with rare principles, the impossible and the unknown, the limits of freedom, to make certain elements, possible and known everyday life, that you put in the service proposed accomplishment goals. “The real problem is that in real life, normally we have to choose between risky situations and certain situations, but between different degrees of risk and possible outcomes.”

In this struggle with the limits of our normal man and in general human community in constant transition learns to adapt to the natural environment in which they live, representing a specific living environment, acting, and producing real and necessary existence. The progress of freedom in human history is therefore only progress made in combating the outer limits imposed, but primarily at the battle with the limitations we imposed the nature of us and that is a struggle life of each with himself.

That human action, especially in conditions of crisis, the responsibilities is assigned to two groups: a) individual responsibility reflects how the
freedom to choose what to do in its own way of living and b) how social responsibility reflects the freedom of everyone to act on the free choice of those who are interrelated by the social nature of human action. These two responsibilities should be consistent in time and space.

Obviously, there are many criteria for assessing the types of human activities. With relatively limited resources, all human activities which seek to answer the questions, how and for whom to produce are known as economic activities, including financial ones.

In this context it arrases the resolution of fundamental problems related to volume, structure and quality of goods to be produced, present and future possibilities to produce - by whom, where, when and at what cost - and the way we deal with distribution and final use of goods they have produced, of man-made environment to ensure compatibility with the environment.

Economic activity occurring through these utilities that people need for their living needs. Because people’s living needs are an ongoing process output that meet these requirements they are carried out continuously. Business activities, economy, at any time and historical times, is the primary endeavor of the people care to ensure the existence and perpetuation of the species, the satisfaction of vital needs for food, shelter, clothing etc..

Once those needs satisfied, prerequisites are created for transition to meet other needs: cultural, spiritual, political, individuals and community as a whole. That is why the economy is the vital and permanent in society, economic activity is involved directly or indirectly and representing the needs of society and the general foundation in the lives of all people.

Such argument we shall present when we try to outline an overall picture of the contemporary crisis causes economy shakes the foundation of all society.

Another relevant aspect, is the requirement understanding the economic and financial crisis not as two distinct processes, parallel, but must be understood in interdependence, mutuality, its permanency arising from the complexity of the economic system.

The economic crisis is a difficulty state of economic activities, a sudden rupture in economic activity, reflected in the slowdown, stagnation or decline of economic activities. It is a daunting juncture for the economy as a whole, for some sectors, regions, etc., a disease of economic body marking breaking serious economic balance, especially between production and consumption, supply and demand, with direct effects on prices, employment and use of production factors. The economic crisis is now turning economic cycle; the expansion phase (bottom) gives way to the depression (downward), the curve of Gauss.

Economic crisis requiring operators to act to determine the qualitative changes in conditions and growth factors in economic structures, aimed at eliminating imbalances, behaviors, institutions and mechanisms lack of
permanence. The economic crisis is triggering signal mass phenomena of “creative destruction.”

The financial crisis reflects a serious disorder of the country’s financial system (state finances, credit system, and circulation of money), it means disturbance of state finances, reflected in major deficits of the state budget, things we feel and live.

The financial crisis is due to accidental circumstances, such as considerable reduction of budget revenues, due to unexpected shocks that is subject to the real economy, unfavorable circumstances - internal and / or external in some branches, sub-branches, etc. explosive social situation.

This crisis may also occur due to decisions of legislators which undertake risky overspending, irrelevant, ignoring the real possibilities of economy, emphasizing that the current crisis in Romania has multiple causes, which have been accumulated over time.

First it is the manner in which there was established the strategic goal of “great transformation” initiated in 1989. Transition to market economy was insufficiently substantiated, unrealistic and counterproductive. Market economy existed until 1990 as centralized. There was no competition based on economic freedom resulting from the performance of private property.

Realistically there should have been the need to be established from the start that target strategic transition to competitive free market economy functioning. This includes: compliance by all operators of fair competition and equal opportunities, providing easy access to market operators, financial and economic information with perfect transparency and confidentiality judicious, effective and efficient functioning of all markets (goods market economic, labor market, money market, capital market, foreign exchange) market by regulatory authorities and control bodies appropriate.

The global crisis was fostered and while underrating the fact that the economy is essentially a social phenomenon. This means that when economic policy decisions must take into account the size and social impact of economic phenomena circumvent the issue sooner or later generate unbearable costs and economic imbalances, social and environmental difficult or impossible to manage. It should be understood here that in all circumstances it must not be forgotten that economic and financial decisions should be targeted at systemic economic rationality, improving free market mechanisms based on fair competition, the clear and equal rules for all, the economy did not dissipate the resources and did not destroy the natural environment, to ensure equal opportunities of access to science, culture, information and high technology, credits, etc. rational.

Only in this manner the economic facts will come to meet the needs of each citizen, restore his dignity and enabling them to fully enjoy their rights of freedom of human nature.
Unfortunately, we came to the current crisis situation, showing that we are well on target, while the science, scientific research is marginalized, underfunded and even destroyed.

The chance to overcome the crisis is to a large extent in stimulating research and innovation designed to accelerate and streamline modern economic phenomena and processes. Economic and financial development of the country is born of brutal application of free trade since the beginning of structural change in the economy.

Another cause of the current crisis lies in unrealistic appreciation of the role of modern state in the economy. Realities show that pluralism does not exclude forms of ownership in the economy. Modern market economy, including finance, is a mixed system, which combines economic freedom with government intervention. The involvement of the state in the economy is not the focal point be discussed, but the weight, timing and scope of these terms, the mechanisms to ensure economic, financial, banking, economic disaggregation at all levels (micro, meso, macro).

In our country, rediscovered in the economy is a fundamental element that marks the beginning of 21st century. It is the State organizer of social cohesion, the regulator, the arbitrator and not the state as the main economic actor. This rediscovery is required to restore public services and social usefulness. Citizens demand public services (health, education, transport, social protection) extended performance, and we consider that self-financed education is an important public service.

Another important cause of the current crisis in Romania is the unrealistic understanding of the relationship between state and economic democracy. Economic and financial life shows that they are coupled. Unguided rational economic democracy means anarchy. However, citizens should not be reduced to the size of the consumer, because it creates the premises of a new type of totalitarianism, eluding the human dimension of producer and manager.

Democracy in the economy does not mean the formation of large detachments of unemployed, the poor, the illiterate (or functional illiterates as appointed in Denmark, etc.), disregard for socially useful work (the unemployed gains games) or even worse, drug use, prostitution, corruption or anti-social schools of thought (even antihuman - EMO). All of these however are proving towards human alienation.

Proper understanding of the state under the current crisis is a global requirement very specific phenomenon that occurs in different countries (subsidies or nationalization of companies, banks, etc.).

However, Romania, a slower developer than other former communist countries of Eastern Europe, for about 20 years, has acted against the state. Since 1989 the state withdrew suddenly and the suspect in the economy by: sudden liberalization of foreign trade, liberalization of prices in the absence
of laws and institutions to regulate competition, elimination of economic planning under developed countries are using the economy as an important form economic rationality short, medium and long term.

Another cause of the current crisis in Romania must be sought in minimizing actions in education. Education, research, innovation, institutional structures of society elevated scientific knowledge and wisdom, or not enjoyed the attention it deserved.

We used the expression language economic communication information society, knowledge society then, eluding the fact that human society has always evolved, since the appearance of man, based on knowledge. Of course, initially it was about empirical knowledge, unregulated, without previous special training. Later, they started (and this for a long time now) to scientific knowledge based on systematic professional training and special cultural (large Romanian scholars).

Today it is a leap in scientific knowledge elevated to knowledge and wisdom (science and not sophisticated weapons of mass destruction). This means the systematic and continuous assimilation of scientific news, innovation in all areas (nature, society and within the economy and finance).

Scientific research should be harmonized with strong education as a national priority, as a coherent system, passed by the community monopoly, the public good, regardless of ownership, which is promoting, encouraging the development of society and enhancement of human needs with and interests acknowledged. As a closure to what was stated here, meaning the relationship between the crisis and limited resources and rare to be rationally used. Now there is a trans-disciplinary nature of thought, which developed a systemic outlook on life in general, the social and economic ones in particular. This view shows the need to shift to the development of new economic concepts relevant environmental content suitable for high performance boost economic activities in a world fundamentally interdependent.

4. Conclusion, Limitations and Future Research

For sustainable development is a national strategy, but its principles development are only partially included in the Constitution. Even the notion and the components of the concept penetrated in the language of the decision makers, specialists, researchers, academics, the results regarding the national economy as a whole are purely weak. The sustainable development would be able to generate results compliant to EU achievements if it will be adapted and particularized to the Romanian economic space, taking into consideration the following aspects:

- stopping the continuing degradation of the environmental factors;
- ceasing the depopulation of the rural settlements;
sustaining the rural development;
creating labor places and stop the inhabitants to go in other countries;
managing properly the natural and mineral resources at a national level;
developing branches and economic activities in all economic fields (agricultural, industry, tourism) and creating new jobs.

Unfortunately, the official acceptance of the sustainable development concept at national level was and is pure at formal level and the decision makers have to be focused on:

- taking seriously the concept of sustainable development, adjusting it to the realities of the Romanian economy;
- monitoring consistently its principles and their transposition in economic life;
- reviewing the leadership and management at national level;
- designing our own concept and strategy of bringing Romania at the average level of development of the European countries, on medium and long term.

Formally, Romania considers it development under the umbrella of sustainable development concept, but only at declarative level and the desired sustainability is just a chimera.

The decision makers at all management levels (micro, macroeconomic) have to establish very clear the priorities and to care for the economy development, serving the national interest, designing in time the place of the country in the global hierarchy, the food and energetic safety, increasing the standards of living and life of the population.

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ASPECTS OF LEGISLATIVE REGULATION OF THE ORGANIZATION OF ACCOUNTING IN THE REPUBLIC OF BULGARIA

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ABSTRACT. This paper presents some aspects of the specific legislative regulation of the organization of Accounting in the Republic of Bulgaria from 1991 till present. The topic of the paper is chosen having in mind the specificities of the Accounting rules application according to the National legislative regulation.

JEL Codes: M41

Keywords: accounting; legislative regulation; historical review

1. Introduction

Before the contemporary accounting theory and practice are posed specific questions regarding the reliability and transparency of the received accounting information. These quality characteristics of the accounting information of general character presented in the Annual Financial Report are influenced by a lot of inside and outside for the enterprise factors. Doubtless is the fact that what is important for receiving qualified accounting information is the legislative regulation of the accounting. In this paper an attempt to present some aspects of the legislative regulation of Accounting in Bulgaria is made. Bulgaria has been a member state of the European Union since 2007 and the enterprises here have to apply the European Directives and the IFRS. Special emphasis is placed upon the national legislative regulation of the organization of accounting in the Republic of Bulgaria.

2. The Historical Characteristics

The independent financial control in Bulgaria was established in 1931 and existed until 1948, represented by the institution of the chartered certified
public accountant (CPA). In 1948 this institute was closed down by the first Bulgarian Law in Accounting, article 50, and its property was taken over by the state. After that, this law was suspended and the accounting activities were regulated by by-laws – government decrees, etc.

The changes that took place in the political and socio-economic life in Bulgaria during the period of 1989-1990 brought changes in the legislative regulation of the accounting activities. The second law in accounting was developed and was passed in the Great National Assembly on the 3rd of January 1991. This was the first law of its kind, passed in 1991. It re-established the independent financial control in the form of the institution of the certified public accountant (CPA).

The Association of the certified public accountant in Bulgaria was created on the 19th of December 1991. In 1996, with the active participation of this Association, the Institute of certified public accountant was established. During the same year, with a law, the Association transferred all this activities to the Institute.

Another professional organization, created during this period of transition, is the “Union of the Bulgarian accountants” established on 6-th June 1990. Its main aim is to support the development of theory and practice in Accounting, in Bulgaria. A special system was introduced in Bulgaria, including the Law of Accounting and by-laws of the Government, called National Accounting Plan. After that, until the end of 2001 – National Accounting Plan and National Accounting Standards. The International Accounting Standards were also introduced (2003). Bulgaria belongs to the Continental traditions in Trade Law, which are mostly characterized by a comparatively strong interference of the State.

By the beginning of 1991, when the Law of Accounting and the National Accounting Plan were introduced in Bulgaria, the process of harmonization of the Accounting legislation in Western Europe carried out these changes on the basis of legislative changes in their national legislation, introduced by the requirements of the European Directives.

The lack of knowledge and experience in the Bulgarian legislative tradition during that period caused the understanding that they can be applied separately and parallel to each other. On this basis, from 1993 to 2002, the National Accounting Standards were developed in Bulgaria. Special care was taken that these national standards develop in accordance with the international ones. The system regulating Accounting by a special law was established, as well as accounting standards were introduced. This brought about the introduction of International Accounting Standards (IAS) as an initial base for accounting in some of the Bulgarian companies.

(Svrakov, 2004)
Stage I - Transition to European Harmonisation – 1991-1993. During that stage, the Law of Accounting and the National Accounting Plan were in action. They were strongly influenced by the good practices of France and to a certain extent, of Germany. At that time the accounting Standards did not exist; therefore, there was almost no choice in the accounting decisions and as a whole, there were no such attitudes. The common practice in the accounting policies of the companies were such that they were based on the Law of Accounting and mostly, on the characteristics of the accounts, as regulated by the national Accounting Plan. The importance of a particular decision is based more on the correct legislative application, than on the choice of an accounting policy of the management of a particular company.

Stage II – The practice of the National Accounting Legislation – 1993-2001. This stage is characterised by the application of national accounting standards, which constantly improved. The contemporary Bulgarian accounting practice was gradually developing then. The adapted National Accounting Standards (NAS) introduced new aspects to the understanding of the national concept of legislation. There were some opportunities for choosing accounting policies, which implies a better financial and legal culture on the part of the management of the company. During this stage, the tax legislation did not develop relatively separately from accounting legislation. It was as if all the attention of the management and accounting decisions for reducing the accounting profit, thus reducing the taxed profit.

Stage III – The Practice of the transition to applying the IAS – to date. Prerequisites for applying IAS were introduced with the Law of Accounting from 2002. At present, they are the practice of some of the biggest and most important companies. This stage is characterised by completely new dimensions in respect to the quality in comparison to the previous two stages, and it is therefore expected that special care should be taken in order to achieve the envisaged results. It can be prognosticated that this stage will have an important role in the process of eliminating the existing tax trend and setting the conditions for the development of accounting which will take into account the interests of investors. However, the processes from the last years, more and more, shifted their importance to the professional norms, which are included in the national1 and international standards. In this way, the typical continental understanding of legal regulation of accounting in Bulgaria is gradually replaced by the Anglo-Saxon concept. It is definitely not popular for the traditional Bulgarian concept of the accounting theory, legislation and practice.
4. The Legal Regulation of Accounting in the Republic of Bulgaria

The establishment of a national accounting legislation as an aspect of the continental tradition was accepted as part of the whole legislative system of the respective country. As far as the developed countries are concerned, this process started as early as the 19th century. A similar legislation is in close connection with the trade and tax legislative norms, as well as with the administrative-criminal punishments, and the needs of the different state institutions, etc. The force of the formal requirements is considerable – rather, exclusive. They have been established before hand, enacted by legislative decisions, therefore, they are considered by presumption for rightness. Historically, this system was gradually established and in compliance with the existing concepts in the countries of continental Europe.

In Bulgaria, the development of the Law of Accounting in 1991 acquired the general requirements of a norm subject according to the aspect of the European concept of this period. The regulation of accounting on the basis of professional standards is an alternative to this approach, which is a result of the Anglo-Saxon tradition. What, for France and Germany, is the power of the State regulation, for Great Britain and the United States is the power of the common principle which has the force of a law. Even though it may refer to one and the same principle, with the continental approach it is accepted as correct, because it is included as a legal requirement, whereas in the Anglo-Saxon tradition – it is common sense and it is supported by the good practices of its application. The international standards for financial reports are a typical example of regulating of accounting on the basis of professional style.

The big concerns of the European bodies and local governments of the IAS, that is, without being connected with any of the national legal framework. That’s why their acceptance by the European Union is connected with the preliminary work of various European bodies, which enforce them from the aspect of the possibility for a non-conflict application with the other trade and tax legislative and administrative legislative norms and requirements.

Probably, the period which is beginning and which is characterised by a considerable application of the International standards for financial reports on a global scale requires reconsideration of a number of traditional approaches, including Bulgaria.

There is another interesting fact, which supports the idea that the future belongs to the application of professional standards. The Committee for IAS actively worked on the already issues second collection of international standards in accounting – this time for small and medium-sized enterprises.2

At the end of the 20th century, a considerable activity took place for identifying the differences between the local accounting rules and IAS,
aiming at the presentation for a correct transition to the IAS. From the beginning of 2005, the International standards for financial reports are applied, in one way or another, in more than 100 countries worldwide. The main requirement to accounting is to give true and honest, objective and neutral information about the state of the company, and together with this, the information should be compatible with the accounting information of other economic subjects. For the receiving of such information, each company should apply the same principles (rules) for the organization and functioning of the accounting.

The main principles for the organization and realization of accounting in Bulgaria are regulated with a special law (art. 4, Law of Accounting) and other legislative and by-law norm documents, which can be grouped into specific and general.

The Law of Accounting is a specific and basic norm document (Law of accounting, last ed. 2013) about the organization and realization of accounting in each company.

The Law of Accounting has been in force since 1-st January 2002.

The Law of Accounting regulates: the requirements concerning the wholeness and validity of accounting in the company; the content, the creation and publicity of the financial reports; the requirements to the authors of the financial reports.

The Law of Accounting regulates the rule that each company performs accounting of all the economic activities and operations in chronological order, according to their implementation.

In the Law of Accounting, the main topics are: definition of the company; the applicable accounting principles; the accounting documents – nature, requisites and classification; a separate definition of the assets, the own capital, liabilities, incomes and expenses. Legislative classification of each of the enumerated accounting objects according to the Bulgarian Law of accounting refers to the applicable Accounting standards. The questions of the development of the financial reports are also regulated – content, creators and publicity; Additional, administrative and supporting regulations.

In the last edition of the acting Law of Accounting, a distinction between, small, medium and big enterprises is made not in connection with the law for Small and Medium-sized Enterprises. On the other hand, the budget companies are considered separately from companies with specialized activities, non-profit organizations and companies in liquidation. Each of these separate companies is prescribed applicable legal norms in connection with the creation of the financial reports (art. 22, Law of Accounting).

To the so called “specific accounting norm documents” belong the following documents (after the Law of Accounting): the National Financial Reporting Standards for Small and Medium-Sized Enterprises; the
International Accounting Standards; the International Standards for financial reports; the Suggested national Accounting Plan.

With decree 65/25.03.1998 for the establishment of the National Accounting Standards, these standards started to be applicable in Bulgaria.

The National Accounting Standards consist of general regulations and standards. Each of these standards regulates questions concerning the reporting of accounting and the presentation of separate accounting subjects and economic process. To date, they are applicable to small and medium sized enterprises, for newly set up entities for the year of their formation and for the year following it, and for enterprises terminated through liquidation or declared bankrupt, according to the Law of Accounting.

It is important to point out and that in Bulgaria the process of Euro-integration influence not only the change in the applicable norm regulation, but also other similarly obvious and influential process. For example, one of the most important ones is the foreign investment interest.

All these factors set the requirement and the necessity to “communicate” in a common accounting language. At present, the basis of this common language is the International Standards for Financial Reports, which main task is to create comparability of the information from the Annual Financial Reports of the companies from various branches of the economy and from different countries.

The globalization in the area of accounting causes the need for harmonization of the accounting concept and the increase of the importance of the role of the more developed countries in the cooperation, and the search for a mutually acceptable and applicable accounting frame. The integration of a common accounting language brings about the reduction of the value of the received accounting information for the various customers. It is expected that the professional accounting organizations will also encourage and stimulate the application of the International Accounting Financial Reports in a suitable way. The IAS have been applicable in Bulgaria since 2003 for certain companies. This was done two years ahead of European Union countries. The companies for which IAS are mandatory as from the beginning of 2003 include Bulgarian banks, insurance companies, social security institutions, and investment and public companies. The IAS are developed by the Committee for IAS. The aim of these standards is to create and introduce in Bulgaria the IAS in connection with the harmonization of the accounting legislation and also the development of financial reports of companies on a worldwide scope. On the other hand, the aim is to defend and comply with the informational interests of a wide scope of customers, as far as the decision making process is concerned.

Since 1-st January 2005, and in compliance with the last edition of the Law of Accounting, in Bulgaria, International Accounting Standards are mandatory for all companies in Bulgaria, except the enterprises specified in
art. 22, Law of Accounting. On the whole, their application is of tremendous importance for investors and analysts, because it guarantees, to a great extent, transparency, validity, reliability, comparability and clarity for making economics decisions. The usefulness of the applicability of International Standards for Financial Reports can be presented, also, from the point of view of auditors, in connection with the same rules for producing the financial reports, on a worldwide scale. Very often, when developing the financial reports in accordance with the requirements of the International Standards for Financial Reports, it is necessary to consider the explanatory notes accompanying the financial report, including explanations and corrections. IAS and the International Standards for Financial Reports are exclusively targeted at regular accounting reporting and in particular, in the development and presentation of the financial reports of the companies.

In the Law for Accounting, article 5 it is envisage that the current accounting is organized with “... approved by the management individual Accounting plan.” On 13.07.2002 the National Council for Accounting approved a Model National Accounting plan with a recommendable character. When preparing the individual Accounting plan the enterprises can use the model one as a basis.

The Accounting plan is a list of accounts, classified in a definite order according to the reported objects.

The individual Accounting plan can be organized in two ways:
- through applying the consecutive system for coding the accounts;
- through applying the serial system of coding the accounts.

The current active Model National Accounting plan is made on the basis of the serial system. There are nine chapters:

- Chapter 1 – Capital Accounts;
- Chapter 2 – Accounts of Fixed Assets;
- Chapter 3 – Accounts of Materials;
- Chapter 4 – Accounts for Liabilities;
- Chapter 5 – Accounts of Financial Means;
- Chapter 6 – Accounts for Expenditure;
- Chapter 7 – Accounts for Income;
- Chapter 8 – free;
- Chapter 9 – Accounts for Conditional Assets and Passives.

The development of an individual Accounting plan of each enterprise according to the Law for Accounting is assigned to the accounting team in the enterprise and requires good knowledge of the whole technological process and the organization of the reporting. The individual Accounting plan is approved by the manager of the enterprise.

The National Council for Accounting recommends for the development of the individual Accounting plan that the enterprises use the chapters, the groups and the accounts, as given in the Model National Accounting plan.
There are some specific issues in developing the individual Accounting plan of a commercial enterprise, a productive enterprise, as well as the financial institutions like the banks and the insurance companies.

In the second big group, namely the general normative documents which indirectly have to deal with the accounting activity, there are: The Commercial Law, the Law for Obligations and Contracts, the Law for Banks, the Law for Insurance, the Law for SMEs, the Code for Health and Social Insurance, the Labour Code.

As a separate subgroup to the above we could distinguish the so-called tax laws. They define which are the liable persons and their taxation, among them are: the Law for VAT, the Law for Corporate Income Taxation, the Law for Taxation of Incomes of Physical Persons, the Customs Law, the Law for Excise Duty, the Law for Local Taxes and Fees, etc.

5. Conclusion

The contemporary economic situation in Bulgaria is characterized by great changes, especially in the area of accounting. The main aim of these mainly normative changes is to create real conditions for rational preparation of the financial reports complying with the requirements of the specific business environment. This is a result of the big scope of consumers of accounting information whose interests should be protected through the applicable legal norms. Very often the interests of the various consumers of accounting information are opposite.

The good knowledge of the broad normative regulations for the organization of the accounting is of big importance in solving each specific accounting case.

This shows once again the necessity for knowing and understanding the accounting rules in a national and world scale taking into consideration the current processes of convergence.

NOTES


2. The International Accounting Standards for Small and Medium-Sized Enterprises (IASSME) are not an official base in Bulgaria at present.
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ESTIMATION OF THE BALANCE-SHEET ELEMENTS – ESSENTIAL REQUIREMENT IN ASSURING THE REAL IMAGE OF THE ENTERPRISE PATRIMONY AS OFFERED BY ANNUAL FINANCIAL REPORTS

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ABSTRACT. Towards the last decades of the 20th century there had been a considerable increase in the social role of accountancy, owing to the fact that the information it furnished influenced more and more the behavior of its users in the process of decision-making. Therefore, as a current accountancy final product, the financial reports represent the main source of information for a large range of users. They indicate the financial status and performance of an enterprise, so as to evaluate its capacity to furnish both cash and cash equivalents. All these financial statements are quantified by value, based on the principles and methods of valuation. The historical cost, prudence, the principle of stability for monetary unity and the ongoing nature of the operational activity provide the frame of valuation in the field of accountancy. Following the attributes awarded to accountancy and the principles which are associated to it, literature states the idea that accountancy information is a compromise which should allow for the presentation of faithful images of assets, debts, financial position and enterprise performance, correct and honest accounts. At the same time, it needs to respect a series of principles, among which those of valuation, monetary nominalism and prudence. All these have a determinant influence on the conception of ‘faithful’/real image.

JEL Codes: G32

Keywords: valuation; utility value; market value; historical cost; just value; ‘faithful’/real image

1. Introduction

Valuation is the process by which values are determined; such values which describe elements in financial statements are shown by the balance-sheet and in the profit and loss account (Ristea and Dumitru, 2005). Along the time, in the theory and practice of accountancy, there have been constituted three fundamental principles about how to evaluate assets,
debts, equity, income and expenses as follows: utility value, market value and the length of time.

*Utility value* – is established depending on the market price, the utility of the goods, their condition and the place of distribution.

*Market value* – represents the price that can be obtained/paid in the direct transactions, on an active market, if the following three conditions are cumulatively fulfilled:
- market assets are relatively homogeneous;
- there are sufficient quantities of such transnational assets, in such a way that at any time potential buyers and sellers can be found;
- prices are available in order to be known by the public.

*The length of time* - may place the moment of valuation in: the past, the present or the future.

2. Faithful Image of the Economic Reality –
   The Reason for Valuating the Balance Sheet Elements is Essential

In relation to the nature of elements within financial statements, the sense of movement intervenes within the mass of the patrimony and the moment when valuation is made. According to the national accountancy regulations, and in conformity with European Directives, the following types of valuation are predetermined: *valuation at entrance point into patrimony management, valuation at exit point from patrimony management, valuation at the date of inventory and valuation in the balance-sheet.*

VALUATION AT ENTRANCE POINT INTO PATRIMONY – it is based on justified documents and gains the status of *entrance accountancy value*, which is identified through:
- *Utility value*, for the goods that entered as contribution in nature, that were gained with gratuitous title, or they were donned, and is established depending on the market price, the goods utility for the enterprise, its status and distribution. Such a value is assimilated to the costs of acquisition.
- *Cost of acquisition*, for the goods obtained with onerous title. The acquisition cost is made from the buying price, non-recoverable taxes, transport-supply expenses and other non-provided expenses, necessary for putting into function or entering into administration of the respective goods.
- *Production cost*, for the goods produced in the enterprise; the cost is made up from the acquisition price of the raw materials and consumed materials, direct expenses of production, besides quota of indirect expenses distributed rationally on the final product.

VALUATION AT EXIT POINT FROM PATRIMONY - when going out from the enterprise or at the moment of giving the goods to consumption, the
goods is evaluated and they are subtracted at the initial value or the so called accountancy value.

If the goods, like the nature of stocks and securities, similar or identical, have different entering values and there is no possibility of identification for their entering values, the valuation at the moment of going out can be made, depending from case to case, on the ground of medium average cost, after the method first-in-first-out or after the method last-in, first-out. The criterion of choosing either of the mentioned methods is represented by valuation clarity, and the decision belongs to the management team.

Within the frame of the enterprise accountancy policy, the chosen method should be applied consistently from a financial period to another. If in exceptional situations, the administrators decide to change the valuation method, they must present explicit notes on the financial situations, the reason for modifying the method and their effects on the result of the financial framework.

In conformity with the principle of method consistency, the changing of the method intervenes at the time when it is imposed by the law or by the authority having regulatory powers in accountancy, and also in the case in which it is considered that this change will offer a real presentation of the patrimony and of the accountancy result within annual financial situations.

VALUATION AT THE TIME OF INVENTORY - has the right referee actual value, which gains the status of inventory value of the patrimonial elements, evaluated when their inventory is being made. The actual value is established in function of goods utility in enterprise and the market price.

The valuation of the balance-sheet elements at the inventory value starts from the necessity to update the entrance value, grounded on the historic cost. Any significant change which takes place after the goods entered patrimony tends to make the initial cost extremely difficult to ascertain for users of such information.

VALUATION IN THE BALANCE-SHEET - supposes the comparison of the inventory value with the entering value of the patrimonial elements, from which can result differences, which are treated differentially.

Thus, for assets, in the case in which the entrance value is greater than the inventory value, it is appreciated that there exists an irreversible depreciation of these and, as a consequence a harmonization or a regulation for depreciation is used in accountancy. If there are surpluses between inventory value (greater) and entering value (smaller), these are not going to be registered into accountancy, the assets being maintained at the entrance value, grounded on historic cost.

For liabilities such as debts, the differences concluded as surplus between the inventory value and their entering value, are registered by accountancy based on the corresponding elements of debts, through commissions.
The main reason of valuation, pursued by any accountancy system, is that of presentation of a real image of the economic reality. The principle of the real image, applicable at the international level has the purpose to get qualitative characteristics of financial information, namely: intelligibility, relevance, credibility, comparability.

Intelligibility - the information should be easily understood by users who have sufficient knowledge regarding business, economy and accountancy and have the desire to study seriously the information presented in the financial documents.

Relevance - The information is relevant when it influences users’ economic decisions helping them to evaluate the past events, present or future, and in this way the prior valuation is validated or corrected.

Credibility - The information should not contain significant errors and it should not be biased, aspects which are realized through a loyal presentation of the enterprise’s economic image, through the priority of the economic on juridical, neutrality, prudence and intelligence.

Comparability - The information should be presented in a consistent way over the time, respecting the accountancy principles of valuation, in such a way that can permit the users to make significant comparisons between the data regarding the enterprise’s activity from different periods, and also between enterprises which have the same profile.

The real image of economic reality raises valuable problems of valuation within accountancy and can be discussed only in relationship with four out of the fundamental accountancy principles, respectively: historic cost, monetary nominalism (stability of the monetary unit), exploitation continuity and prudence.

The principle of historic cost and monetary nominalism. Historic cost, also known under the name “principle of the original cost” is a modality of application of the monetary nominal principle and consists in conserving the entering/historic values at the level of financial situation structures. In other words, the assets, debts and proper capitals are registered into accountancy at the original cost (entering cost), registered in the justifying documents. These values are corrected with write-offs or regulations on depreciations. Relied on the hypothesis of the stable monetary unit, the principle of the historic cost consists in respecting the nominal monetary value, without taking into account the variation of its buying power.

The principle of operation continuity creates a vision on economic entities, according to which it is supposed that it continues as normal, to function into a foreseeable future, without entering into liquidation status or a serious slowing down of the activity. This principle does not automatically suppose permanency. The enterprise will continue to be a long enough period of time, in order for the objectives and activities within the constituted act to be achievable and the engagements/contracts assumed to
be respected. Also in the view of this principle, the period of enterprise exiting is supposed to be longer than the useful period of life of its actives.

*Prudence principle* – consists in precautious appreciation of the assets value, debts and proper capitals, expenses and incomes, in order to avoid super valuation of the result. According to the prudential principle it is not admitted the super valuation of debts and incomes, respectively sub-valuation of the assets and expenses, taking into consideration the depreciations, risks and possible loses, generated by the activity development of the current or previous financial framework. Thus, the risk of transfer into the future of the present uncertainties is avoided; uncertainties which may tax the patrimony and the results of the enterprise.

The use of the historic cost as a background for valuation supposes that the currency value of the goods, facts and phenomena maintain constantly during an administration period. Although the practice invalidates stability because currency changes its value (buying power), with plus or minus, from a period to another, and because contemporary economic environment is confronted with a multitude of risk and uncertain factors, with an impact on strong monetary instability.

3. The *Just Value* versus *Historic Cost* in the Balance Sheet Valuation

Within the conditions of monetary unity depreciation, the qualitative characteristics of the financial–accountancy information are diminished through historic cost utilization, because there seems to be some lack of information regarding the real buying value. In other words, accountancy information regarding the buying power at the entering moment, expressed in historic costs, becomes then, incorrect and falsified. This phenomenon determined the identification of some new *ground evaluating bases* which permit the presentation of the accountancy information in the buying power of the monetary unit at the moment of utilization (current cost).

Framed in the ‘80s, in the United States of America and other Anglo-Saxon countries, one of the valuation forms, used more and more in accountancy language, is that of *just value*. The Council for Accountancy International Standards has introduced the notion *just value*, in the year 1995, through IAS 32, with reference to financial instruments: *just value represents the price at which an asset could be transacted or deduced a debt between two competent parts, having no dependent link between them and acting in full liberty*. At the same time one can notice that the just value corresponds also to *market value which establishes the price that the seller could get (or the price that the buyer could pay) for a financial instrument, transacted on an active market*. (International Accounting Standards Committee. Bucharest: Economic Publishing House, 2000 – IAS 32, 708).
Both definitions of the just value correspond to a valuation made at a given moment with the difference that the first appears in the context of a transaction negotiated freely, while the second supposes the existence of an organized, active market.

The notion of just value was introduced for the first time into Romanian Accountancy Norms through Order of the Ministry of Finance no. 94/2001 and through Orders of the Ministry of Public Finance no. 1752/2005 and no. 3055/2009, through which there were approved Accountancy Regulations in conformity with European Directives. The norm elaboration regarding utilization of the just value contributes to the passing from the valuation of historic cost to valuation of just value.

Historic cost presents, in comparison with other valuation bases, a series of advantages, but also limits. A valuation in historic costs has the guaranty of being reliable because historic costs can be verified and are considered to be objective. So being established, historic cost remains fixed, as long as the goods are in enterprise possession. In order to rely on information provided, the internal and external users should be self assured that the information is exact and based on facts. That is why the use of the historic cost, as a fundamental means of measurement, permits to provide objective and verified information into financial documents.

On the other hand, for external users of the financial documents, the cost offers also other non-contested qualities: reliability, prudence, continuity and precision.

With all its advantages, the valuation of historic costs within conditions of inflation, leads to a series of deformations in financial documents. Thus, in balance-sheets sub-valuations of fixed assets and stocks appear, having impacts on distorting the net situation and in the profit and loss account the material cost and expenses regarding liquidation are sub-dimensioned, as a consequence of sub-valuation of stocks and fixed assets, having implications in increasing the profit tax, by sub-estimation of the result.

Accountancy should not be limited only to provide retrospective information, based on historic costs, regarding financial position and enterprise performances, but should also permit foreseeing because the environment in which it activates is based on time irreversibility and non-certainty.

In order to answer all these requirements, the valuation model called just value was introduced. Its application in the last decade was more and more extended, owing to the development of the capital markets. The utility of the goods valuation at their just value unfolds from its capacity to provide the users financial information regarding the future treasure fluxes. In other words, the valuation at the just value gives possibility to the users to know the value of the goods according to what they will “bring/produce” in the future.
By comparing what is missing in accountancy systems based on historical cost with valuation at just value, it is possible to find the following advantages of using the just value, namely:

- **high flexibility** – valuation within historic cost, which is very rigid, while the just value is more flexible.
- **coherence of administration of financial risks** – the just value is adapted to financial risk administration, through which economic reality can be reflected more faithfully.
- **foreseeing** – the just value represents the best ground for foreseeing the future financial fluxes, and it is based on these estimations.
- **integrity** – the just value permits total the accountancy of the values.

Through application of the historic costs there were registered by accountancy only elements which had a cost, while financial derivate products, not being registered by accountancy, were not taken into consideration for evaluating the future cash-flows.

- **neutrality** – it derives from the fact that the just value requires external data from the enterprise, being not influenced by its management.

Valuation is not an exact method. Most evaluating processes express opinions and, in this way, the valuation modalities generated great divergence among specialists.

Proponents of the evaluating methods based on historic cost consider this variant as being more relevant because it is focused on the results of buying/selling assets or contracting/paying debts, while information in just values, with a focus on the market prices, is less relevant because it reflects the effects of transactions and the events in which the enterprise did not participate directly.

The proponents of the evaluating methods based on the just value appreciate that in an instable economic environment important changes occur within short periods of time and in this way, valuations based on historic cost lead to distortion of the financial information. In this sense, the traditional model of valuation based on historic cost, doubled by application of the prudence principle, suffers vehement critics on one hand, for approximate / subjective estimations, referring to depreciation of the assets, and on the other hand, for dependence of estimations at different levels on the interest of accountancy representatives.

The authors of these critics sustain as a counterweight the virtues of the just value, which lead to more objectivity and more neutrality because this accountancy evaluating model is protected from influences and opportunism present at many account representatives, and as a consequence, represent a way of protection against tendencies of falsifying the images rendered through financial documents.

Being a stake for different social protagonists, the truth rendered through the real image of a patrimony and the results from financial documents
should be found in accordance with the producers and users’ interest. The truth, provide by accountancy, cannot be for users but the result of a compromise between expectations and exigencies, and for producers, a concession between sincerity and regularity (respect for principles and fundamental regulations).

Establishing a background for valuation represents one of the most difficult problems in the accountancy field. At present, the valuation of assets, debts, proper capitals expenses and incomes is made on the base of historic cost. The option for historic cost is based on the fact that it is the only cost written in justifiable documents so that it has a verified character and an objective calculation, being valid within the frame of the transactions developed on the market.

With all its advantages within the inflation/deflation periods, registration and presentation of the assets, debts and proper capitals, historic cost is intensely criticized, mainly when the variation of prices is very high, since this leads to deformation of the reality and implicitly of the information presented in the synthesis documents.

In this context, in later years, the idea to account certain balance-sheet elements circulates more and more, and these elements could be fixed assets, at the estimated value of future treasury flows that they can bring to the entity and not at the historic cost. In other words, in order to present the value of an asset, there is a tendency towards evaluating the future incomes rather than the past expenses, through consequent valuation at the just value.

7. Conclusion

Indifferent to the divergence that could arise among specialists regarding the ground of valuation, respectively advantages and limits, in the opinion of accountants, respecting the accountancy principles, the regulations and methods of valuation is sufficient for a real image. As a consequence, the accountancy legislators consider that the strict application of the regulations, accompanied by producers’ sincere informing, satisfy the objective of real image. Within this sense regularity consists in respecting the norms, regulations and procedures pervaded by accountancy legislation, besides those which are not integrated in the normative documents, but they are in professional use, and sincerity is synonym with authenticity, respectively with the absence of a distorted image of the enterprise, presented in the financial document.

With all these, starting from the limits of the accountancy principles and valuation methods, information producers have the possibility to provide the financial information having in consideration a certain result of the
previously established financial framework. Within this purpose different techniques are accessed:

- **Super-valuation/sub-valuation of some assets positions**, whose values are appreciated in accordance with the costs. So, “arrangement” of the costs within administrative accountancy leads to different results;

- ‘**Cosmetics’ of the annual or intermediary accounts**, aiming at the quota of the Stock-Exchange value, through sub-valuation of the debts and super-valuation of the profit.

- **Provisions** - the negative influence of the historic cost on super-valuation of the results is diminished. Through the perspective of the faithful image, fundamental objective of accountancy, provisions represent a means of treating on value level the existence of uncertainty in valuation of assets and results.

Many enterprises work with provisions only on the condition in which they are fiscally deductible. In this sense, time can be transformed into an opportunity for regulating the result, through the technique of creating provisions at the present moment, when expenses increase and reconsidering them in the future, when the incomes rise.

- **Fiscal facilities** represent a modality of arranging the results, within conditions in which the accountancy system is based on passing from accountancy result to fiscal result. All fiscal facilities determine the enterprise to integrate them into accountancy and, as a consequence, to the “calculation” of the accountancy result.

- **Transfer price between the component enterprises of the group** - increased or reduced in relationship with the interest of transferring the benefit of a society in the favor of another. As a general practice it is preferred the transfer of the benefit from a country with excessive fiscal-taxation into another country with a relaxed fiscal-taxation.

The prices of transfer are also practiced in the case of internal circuits of enterprise’s operation, in the case of intermediary consumptions, determined by the production transfer from a factory to another, from a section to another, having as a consequence the acceleration or delaying of the transfer of expenses on the result of financial framework.

**Subjective increasing or diminishing of incomes and expenses** represents another “arrangement” technique of the accountancy result. In this direction the delimitations between financial periods act, and they regard expenses and revenues, proved by anticipated delivery of the goods, which can be achieved only after the ending of the financial period, as well as different ways of registering the unfinished production and the on going works from a long term contract.
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ABSTRACT. The adoption in EU of the Tax Treaty could generate several risks that may affect the economic development. The restriction of the structural deficit to 0.5%, as a uniform rule for all countries, could make fine adjustments required by economic optimization. It is absolutely necessary to introduce some preliminary observations on the economic context in which it appears the single European Tax Treaty. We refer to a profound financial and economic crisis, with substantial effects on European economies. There are some preliminary observations about the current economic situation it is applied to this Treaty. It cannot be ignored deep financial and economic crisis currently affecting. A general diagnosis of the crisis could translate into a financial system derailed, an inappropriate design of EMU, but also into the recent redistribution of economic power in the world. EU countries differ on the ability to mitigate the effects of the economic cycle, focusing on the public budget share in GDP. Comparing emerging EU economies with mature economies, these economies with higher growth potential can afford higher structural deficits of 0.5% of GDP, knowing that the treaty allows a structural deficit of 1% for the new Member States. It is not a simple process, but it success will mean a step forward in the European construction.

JEL Codes: E5

Keywords: deficit; mechanisms; effects; policies; budget

1. Introduction

On 02.03.2012, the leaders of 25 European countries signed the Treaty of Stability, Cooperation and European Governance, known as the Tax Treaty or Pact. According to this treaty, the signatory States undertake to fall into a deficit of maximum 0.5% (so-called “Golden Rule”) and maximum cyclical deficit should not exceed 3% of GDP. If states have a gearing ratio below 60% of GDP structural deficit will be negotiated down to 1%. If these numbers are exceeded, the Treaty provides a mechanism triggering automatic penalty which may extend to fines of 0.1% of GDP.
Only countries that signed the Treaty will help benefit the European Stability Mechanism - the so-called financial facility. States signatory to the Treaty undertakes to ratify domestic legislative and find ways to impose “golden rule.” In some cases it may be about amending the Constitution states, others might call the parliamentary ways. European budgetary pact or tax treaty signed by Romania entered into force on January 1, 2013, after being ratified by Finland. The main purpose of the treaty is to ensure better fiscal discipline in the euro zone, with the “golden rule.” Finland was the 12th state to ratify the Eurozone treaty, thus fulfills the prerequisite for entry into force.

2. Application of the Treaty in EU states

Romanian Senate, approved on 21.05.2012, with 89 votes to ratify the Treaty on stability, coordination and governance in the Economic and Monetary Union. Treaty is based on a strengthening fiscal discipline, having as main element the budgetary position, which must be balanced or in surplus. The budget rule of the Treaty is inserted through national provisions, having a binding and permanent legal character, preferably at constitutional level.

The adoption in Romania of the Tax Treaty could generate several risks that may affect the economic development. The restriction of the structural deficit to 0.5%, as a uniform rule for all countries of the Covenant, although their public debt differs significantly from 6% (Latvia) to 160% (Greece) – in Romania is around the 40% threshold - could make fine adjustments required by economic optimization.

In the future, our country could request a rise of the restriction to expand to 0.7% or even to 1% the level structural deficit. By obtaining this concession, economic growth would be affected and artificial growth potential would remain underutilized. The 0.5% level would rather preserve gaps than to allow the recovery. In case of favorable economic developments, it will be very difficult to explain why people cannot be granted immediate rewards and to be accepted before distributing the results of the long-term advantages. The issue of national sovereignty is limited by this European agreement.

The calculation difficulties and uneven application could lead to major controversy relating to the observance of 0.5% structural deficit. We can expect adverse effects on European cohesion and destabilizing reactions at the institutional level. Specifically, Hungary was subject to some sanctions imposed by the European Commission when it has overcome the deficit. Greece accepted hardly these conditions and only in time. There are many calculations who contest the calendar of restructuring the budget and feasibility of repayment of medium and long term public debt.
As economic advantages, the Treaty could prevent economic skidding and his long-term effects through structural deficit. One of the provisions of the Treaty is the implied obligation of the legal originator of providing benefits for sustainability while demonstrating the benefits granted. Economic practice has shown that, once granted, the benefits cannot be withdrawn, even if policymakers take responsibility in this regard.

Macroeconomic stability allows faster development, better use of available resources, can generate a favorable effect on investment and not for consumption later. Everything is fine as 0.5%, or any value, to be accepted as a value in it, provided by the firm economic activity. Measure the increase in VAT from 19% to 24% affected businesses and stimulate risk-taking for carrying evasion. In this way, competition has shifted from technology and productivity to intellectual skill and accounting.\(^1\)

It is absolutely necessary to introduce some preliminary observations on the economic context in which it appears the single European Fiscal Treaty. First, it is a profound financial and economic crisis, with substantial effects on European economies. As a general diagnosis of the crisis, we can speak of a financial system derailed, of an EMU optimality (one of the causes could be faulty design of the EMU), and of a redistribution of economic power in the world that is currently running. More and more, among EU members, it is induced the idea of a new structure in the functioning of the EU, but also in EMU, but about the treaty and economic governance reform in the European Union. External economic environment, characterized by uncertainty, the deteriorated economic growth, could hasten the need for reform.

One of the biggest issues raised by such a treaty is revealed by contemporary crisis in the Eurozone. Thus, we give as examples a number of relevant factors such as:
- A growing private indebtedness, together with the public indebtedness;
- External imbalances becoming more frequent;
- Existence of obvious gaps in competitiveness; we can notice real differences between EU states in the North and the South;
- Requirement of states to introduce economic mechanisms for a viable union, like for cushioning of asymmetric shocks; for fiscal transfers; lender of last resort (common budget); or for establishing a common regulatory and supervisory authorities.

Context - both at the European and Romanian – including the advantages, disadvantages, opportunities and limits of the Treaty - is revealed in the following lines, with an overview of this serious problem.

You can make some preliminary observations about the current economic situation it is applied to this Treaty. Thus, it cannot be ignored deep financial and economic crisis currently affecting. A general diagnosis of the crisis could translate into a financial system derailed, an inappropriate design of
EMU, but also into the recent redistribution of economic power in the world. Treaty is based on older financial rules (0.5%, 3%, and 60%) but also on new measures (Euro Treaty, the "six pack"), aiming the legislative consecration of automatic provisions and sanctions. It requires the political economy of financial assistance that facilitates the European Central Bank interventions, giving as example the bank saved the euro-area in December 2011.

3. Different Measures of the Treaty

Adoption of the Tax Treaty is a step forward, but budget discipline in the each EU signatory state is only one of the basic rules for the fiscal union to have a real positive impact. The Treaty also reflects in a very small extent the crisis management, considering the EMU reform. We can add that economic mechanisms are needed to absorb asymmetric shocks and mitigate disparities between EU states.

The euro zone may be more restrictive than the gold standard practiced in the interwar period, having the possibility of using interest rate. But nowadays, automatic stabilizers are still frail in the European Union. Monetary Union is still a very rigid and intricate construction, requiring several steps to simplify the monetary levers at Community level.

At present, it cannot be ignored deflationary pressures existing in the functioning of monetary union. There are some doubts if the structural reforms (Italy, Spain) could ensure high and fast productivity gains (due to social problems). There could appear also the possibility of economic stagnation (for Japan), caused by a lack of reform banking sector and large public debts.

4. Fiscal Union Treaty’s Shortcomings

Currently, at EU level, there are not established policies to mitigate the negative effects of austerity measures in some countries; there is danger of vicious circles and precarious balances with significant social effects. Nor have established clearly the financial levers that the European Central Bank would be able to limit interest and thus to discourage speculation.

At EU level, there is a moral hazard problem related to the common budget, to the mechanism for issuing euro-bonds, through long-term debt insurance. The problem of big companies is not solved, being visible the public policy bondage towards financial industry, despite the reforms undertaken.

Tax Treaty underestimates extreme economic events, without being specified the measures to be taken in case of shortfalls of this type.
Community states demand “reserves” and flexibility (policy space) in the application of the tax principles, unknowing if surpluses accumulated in years could offset shocks. For the moment, no principle listed in the treaty address the social dimension of the crisis and all the possible slippages.

5. Control of Imbalances through Fiscal and Budgetary Discipline

It should be noted that “fiscal sustainability” induced by the treaty focus on the relationship between public debt and “stochastic” environmental shocks, existing the need for “fiscal space.” Moreover, there is no clarity in financial and reputational sanctions in case of fiscal slippages.

EU countries differ on the ability to mitigate the effects of the economic cycle, focusing on the public budget share in GDP. Comparing emerging EU economies with mature economies, these economies with higher growth potential can afford higher structural deficits of 0.5% of GDP, knowing that the treaty allows a structural deficit of 1% for the new Member States. However, there is no provision for large structural deficits, for example what would happen if a really severe shock causes a deficit of 4%. These things lead to the need for Treaty correction. So, as the European institutions are involved, the more likely to be vague in taking responsibility area as a result of fiscal legitimacy problem.

6. Romania’s Situation in the European Union

In the Romanian economic system, public debt stands relatively low (below 36% of GDP), but the explosive growth in the years of crisis. This reflects by undisciplined budgetary execution. Potential growth decreased from 5 to 5.5% to perhaps 1-1.5% annually, respectively stagnation. Degree of disinvestment that currently exists can be explained by inefficient public spending (5% of GDP public investment, affecting 3%).

Growth potential may be further eroded if not combat damage to education (human capital), capital if we do not develop infrastructure. Euro adoption target constrain monetary policy and reduce the room to maneuver. In our country, automatic stabilizers have low efficiency (percentage of GDP and public budget flat) or specific situation for all EU states in Southeastern Europe.

External economic environment has become more hostile, because markets do not tolerate Romania, compared with a strong state, like Germany. These things lead to the need for fiscal space and specific fiscal mechanisms. By adopting the Tax Treaty in Romania, there is the opportunity to discipline budget execution in our country. According to the
principles of the Treaty, is stipulated obligation of multi-annual budget programming, giving more time to plan the public budget.

The national authority over the budget can be seriously affected, because the draft budget to be examined systematically. Moreover, bondholders are examined by the European Commission, to determine their appropriateness. Also according to the provisions of this treaty, structural reforms will be implemented in close consultation with the European Commission. Legislators will have to judge European recommendations with tangible impact on the national budget and national budgets, in connection with the European Parliament.

7. Romania and the Treaty

Tax Treaty could raise a number of serious economic problems in Romania. One of these is how restrictiveness may be offset a small structural deficit (0.5 -1%). Another problem is the absorption of European funds to counteract the effects of the crisis on the production and potential growth (decreased from 5% to 3%). Must be added the need to increase efficiency in the use of public money (having 5% public investment of GDP), which is required to compensate Treaty restrictions.

In this context, we need to increase the collection of taxes (29% of GDP, compared to 38-39%, as is the EU-27), our country having the biggest factor in EU tax evasion. We must add a series of measures such as setting priorities in investment and reform of state companies, encouraging domestic savings, the need to implement fiscal policies that stimulate the production of tradable (supporting growth). We should not ignore trade diversification, and greater caution about effectiveness and increasing of public spending (over 4% of GDP). These facts would lead to mitigation of vulnerabilities, and thus increasing the rate of economic growth.

By applying the Treaty within the local economic environment, we must avoid the political economy to enter a restricted and limited environment (Monetary Policy affected by euro process policy and fiscal policy having very restrictive rules). This would mean a stochastic environment with many uncertainties and unpredictable shocks, which require the need for a flexible economic policy capable of meeting economic changes. In this way, the idea of a backup system in the European Union is becoming more necessary. We cannot ignore current dispute between rules and discretion: that rules are necessary, but too much can damage stiffness, especially in a future inoperable structure (monetary union).

Treaty requires understanding the flaws in the EMU, and the problems it faces. Its adoption does not mean an automatic and immediate application of the provisions. Several European economists have formulated the idea of
pleading in Council, the European Parliament for a reform of the EMU (EU) governance which takes into account the weaknesses and exceeds the exclusively focus on the sovereign debt as the source of the crisis.

There are different economic measures that should be implemented in the future: cushioning asymmetric shocks; gap mitigation tools (risk for Romania as EU money could be refocused); reform of the financial industry. If you contribute to this Treaty, should also be a feed-back (e.g. acceptance of Romanian securities as collateral in ECB; European funds to support domestic financial system, etc.). Harmonization of economic interests is essential, given the major differences in the evolution of competitiveness and providing social benefits, more or less sustainable, having a potential to generate important structural deficits.

8. European Fiscal Pact: Implications for Romania

European Commission and the INSSE estimates coincide, meaning that in the post-crisis period (2011-2012), potential GDP in Romania decreased from about 2.0% to 2.2%. For these results contributed both capital reduction factor (K) and total productivity of factors of production (TFP). A first point of negotiation with the European Commission could be the acceptance of a higher level (3.5%-3.6%) of potential GDP in Romania. It should however be based on measurable results in the absorption of EU funds, and not based on simple desires.

Another step in the application of Tax Treaty is the negotiation of the structural deficit level. The structural deficit level of 0.5 percent of GDP was proposed taking into account the very high level of public debt in some EU member states (Greece, 160% of GDP, Italy-120% of GDP, Portugal -110% of GDP) and the need to reduce quickly. For Romania, it can negotiate a higher structural deficit (1% of GDP). Even this will lead, in the medium and long term, to lower public debt from 40% of GDP in 2012 to about 27% of GDP in 2030. This caution is necessary, however, given the demographic trends till 2030.

9. Conclusion, Limitations and Future Research

If an E.U. state will fail to transpose into national legislation the budget balance rule and regulation regarding automatic correction mechanism, the European Court of Justice shall have jurisdiction to decide the case. Court verdict is binding and if it is not respected the Court can apply a penalty of up to 0.1% of GDP. That amount will go directly to the European Stability Mechanism (ESM) treasury if the state is part of the Eurozone or will go to
the general budget of the EU, if that country has not adopted the single currency.

Taking decisions in the excessive deficit procedure context will be faster than today, given that Eurozone members agreed to support the recommendations of the European Commission and the EU Council proposals, except where a qualified majority of them are against. Besides, a Member State subject to the excessive deficit procedure will have to prepare a budgetary and economic partnership program. The program will include a detailed description of structural reforms the Member State will need to implement to ensure effective and sustainable correction or deficit. Such programs shall be subject to the EU Council and EC for approval and implementation will be monitored according to the rules of the Stability and Growth Pact.

Member States which have ratified the treaty will inform the EC and the EU Council on public issues of bonds. They will also discuss and, if necessary, will coordinate among themselves and with the EU institutions before they intend to apply all the major economic reforms. The Treaty also provides that the Heads of State and Government of the euro area must meet at least twice a year in Eurozone summits, which will be attended by representatives of the European Commission. In this context, it will follow the election by a simple majority of the summit president. Finally, according to fiscal pact, European Central Bank and the respective presidents of the European Parliament may be invited to the summit of the euro area. European Parliament and national legislatures of the states that joined the tax treaty will cooperate in matters of budgetary policies or other conditions stipulated by the Treaty. In this case, the institutions will establish a body composed of representatives of relevant EP committees and of the national parliaments, which would decide for themselves how they will work.

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ABSTRACT. The banking union represents a long term project that affects both the euro area countries and those outside the monetary union, involving the transfer of competences towards the supranational authority, pooling resources and creating new institutions. Since the emergence of the euro, the European banking sector has developed, and the banks have expanded across borders. In this way, the coordination of the national surveillance at bank level is no longer sufficient, given the current financial crisis that affects the EU states. Hence the idea of this community project difficult to apply, according to which banking supervision should be integrated at European Union level, not only in the euro area and allowed not only at national level. It is about integrated supervisory mechanisms, monitoring and intervention in the banking area and last, but not least it is about the financial transactions tax. The sovereign debt crisis, that includes one by one the European Union countries, requires even more a change of the European banking construction, an institutional reorganization, new community institutions, new financial banking principles, applying across the whole European Union. Regardless of the time horizon, it is essential for this new bank building to be completed by the levers and resources necessary to intervene in case of financial shortfalls.

Keywords: monitoring; coordination; liabilities; risks; mechanisms

1. Introduction

The main reason for instituting the idea of the European Banking Union’s constitution would be to break the negative feedback between the public and the banking sector, which was one of the main catalysts for the economic crisis in Europe that started in 2009. Its basic elements are: creating a common framework for monitoring (common rules), shared deposit insurance, an ordered bankruptcy mechanism and a common fund (permanent) - ESM (European Stability Mechanism). Now it is already clear that these elements will be gradually implemented. Whatever the period of
application, it is essential for the supervision of the banks in Member States to be completed with the levers and resources necessary to intervene in case of bank failures.

The measure of common deposit insurance should be implemented by the regulatory authority that would therefore target the protection of depositors by guaranteeing (up to a certain amount) the partial or full redemption of the value of deposits in case of the bank’s insolvency risk. By this, the reimbursement would be done from a deposit insurance fund, financed in advance by the banks themselves. The mechanism designed for ordered bankruptcy is suggested to include standardized procedures in case of a bank’s failure. In most European countries, there has not been, until now, a special law for bankruptcy during a crisis. An orderly and efficient liquidation of an insolvent bank is essential to prevent the widespread contamination during a crisis. Multinational banks complicate, to a certain extent, the situation as the group’s subsidiaries are subject to the bankruptcy laws from their country of origin.

In the new European Banking Union, the European Central Bank will provide oversight for all the banks in The Single Supervisory Mechanism as of March 1, 2014 or 12 months after the entry into force of the Regulation. In the case of some direct recapitalization situations of certain banks, by the European Stability Mechanism, these terms can be surpassed for the ECB to supervise quickly those credit institutions. The ECB will also have the flexibility to extend the deadlines for implementation of The Unique Monitoring Mechanism, if, following some evaluation, it is not ready to take over supervision.

2. Constraints in the Process of Institutionalizing the European Banking Union

The concept surrounded by many uncertainties regarding the manner in which, throughout the European Union or the euro area only, and the actual impact, is worth analyzing in the context where the application of such a project would mean an important step towards greater integration at various levels and would modify the role of national central banks. Basically, this institutional project supported by the European Commission aims to centralize supervision of banks in Europe, through the European Central Bank (ECB) and the European Banking Authority, common banking regulations at European Union level and the establishment of a common fund to guarantee bank deposits. Since 2010, in the EU operates The European Banking Authority. The banking union mentioned now is only a floor added now to this Authority whose efficacy has proven to diminish. Therefore, there are economic premises for the new structure not to be
effective, because it will be difficult to split responsibilities between the ECB and The European Banking Authority.

One of the main problems of this Union aims to avoid risks and resumption of the intermediation at a relative level of efficiency, whose implementation, even within the euro area is still difficult to realize in the context of the current banking situation. Many critics consider that such a project would mean in fact, the common assumption, by all member countries of losses of certain European banks. The risks are difficult to assess now, concerning numerous details, but also the means of implementation of this plan. In the present context, this is a very ambitious move and the ECB will supervise that many banking units from that many countries with several differences on their operating manner.

For countries that are not in the euro area it is not clear how they interrelate with a banking union conducted in the euro area given that the banks in Romania, Poland and Hungary are owned by euro area banks. In addition, it raises important questions regarding the role of the national banks with supervision and regulation responsibilities. Currently there are necessary clarifications on how they will interact with a central bank that is responsible for the monetary policy with the countries that it has to coordinate but which are no longer supervised and no longer under its subordination. Through its consistent, prompt and massive actions, the European Central Bank has managed to maintain the common European currency strength, extremely acute phase of the crisis of sovereign debt registering a significant decrease in the euro area. On the other hand, although the economic and financial situation is characterized by a better rebalancing in the peripheral regions, the total weight of government debt in some countries is huge: over 100% of gross domestic product (GDP) in countries such as Italy, Ireland and Portugal, and over 175% of GDP in Greece. The economic growth situation is also a difficult one: according to forecasts, the German economy - the most powerful country in the EU - will increase in 2013, with only 0.8% per year. Other countries will be in an even more difficult situation: the GDP of Spain, for example, will decrease in 2013 by 1.4% per year and Greece will enter in 2013, in the sixth consecutive year of recession with a contraction of GDP of over 4%.

A unique mechanism for solving troubled banks may not provide a centralized management of the banking markets with options to handle bank failures orderly with minimal cost to the economy. The principle of this settlement mechanism should be included in a single manual that should address the problems of the bank’s recovery cost in the tax issues, that may arise, and the moral hazard problem that may arise. Currently, this manual is far from being realized.

The cost of banks’ recovery or of solving the situation for banks with problems should be borne by creditors and shareholders. However, in case of
systemic crises it is required a single tax approach, but it is difficult to get the political consensus for it. Another challenge for such a mechanism refers to solving the heterogeneous framework at national level that requires significant changes in the national legislation on labor, tax and insolvency. These changes will be difficult to accept and implement within the states involved in this mechanism.

One of the reasons that led to the refraining of countries like the Czech Republic and Great Britain to participate, at least for now to this Union was the possibility to have to cover, if necessary, the losses of other states. Thus, it would be preferable not to offer large loans from contributors’ money or from local banks for other states’ losses, not being a clear system of penalties or corrections of the Community countries with debt.

It was pointed out the fact that EU countries that are not members of the euro area may not vote on ECB decisions. Thus, it is claimed that the non-euro states are members de facto of this banking union, having no influence on financial decisions. Actually, finding a compromise between euro area countries and non-euro states will be one of the most important challenges in the completion of the Unique Monitoring Mechanism. Among the potential problems there are issues related to the legal authority of the supervision entity, of the way in which there may be appealed decisions of the institution or of the authorities to whom this will respond to. The legal, political and constitutional challenges of the transition from the national to supranational supervision are formidable and it can take years until they will be solved. EU governments have divergent opinions on the speed of implementing different elements of the Banking Union, as some of the major euro area countries are reluctant to participate in the sharing of rescue funds without a clear perspective on the application of other key elements.

3. The Elements of the European Banking Union

This Banking Union is assumed to be composed of four elements: integrated banking supervision, deposit insurance system, a system of orderly dismantling of non-viable institutions, and a common regulatory framework on supranational banking bodies. The federalization of the four elements described above is a political project very little supported by the countries in Northern Europe. These have indicated the so-called global risk implied by pooling the risks at the expense of solidarity with the European project, argument preferred by Southern European countries. While MUS is an important prerequisite for the Banking Union, what makes the difference in breaking the vicious circle between the state and the banking sector are common procedures for bankruptcy and limitation of tax effects. A common concern is the fact that an implementation on pieces of the four elements of
the Banking Union will mean not achieving its main objectives. This is because the federalization of bank supervision through MUS (from the ECB), but at the same time maintaining procedures at national level will lead to the prevalence of local settlement, meaning that the national supervisory authorities would delay the bankruptcy procedure for a bank on which it has not been exercised supervision.

After detailed negotiations in numerous community summits it was established to apply the first element, respectively the integrated banking supervision, starting March 2014; the other 3 elements not having a specific time horizon to be implemented. At Community level there are already all the elements of a single financial market. European banks operate at transnational level, investors buy liabilities of neighboring countries, citizens open accounts in other Member States and only supervisory bodies remain at national level. In this context, banks are less regulated in Europe than in the U.S. and at the same time, the EU has no protection provisions, such as those allowing the reorganization of the financial banking institutions in case of bankruptcy. Under this unique new mechanism, the ultimate responsibility regarding specific supervisory tasks related to the financial stability of all banks in the euro area will be assigned to the European Central Bank (ECB). When this mechanism, intended for euro area banks, will be operational, ESM would be able to recapitalize banks directly, following a simple decision. However, national supervisory authorities will still have an important role in monitoring daily activities and in the preparation and implementation of ECB decisions.

By means of The Unique Supervisory mechanisms (MUS), it will be possible the direct capitalization of banks in difficulty, but only after the probable institutionalizing during the year 2014. The most important countries in the euro area are reluctant to make joint rescue funds without ex ante agreements, on the distribution of tax burdens and prior to credible reforms at national level. More than that, bankruptcy and deposit insurance authorities will remain, probably at national level in the near future.

At the end of 2012, it has been agreed that the ECB will hold full supervisory responsibility for the 200 European banks with assets greater than 30 billion euro or exceeding 20% of that country’s GDP. The rest up to 6,000 European banks will remain subject to national authorities, but ECB reserves the right to intervene directly in emergency situations, at the request of ESM (European Stability Mechanism).

One of the main concerns spread at EU level is that an implementation by pieces of the four elements of The Banking Union would mean not achieving its main objectives. This is because the federalization of banking supervision by MUS (from the ECB), and at the same time maintaining the procedures at national level, will lead to the prevalence of local regulation, meaning that the national supervisory authorities would delay bankruptcy for a bank over
which the surveillance was not performed. While MUS is an important prerequisite for Banking Union, what makes a difference in breaking the vicious circle between the state and the banking sector are the common procedures for bankruptcy and the limitation of tax effects.

4. The Positive Effects of the European Banking Union

It is obvious that among the reasons for which it was designed this Union, it is highlighted the need to reinvigorate the debt blockage, affecting increasingly more EU countries. This is the reason why the EU does not only include countries in the euro area, but also non-euro EU states willing to join. In fact, a minimalist monetary union turned out not to be sustainable. The European Banking Union aims to break the vicious circle between the banking system and sovereign debt. In the current economic system, the states are responsible for saving the banks, and this affects enormously the national budgets. At the same time an important part of the bank’s assets are the sovereign securities of the states. Hence, the fear that states solvency can reduce the banks’ rating and vice versa.

A first positive effect of this banking union will be that European banks would have access to the money of the European Stability Mechanism, in order to recapitalize. It represents a critical need for European banks, which would have to face the pressures of financial markets in an attempt to increase their capital.

So far, the ECB has somehow limited responsibilities: it can influence its key interest rates in line with inflation and the economy in general, it can act as lender of last resort for the euro zone banks and it controls the money supply, so it controls the single currency printing press. After the effective entry into operation of the Unique Mechanism of Banking Supervision, the ECB may grant or revoke banking licenses, it may impose penalties to the banks and it would have a say on the issue of their executive management, prerogatives that now belong exclusively to the national central banks. In fact, according to amendments to the Operation Rules of the EBA, the allocation of supervisory tasks to the European Central Bank in the banking sector, for part of the EU Member States, should not jeopardize in any way the functioning of the internal market in the financial services field. This ensures the best conditions for optimum operation of the European Banking Authority.

However, the establishment of a single banking supervision system could harmonize the operating regulations, somehow not uniform, of various European banks. The implementation of a unique system of banking supervision could harmonize the regulations, somehow not uniform, under which different banks in Europe operate.
One of the most important aspects is the inclusion of the non-euro states within the EU. Thus, there was implemented an intermediate process that could help candidate countries to cope easier with the process of accession to the euro, being a test of their economic sustainability to the rigors of the financial system in the euro area.

The community state funds allocated to save banks with financial problems can cause an important tax burden and may cause the increase of sovereign liabilities efficiency, adding extra pressure on the bank balance sheets that are the main owners of sovereign liabilities. The Banking Union could therefore be an institutional prerequisite for setting a common European rescue fund, as required by the European Stability Mechanism (ESM). The essential difference in the current form of the ESM would be the fact that the saving funds could be injected directly into the banks in difficulty, while at present this can only happen through the state. A significant modification, in the status of the European Banking Authority, was amending the voting procedure, presently in the necessity for a dual majority, both from the group of countries inside and outside the euro area. In this way, it diminishes the risk of creating an EU with multiple speeds, but it does not completely resolve the issue of national supervisory duties of banks. Limiting direct supervision of a smaller number of banks, by the ECB, solves only part of this problem. There have been considered precisely the various risks that banks are exposed to, outside the euro area, a uniform approach being incorrect in some cases. The foreign currency loans constitute an important source of vulnerability for the banks in non-euro states that are directly affected by the variation of exchange rates. It should be added the fact that a large part of the bank’s capital in non-euro states is owned by euro area banks. Thus, for example, more than 80% of the Romanian banking system is owned by banks in the EU area (including the UK), while only 10-15% of the banking assets in Western European countries are owned by foreign banks.

The current international financial crisis led to a return of many EU banks to their national territory, even to nationalization, due to lower lending opportunities both to businesses and to the population. Thus, companies with similar profitability rates in different parts of Europe are borrowing on different terms, although they operate on the same markets. It is intended for the Unique Mechanism to complete the Monetary Union of the EU. The monetary policy represents an important instrument for solving the economic shocks of the EU Member States. At the same time, this depends on the commercial banks that with their policies can boost the real economic activity.
5. Conclusion, Limitations and Future Research

The establishment of the operating principles of the European Banking Union has generated much discussion and controversy, given the complexity of national banking systems in the EU. It is obvious that this Union will continue to undergo a number of amendments and additions, given the differences of the financial-banking systems of EU states. This is particularly obvious as it assumes the parallel operation, at least for now, with monetary policies specific to the single currency.

The Unique mechanism as the first element the European Banking Union does not only represent a means of restoring confidence and a means of short term resolving financial and economic crisis, but also a way to strengthen, for long term, the real economy. Certain EU Member States wanted this control system to be limited to banks with problems. However, recent experience has shown that even small and medium-sized banks can jeopardize the entire financial system. With a unified control system, the ECB will have direct connections with a large number of banks, representing over 20% of GDP in EU Member States. The other banks with less capital will be first of all supervised by central banks, the ECB still having the prerogatives to oversee the entire European banking gear and to intervene in certain conditions. Currently, it is not yet clear which will be the future relationship between the supervisory body of the banks and the European Central Bank. There still have to be defined the ways that could have prevented a possible conflict of interests generated by the interweaving of the monetary authority and the supervision one. What is the most important is that the European Banking Union is open to all Member States of the EU even if they have not adopted the euro. This inclusion is a correct situation from the economic point of view, but it will cause a multitude of problems, especially regarding the way of supervision exercised by the ECB.

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ABSTRACT. Tax incentives have become a popular policy instrument to boost research and experimental development (R&D) activities for businesses. They offer a reduction to a firm’s tax burden depending on the volume, or increase, of the expenditure the firm devoted to R&D. The popularity of this instrument arises from the fact that it is rather simple to implement through the existing system of corporate taxation, implying low additional administrative costs both at the side of authorities and firms. R&D tax incentives do not burden the budget of research ministries (as the costs are borne by lower revenues of the Treasury), and they can easily be altered in size and scope without much change in the administration of the measure (as compared to a grant or loan program where a doubling or halving of the measure often implies an according change in the resources to run the scheme). This article approach R&D tax incentives that apply in the EU member states and the need of these incentives as an important factor in stimulating economic activities.

**JEL Codes:** H25

Keywords: R&D activities; tax incentives; tax deductions

1. Introduction

R&D tax incentives have been widely applied by governments over the past 40 years.

Tax incentives are a popular policy instrument to boost research and experimental development (R&D) activities of businesses. They offer a reduction to a firm’s tax burden depending on the volume, or increase, of the expenditure the firm devoted to R&D. The popularity of this instrument arises from the fact that it is rather simple to implement through the existing system of corporate taxation, implying low additional administrative costs both at the side of authorities and firms (Kohler et al., 2012).

R&D tax incentives can easily be altered in size and scope without much change in the administration of the measure (as compared to a grant or loan
program where a doubling or halving of the measure often implies an according change in the resources to run the scheme). Also, R&D tax incentives are neutral in terms of the content of R&D activity being supported, and they reach out to all types of firms, including small firms and service firms. When run on a long-term legal base, this instrument provides a reliable base for financial planning and R&D decisions of companies.

The literature review focuses on studies that econometrically analyze the impact of R&D tax incentives on key policy goals of the instrument. Since a primary goal of R&D tax incentives is to raise R&D spending by enterprises, most studies look at input additionality, i.e. the change in private R&D expenditure that can be attributed to the tax incentive. The studies are typically based on firm-level panel data and either cover periods before and after the introduction of a tax incentive, or they analyze the effects of changes in the generosity of R&D tax incentives. Methodologically, they estimate R&D demand equations using a dummy variable for the tax credit or R&D price elasticity (see Hall and van Reenen 2000). In recent years, control group approaches have been used too (see Corchuelo and Martinez-Ros 2009, Czarnitzki et al. 2011, Duguet 2010) that compare firms that use an R&D tax incentive with R&D active firms that refrain from doing so.

The importance of R&D activities is sustained by the trends of the new economic paradigm – the knowledge-based economy; that relies on the increasing role of knowledge for competitiveness growth and economic development (Popa et al., 2012).

For this reason the governments are in competitiveness to do the best scheme of R&D tax relief.

In the EU, R&D tax incentives have become more important in the last years, they are expressed even by the EU 2020 Strategy (R&D is one of two objectives of this Strategy and becoming a smart and sustainable economy are the two priorities of it).

In this article we approach, using the literature and the tax legislations review, the R&D tax incentives problem. The article is structured into four sections: the first part approach the R&D and the R&D tax incentives concepts as they are presented in the scientific literature. In the second section we analyze the necessity of an R&D tax relief schemes that must be applied by the governments in order to increase their economic results. In this part we also try to answer the following question: Why do governments support business R&D?

The third part, present the R&D tax incentives schemes that are applied in the countries, members of EU. We think that these tax incentives could be an element of tax competition between EU member states, but this is a subject for a further research.

The last section comprises the conclusions of entire article.
2. The Governments Choices for Designing an R&D Tax Incentives

Governments can choose among various tools to leverage business research and development (R&D). They can offer direct support via grants or procurement or they can use fiscal incentives, such as R&D tax incentives. More countries are now using tax incentives than a decade ago and the schemes are more generous than ever. As of today more than 45 OECD governments provide fiscal incentives to sustain business R&D, up from 12 in 1995, 18 in 2004 and 20 in 2012.

This section tries to set out key considerations for the rationale, design and evaluation of such measures. So, we think that the reasons why do governments support business R&D are:

- **R&D is seen as a crucial investment for the long-run growth of economies**
- **Maintaining jobs, especially in times of crisis**
- **Contribute to national competitiveness**
- **R&D investment is risky**
- **R&D activity generates “public” goods**

When implementing a business R&D tax incentive, governments have to choose the particular characteristics of the measure. Design features include the tax on which the incentive is based, what R&D expenditures qualify for a tax reduction (total volume of increase over a reference base; all categories of R&D expenditure or only intramural/extramural /personnel expenses; exact definition of R&D), the target group of beneficiaries, and whether unused claims can be carried over or refunded in cash. This section also discusses the choices governments can make when designing an R&D tax incentive that supports business R&D.

The first choice relates to the type of R&D tax incentive. Currently, four types of R&D tax incentives are applied:

*Accelerated depreciation schemes* for investments (machinery, equipment, buildings, intangibles) used for R&D activities. This has been for instance the case of Italy, which was one of the first to start such a scheme.

*Special R&D allowances* enable firms to deduct more than 100 per cent of their current eligible R&D expenditures from their taxable income. This is the case for the UK where two levels of deduction are offered: 130% for firms in general, and 175% for SME.

*Special exemptions of wage and/or social taxes* for employees in R&D activities. The Dutch scheme WBSO allows the deduction of R&D labour costs only (van Pottelsberghe et al. 2003).

*Tax credits* allow firms to directly deduct a specific share of their R&D expenses from the corporate tax liabilities. This type of R&D tax incentive is currently the most widespread.
A new type of fiscal support to R&D that is closely related to R&D tax incentives is the so-called **Patent Box**. A patent box grants a lower corporate tax rate on profits generated from patents that are held in a certain country. Since patents are typically the result of R&D activities, the lower tax rates represents a preferential treatment of R&D investment over other investment. A patent box was first introduced by the governments of the Netherlands and Belgium in 2007, followed by Spain and Luxembourg in 2008.

Governments may combine different types of fiscal incentives. Austria, for example, offered both an R&D allowance and an R&D tax credit, but repealed the allowance in 2011.

Another central choice is to select the basis of calculation, either volume-based or incremental. A **volume-based scheme** allows the deduction for all eligible R&D expenditure in a given year. In contrast, an **incremental scheme** allows the deduction only of the increase in R&D expenditure during the fiscal year.

The latter was the initial choice made by numerous countries. The central argument was that public support is an incentive for doing more effort, rather than a recurrent support for doing R&D, whatever amount.

Such a choice had one further critical fiscal advantage: it was easier over time to identify fraud.

Another important choice is the **definition of eligible operations for tax deductions**. The definition of R&D differs among countries (OECD, 2010) and can be more or less generous. A relatively narrow definition, for instance, is to qualify all expenditures on wages related to R&D as eligible R&D expenses, and thus the tax credit becomes an incentive for investment in human capital (e.g. the Netherlands).

The debate on the definition of R&D developed along two dimensions. The first dimension relates to the **harmonization of definitions** and, in that case, the main references is the OECD’s Frascati Manual (OECD, 2002). The main debate is about the connection between R&D and innovation. For example, Spain has introduced the acquisition of intangibles in its definition. More recently, some firms argued that the OSLO Manual would be a better reference. Fiscal specialists have tended to oppose this position because of the loose definition provided by the Oslo Manual (OECD and Eurostat, 2005) and the difficulty to identify and measure corresponding expenses. The second central, though often low-key, issue lies in the **calculation of overheads**. A number of systems have chosen the simple solution of a given percentage of all the direct costs accepted.

**Generosity of the tax credit.** This is a design element that largely determines the cost of the measure. Two elements determine the generosity, the percentage of R&D expenditure that can be deducted and the maximum amount of tax reduction that can be claimed. In addition, a tax incentive
system may differentiate the level of generosity by type of firm, R&D activities, technologies, regions or sectors.

Governments can make fiscal support accessible to all companies, or make support more generous for target groups of firms (e.g. SMEs). This can be done by:

- Placing upper limits on the amount of tax credit that can be claimed (upper limits are more likely to be attained by larger companies than by SMEs).
- Giving higher tax credit rates for SMEs, and/or greater flexibility e.g. cash refunds or unused credits.
- Minimum thresholds can increase the efficiency of policy as administrative costs can be high for small applications (OECD Innovation Policy Platform, 2010).

The general trend among countries has been to adjust their R&D tax incentive to make them more generous and simpler to use. For instance, France (in 2008) and Australia (in 2010) replaced their more complex hybrid volume and incremental-based schemes with simpler and more generous volume-based schemes. Belgium, Ireland, Korea, Norway, Portugal and the United Kingdom have increased and sustained their tax credit rates or the ceilings of eligible R&D in recent years. Canada has introduced new administrative rules to facilitate access to their R&D tax credit program, improve its consistency and predictability, and enhance the quality of the claims process (OECD Innovation Policy Platform, 2010).

3. R&D Tax Incentives in the EU

The European Union (EU) announced its aim to become the most competitive economy in the world at the Lisbon Summit in 2000. The advancement of intellectual property (IP) and research and development (R&D) activities is widely believed to be an important element in achieving this aim.

At a subsequent EU Summit in Barcelona EU member states committed to spending 3% of gross domestic product on R&D investments by 2010.

Following these announcements, a number of EU jurisdictions have introduced favourable tax rules for IP and/or R&D activities, with a view to attracting and retaining investment in their countries. And despite falling tax revenues, governments are still keen to attract businesses engaged in these activities to their jurisdictions.

A significant challenge has been ensuring that the low effective tax rates created for IP and/or R&D activities successfully stand the EU compliance test, i.e. they aren’t seen as “ring-fencing” or breaching the discriminatory rules. The purpose of this report is to summarise the fiscal issues to consider.
when deciding where to locate IP and carry out R&D work for a group of companies.

In the EU, the governmental authorities are both interested and constrained to take active measures in order to stimulate the R&D activities. In the last three years increased the number of EU member states that applied R&D tax incentives from 10, in 2011 to 20 in 2013.

Regarding the type of R&D activities, in the following we will present the domains to which are applied tax incentives (see Figure 1).

**Figure 1.** Areas R&D tax incentives

![Figure 1](image_url)  
Source: Authors

Tax incentives schemes that operate in the EU states are different, but for a better understanding in the following we will present the various schemes that are applied (Popa et al., 2012):

I. **By the calculation basis for the tax credit:**
   a. *R&D results* – the tax credit is calculated by applying the rate to the amount and structure of the eligible R&D expenses;
   b. *R&D expenses* – the tax credit is calculated by applying the rate to the amount and structure of the eligible R&D expenses;
   c. **Mixed**

II. **By the type of eligible expenses**
   a. *Capital expenses* – the tax credit is calculated by applying the rate to the amount capital expenses, thus to the investment component;
b. *Current expenses* – the tax credit is calculated by applying the rate to the amount of current expenses, most frequently focusing on the personnel expenditure;

c. *Mixed.*

### III. *By the type of tax credit*

a. *Additional deduction or exemption* – the benefit is the reduction of some payment obligations that an enterprise has to the state budget (corporate tax, social contributions etc.);

b. *Cash reimbursement* – the benefit consists in cash reimbursement, thus influencing positively the real cash flow of the enterprise;

c. *Mixed.*

### IV. *By the dynamic of the tax credit rate:*

a. *Flat system* – consists in using a constant tax credit rate, regardless of the amount of the R&D expenses involved in the project;

b. *Progressive system* – use a higher marginal tax credit rate for the surplus.

c. *Regressive system* – use a lower marginal tax credit rate for the surplus.

### V. *By the beneficiary differentiation*

a. *No differentiation* – the same conditions are applied for all enterprises;

b. *Differentiation by size* – consists in the use of higher incentives for SMEs.

Considering this schemes, in the EU, 12 countries applied tax incentives, as follows:

**Table 1. R&D tax incentives schemes in the EU**

<table>
<thead>
<tr>
<th>Country</th>
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<th>III</th>
<th>IV</th>
<th>V</th>
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<tbody>
<tr>
<td>AT</td>
<td>Exp.</td>
<td>Cap.</td>
<td>Cash</td>
<td>Flat</td>
<td>No diff.</td>
</tr>
<tr>
<td>NL</td>
<td>Mix.</td>
<td>Current</td>
<td>Cash</td>
<td>Flat</td>
<td>No diff.</td>
</tr>
<tr>
<td>UK</td>
<td>Exp.</td>
<td>Mix.</td>
<td>Mix.</td>
<td>Flat</td>
<td>Diff.</td>
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</table>

In other member states, even if does not apply R&D credit as an incentive, they offers deductions. In Denmark, for example, the authorities offer R&D tax deduction incentives and corporation engaging in R&D. The enterprises have two deductions options: they can either deduct the full amount of expenditures in the year in each they are incurred or amortize these costs over a four years period (Global Guide to R&D Tax Incentives, Taxand, 2012).

Germany does not currently offer an R&D credit as n incentive, but according to German income tax law, all current R&D expenditures are fully deductible from taxable income.

In Italy, a tax incentive in a form of a credit has been granted by the Finance Law for 2007 (art. 1, c.280-284, Law no. 296/2006) for R&D activities. This tax credit was granted to individual entrepreneur and companies, subject in the fiscal year running from January 1, 2007 until the closing of tax period in progress at December 31, 2009. Such tax incentive has not been renewed for years 2010 and following.

Romania, also does not currently offer an R&D credit as an incentive, but starting January 1, 2009 are applied the following tax deductions for corporate income tax purposes:

- an additional tax deduction of 20% of the eligible expenses for R&D activities;
- the possibility to use the accelerated-depreciation method for device and equipment used in R&D activity.

Deductions as tax incentives for R&D activities offer Sweden too.

7. Conclusion and Future Research

The importance of R&D activities is sustained by the trends of the new economic paradigm – knowledge-based economy, so the primary goal of R&D tax incentives is to raise R&D spending by enterprises.

In EU, 12 countries provide tax incentive and many others offer tax deductions, as: Denmark, Germany, Italy, Romania and Sweden.

Providing tax incentives can be an important element in attracting foreign capital and, therefore providing R&D tax incentives can be considered an element of tax competition between EU Member States, but this will be the subject for a future research.
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CHANGING THE MARKET STRATEGY
BY COST MANAGEMENT

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ABSTRACT. When redesigning the overall management of companies with the intent to adapt them to the current market conditions, cost reduction plays a crucial role, from the private sector to the public one. Thus, expenditure management currently put into practice by Romanian manager’s place an emphasis on most areas, from the material ones to the salary ones. In this article we deal with the integration of the cost reduction strategy as proficiently as possible within the overall extremely needed management measures, to more successfully establish the market/ objectives defense and attack strategies.

JEL Codes: G32

Keywords: company consolidation; optimization; investment planning; cost cutting; cost controlling

1. Introduction

Due to the events of the past five years, the “crisis” has already become the discussion topic of everybody. Macroeconomic estimates for the foreseeable future are not in the least optimistic, amplifying even more the general fear of what tomorrow may bring. We cannot however overlook the fact that the macroeconomic indicators are nothing more than the cumulative effect of microeconomic players - whether individuals or companies. Similarly, the macroeconomic cycles are dictated by the statistical patterns of behavior of these private entities individually. No matter how pessimistic the financial analysts may seem as far as the Romanian economy is concerned and no matter how large the pressure on the government apparatus should be, the ones who will have to strive to survive will be individuals and companies.
2. The Necessity of Optimizing/Consolidating the Company in General

Theory aside, how will the macroeconomic stability influence the behavior of individual players? Despite all these confusions and uncertainties, there are some basic and constructive steps that companies in Romania can follow and that have the potential to lessen the impact of the crisis:

1. Profit versus Cash. Let us not mistake “Profit” for “having money.” Because of the crisis of the banking market, it is recommended to pay more attention to the ability of companies to maintain an adequate liquidity level in order to survive these difficult months or tens of months. Liquidity management will be essential for maintaining operational independence. Many companies have difficulties not because they fail to be profitable, but precisely because they lose sight of the essential and fail to secure an adequate level of liquidities and to therefore pay their debts on time. That does not mean that companies should not pay attention to issues of profitability, but that this year the difference will be made by the company’s ability to turn this profit into cash.

2. Cultivating business relationships. The management of the working capital will become an essential tool for survival. The management of the relationships with suppliers and customers will prove essential for the business of companies in the context of cumbersome loaning conditions. The ability of companies to adapt and control the inventory and the cash conversion cycle will help to delimit the “winners” of this crisis.

3. Reorganizing the inefficient units. Under external pressure, companies can no longer afford the luxury of maintaining their investments in segments which do not operate efficiently or are not part of the basic activities. Companies will be put in the position of choosing between “sacrificing” and “bearing the cost of” preserving strategic units that only have the potential of bringing long-term profit, and “giving up” on any other segments that are not part of their long-term strategy. As a result, the process of rationalization will be inevitable. Moreover, we will probably be witnessing a series of consolidations of industries, as companies will be focusing their efforts on developing core business segments.

4. Careful planning of investments. In the context of higher prices and smaller commercial credits and in that of a more difficult access to this form of financing, companies will become more reluctant regarding investments. The strategy of expanding through mergers and acquisitions should be planned much more carefully and requires a solid foundation in terms of projections and synergies associated with each transaction. Furthermore, a realistic and detailed management plan for the post-acquisition integration of the company will become an essential part of the transactional process.

5. Financing methods. Given the lack of liquidities and the credit market changes, which are the viable options for a company to get financing?
Injections of capital or attracting borrowed capital are the traditional financing methods, but their cost has increased significantly in the recent months. The question remains whether the companies will choose to rely solely on internally generated funds or if they will limit their development through investments. These are just some of the important issues that will occupy the agenda of corporate managers in Romania for the next period.

Cost management. In the times to come attention should still be shifted towards cost management. Since wages are often one of the most important cost components, the first reaction of companies will be to strictly monitor them. Limiting the number of employees will only be the last resort in cutting costs. Although difficult, this economic situation should not, in any case, be an excuse for impulsive decisions, dictated by panic, such as excessively reducing staff or any kind of costs that may compromise long-term goals. In other words, it is desirable to maintain a minimum level which could allow that, upon the first signs of economic recovery, the company be able to mobilize human, technical and logistic resources needed to be “one step ahead of competitors.”

3. Redesigning Cost Management

As we are surrounded by news of budget drops and people being fired, we might say that recession is now more present than ever in Romania. However, there is still time to make intelligent decisions regarding cost management, or, at least, to make the difference between cost-cutting and cost-controlling. At this very moment, many companies are holding meetings to decide what else can be cut from the list of expenses. But shouldn’t managers be aware of what they are cutting and, most important, what the repercussions are? The problem is that most of the Romanian companies only adopted the name of the Western concept of “Cutting Costs” in the West, not the appropriate methods to reduce costs and began to look for budgets to cut: the wages one, the training one, the advertising one and the list goes on. But specialists say this is not the best way.

The measures practiced at present by several companies, such as reducing training, protocol, marketing budgets, or lay-offs, without improving the processes, will not produce sustainable effects. Most of the times these measures lack inspiration, vision, economic logic and do not raise productivity. On the contrary, in most cases they lead to a demotivating of the employees.

In addition, it also produces a paradox, the management of many organizations is reluctant to the application of enforcement programs to reduce costs, out of fear of remaining in an operational jam, precisely
because of lack of the human resources which they have laid off in order to reduce costs.

On the other hand, managing their costs is rarely perceived as an active change by the companies, although the reality shows that many recent business innovations require expenses which are relatively easily covered. Consequently, it is expected that highly competitive and globalized business environment and the competitive advantage that can result from cost cutting will further support innovation as a way to cut costs. But, in order for the board to be able to properly develop a policy of cost cutting, an overview of the business processes and the identification of the causes those leads to losses are needed.

Unfortunately, there are but few international caliber managers on the board of Romanian companies. Decisions regarding the strategy of cutting costs are mainly made based upon “entrepreneurial” considerations - that is by the will of the employer or of his representative, who usually do not thoroughly know the economic and organizational laws - and decision makers with managerial functions on the payroll are pushed towards the supervising area.

We believe that this model is not bad in it, but can only lead to positive results for small, local companies. Instead, when departmental autonomy from the central leadership is high enough from the point of view of the delegation of tasks, managers should have more powers of coordination than those of verification.

The problem with cost cutting is not reduced to that. According to a study conducted internationally by the audit and consulting company KPMG, in cooperation with the Economist Intelligence Unit (EIU), two years ago, 9 out of 10 cost reduction programs implemented by companies failed and results were only visible in the short term. At that time, the financial and economic crisis was only looming on the developed markets in areas such as real estate and auto. However, many of the western companies were planning to implement cost reduction methods and even strategies of cost controlling.

The difference between “cost cutting” and “cost controlling” is that the first concept refers to a finite and precise action of elimination excess costs, while the second refers more to an attitude of the management on general policy costs. This entails a periodic review of the business needs, of the means of meeting these needs, finding the volume of expenditure required and especially finding the right balance between these variables.

Therefore, the management should not be limited to finding ways to cut costs, but should also try to build an organizational culture based on the idea that in any field and in any department costs can be constantly reduced. Simply cutting costs by identifying and cutting the surplus expenditures is not enough. Managers need to build a sustainable cost reduction strategy, developed on a long term basis, which should focus more on the way
business is conducted than on the way that money is spent. This approach can lead to a longer-lasting improvement and a better understanding among employees of why the costs should be "controlled".

According to the research conducted by KPMG & EIU, which surveyed over 400 senior managers and 21 experts in cost management, creating a culture focused on reducing costs was already a goal for many companies, in an attempt to respond to intensifying competition, shareholder pressure and the need for liquidities for development financing. However, this seems to not be yet applicable to our country.

The explanation for the low number of Romanian companies that support cost-control policies is reduced to the lack of tradition and know-how. Romanian managers still have a mentality that defines the company’s patrimony as a value that lies outside their interests, value that they do not worry about enough.

In Romania we should talk more often about strategies to reduce costs, as local companies spend more than they should in areas of production support, for example. The areas where this happens most often are telecommunications, financial and banking services and transports.

High costs of production are not necessarily explained by the price level of the raw materials, but rather the lack of appropriateness of the company’s decisions to their real needs. Too much is being bought, perspectives are wrongly estimated, anything but the necessary is being bought, so on and so forth.

4. Obstacles

A cost control culture is however difficult to implement in the companies in our country, because the success of such initiatives depends primarily on the availability of managers and employees to consistently employ ways to reduce expenses, and not only when they face a crisis, and these factors still lack the necessary experience and maturity. There are at least three major obstacles in implementing a culture of constantly focusing on the cost control:

1. Organizational inertia, due to reluctance of the staff to change the old way of life, the old means of production, etc.;

2. Inadequacy of the policies to the internal and external environment of the company, it may happen that, after implementing a new policy, its effects do not contribute to the progress of the company or department;

3. Poor implementation. If poorly designed, implementation of the policies can cause frustration among staff; it can lead to breaking trade relations, to personnel fluctuation, operating losses, a decrease in the market share, etc.
The most important measure that the consulting firm, trying to cut costs, instills in its clients is increasing the investment in human resources. The problem lies in the fact that the effects of this measure are not immediately felt and are often followed by the effects arising from investments in technology or in automated production capacity, bringing quickly visible benefits to organizations.

Other countries do not have a better situation either; however, their approach is a better one. The KPMG & EIU study shows that 9 of 10 companies still had a hard time trying to increase their profits two years ago, one of the main reasons being that many of the cost reduction strategies failed. However, 80% of the research participants considered that an efficient cost structure is a source for obtaining long-term competitive advantage.

In practice, companies that in 2007 tried to implement systems to reduce costs managed to get only 59% of the savings estimated on paper, and the companies that reached or even exceeded the expected results represented only 8 percent of the total. KPMG analysts say that even now the situation is not much better, although in some organizations the implemented policies start to show their results. For cost savings to be sustainable, we need to improve the cost structure (with a lower share of fixed costs paid in relation to total costs), to increase the productivity per employee (i.e. value added per employee) or to reduce losses due to inappropriate quality, as these effects are only possible through the optimization of processes in the operative field (e.g.: purchasing, manufacturing, logistics, sales) and, in administrative terms, to resize structures to the minimum necessary. The cost structure is the relative proportion of fixed costs, variable costs and mixed costs in a company. Companies would better learn that the focus should fall not on the nature of costs, but rather on their source. They should ask themselves where these costs come from.

5. Factors

The success of the efforts to implement cost controlling policies depends on three factors:

- the purpose of the projects (number of departments, lines of business, employees etc.);
- the intensity of measures implemented (lay-offs generate costs, reorganizing the structure and the processes often require investing in software, training or technology);
- the involvement of a consultant or of other experts (e.g.: lawyers, auditors or HR experts).
When a company decides to go to a consulting firm for cost control, the analysis is based on project scope and objectives agreed upon together with the management. The first step is to make up an image of the current situation, putting the emphasis more on determining problem areas and processes and less on the details. Finally, the target of the entire process is set. Companies’ investments in projects regarding the optimization and transformation of the processes can be amortized over a period of 1-2 years, provided they are implemented quickly and consistently.

Most companies rather choose the easy ways to save money, which do not however bring the best results. Increasing process efficiency, for example, one of the most popular ways to lower costs, can lead to significant savings, but only if carried out rigorously. On the other hand, though the research results show that off-shoring is the most efficient solution and cost-saving, that is also one of the least popular cost-cutting techniques, largely, because it is considered a solution “painful for both employees and companies,” that quite often prove susceptible to such initiatives. The statements of the cost control specialists show that there is potential to improve the way in which people are spending in all areas of activity of a company. To set the priorities for the increase and optimization of performance, the management should answer the following two questions: In what area do we find the most serious problems in terms of customers and profitability? And, by the measures taken, do we create a competitive advantage or do we reduce the distance between ourselves and the competition from the competitive standpoint?

6. Conclusions

It cannot be said that there are some departments with greater problems than others. However, in order to increase the performance of the processes a proper departmental perspective does not help because there are some typical problems which can be solved by process optimization:

- the customer and product-portfolio is not sufficiently adapted to the market conditions, which leads to a non-exploitation of the potential and of the positioning on other market segments;
- the resources and production capabilities are not effectively organized and do not meet market requirements;
- the channels of distribution and the marketing policy are not sufficiently exploited and adapted to market;
- the lack of communication / synchronization between supply, production, sales and accounting;
- the concrete ways to increase cash flow and profitability are not well known;
- developed and implemented for costs monitoring and analysis.
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THE DASHBOARD – CONCEPTUAL DIMENSIONS AND EVOLUTIONS

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ABSTRACT. The dashboard is one of the management tools that beside the others, responds very well to the substantiation and support of management decisions with complementary data provided by other informational means. In order to pursue the objectives at all levels and function categories, the company resorted to several information systems, one of them being represented by the dashboard. The dashboard can be considered as a response to the insufficiency of general accounting for substantiating current administrative decisions taken by managers. In a more general manner, it consists of a set of indicators, less numerous, giving significant information to management officers in conducting their activities.

JEL Codes: G32; G34

Keywords: piloting panel; the process dashboard; the situational dashboard

1. Introduction

The dashboard represents not only one of the instruments of management control, but also an effective way to verify the achievement of an activity in order to take the necessary decisions in due time. The control and verification of the manner in which a business is conducted is no more than a translation of economic rationality. In semantic acceptation, panel means, among other things, a table or graph composed of a group of terms, symbols, numbers, often arranged in rows and columns, and, the dashboard, according to the Romanian Explanatory Dictionary, is an array on which there are fixed appliances and tools necessary for vehicle handling and control.

2. The Concept of Dashboard

The dashboard concept is often used to describe various instruments. Usually, when these tools are used in taking economic decisions, they suggest the image of some quadrants or geometric figures able to provide essential data
for running a business. In this context, the dashboard idea is similar to the image that provides the visualization of the small lights on the control panel of each system that needs to be directed and led.

Regarding the definitions of the dashboard, as an instrument of management control, the specialized works, especially the French ones, pronounced in different ways, to which, if we give a brief attention, we manage to better fix their place in the “gear” of management control.

Frequently, the term dashboard is used during financial diagnosis. Basically we have no objection, only that in this case, we deal with an instrument with obvious ascertain traits, based solely on financial data provided only by the accounting information circuit. The global and informational data, cumulated in the financial dashboards are particularly important for the person responsible with the business, only that they do not allow short-term interventions, serving better medium term actions. The global financial information is not totally ignored, but they only hold in a limited number of corrections necessary to perform the task. In general, the global financial information does not give the possibility to locate the operational responsibilities.

3. The Connection between the Dashboard and Accounting

The connection between the dashboard, on one hand, viewed from the angle of management control and the accounting and budgetary system, on the other hand, is obvious. It would be a mistake the denial of this link, as the dashboard collects a significant amount of accounting information, but it definitely does not identify to it or to the budget planning and tracking system. From such a perspective, a dashboard as management tool can be introduced independently of the existence of the budgetary system in an enterprise.

The dashboard can use data from the budgetary system and the general accounting, without being confused with these ones, but sharing some common points. It can be constructed, the same as the budgets, based on the existing responsibilities structure in the enterprise, and applying the same principles of analysis of the differences, being anyway, much more sleek, much more synthetic, sometimes with approximate data. While accounting favors the accuracy and the completeness of data, the dashboard is designed to provide faster partial and approximate data. We can conclude that the high frequency dashboards will provide extra-data, while in the annual panels most indicators are calculated based on accounting information. This ensures the coherence of different sources supplying the dashboard by cross game information that enhances their mutual relevance.
As synthesis instrument, the dashboard uses multiple data sources based on several tools: budgets, quality management, commercial management, social management, technical management, financial accounting, cost calculation system, etc.

There is a special relationship between the dashboard and the reporting system. The reporting system is present in groups, and it consists of hierarchical information on the results obtained, it represents the tribute of the branch because it bears its name. This tool implements the Anglo-Saxon meaning of the term “report,” with information role, hierarchical communication in case of decentralization. The dashboard is however a tool of enterprise management, aiming at the action. Starting from this general distinction there can be identified several differences between the two instruments:

• The reporting is essentially based on financial indicators while in order to facilitate the knowledge of the business the dashboard contains non-financial indicators;
• The reporting is based on the structure of sharing of responsibilities appealing to the controllability principle; the dashboard can correspond to other decompositions of the enterprise;
• The reporting is an instrument that provides centralization, data standardization, its purpose being “the information ascent,” while the dashboard must primarily ensure the management of decentralized units;
• The reporting is done in a required format the dashboard has a more flexible structure in space and time.

Thus, reporting is present within groups of companies, while the dashboard can be used in all types of businesses. The confusion or the relationship, dashboard – reporting, appears only in groups. Although we have noticed clear differences between the two instruments, they can overlap in groups’ management, the main reason being the higher cost of their separation.

4. Principles of Dashboard

Some construction principles, outlined in specialized literature, have the role to ensure the fulfillment of the purpose of the dashboard:

The coherence - the dashboards shall be drawn up in each responsibility center or at the level of any other cutting units of the company and they are subsequently centralized to be useful to several hierarchical levels. In this respect, they must be coherent with the enterprise cropping and the compilation must comply with the chain of command. The same coherence is also necessary at transversal level. So, in order to allow the aggregation at a higher level, the dashboards, for the same functions and at the same
hierarchical level, must contain the same performance indicators, the same
definition of indicators and a common source.

**The relevance** - in order to fulfill its purpose, the dashboard should
contain few indicators, but essential to the respective mission.

**The urgency** - the scoreboard frequency is determined according to the
nature of the activity and the need of information in order to follow the
fulfillment of the objective. We should note that the rapidity in preparing and
delivering the dashboard is more important than the accuracy of the
calculations.

**The efficiency** - this is the result of taking attitude in front of the figures
on the dashboard. The purpose of the instrument is alerting officials,
generating an action and organizing the action. The natural consequence of
the dashboard is represented by the plans of action. This is an instrument that
translates the desire to implement corrective actions and that allows sharing
of analysis. Applying a dashboard that does not result in action involves a
waste of time and money.

In order to interpret correctly the indicators and to make good decisions,
in addition to the actual values of the period there must be provided one or
more references:

- The historical basis - the level reached in the past. In this selection there
  will be taken into account the characteristics of the indicator: if it is the
  sales’ level, the comparison will be made against the same period of last year.
  Instead, for the collection level of debts, the comparison basis is represented
  by the previous period of study. The historical references are useful, because
  they show the evolution of the activity, but at the same time they are closed,
  disregarding the environment’s development and not encouraging progress;
- A provisional basis - represents the budgeted level, expected, of the
  indicators. The use of this base shows the degree of compliance of the
  commitments, but focusing on it exclusively, leads to losing sight of the
  ultimate goal – the customer satisfaction;
- A technical basis - the level of optimal performance from a technical
  point of view;
- A basis of customer expectations - very useful especially in quality-
  oriented approaches;
- A basis of performance of another unit - consists in using the
  benchmarking to determine the database. This reference is favorable to
  progress, internal dialogue, creativity and self-improvement;

The dashboard stands as a relatively autonomous instrument of
management control, having its own presentation procedure and use of data
in decision-making activities. The place of the dashboard in the management
control system can be determined only in conjunction with the company’s
structure and the persons authorized to take corrective actions in their area of
responsibility.
As the person in charge, he is entitled to receive information on the action to be taken. And as the degree of delegation of the authority, according to the structure and the organizational chart of the enterprise, determines the organization of those lower echelons known as responsibility centers, it would be inappropriate to talk about a single dashboard. Every person in charge will have to use its own instrument, which will be part of a network dashboard, constructed and arranged in a suitable organizational structure.

For the organization in the network of the dashboards, it is necessary to respect some conditions designed to delineate and define the relationships between them:

→ the representation of the structure as accurately as possible, by composing a precise scheme of the enterprise;
→ the identification of each responsibility and of the hierarchical relationships between those in charge;
→ the inventory of the objectives set for those in charge, establishing the nature and the quantification;
→ the development of the dashboards’ list to be installed in the network;
→ ensuring the overall coherence of the dashboard, taking into account that the dashboard hierarchically superior is supplied by taking over the dashboards synthesis from the lower hierarchy.

When in an enterprise, a dashboard is being mentioned, the concept actually concerns a set of such panels corresponding to different responsibilities.

The managers that are about to be provided with a panel will be appointed according to the results that may be the subject of a short-term deviation, which would jeopardize the achievement of the objectives. In this case, the respective scoreboard will contain the most sensitive indicators enabling the recipient with a more detailed image on the consequences of their actions. The dashboards established at different levels will contain information necessary for each manager to exercise its duties and afterwards to present the results at higher level.

### 5. The Features of the Dashboard

The specificity of the dashboard as an instrument of management control is given by the difference that exists between the other instruments used in the enterprise, not being mistaken by them. But it does not ignore these data sources, gathering here often the indicators needed. This difference is emphasized by the features of the dashboard:

° it retains relatively little data, being synthetic; detailed figures or diagrams not explaining in details the deviations in order to accelerate the flow of information;
it is a means that serves the current management actions, providing the information in a short period of time;

- presents the partial indicators of the most important activities, first of all chosen based on the representative criterion;
- it provides volume data and information that do not necessarily appear in the synthesis produced by other informational structures;
- it establishes the first link between the nature of the data provided and responsibilities, not being based on the concept of contract as in the case of the budgetary system;
- it uses information from accounting and also from extra accounting, derived from statistics held sometimes by operational managers.

Drawing up a dashboard refers to including in its content the elements that define it, being imperative for its editing terms to be taken into account and to receive data after a relevant analysis of the three main problems:

- the decision key points;
- choosing the characteristic indicators;
- the layout and the usage rules;

Compliance with these requirements ensures supplying the dashboards in a shorter time, giving them a plus of efficiency. The content of a dashboard should correspond to the specific information necessary for the person in charge to perform his duty at its level of organizational structure.

Both the presentation and the content of the dashboard should be designed to be easily reachable by the recipient. It is important that the information contained on the dashboard, in the limited number established, to refer only to the area where the person in charge can act and to be introduced in a clear form so that it can be understood, analyzed and used immediately. This data is systematically brought to the attention of the person to whom the dashboard is designed for and it mainly concerns the production in physical units, revenues and expenses.

Later on, the activity can be influenced in one way or another, by various incidents that occur and it is normal for the manager to be given information on the origin of the infringement by the person responsible for the sector where the deviation was reported, featuring detailed information about the incident. There are situations when some shortfalls may not be reported to the company’s management and then it requires the so-called exceptional information.

Although the dashboards are usually adapted to the organizational chart of the enterprise, and especially to the responsibilities, it is useful and sometimes necessary to be supplemented with other data, especially for the person in charge to fulfill the task. This information is collateral to the business sector, monitored by the respective dashboard, and refers to additional data for the implementation of objectives or indicators that characterize the environment in which the company exists.
As for the environment, some specific information on the branch, or even at macroeconomic level, about certain developments in this field may also be useful. It will have to adopt a cautious attitude towards these data, to prevent the unnecessary load of the dashboard. In all this collateral information, we distinguish certain data, which by its own nature is specific to some convergent activities and data that concern regularly the external environment of the company.

6. The Current Developments of the Dashboard

The current developments of the dashboard reflect in:

- **the steering panel** - contains warning indicators constructed in the action plan that removes constraints. If a constraint has not been or cannot be removed, the system may not achieve results. The dashboard is the point of convergence of the two streams - objectives and results. A pilot system refers primarily to conduct and their orientation, therefore it must be simple, clear, progressive, integrated, completed by strategy. A pilot indicator forms a triangle with a goal and a means of action, serving primarily to its own governance and not to reporting. A pilot system is oriented towards process and not towards result, because the latter shows the final result of the process. Therefore, it is not recommended to use steering indicators for staff remuneration.

- **the dashboard on processes or projects** – providing the cross-cropping of the enterprise, there are established dashboards on activities, processes or projects.

  The dashboard established in a transversal view contains:
  → Performance indicators that meet the objectives of the process;
  → performance indicators for plans of action;
  → Indicators for tracking the implementation of plans of action;

  In the case of an organization on processes, the objective of the process will be its contribution in achieving the strategic objective.

- **the situations board** - another development of the dashboard is represented by the situations board, which is a grouping of information in the following categories:

  → The market situation (curve ABC on types of customers, strategic segmentation, competitive positioning);
  → The administrative situation (product profitability, margins analysis, receivables and inventories);
  → the production situation (quality, the effect of experience);
  → the distribution’s situation (types of distributors);
  → the sales situation (commercial costs, sales analysis on sectors);
  → the Human Resources situation (rotation, assignment on products);
**The Balanced-Scorecard - the projection of balanced development** - the practice of reporting results, of business performance represents a constant of administrative control, even if there have been differences in time, on the nature of information, on the focus towards past or future or in terms of the role of indicators information or action. If, in French literature the name of this instrument, regardless of its feature, is that of dashboard, in Anglo-Saxon literature it is carried out the separation from:

- performance reports - which represent a comparison between the values achieved and predicted of the main financial indicators within a dividing of the enterprise on responsibility centers;
- balanced scorecard - a set of financial and non-financial indicators that show the construction of the enterprise performance by balancing and interacting of four forces, based on a division of the organization and on processes and activities.

The balanced scorecard is rather a tool for directing attention towards the factors that may generate the improvement of performance and not an instrument for measurement and diagnosis. This instrument used as indicators:

- Piloting indicators - are financial and nonfinancial measures which identify the result of future operations. These indicators help identify opportunities and prevent errors;
- Performance indicators - are measures of the result of past actions against the plan;

Companies have used performance measures in the past, but the difference between a set of indicators and the balanced scorecard is given by the relationship and causality between indicators, that this latter instrument exploits.

The balanced scorecard is an instrument applicable to all kinds of businesses, because it encourages employees to consider the impact of their decisions on the company’s performance, analyzing the cause-effect relation that exists between indicators.

### 7. Conclusions

The dashboard should remain a summary only for the information strictly necessary for taking short term, quick decisions, and in the case of deepening some problems, or of basing some decisions on medium term consequences, it is necessary to resort to other sources of information of the type used by management control.

For Romanian companies, which due to environmental conditions and difficulties of the transition period have not yet adopted and introduced a system of formalized management control, the dashboard can be a first step
towards the introduction of this system. At this stage, the dashboard can act as a guidance and awareness tool for the construction and improvement of management and forecasting methods.

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THE DERIVATIVES MARKET AND FINANCIAL INSTABILITY

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ABSTRACT. The paper studies three main aspects. First, it theoretically analyzes the FX swaps and options, taking into consideration the structural changes in the currency market; describing their role during currency crises episodes. Second, it studies the manner in which the monetary policy uses the information provided by derivatives markets and the way that interest rate policy is affecting prices on these markets. Third, it analyzes the implications for financial stability, since it has an increasingly importance among political and academicals environments, due to its real and financial effects on the economy.

JEL Codes: D01; D04; D53; E44; E52

Keywords: financial instability; derivatives market; FX swaps; options; financial assets; monetary policy

1. Introduction

Foreign exchange liberalization leads to major changes in the foreign exchange market, affecting the exchange rate movements and the behavior of market participants, increasing the turnover in FX derivatives for short-term speculation and the risk management.

Foreign exchange liberalization removes the restrictions, allowing a wide exchange rate band. Therefore, the markets (including the FX swap markets) have incentives to grow.

Band widening also determines an increase in other market segments, which are important for the monetary policy. One of these market segments is the national currency/foreign currency options market, that provides to the market participants the opportunity to speculate and trade the developments in exchange rate volatility (in addition to speculating on the open exchange rate positions). The developments of this market provide information to the monetary policy decision-makers.

One main feature of FX swaps and options is their high turnover, since these two derivative products are one of the major tools of speculation on the
currency exchange rate, due to the expected volatility that dominates the domestic currency market.

2. FX swaps

Swaps are an exchange of current and future cash flows. Currency swaps are conversions between two counterparties of a cash flow denominated in two different currencies. One of the simplest category of currency swaps is the forex swap, which is a conversion agreement, where there is an exchange of principal denominated in two different currencies by two counterparties and an agreement to swap back principal at a pre-determined price and a future date (maturity). Thus, a forex swap is similar to a spot forex transaction linked to a forward forex agreement, which means that the parties of the swap transaction buy and sell the currencies in the same time; therefore, they do not open forex positions and they do not expose themselves to a potential change in the exchange rate of the currencies that may determine a profit or a loss.

Forex swaps are seen as a specific category of forwards, but taking into consideration two main differences: i) forex swaps involve cash flow in the present; ii) counterparties do not open forex positions. With other words, a swap is a forex repo (a received or granted loan against a foreign currency as collateral, where the market is very liquid, so that swaps are an important financing tool).

2.1 Forex Swaps Related Money Market Strategies

2.1.1 Acquiring Financial Assets Financed by Forex Swaps

Acquiring financial assets financed by forex swaps represents a foreign currency investment followed by an automatic hedge, through which the buyer gets involved into a swap agreement; the spot leg involves the receiving of the foreign currency and investing the value in a financial asset. The swap’s forward leg involves the provisioning of (automatic) hedge against the investment’s exchange rate risk. The asset’s net return (i.e. the differential of the interest rate) is compensated by the rate of the swap that is paid by the buyer, which is corresponding to the differential of the interest rate.

Thus, one of the motives for entering into this type of agreement is the opening of an interest rate position. If the swap and the acquired asset have different maturities, it might be the case of a profit loss that may be determined by the exposure of the interest rate, which may be induced by the
Unlike span of the asset side and of the liability side in case of a yield curve shift.

2.1.2 Taking a Spot Forex Position Financed by an FX Swap (Synthetic Forward Position)

By setting a spot forex position which is financed by an FX swap, the derivatives market participant (the speculator) utilizes the more liquid spot market in lieu of the forward segment in order to open a position. But due to the fact that the market participant does not intend to purchase the foreign currency denominated asset, so it has no intention of changing its balance sheet, it steps into a swap transaction by financing the position, where the spot leg is antonymous to the initial spot transaction. Therefore, the net position of the market participant is restricted by the swap’s forward leg, having the same direction as the underlying spot transaction (the wanted direction in which the position is opened); in addition, the spot leg involved no cash flow, and so the balance sheet suffers no changes.

This signifies “entering into a synthetic forward position.” In comparison with an outright forward, a synthetic forward position has the advantage that the swap market is a lot more liquid and a lot more flexible regarding the maturities.

Closing the position necessitates one of the possibilities: i) entering into an coequal transaction pair (spot and swap) but in contrary directions; ii) running a spot deal that is contrary to the original position and permitting the underlying swap to expire. Its advantage is that it involves a higher liquidity, a higher degree of balance sheet protection. It also leads to a synthetic position’s maturity (the scale of the interest rate exposure carried on by the forex position) that it is possible to ‘tune in’ at discretion.

3. Currency Options

A currency option represents the right to buy or sell a foreign currency in the future at an exchange rate (also named a strike price or an exercise price), which is pre-conditioned by the parties that are involved in the contract. For this currency option, the holder must pay the option premium when entering into the agreement. Regarding the call options, it is important to underline that if the currency is more appreciated relative to the exercise price, the profit is higher; but losses are limited to the option premium that has been already paid. Regarding the put options, it is important to underline that a contrary movement of the exchange rate increases the profit, while the potential losses are limited for the option’s holder.

In over-the-counter markets, options quotation of is standardized. Their exercise prices may take any size; there are also the ATM options (at-the-
money options), which are very frequently used. ATM options are different from other options due to the fact that their exercise price equals the forward exchange rate by the same date of expiry, so that on the expiry date the options will be at the money if the spot exchange rate is identical to the exercise price.

But it is frequent the case when, instead of the option premium, the only quoted for within-year expiry dates are the implied volatilities, which reflects the exchange rate movement’s expected annualized standard deviation. The only factor that influence the option premium and which is not known at the time of undertaking the transaction is the exchange rate’s future volatility. Thus, the future volatility of the exchange rate is dependent on the market behavior and leads the supply and demand to equilibrium on the options market.

One way of manifestation of the way that options markets affects the exchange rates is the dynamic hedging of options. On the derivatives market, the market-making banks buy and sell currency options and also hedge the resulting open position (if it is not zero). If many market participants take long currency positions on the market, the bank that writes the option is able to hedge these options by achieving the respective currency on the spot market. This influence may take place immediately after entering into the option contracts. However, as the options’ value answers less sensitively to changes in the exchange rate than the price does, it leads to lower trading volumes on the spot market in comparison to the total national value of option contracts. The category of hedge that is used against exchange rate risk (also named delta hedge) is able to have significantly effects on the spot exchange rate, especially at the proximity of the expiry date.

Large amounts of option positions that have identical expiry dates and exercise prices, may involve important consequences, so that the options’ exercise prices may become technical, support or resistance, levels before they expire. If one currency gets near the exercise price of a certain call option on the expiry date and if, it exceeds it, and then the currency appreciation may further increase due to position hedging, similarly to the resistance level gap of the exchange rate.

4. Financial Derivatives and Monetary Policy

By setting FX swaps, active participants in the foreign exchange market may disengage the interest rate position from the foreign currency position by using the above strategies, so that they are capable to build-up positions where profit is only conditioned by the exchange rate movements, but not affected by the yield movements.
Currency options provide to participants the possibility of “betting” on the expected volatility changes, without opening an exchange rate position and without building other complex positions that are variably sensible to exchange rates, yields and volatilities.

4.1 The Role of Derivatives in the Transmission Mechanism

By using financial derivatives, the market participants may influence their foreign currency positions apart from their balance sheets, so that the exchange rate is not induced only by demand component of the balance sheet (bank deposits and government securities denominated in the national currency).

In addition, the influence of the central bank on the exchange rate is not reduced. Derivative positions are created especially on the short term, and so the central bank is able to directly influence the costs and the profits of holding these positions by impacting the short-term yields.

The return of a long position that is opened in the national currency is, beside the exchange rate movement, the determinant towards a favorable direction. If it is positive and very high, it opens a long foreign currency position, making the derivative transaction to be attractive. But a positive value also involves costs for the market participant that opens the short position in the national currency. In addition, the higher the value the more expensive the foreign currency position against the national currency (regardless the derivative transaction). For instance, an official rate raise increases the difficulty of taking a short position in the national currency and increases the ease of taking a long position in the national currency, appreciating the exchange rate. This situation is available for any foreign currency position that is set by using any category of derivatives.

One of the positive effects of derivative positions on the short-term interest rates transmission through the exchange rate channel is the strengthening of the relationship between the exchange rate and the interest rates.

But if market participants believe that the monetary policy of the central bank is not credible, then creating large derivative positions is an easy method of exchange rate correction against the policy of the central bank. This might actually reduce the influence of the central bank.

4.2 Information Content of Derivatives Markets

The financial derivatives market improves the transmission between the different market segments, and also helps the monetary policy in improving the behavior and the expectations of the market participants. The activities and the yields that develop on the swap market may reflect the expectations
of the participants regarding the short-term fluctuations in the yield curve and in the exchange rate.

Moreover, the price evolution in currency options may reflect the expectations of the market, so that the information provided by the option prices may be relevant, no matter how illiquid is the market.

4.2.1 Uncertainties in Exchange Rate Movements

Volatility curves may be adjusted to the implied volatilities referring to diverse maturities that may be utilizes in order to abstract conclusions regarding the exchange rate’s future expected standard deviation.

One instrument that reflects the volatility curves is the option volatility cone, which illustrates the historical minimum and maximum of the implied volatilities at various maturity ranges. This instrument ensures that the conclusions can be related to the amplitude of the implied volatilities.

Higher implied volatilities reflect higher uncertainty that leads to band shifts and Central Bank’s interest rate raises. A horizontal volatility curve illustrates the expectation of the market that the volatility will remain unchanged in the next period. Lower volatility curves reflect very favorable and optimistic market sentiment.

Another method of expressing expectations regarding the exchange rate movement uncertainties is by estimating: i) the likelihood that the exchange rate will surpass a given level; ii) the likelihood that the exchange rate will remain into a specific band when the options expire. Larger fluctuation bands leads to higher implied volatilities.

4.2.2 Estimating the Risk Premium

The risk premium on currency assets, which is requisite by non-residents, is formed by several factors. Default risk is well illustrated by the difference between the government securities ratings and the government bonds’ yield spread that are foreign currency denominated. Liquidity risk is low, due to the fact that turnover is high on the government securities markets and on foreign exchange markets. The most fluctuant constituent of the risk premium is the exchange rate risk, which is reflected by the exchange rate’s standard deviation. But the historical volatility is not a trustful indicator of exchange rate risk, since it involves a backward- looking nature.

But the implied volatilities illustrate the exchange rate’s expected future fluctuation (the expectations of the market regarding the exchange rate risk). Since only the current differentials of the interest rate are noticeable in the market, it is essential to use an indicator that reflects expectations. The relationship between volatilities and the currency exchange rate is very intimate, due to the fact that a constantly interest premium determines that
5. Derivative Transactions from Financial Stability Perspective

One of the main components of the stability of the financial system’s intermediaries is the exposure to exchange rate risk, which partly depends on the size of open positions in different currencies and partly on the currency volatility in comparison to other currencies. If the banking sector has large open foreign currency positions, large fluctuations of the exchange rate may involve huge losses to banks.

During market turbulence episodes, historic volatilities and implied volatilities of currency exchange rates usually increase.

Unexpected exchange rate depreciation, due to derivative transactions, may be connected to significant shifts in the position of diverse sectors vis-à-vis banks. It is important for the total (on and off-balance sheet) open position of the domestic banking sectors to be at minimum levels, which can be achieved by enforcing strict regulations on the exchange rate risks of the banks. Even if the regulation enforcement is controlled every day, while sanctions are easily be entailed to those who do not comply to regulations, the regulation may only restrict the direct interest rate risk beard by the credit institutions, whose effects do not spread to other financial intermediaries, (for example, to investment firms that are owned by banks). This may be a motive for which during financial crises banks, while formally obeying the formal regulation related to the excessive position limits, maintain large long open currency positions into their investment firms in order to achieve the currency’s interest premium. During the currency depreciation, the investment firms that take assists speculation and their parent banks may face important losses due to these positions.

Regulations related to the open foreign currency limits on the financial institutions may be widened and applied to both banks and investment firms, with the purpose of covering the exchange rate risk, so that financial institutions may have to grant a certain percentage of capital for the other part of their open foreign currency positions, in addition to the percentage reserved to the regulatory capital. Regulation on trading books is administrated to both on and off the balance sheet open positions, while controlling the exposure given by modern complex derivative transactions.

Since regulation related to trading books applies also to investment firms, there is no way that banks may avoid the rules related to open positions through the securities brokers. But banks possess other financial enterprises to which the trading book regulations do not affix, so that banks might use
them in order to artificially decrease the exposure to exchange rate risk (that is registered in their books).

Credit institutions have to assure prudent operations that comprise the risks that belong to the holding’s enterprises, so that they have to obey the regulations related to risk taking and capital adequacy. Although there are financial supervisory authorities in each country that constantly monitor the concordance to these rules, typically financial enterprises do not create open foreign currency positions either on or off balance sheet. For example, leasing companies, being bank-owned financial enterprises with the largest assets, have their foreign currency-based loans refinanced by their parent bank, and their forward Forex activities are insignificant.

The Bank has no relevant information regarding the degree of concentration of banks’ forward transactions with the corporate sector and regarding the failure of firms’ forwards related to the hedging and speculative positions. The currency exchange rate depreciation may determine losses for domestic market participants setting forwards with banks, temporarily for exporting firms and permanently for speculators.

Banks diminish the counterparty risk by requiring a maintenance margin from their counterparties, similar to the case of financial futures, through which they settle the accumulated losses. Due to losses, the maintenance margin drops below a specific level, so that banks request to the counterparty to re-provision the margin account. Since there is a competition between over-the-counter derivatives and financial futures, the size of the maintenance margin is depends on the basic margin that is required for transactions that take place on the Stock Exchange and on the Commodity Exchange.

Regarding the hedging transactions, over time the transitory loss is compensated by the increased currency value of the sales revenue of the exporting firm. If transactions are conducted by a permanent client that presents creditworthiness, banks do not require a margin at all up to a specific limit, because the client is able to offer cover for the counterparty risk and because the margin may be a source of liquidity risk for the client. (currency depreciation may lead to a situation characterized by many clients that undertake hedging transactions and that face liquidity problems due to accounts’ replenishment). But in the case of a counterparty that has a speculative position, banks either require a maintenance margin, either change the transaction to a financial futures.

Regulating open foreign currency positions limits the affinity of the financial system to take exchange rate risks; thus, the volatility of the currency exchange rate does not induce losses to banks that may jeopardize their stability. But it may be possible that under extreme cases, forward transactions undertaken by domestic participants, especially speculators, convert the original exchange rate risk into a counterparty risk. Banks pass
by these risks by requiring “margin accounts and regular settlement of losses incurred.”

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ABSTRACT. Financial instability is a current global issue that has increasingly negative effects, whose mechanisms should be properly understood in order to reduce its future externalities. One of the main instruments of doing that is by testing the robustness and resilience of the financial system by using stress tests. The paper analyzes the two types of prudential principles for stress testing: micro-prudential principles and macro-prudential principles.

**JEL Codes:** D01; D53; E44; G32

Keywords: financial instability; stress testing; micro-prudential principles; macro-prudential principles; financial institutions; risks

1. Introduction

There are two types of prudential principles for stress tests: micro-prudential principles for stress tests and macro-prudential principles for stress tests.

Micro-prudential stress tests underline the role of the bank capital as a buffer against losses, shielding the deposit insurance agency, aiming to resolve the insolvent banks and to undertake corrective actions in order to protect the taxpayers.

Macro-prudential stress tests take into consideration if the banking system has the balance sheet capacity in order to support the entire economy. One of the main objectives is to avert runs on systemic banks that may lead to a credit contraction that may affect the broader economy. In order to avoid the aggregate deleveraging in periods of instability and distress, the solutions focus on increasing the capital, and not on satisfying the capital ratios.
2. Micro-Prudential and Macro-Prudential Rationales for Stress Tests

2.1. Micro-Prudential Rationale

The elements of a micro-prudential stress test involve five elements: i) purpose: the objective is to assess the bank assets and identify the adequate loss-bearing capacity that is able to protect taxpayers from having to bail out insured deposits; ii) scope: the analysis of each bank at a time, or use information from multiple banks in order to diminish the lack of information regarding the value of each bank assets; iii) liability considerations: compute the amount of insured deposits, junior debt and equity; therefore, the required loss absorbency is computed as a ratio relative to asset risk; iv) asset considerations: due to the fact that credit risk of the assets induces the enterprise risk, the loss absorbency of liabilities is linked to the asset composition. Therefore, it is necessary to take into consideration, as a basis for supervision, a capital ratio; v) output: provide guidance regarding the necessity to close a bank or to sell the bank’s assets in order to maximize the taxpayer recovery.

First, the purpose of stress testing is to calculate the current value of assets, with the purpose of providing the required capital as a buffer against loss (improving the “greater loss absorbency”).

Second, asset pricing offers a view regarding the scope of the test, which aims to assess the capital adequacy of each intermediary. Taking into consideration multiple intermediaries improves the asset valuation, using horizontal comparisons across intermediaries. Since the assets of intermediaries are opaque (the imperfect information problem), it is necessary to compare the way that multiple intermediaries are valuing similar assets.

Third, stress tests provide a method that should be used in order to approach the liability from the intermediary’s balance sheet. Insured deposits are very important since they are the taxpayer’s exposure in case of a bank facing problems. The amount of equity and other debt are also important since these may be written down in order to absorb losses before the taxpayer makes a contribution that honors the deposit contracts. The bank runs were considered to be controlled, since the deposit insurance was undertaken, without giving attention to the problems induced by the runs of the uninsured depositors. The Basel committee proposed that banks should have a net stable funding ratio, given by the ratio between the short-term funding and the total funding. The net stable funding ratio indicates that a bank should have an adequate long-term funding in order to properly operate.

Fourth, the micro-prudential perspective provides a guideline regarding the way that should be used in order to approach the intermediary’s assets. Assets are important because of the credit risk that they contain. A strong
reduction in the asset values may induce losses for intermediaries. In order to control these losses, the required level of loss absorbency of an intermediary’s liabilities must be given by the credit risk of the assets. The riskier the assets, the more equity and debt an intermediary has to deemed safe. Thus, the *ratio* between assets and loss-absorbing liabilities is an important indicator in the micro-prudential stress tests.

Finally, the output of the stress test guides regulators about when to close an intermediary so that it can be shut down before taxpayers incur losses. Each intermediary’s problems and resolution are considered as isolated, so it is unnecessary to coordinate asset sales across intermediaries.

### 2.2. Macro-Prudential Rationale

The macro-prudential rationale states that an advanced economy should maintain the capacity of the banking sector and of the intermediary sector as a channel credit, in order to support the real economy. In the case of a common shock, individual intermediaries shrink their assets in order to preserve the capital ratio. Thus, they reduce the credit availability in the economy, triggering an unstable spiral of balance sheet shrinkage which weakens the economy and which triggers further balance sheet shrinkage.

Macro-prudential stress test involve five elements: i) purpose: the objective is to limit the probability of the aggregate fire sales, of credit crunches and of defaults, and of the involved costs; ii) scope: stress tests examine the whole financial system; so, any institution that may lead to fire sales, or whose default may lead to negative effects, or which can exacerbate a credit crunch must be included in the stress tests; iii) liability considerations: since bank runs may determine a credit crunch or a fire sale, the scale of funding is paramount. Thus, the capital adequacy is linked to the health of the entire financial system; iv) asset considerations: asset liquidity is essential, since illiquid assets may lead to fire sales; asset risk is dependent on the default risk and on the fire sale risk; v) output: stress tests indicate if the financial system is vulnerable to deleveraging, involving a potential possibility of amplifying the adverse shocks.

First, the scope of stress tests encompasses the whole financial system. Instead of assessing the weak intermediaries and/or strong intermediaries, stress tests have to assess the aggregate capacity of the financial system to avoid fire sales and deleveraging. The institutions’ contribution to overall conditions is paramount. This involves a focus on large institutions, but smaller institutions with correlated risks or correlated risk management strategies also may involve a risk of “common exposure.” Regardless the cross-sectional dimension, the contributions to systemic risk is time-varying, because of the intermediaries’ tendency to raise the risk-taking behavior during cyclical expansions. The stability of the financial system is dependent
on the market practices. A stress test should focus on the financial institutions and on their balance sheet capacity. The macro-prudential framework also involves important funding-market meltdowns. Even if stress tests do not have to analyze each aspect of the financial system, but when a particular market is fragile, the exposed financial institutions should be stronger in order to offset the risk of market collapse.

Second, the assessment of the financial institution’s balance sheet regarding the liability side takes into consideration the possibility of run. Financial institutions may present a proper capital adequacy. But, as funding liquidity reduces, intermediaries may have to sell assets or reduce credit extensions, so that fire-sale risk is linked to the proportion of wholesale funding that may lead to a run.

The objective of heading off the aggregate deleveraging implies two corollaries. The first corollary involves that it is important to raise new equity that should reduce the probability of a run and allow intermediaries to continue to extend the credit without selling the assets. Taking into consideration the level of equity relative to level of assets prior to the onset of trouble is fundamentally different from comparing equity relative to the current size of the balance sheet once a crisis has begun (Worrell, 2010). A weak institution will have to offset the losses on a currency-for-currency basis, and the equity shortfall must be expressed in currency terms. Asset shrinkage is allowed only to comply with regulation. The second corollary involves that, for any financial institution, the required level of capital is linked to the status of the entire financial system. Even if a financial institution meets the micro-prudential standard of capital adequacy without deleveraging, the macro-prudential standard of adequacy is given by the distribution and the abundance of capital in the entire financial system. If there are weak institutions, the stronger ones might have to become even stronger in order to maintain the system-wide balance sheet capacity, so that well-capitalized firms may have to take over the lending of the constrained firms or to buy assets without facing balance sheet difficulties.

Third, the credit risk of a financial institution is not the only asset relevant aspect for a macro-prudential assessment. If the sold assets may lead to a fire sale, they may involve a systemic risk. So, illiquid assets and are unable to be sold in the case of a system-wide distress may threaten the financial stability. Thus, asset risks are correlated with the aggregate positions of the financial institutions. Correlated losses are able to trigger systemic risks. The common exposures also involve that horizontal comparisons in macro-prudential stress tests are very important, underlying the sources of vulnerability in the entire financial system.

The macro-prudential supervision implies that the macroeconomic scenarios used by the stress tests must involve system-wide consequences, which could include: highly correlated asset losses; a run by wholesale
creditors etc. The resulted losses have to be assessed in order to find out if they have the capacity of triggering a system-wide deleveraging. Thus, the capital adequacy should determine if the capital is sufficient in order to prevent the system-wide deleveraging. The institutions’ solvency is not sufficient if they do not present a proper lending capacity, in order to support the economic growth. Well-capitalized intermediaries have to be very strong in order to increase the balance sheets, as required by a growing economy, which means that the capital shortfalls should be expressed in currency terms (based on the initial balance sheets of the financial institution) and not in terms of capital ratios (determined by the balance sheet shrinkage).

3. Risk Deleveraging

In order to illustrate the challenges regarding the risk deleveraging, it can be given an example of supervisory decisions that have to face such a situation. The starting point is a single and deposit-funded intermediary. This intermediary is considered as being small relative to the entire economy, and involving no systemic risk, so that the main concern about it is given by the fiscal costs in the case where the assets deteriorate and depositors face losses.

Then there may be taken into consideration three types of shocks (depending on size) to the asset quality of the intermediary (small, medium and large). Large shocks are able to wipe out the intermediary’s equity value and to drive the assets’ value below the debt’s value. Medium shocks and small shocks deplete the intermediary’s equity value but are unable to wipe out the value of equity altogether.

From a micro-prudential perspective, there are no qualitative differences between the small shocks and the medium shocks. Equity reaches the micro-prudential objective by being a buffer against losses for depositors. The difference between the two types of shocks is purely quantitative: the quantity of equity that is depleted due to the shock.

The fiscal cost of resolution after a large shock is given by $c$. An intermediary or system-wide micro-prudential stress test should focus on the informational need in order to improve the signal of the assets’ values.

Since the economic costs are much higher in the case of systemically intermediaries, the public policy must involve a system-wide perspective, in order to preserve the capacity of the financial system’s balance sheet. If one strong intermediary has the power to take over a weak intermediary (vulnerable to a run), then the financial system’s lending capacity should be protected from deleveraging.

There are four cases in the financial system.

Case I (“all solvent”) involves that all institutions are well capitalized and are not facing any run or insolvency. The CDS rates for the intermediaries
are low, since there is no default risk and since the wholesale liabilities are stable.

Case II (“solvent firms can rescue impaired”) involves that institutions are weak capitalized and may face the risk of a run and even insolvency. The stronger intermediaries have enough equity, so they can absorb a weaker institution. The strong intermediaries have lower CDS rates that are quite insensitive to the economic news that affect the stock prices. Therefore, “bad news for the weak institutions may be good news for the strong intermediaries” (Worrell, 2010), so that strong firms are able to acquire weak firms or can absorb their assets. Since there is a countervailing effect of the shocks, the movements in the equity prices are not significant. Thus, the equity prices of the strong institutions are negatively correlated with the equity prices of the weak institutions.

Case III (“solvent firms cannot rescue impaired”) involves that there are some solvent and intermediaries and some weak intermediaries. But the stronger intermediaries do not have sufficient capital in order to take over the weaker intermediaries. It is possible for all the institutions to have high levels of CDS prices, even if some intermediaries may have lower CDS levels than other intermediaries. Also, the equity prices may show a high degree of common movement across institutions, since shocks have significant effects on the weak institutions’ viability. There is no countervailing response for the movements of the equity price of the weak institutions, since the solvent institutions have no gains from the demise of other intermediaries.

Case IV (“all insolvent”) involves a very high degree of undercapitalization in the financial sector, since all intermediaries are insolvent. CDS levels are very high for all the institutions and there are large co-movements in CDS returns and equity returns. Since all intermediaries are under-capitalized, good news that reduces the default risk is transferred to the equity prices, so that equity returns and CDS returns are negatively correlated.

Therefore, there are four possible cases regarding the situation of the financial system. Using a mix between CDS prices, co-movement in CDS returns and equity returns, and relative movement of the CDS returns and equity returns of the individual institutions, it is possible analyze the status of the financial system.

The mandates of a stress test may be different, depending on the focus of the test on micro-prudential aspects or macro-prudential aspects. A micro-prudential test may assumes that only the weak intermediaries should raise new capital and/or adjust the funding structure, while the solvent institutions may not face restrictions related to the capital depleting (by repurchasing shares or by paying dividends). A macro-prudential test may assume that
solvent institutions should remain well-capitalized (by banning the dividend payments even for the solvent banks).

One difference between the micro-prudential regime and the macro-prudential regime is most evident in the Case III of financial system status. From a macro-prudential point of view, the differences between Case III and Case IV are small (the system is fragile in both cases and it is very probable of incapacity of supporting an economic recovery until further capital inflows). From a micro-prudential point of view, the institutions and firms that must raise capital are very dependent on its degree of solvency or insolvency.

Another difference is related to the received regulatory guidance. Some of the macro-prudential precautionary measures are: i) the dividends suspension for the whole sector; ii) the raise of capital amounts for the financial institutions.

There are three patterns that should be underlined. First, the macro-prudential threshold related to the capital, in order to prevent deleveraging, is higher than the micro-prudential solvency threshold. Second, in order to reduce the probability of deleveraging, stress tests should provide a proper private capital-raising program or should be followed by a proper government backstop (by direct guarantees for wholesale funding or by capital injections), in order for the wholesale creditors to deal with no risk of facing losses. For example, Case III may be amenable to new capital rising. Third, the impact of a stress test may be assessed by comparing the CDS and the equity prices (for both strong and weak intermediaries) before and after the test.

4. Principles for Sound Stress Testing Practices and Supervision

These principles are relevant for the large and complex banks. The degree of application is related to the size and complexity of the business of the bank and to the level of risk. Thus, these principles should be applied on a proportionate basis.

The use of stress testing and integration in risk governance involve the following principles: i) stress testing should: be a component of the bank’s governance and risk management culture; be verifiable; lead to results that analyze the impact of decision making on the management level, which also includes strategic business decisions, board management and senior management; ii) banks should operate stress tests that include the identification and control of risks, that provide an additional risk perspective, besides the risk management tools, that improve the management of capital and liquidity management, that enhances the internal communication and the external communication; iii) stress tests should take into consideration
different views within the institution and should include a large range of
techniques and perspectives; iv) a bank should implement policies and
procedures that govern the stress tests; v) a bank should have present a
strong infrastructure, flexible enough in order to correlate different and even
changing stress tests at a proper level of granularity; vi) a bank should
maintain and update the stress testing framework; in addition, the
effectiveness of stress tests and its individual components must be
independently and regularly assessed.

Stress testing methodology and scenario selection involve the following
principles: i) stress tests should include a large range of risks and many
business areas; ii) stress tests should include a large range of scenarios
(inclusive forward-looking scenarios) and should take into consideration the
system-wide interactions and the feedback effects; iii) stress tests should
include a large range of severities, especially those that are able to generate
high damages (through large losses or high losses of reputation). Stress tests
should analyze the scenarios that might affect bank’s viability and should
also reveal the hidden risks and the interactions between risks; iv) a bank
should take into consideration simultaneous pressures on funding and asset
markets.

The specific areas of focus related to the risk mitigation and risk transfer,
especially in periods of financial crises: i) the effectiveness of risk mitigation
techniques should be systematically challenged (BIS, 2009); ii) stress tests
should cover complex products and instruments. Stress tests for securitized
assets should take into consideration the following: the underlying assets, the
exposure to systematic market factors, the relevant contractual arrangements,
the leverage impact; iii) stress tests should include the exposures no matter
the probability of securitization; iv) a bank should enhance its methodologies
of stress testing in order to illustrate the effect of reputational risk. The bank
should include risks led by the off-balance sheets; v) a bank should enhance
its stress testing approaches for very high leveraged counterparties in order
to take into consideration the vulnerability to certain asset categories or
market movements and the assessment of potential risks regarding the risk
mitigating techniques.

5. Conclusions

Stress-tests of systemic risks are computed by analyzing the impulse
responses of the systemic risk indicators that vary as a response to structural
shocks, where shock scenarios are based on observable variables and
“behavioral” equations of certain variables. The observable variables that
face a specific shock are often considered as being endogenous; as a result,
sometimes is difficult to realize if the stress tests analyze the symptoms or
the causes in front of a shock. Thus, it is hard to assess the qualitative and quantitative stress test results.

Stress testing is the measurement of “the sensitivity of responses of systemic risk indicators to configurations of structural shocks” (De Nicolò and Lucchetta, 2012). These are impulse responses and variance decompositions of the systemic risk indicators that identify the structural shocks. One relevant identification strategy is the one based on a sign restriction methodology, where there are sign restrictions to the responses of certain observable variables to shocks to factors.

REFERENCES


DIAGNOSTIC ANALYSIS OF TOOL OF FLOWS AND RESOURCES

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ABSTRACT. The balance sheet summarizes the financial position of the company at a time, providing a static view of the financial structure of the enterprise and the profit and loss account shows the result of economic and financial flows input, processing and output in the period considered, irrespective for receiving, or paying them, providing a dynamic view activity. For this reason it is considered that such an analysis is limited. In order to obtain a complete picture on the operations of the company; is used to complement the analysis with additional financial document, justifying variation property items between two successive moments. Such a document that gives a dynamic financial analysis is funding panel that allows business flow analysis, in terms of financial stability rules.

JEL Codes: M41

Keywords: cash flow; array of funding; financial policy; floating capital; functional structure.

1. Introduction

In economic practice, an essential component of the analysis is the study of the financial asset cash flow and especially of funding dashboard, since it is assumed that any activity “liberates” liquidity, which leads to the idea that the deck is an enterprise treasury connecting supply activities, production, trade, accounting and personnel.

The conceptual framework of national and international as is the directives issued by the European Union and the regulations, or international accounting standards issued by the International Accounting Standards Committee.
2. Funding Dashboard

Funding dashboard is financial document summary, the complementary character, which explains the variation status of the company, highlighting the financial flows that occurred during the period. Unlike cash flow, which presents only cash flows, funding panel entire financial flows regrouping after a special logic designed to highlight the company’s financial policy. They can be constructed in different ways, as a result of either direct transformation to explain the business assets or operations that were present because of these changes.

In this regard, financial flows are three panels that can provide answers to these questions: Tool of flows and resources that classifies flows of funds: revealing the working capital flows, flows that reveals the need for working capital and treasury notes streams; Explaining the variation picture collections and distinguished service flows related to operations and cash flows relating to other operations; Picture grouping flows into four groups: those that depend on operational, financial assets, the shareholders and the related debt transactions.

There is no universally used painting, however the most commonly used, recommended by financial theory and practice are of finance panel “uses-resources” and cash flow. Uses statement is proposed by the Accountant General Plan - the French model, with the objective of identifying all financial flows transiting the company and its environment, explaining the formation and use of working capital (WC), the necessary working capital (NWC) and their components.

This must be completed by an explanation of the variation picture collections, as required for large enterprises. Cash flow analysis restricts the scope of the collection and payment flows. This panel examines the variation treasury management business during regarded as an essential variable that depends on the firm's financial and trade policy and the level of its economic and financial performance. As forecast, this statement allows targeting options based on estimated or possible financial balances and evaluating business development opportunities based on predictable resources.

In conclusion, we consider that uses statement describe flows and resource use during the period, while cash flow analysis focuses on changes in treasury. The analysis through the first document is more complex, while the cash flow statement analysis is more pragmatic. Analysis involves research funding switchboard synthetic accounting documents traditional - balance sheet and results - but when its development is required, it developed within the system of annual accounts. However, the uses statement (representing uses and resources) of a period aims to highlight the flow of operations which led to the modification of an item of the balance sheet at the end of a financial year to start.
Prepare funding switchboard is based mainly on information from two or more successive balance sheets as well as the profit and loss account, thus achieving a bridge between the opening balance and closing balance sheet of a financial. Positive or negative variations that arise from business operations is determined by comparing their balances at the beginning and end of the year, reflecting the difference between the two values of input or output streams that influenced them. Statement of changes in property items recorded in a differential balance with which to draw funding dashboard.

In addition to data taken from the balance sheet development funding dashboard operations are taken into account by means of which they were eaten or carried out values which are reflected in the income statement. Through a more dynamic and global financial flows in their entirety, complete diagnoses company, although they do not appear clearly explained either in the balance sheet or profit and loss account. Therefore, financial analysts build financial paintings and paintings of cash flows (cash) that allow reconstitution period financial flows.

Financial flows represent progress means the balance sheet, liabilities, net of the situation and the actual movement of the currency. The tool of flows and resources is considered the main financing instrument of dynamic analysis of the financial equilibrium in terms of functional optical flow as balance, better adapted management forecast. Develop cluster resource uses and establishes a clear distinction between economic flows, financial and monetary flows expressed through receipts and payments, aimed at highlighting the financial flows of uses and resources specific business activity during the year. Positive and negative variations incurred accounting balances elements are highlighted by comparing them consecutive. Summary of movements that make the transition from one to the other resulting in the balance sheet called differential comparator array.

In the differential balance recognized four types of movements that characterize the uses and financial resources of the company, as follows: Uses are considered active increases, which means increasing wealth through investment company consuming resources or procurement (establishment) of its assets and liabilities reductions materialized almost always settle obligations that the company had previously contracted or by reducing capital own; Resources are passive increases, reflecting an increase in equity or borrowed capital injections and asset reductions, aimed divestments which liberates resources for the enterprise.

Concordance between profit and loss and cash flow is based on total financial self-financing capacity is determined through information from the profit and loss by putting in front of the income that may cause financial flows during the year being considered a potential financial resource that allows: financial debt repayment, financing uses unstable (investment), compensation to shareholders.
Feeds purely accounting able to determine financial flows during the period analyzed are grouped into streams and flows recorded differential balance profit and loss. They are subject to adjustment operations to reconstruct the true financial flows. Western literature rectification operations groups: corrections cancellation and corrections of change.

Based on two or more functional balance of funding picture is drawn, the final stage of the whole endeavor summarized in Table 1:

**Table 1. Funding Instrument**

<table>
<thead>
<tr>
<th>Variation uses stable (negative financial flows)</th>
<th>Changes in stable resources (sustainable)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Dividends paid during the year (due to previous year)</td>
<td>1. The ability to exercise self-financing</td>
</tr>
<tr>
<td>2. Increasing fixed assets</td>
<td>2. Decrease of fixed assets</td>
</tr>
<tr>
<td>3. Repayment of financial liabilities</td>
<td>3. Increasing equity</td>
</tr>
<tr>
<td></td>
<td>4. Increasing financial liabilities</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Uses cyclic variation (negative financial flows)</th>
<th>Resources cyclical variation (positive financial flows)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Increased operating current assets</td>
<td>1. Reducing operating current assets</td>
</tr>
<tr>
<td>2. Reimbursement of operating liabilities</td>
<td>2. Increase in operating liabilities (including operating income advance)</td>
</tr>
<tr>
<td>3. The increase in non-operating current assets</td>
<td>3. The decrease in non-operating current assets (including non-operating income in advance)</td>
</tr>
<tr>
<td>4. Repayment of non-operating debts</td>
<td>4. The increase in non-operating liabilities</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Changes in the use of cash (negative financial flows)</th>
<th>Changes in treasury resources (positive financial flows)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
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</tbody>
</table>


Cash flow is centered mainly on research and interpretation of financial changes in the uses and resources of stable character somewhat constant in the enterprise. Out of this case, the overall net change in working capital is considered informational value indicator equilibrium analysis functional dynamic equation on which the financial cash flow is:

\[
\Delta WCNG = \Delta NWCT + \Delta TN
\]

where:

- \(\Delta WCNG\) - global net working capital changes
- \(\Delta NWCT\) - changes in total working capital requirements
- \(\Delta TN\) - variation in net treasury

According to this calculation relationship, changing global net working capital, show that the long-term investment and financing have released positive financial flows destined to functional balance between cyclical elements of balance and equilibrium between receipts and payments.
Correlation analysis of the uses and resources of funding, assessing the fairness of election funding sources, review their assigned destination interpretation leads to global changes in net working capital.

In conclusion, considering the results of the correlations, i.e. positive change overall net working capital, should be representative enough so that, together with a possible negative variation and increased working capital requirements do not result in a treasury imbalance and increase the risk of bankruptcy of the company.

Very common is this version of the painting of funding, which places on the central treasury, based on the financial equilibrium determined by successive functional balance and net cash flow stresses calculated by computing the relationship:

\[ \Delta TN = \Delta WCNG - \Delta NWCT \]

Change in net working capital overall (\( \Delta WCNG \)) is shown in the upper panel financing for varying the corresponding elements.

\[ \Delta WCNG = \Delta Stable resources - \Delta Uses stable gross \]

where:
- \( \Delta Stable resources \) - The increase stable + Reducing gross fixed assets
- \( \Delta Uses stable gross \) - Increased gross fixed assets + capital reduction stable.

Changes in working capital needs total is recorded in the second part of the funding dashboard and is calculated on the basis of the bottom of the sheet, the types of activities: operating and non-operating.

\[ \Delta NWCT = Uses (cyclic and acyclic) - Resources (cyclic and acyclic) \]

where:
- \( \Delta Uses \) = Growth assets + Reducing liabilities (current liabilities);
- \( \Delta Resources \) = Increase liabilities (current liabilities) + Reducing assets.

Changes in net cash (\( \Delta TN \)) being dependent on the short-term financial transactions shown in the lower part of the balance function can be determined by difference:

\[ \Delta TN = \Delta UT (uses for treasury) – \Delta RT (resources for treasury) \]

Example: Change in net working capital of global companies with limited liability determined based on functional balance sheet data is presented in Table 2.

<table>
<thead>
<tr>
<th>No.</th>
<th>NAME OF ELEMENT (million RON)</th>
<th>Financial Year</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>2006</td>
</tr>
<tr>
<td>1</td>
<td>Uses stable</td>
<td>13,092.00</td>
</tr>
<tr>
<td>2</td>
<td>( \Delta ) uses stable</td>
<td>0.00</td>
</tr>
<tr>
<td>3</td>
<td>Indices (%)</td>
<td>100.00</td>
</tr>
<tr>
<td>4</td>
<td>Gross assets, of which:</td>
<td>13,092.00</td>
</tr>
<tr>
<td>5</td>
<td>intangible Assets</td>
<td>156.00</td>
</tr>
<tr>
<td>6</td>
<td>tangible assets</td>
<td>8,405.00</td>
</tr>
</tbody>
</table>
The data presented in Table 2 indicates that 2006-2011 global net working capitals experienced a negative change by 99.04% decrease as a result of financing operations and long-term investments that caused a negative cash flow. Positive financial flows generated by the increase in financial liabilities were higher negative financial flows driven by investments in tangible and intangible assets;

Consequently, the negative variation overall net working capital indicates that it has not provided a favorable safety margin increase funding current assets, and also not a guarantee of future solvency of the company. Determination variation total working capital needs within the company under study, based on data from functional balance given clues based chain is presented in Table 3. From the data presented in Table 3 are the following issues:

In 2006-2007, 2010-2011 or working capital requirements experienced a positive change as a result of faster growth in the need for working capital from operations, i.e. an additional necessary funding realized by increasing stocks of raw materials and materials, and the claims. During this period, other activities were generated resources up 14.35% and 38.35%, non-operating uses rising by 2.28% in 2007 compared to 2006, and down 46 05% in 2011 compared to 2010, so that the overall change in working capital requirements from the operation is negative. The period 2007-2010 is marked by a total working capital needed by a negative change is the consequence of increased exploitation of resources from 235.44% in 2010 compared to 2007 in a higher growth rate of operating uses. Negative variation of total working capital requirement is due to the increase of total resources to 219.00% in 2011 over 2007, compared with the decrease of total uses that generated a negative cash flow.

| Source: personal presentation |

<table>
<thead>
<tr>
<th></th>
<th>4.531,00</th>
<th>5.507,00</th>
<th>5.021,00</th>
<th>5.427,00</th>
<th>6.712,00</th>
<th>6.246,00</th>
</tr>
</thead>
<tbody>
<tr>
<td>financial assets</td>
<td>17.109,00</td>
<td>18.417,00</td>
<td>21.352,00</td>
<td>23.067,00</td>
<td>27.197,00</td>
<td>29.122,00</td>
</tr>
<tr>
<td>Stable resources (9+16)</td>
<td>0,00</td>
<td>1.308,00</td>
<td>2.935,00</td>
<td>1.715,00</td>
<td>4.130,00</td>
<td>1.925,00</td>
</tr>
<tr>
<td>Δ stable resources</td>
<td>100,00</td>
<td>0,00</td>
<td>224,39</td>
<td>58,43</td>
<td>240,82</td>
<td>46,61</td>
</tr>
<tr>
<td>Equity of which:</td>
<td>12.324,00</td>
<td>13.184,00</td>
<td>13.568,00</td>
<td>14.056,00</td>
<td>16.195,00</td>
<td>18.891,00</td>
</tr>
<tr>
<td>Capital</td>
<td>5.664,00</td>
<td>5.664,00</td>
<td>5.664,00</td>
<td>5.664,00</td>
<td>5.664,00</td>
<td>5.664,00</td>
</tr>
<tr>
<td>Total reserve</td>
<td>5.645,00</td>
<td>5.850,00</td>
<td>6.366,00</td>
<td>5.565,00</td>
<td>6.006,00</td>
<td>6.228,00</td>
</tr>
<tr>
<td>Result for the year (undistributed)</td>
<td>2.285,00</td>
<td>1.778,00</td>
<td>1.022,00</td>
<td>1.368,00</td>
<td>1.799,00</td>
<td>3.686,00</td>
</tr>
<tr>
<td>Distribution of profit ((-))</td>
<td>2.285,00</td>
<td>110,00</td>
<td>72,00</td>
<td>79,00</td>
<td>102,00</td>
<td>209,00</td>
</tr>
<tr>
<td>Depreciation and provisions</td>
<td>4.754,00</td>
<td>5.196,00</td>
<td>6.262,00</td>
<td>6.177,00</td>
<td>7.502,00</td>
<td>7.963,00</td>
</tr>
<tr>
<td>Financial liabilities stable (&gt;1 year)</td>
<td>31,00</td>
<td>37,00</td>
<td>1.522,00</td>
<td>3.500,00</td>
<td>2.834,00</td>
<td>2.268,00</td>
</tr>
<tr>
<td>ΔWCNG (8-2)</td>
<td>0,00</td>
<td>-1.975,00</td>
<td>-497,00</td>
<td>-721,00</td>
<td>-251,00</td>
<td>-19,00</td>
</tr>
<tr>
<td>ΔIndices (%)</td>
<td>0,00</td>
<td>0,00</td>
<td>25.164,56</td>
<td>145.07</td>
<td>34.81</td>
<td>7.57</td>
</tr>
</tbody>
</table>
By taking the data in Tables 2 and 3, the change in net cash recorded in Table 4.

**Table 4. Changes in net cash**

<table>
<thead>
<tr>
<th>No.</th>
<th>NAME OF ELEMENT (million RON)</th>
<th>Financial Year</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>2006</td>
</tr>
<tr>
<td>1</td>
<td>ΔWCNG</td>
<td>0,00</td>
</tr>
<tr>
<td></td>
<td>Indices (%)</td>
<td>0,00</td>
</tr>
<tr>
<td>2</td>
<td>ΔWCNT</td>
<td>0,00</td>
</tr>
<tr>
<td></td>
<td>Indices (%)</td>
<td>100,00</td>
</tr>
<tr>
<td>3</td>
<td>ΔTN (1-2)</td>
<td>0,00</td>
</tr>
<tr>
<td></td>
<td>Indices (%)</td>
<td>100,00</td>
</tr>
<tr>
<td>4</td>
<td>Cash and bank accounts</td>
<td>3.451,00</td>
</tr>
<tr>
<td>5</td>
<td>Treasury uses</td>
<td>3.451,00</td>
</tr>
<tr>
<td>6</td>
<td>Δ Treasury uses (ΔTN)</td>
<td>0,00</td>
</tr>
</tbody>
</table>

**Source:** personal presentation

The data presented in Table 4 the following conclusions:

In the periods 2006-2007, 2010-2011, net cash of Limited Liability Company experienced a negative variation equal to 2698.00 million, 19.00 million respectively as a result of negative cash flow derived from the work of investment and long-term financing, i.e. negative changes in working capital less cash flow positive, derived from current activity (positive change in working capital requirements total). Rather negative variation during 2008-2010 high negative change in working capital requirement of working capital helped to establish positive change in net cash equal to 1135.00 million.

Graphic variation in net cash developments within the company under study is shown in Figure 1.

**Figure 1. The evolution of net cash variation**

**Source:** personal presentation
Table 3. Changes in total working capital requirements of the Company’s limited liability

<table>
<thead>
<tr>
<th>No.</th>
<th>NAME OF ELEMENT (million RON)</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Operating assets in which</td>
<td>2.607,00</td>
<td>3.714,00</td>
<td>3.599,00</td>
<td>3.792,00</td>
<td>3.558,00</td>
<td>4.337,00</td>
</tr>
<tr>
<td>2</td>
<td>Stocks – total</td>
<td>1.465,00</td>
<td>1.922,00</td>
<td>2.394,00</td>
<td>2.098,00</td>
<td>1.829,00</td>
<td>1.696,00</td>
</tr>
<tr>
<td>3</td>
<td>trade receivables</td>
<td>1.142,00</td>
<td>1.792,00</td>
<td>1.205,00</td>
<td>1.694,00</td>
<td>1.729,00</td>
<td>2.641,00</td>
</tr>
<tr>
<td>4</td>
<td>Accruals and prepaid expenses</td>
<td>90,00</td>
<td>95,00</td>
<td>37,00</td>
<td>57,00</td>
<td>74,00</td>
<td>115,00</td>
</tr>
<tr>
<td>5</td>
<td>Uses of exploitation (2+3+4)</td>
<td>2.697,00</td>
<td>3.809,00</td>
<td>3.636,00</td>
<td>3.849,00</td>
<td>3.632,00</td>
<td>4.452,00</td>
</tr>
<tr>
<td>6</td>
<td>Δ Uses of exploitation Indices (%)</td>
<td>0,00</td>
<td>1.112,00</td>
<td>-173,00</td>
<td>213,00</td>
<td>-217,00</td>
<td>820,00</td>
</tr>
<tr>
<td>7</td>
<td>Operating liabilities</td>
<td>1.832,00</td>
<td>2.094,00</td>
<td>2.918,00</td>
<td>2.950,00</td>
<td>4.133,00</td>
<td>3.639,00</td>
</tr>
<tr>
<td>8</td>
<td>Income in advance</td>
<td>93,00</td>
<td>164,00</td>
<td>128,00</td>
<td>86,00</td>
<td>20,00</td>
<td>20,00</td>
</tr>
<tr>
<td>9</td>
<td>Resource exploitation (7+8)</td>
<td>1.925,00</td>
<td>2.258,00</td>
<td>3.046,00</td>
<td>3.036,00</td>
<td>4.153,00</td>
<td>3.659,00</td>
</tr>
<tr>
<td>10</td>
<td>Δ Resource exploitation Indices (%)</td>
<td>0,00</td>
<td>333,00</td>
<td>788,00</td>
<td>-10,00</td>
<td>1.117,00</td>
<td>-494,00</td>
</tr>
<tr>
<td>11</td>
<td>Δ Net working capital needs from operating (6-9)</td>
<td>0,00</td>
<td>779,00</td>
<td>-961,00</td>
<td>223,00</td>
<td>-1.334,00</td>
<td>1.314,00</td>
</tr>
<tr>
<td>12</td>
<td>Operating assets out of which:</td>
<td>219,00</td>
<td>224,00</td>
<td>1.223,00</td>
<td>342,00</td>
<td>430,00</td>
<td>232,00</td>
</tr>
<tr>
<td>13</td>
<td>other receivables</td>
<td>219,00</td>
<td>224,00</td>
<td>1.223,00</td>
<td>342,00</td>
<td>430,00</td>
<td>232,00</td>
</tr>
<tr>
<td>14</td>
<td>Uses outside exploitation</td>
<td>219,00</td>
<td>224,00</td>
<td>1.223,00</td>
<td>342,00</td>
<td>430,00</td>
<td>232,00</td>
</tr>
<tr>
<td>15</td>
<td>Δ Uses outside exploitation</td>
<td>0,00</td>
<td>5,00</td>
<td>999,00</td>
<td>-881,00</td>
<td>88,00</td>
<td>-198,00</td>
</tr>
<tr>
<td>16</td>
<td>Non-operating debts</td>
<td>425,00</td>
<td>486,00</td>
<td>528,00</td>
<td>611,00</td>
<td>751,00</td>
<td>1.039,00</td>
</tr>
<tr>
<td>17</td>
<td>Resources outside exploitation</td>
<td>425,00</td>
<td>486,00</td>
<td>528,00</td>
<td>611,00</td>
<td>751,00</td>
<td>1.039,00</td>
</tr>
<tr>
<td>18</td>
<td>Δ Resources outside exploitation</td>
<td>0,00</td>
<td>61,00</td>
<td>42,00</td>
<td>83,00</td>
<td>140,00</td>
<td>288,00</td>
</tr>
<tr>
<td></td>
<td>Indices (%)</td>
<td>100,00</td>
<td>0,00</td>
<td>68,85</td>
<td>197,62</td>
<td>168,67</td>
<td>205,71</td>
</tr>
<tr>
<td></td>
<td>Δ Working capital requirements out of operation (15-17)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>---</td>
<td>--------------------------------------------------------</td>
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<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>0,00</td>
<td>-56,00</td>
<td>957,00</td>
<td>-964,00</td>
<td>-52,00</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Indices (%)</td>
<td>100,00</td>
<td>0,00</td>
<td>-1,708,93</td>
<td>-100,73</td>
<td>5,39</td>
<td>934,62</td>
</tr>
<tr>
<td>19</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>20</td>
<td>Total uses (2+3+4+13)</td>
<td>2,916,00</td>
<td>4,033,00</td>
<td>4,859,00</td>
<td>4,191,00</td>
<td>4,062,00</td>
<td>4,684,00</td>
</tr>
<tr>
<td>21</td>
<td>Δ Total uses</td>
<td>0,00</td>
<td>1,117,00</td>
<td>826,00</td>
<td>-668,00</td>
<td>-129,00</td>
<td>622,00</td>
</tr>
<tr>
<td>22</td>
<td>Total resources (7+8+16)</td>
<td>2,350,00</td>
<td>2,744,00</td>
<td>3,574,00</td>
<td>3,647,00</td>
<td>4,904,00</td>
<td>4,698,00</td>
</tr>
<tr>
<td>23</td>
<td>Δ Total resources</td>
<td>0,00</td>
<td>394,00</td>
<td>830,00</td>
<td>73,00</td>
<td>1,257,00</td>
<td>-206,00</td>
</tr>
<tr>
<td>24</td>
<td>Δ total working capital requirement (20-22)</td>
<td>0,00</td>
<td>723,00</td>
<td>-4,00</td>
<td>-741,00</td>
<td>-1,386,00</td>
<td>828,00</td>
</tr>
<tr>
<td></td>
<td>Indices (%)</td>
<td>100,00</td>
<td>0,00</td>
<td>-100,55</td>
<td>101,38</td>
<td>87,52</td>
<td>-343,26</td>
</tr>
</tbody>
</table>

**Source:** personal presentation
3. Conclusion

The ability of an enterprise to anticipate releasing liquidity (cash and cash equivalents) is a performance analysis objective for users of financial statements, investigated with tool of flows and resources.

REFERENCES

PERFORMANCE EVALUATION OF INTERNAL AUDIT

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ABSTRACT. Achieving performance is one of the company’s objectives in general because it resolves the secondary endpoints simultaneously and in the same time represents the means of achieving the major objective of the company, which is defined as company’s viability in terms of domestic and international competition. Internal audit is a key process and whether it involves a large or a small number of employees, we believe that it is a complex process, which requires multidisciplinary knowledge and important documentation. Like any other process, audit process can be improved. The benefit that brings process improvement is to add-value to the process, thus increasing organizational performance. Should be kept in mind that the auditor, especially the one in the transition period as the current period, needs to understand that an economic perfection does not exist, but peak performances are to be achieved because there are no recipes generally applicable for obtaining success on any level.

JEL Codes: M42

Keywords: internal audit; performance; audit concept; added-value

1. Introduction

Economics was developed and focused on research of economic activities and the laws governing it and providing scientific support for decisions to be taken at public or private.

Human society has a bias toward development. Since evolution is largely based on accumulated knowledge and their application, the following statement shall be deducted: Knowledge is an expression of the human vocation to progress (Tabara et al., 2005).

Of all the resources available to humanity, only one seems to be inexhaustible. This resource is called Information. Information is a factor of
power, a truthfully one, which can be labeled as a social good that influence directly and immediately the welfare of societies. The information revolution occurs even though is not visible to our eyes, and the major change is related to the generation, collection, compilation and dissemination of information.

Common to all is that we are subject to the same laws of economic and social development, but the only naturally behavior is the one based on a system with specific ways to adapt to the economic realities and their positive influence in people’s interest, because the economy is and must be in essence a human economy.

Internal audit is one of the modern activities being an economic science and the information provided has a great significance for the management of the entity, which will base many decisions on recommendations made by the internal auditors.

2. Evaluating Performance of Internal Audit

2.1 Improving internal audit

According to IIA (Institute of Internal Auditors) internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

As a key process and whether it involves a large or a small number of employees, internal audit is a complex process, which requires multidisciplinary knowledge and important documentation. Like any other process, audit process can be improved.

Improving a process (any process) of the entity, on the principle of overall effects (local effort, global effect) will have positive effects on the entire company.

The improvement of a process involves identifying ways in which the activities can be done better. The benefit that brings process improvement is to add-value to the process, thus increasing organizational performance.

Efficacy is assessed by quality control plan internal audit reviews which can be internal and external qualifications in accordance with Rule 1300 - Program quality assurance and improvement.

Efficacy is measured by several instruments:
- Indicators
- Benchmarking,
- Survey.
Indicators are those that give the image quality of activity and are, in essence, a means of improving efficiency being calculated in three categories: activity indicators, quality indicators and cost indicators.

Benchmarking is the use of criteria both qualitative and quantitative to understand where you can be among members of the same profession, which is aimed at measuring the identification of best practices to achieve greater efficiency, a kind of smoothing methods, procedures and work rules that give greater efficiency.

The survey is another important means of measuring the effectiveness of the internal audit, only that he must be regarded as very sensitive if it is not developed by specialists may indicate irrelevant or even contradictory answers that will influence the judgment of beneficiaries.

2.2 Determination of internal audit’s performance based on Balanced Scorecard

On the following pages we will analyze the internal audit activity by reference to performance indicators and using the Balanced Scorecard method. Balanced Scorecard is a management system that translates strategy into action. As a method was presented by Kaplan and Norton, the first time in an article published in the *Harvard Business Review* in 1992, and developed in the book *The Balanced Scorecard Translating Strategy into Action* in 1997. This concept supports strategic planning and implementation of the coordination of activities undertaken by all involved in the company around common goals and creating a tool for assessment and improving strategy.

In the following pages we present an analysis of internal audit using balanced scorecard method, which aims to quantify the added value that internal audit function brings to the economic entity. We proceeded to use a set of tables in which we introduced primary data that were then processed.

First we defined the prospects for measuring by Niven’s model (Niven, 2002) and identified strategic targets.

<table>
<thead>
<tr>
<th>Table 1 Strategic targets</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Measures</strong></td>
</tr>
<tr>
<td>Financial</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
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<tr>
<td></td>
</tr>
<tr>
<td>Partners</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Internal processes</td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>
The following table (Table 2) presents the strategic goals related to performance indicators presented in Table 1 and calculated using the balanced scorecard method. Briefly we present some of the performance indicators that require explanation:

- Costs are important in any business, being in practice a criterion of analysis widely used;
- Number of missions completed is estimated based on the internal audit plan and is calculated from the beginning until the evaluation of internal audit;
<table>
<thead>
<tr>
<th>Measures</th>
<th>Strategic targets</th>
<th>Indicators</th>
<th>Targeted year X</th>
<th>Realized year X</th>
<th>Percent (P) %</th>
<th>Importance coefficient (Ci)</th>
<th>Share</th>
<th>Ci x P</th>
<th>Realized per target</th>
<th>Share per target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial</td>
<td>Reducing audit costs</td>
<td>Cost of internal audit mission</td>
<td>2800 RON</td>
<td>3200 RON</td>
<td>0.88</td>
<td>0.1</td>
<td></td>
<td></td>
<td>0.088</td>
<td></td>
</tr>
<tr>
<td>Financial</td>
<td>Compliance with the audit plan</td>
<td>Number of realized missions/ number of missions according to the plan</td>
<td>1</td>
<td>0.8</td>
<td>0.80</td>
<td>0.2</td>
<td></td>
<td></td>
<td>0.160</td>
<td></td>
</tr>
<tr>
<td>Financial</td>
<td>Number of operations per day</td>
<td>Number of operations/day</td>
<td>20</td>
<td>15</td>
<td>0.75</td>
<td>0.2</td>
<td></td>
<td></td>
<td>0.150</td>
<td></td>
</tr>
<tr>
<td>Financial</td>
<td>Number of recommendations made</td>
<td>Number of recommendations / number of missions</td>
<td>15</td>
<td>10</td>
<td>0.67</td>
<td>0.2</td>
<td></td>
<td></td>
<td>0.133</td>
<td></td>
</tr>
<tr>
<td>Financial</td>
<td>Number of implemented recommendations</td>
<td>Number of implemented recommendations / number of total recommendations made</td>
<td>1</td>
<td>0.8</td>
<td>0.80</td>
<td>0.3</td>
<td></td>
<td></td>
<td>0.240 0.78 0.233</td>
<td></td>
</tr>
<tr>
<td>Partners</td>
<td>Confidence of the audited entity in the internal audit department</td>
<td>Average points given by the entity auditors assessment based on interviews</td>
<td>10</td>
<td>8</td>
<td>0.80</td>
<td>0.3</td>
<td></td>
<td></td>
<td>0.240</td>
<td></td>
</tr>
<tr>
<td>Partners</td>
<td>Confidence of management in the internal audit department</td>
<td>Average rating of internal audit by managers</td>
<td>10</td>
<td>8</td>
<td>0.80</td>
<td>0.3</td>
<td></td>
<td></td>
<td>0.240</td>
<td></td>
</tr>
<tr>
<td>Partners</td>
<td>Confidence of the chief of the audit structure</td>
<td>Average rating of internal audit by the chief of the audit structure</td>
<td>10</td>
<td>8</td>
<td>0.80</td>
<td>0.4</td>
<td></td>
<td></td>
<td>0.320 0.80 0.24</td>
<td></td>
</tr>
<tr>
<td>Internal processes</td>
<td>Compliance with Internal Audit Rules and regulations</td>
<td>Number of compliances with the regulations/ total number of regulations and rules</td>
<td>1</td>
<td>0.8</td>
<td>0.80</td>
<td>0.3</td>
<td></td>
<td></td>
<td>0.240</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Compliance of the documents that have been prepared</td>
<td>Number of regulations and rules applied/ number of documents produced</td>
<td>1</td>
<td>0.8</td>
<td>0.80</td>
<td>0.3</td>
<td>0.240</td>
<td></td>
<td></td>
<td></td>
</tr>
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<td>--------------------------------</td>
<td>-----------------------------------------------------</td>
<td>---------------------------------------------------------------------</td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Internal processes</strong></td>
<td>Risk identification</td>
<td>Number of risks identified by the auditor / number of possible risks to be verified</td>
<td>1</td>
<td>0.7</td>
<td>0.70</td>
<td>0.4</td>
<td>0.3</td>
<td>0.280</td>
<td>0.77</td>
<td>0.23</td>
</tr>
<tr>
<td>Training/development</td>
<td>Professional trainings</td>
<td>Number of trainings/ Number of auditors/year</td>
<td>3</td>
<td>1</td>
<td>0.33</td>
<td>0.6</td>
<td></td>
<td></td>
<td>0.200</td>
<td></td>
</tr>
<tr>
<td>Training/development</td>
<td>Exploitation of knowledge and skills of internal auditors</td>
<td>Number of informal advisory / number of auditors / Month</td>
<td>3</td>
<td>2</td>
<td>0.67</td>
<td>0.4</td>
<td>0.1</td>
<td>0.267</td>
<td>0.50</td>
<td>0.05</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td>0.7535</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Source:** personal presentation

- the number of operations performed per day is actually the auditor’s activities on daily basis;
- Indicators included in the category of measures *Partners* refer to ratings given to internal audit function by some key partners (managers, chief internal audit department);
- the number of rules shall be assessed on the basis of surveys of the documents related to the mission of the internal audit of compliance procedures, specific documents, etc.
3. Conclusion

As a result of the analysis the overall performance of the internal audit based on this model is 75%.

Internal audit is a key process and whether it involves a large or a small number of employees, we believe that it is a complex process and requires multidisciplinary knowledge and important documentation. Like any other process, audit process can be improved and through the process improvement adds value not only to the process, but to entire company, based on the principle of overall effects (local effort, global effect).

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