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The *Romanian Economic and Business Review* (ISSN 1842-2497) intends to provide a forum for academic analysis of the economic phenomena and institutions affecting the world economy in general, and Romania, in particular. *REBE* examines a wide variety of phenomena related to economic growth and business development and attempts to publish high quality research focusing on the role of institutions and public policy, within both a national and international context. *REBE* encourages cross-disciplinary research work of Romanian and foreign scholars.

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The ROMANIAN ECONOMIC AND BUSINESS REVIEW (REBE) is a refereed journal published four times annually by the Romanian-American University. The editors invite submissions of articles that deal with important issues in economy and business. Papers that focus on specific phenomena and events affecting Romanian economy are particularly encouraged. Because REBE seeks a broad audience, papers should be comprehensible beyond narrow disciplinary bounds.

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Subscription rates:
Institutions - \$100/year
Individuals - \$30/year

ROMANIAN ECONOMIC AND BUSINESS REVIEW

FALL 2013

VOLUME 8

SPECIAL ISSUE



ISSN 1842 – 2497

ROMANIAN ECONOMIC AND BUSINESS REVIEW

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A CONTEMPORARY APPROACH ON MIGRATION

Cristian Elena Raluca,
Moise Elena, Mihaela Dârzan¹

Abstract

Labor force migration is a complex and dynamic process. The dimension of the migrationist phenomenon depends on endogenous and exogenous factors, generating in time and space, for the host and destination country, economic and social costs, as well as a series of political challenges. At the same time, the positive outcome must not be neglected, and managed in an appropriate manner, at social, community and individual level, for the countries involved in the process.

Keywords: migration, contemporary age, emigrant, immigrant, Diaspora

JEL Classification: F22, J15, J61.

1. Introduction

The concept of external migrationist movement is based on two similar sub concepts in the specialty literature: the emigration and the immigration of the persons within a certain area. In the economic specialty literature, migration is defined as a process of moving from one town to another or from one country to another, together with the change of the residence of the person involved, for a definite amount of time.

The evolution of migration in the contemporary age is limited in time and space by the current political systems in every type of regional economy. The target of this paperwork is to define the theoretic concept „contemporary migrationist phenomenon”, referring strictly to our country. This paperwork brings into attention the main factors determining the migrationist exodus, the particularities of the Romanian migration, together with its main phases, and the brief characterization of the Romanian migrant.

2. Migration in the current global context

Migration can no longer be seen as a residential movement because the person involved may change the residential information for a period of time; therefore,

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determining the geographic and administrative area and identifying the trends in population movement are necessary.²

According to Sandu Dumitru and Monica Șerban „migration is a normal phenomenon... taking place at human collectivity level, with a natural trend of moving of a certain part if the individuals, not being based on exclusive stability...”

Bocancea Silvia considers that migration is a process, a phenomenon that took various forms during each age or historical period, be it violent or peaceful, ending up to be either colonization wars or peaceful migrationist phenomena³. According to Valentina Vasile „emigration is the process of leaving the origin country to settle in another one, which implies a change of residence, most of the time permanent. Emigration is permanent, in most cases being associated with and accompanied by receiving the citizenship of the adoptive country and respecting the laws of the new country of the emigrant”⁴

According to the same author Valentina Vasile, the term immigrant is often mistaken for the term emigrant. The term immigrant may be defined as a „process of entering and settling in another country (other than the country of origin or the previous country of adoption), of changing the residence of the immigrant, temporary or permanent”⁵

2.1. Determinant factors of the contemporary migrationist phenomenon

After 1990 Romania experimented absolutely every particularities of the migrationist phenomenon, in the most diversified forms. Very few of us know the fact that after 1990, ethnic migration was one of the most preferred ones by our fellow citizens.

Ethnic migration represents a definite characteristic of the European migration in the 20th century. According to official statistics, during the last century, more than 60 million people belonging to certain ethnic minorities left their country of origin for another region or country.

Horváth István started from the definition of nationalism as: „aspiration to full overlapping, an ideal congruence between a state and a nation, definitely ethnic migration is associated to nationalist political processes of some countries.”⁶

Ethnic migration is often seen as a simple result of a „constraint process” coming from states, applied to some people belonging to certain minorities.

²Roșca, Dan (2007), *Introduction in the population's sociology and demographics*, Published by: Romania de Mâine Foundation, 4th edition Bucharest, p.96.

³Bocancea, Silvia (2011), *One way ticket Romanian migration at the beginning of the 20th century*”, Magazine: Sfera Politicii, Nr.166, pp.106 - 107

⁴Quote from Vasile,Valentina; Zaman,Gheorghe(2006), “*Labor force migration and Romanians sustainable migration. A theoretical and methodological approach. Indicators systems and analysis models*”. National Institute for Economic Research, National Institute for economy, Publishing House: Expert, Bucharest, p.108.

⁵Ibidem 4 Vasile,Valentina; Zaman,Gheorghe(2006), p.108.

⁶Horváth, István(2009), *Romanian ethnic migration: between exile and search*, Magazine Sfera Politicii, Issue 137 București, pp.34-38

The attraction of people of different ethnic groups towards their own „country of kin” cannot always be reduced to ideological, symbolic, religious and affective factors related to ethnicity.

The motivation behind the migrationist phenomenon is the main tool that offers the individual involved in this process, the possibility to move to a place that offers him more opportunities regarding his work, professional training, political and social rights, and health. All these offer the people the ability to self-motivate for emigration, by increasing their own social, economical and political freedom.⁷

One of the most important factors triggering the migrationist phenomenon is the economic one. This gives migration a present feature, at the same time being the most important one in taking the migrating decision. From a political, social, xenophobic and religious point of view, people leave an area they feel persecuted in, or an unsafe, tensioned environment.

The factors that determine the internal and external migration of the populations include a large series of interconnected economic, social and ecologic elements, taking the most various forms, on micro and macro levels both in the host and origin countries.

According to Nicolae Flavia, the causes of migration may be diverse, from economic to social and political ones. People leave an area because either they are searching for development opportunities and a higher economic and social level, or they take refuge in another area because of certain disasters or calamities: wars, religious or even political persecution. From a macroeconomic point of view, migration may be explained as a way to balance certain deficiencies on the labor force market resulting from the lag between supply and demand.⁸

Bogdan Voicu considers that permanent migration may be defined as: „a total protest, compared to temporary migration that expresses a partial contempt regarding the origin society”. In his opinion, permanent migration is the most selective one, because it requires „a lot of courage and certainty, hope for a better future”

All these things are compared to complete abandonment of the family left behind in the origin country, the attempt to re-build a new family environment, to easily adopt, by acculturation a new system of values of a country and to regain a new social position in an unknown social environment. According to him, the characteristic of temporary migration (be it internal or external) is the one that the emigrant leaves his family, relatives, properties, friends in the origin country, but keeps communication with the ones left at home

For both cases (internal or external migration) we find the same motivations: better possibility for income, opportunities for a better life for the immigrant and his family.

⁷Hein de Haas (2009), *Mobility and Human Development*, Research Paper, United Nations Development Programme, Human Development Reports Research Paper., p.22.

⁸Nicolae, Flavia, Bristena (2009), *Labor force migration and human resources – geostrategic impact*, Revista: Sfera Politicii București, Issue 137, pp.28-33.

2.2 Particularities of the Romanian migration

The migrations phenomenon attracts a series of „mysteries” regarding the immigration and emigration statistics, but one thing is certain: the migrationist flow „knew” in Europe the massive movements from East to West and from South to North.

The most important characteristic of the European migration is its diversity, based on the inhomogeneous mass of people coming from most of the countries in Europe. This diversity was formed of European immigrants that came from various social classes, had different trades (qualifications in various fields). Some of them, the more lucky ones, might become pioneers in the places they settled in.⁹

Stephen Castles and Mark J Miller, in their work *„The age of Migration International Population Movements in the Modern World”* claim that „mankind has entered a new era of migration, in which the process itself goes through a series of particularities, generated by the increase of the number of migrants, of the regions involved in migration processes, diversification and dynamics through the heterogeneity of the destinations and the structure of the population involved and of the goals targeted.”¹⁰

Looking back to the past, we notice that the Romanians from Transylvania have been pioneers in migration, starting from early 20th century. For this we may argue that the main economic cause determining them to emigrate was mainly the lack of a certain income. The lack of a stable income resides in the lack „of their own property on a piece of land to work on”, but also in the religious and social persecutions.

Considering the historic and social context from the beginning of the 20th century, we may determine that the main factors that influenced the Romanians from that time to immigrate to the New World. I am referring here especially to the Romanians in Banat and Transylvania (provinces attached to the Austro – Hungarian Empire), the main factors that contributed to the emigration decision being especially the economical and social ones.

We must mention that the Romanians from Transylvania were under the occupation of the Austro-Hungarian Empire and the plots of land they were working on belonged to Hungarian nobility or to Roman-Catholic or Greek-Catholic Church in Transylvania.

It is easy to see that at that time, the living means for a family of Romanian peasants from Transylvania were almost none; they were working someone else’s land, the production was sold for very low prices and they were forced to buy certain products at a very high price.

⁹Baines, Dudley (1995), *New studies in Economic and Social History. Emigration from Europe 1815 -1930*, Cambridge University Press Edition, pp.5-7.

¹⁰Castles, Stephen; Miller, J. Mark (2003), *The Age of Migration. International Population Movements in the Modern World*, New York Guilford Press, p.13.

All these economical, social and religious causes were presented by the most important newspapers of those times, which repeatedly tried to „pull a signal” on the situation of Transylvanian Romanian, but also on the increase of the number of emigrants.

The same motivations, political, social and religious determined the Romanians from Dobrogea, Muntenia, Oltenia and Moldova to emigrate, only that this reasons added to the spirit of adventure and freedom.

Robin Cohen in *Global Diasporas: an introduction* identifies a new term for the geographic movements that took place in time in Europe, a new term that would unite the whole migrationist experience of a people: „Diaspora”. The author believes that Diaspora is that „group of individuals or a whole community that are forced to leave their origin country to live abroad, from a series of different reasons: from religious, racial, ethnic imperialistic-colonialist reasons, war, to poverty or the need to search for a job or a between way of life...”¹¹

2.3. Phases of Romanian migration

Regardless the age or the gender of the emigrant, now as 200 years ago, the main causes that stay behind the decision to emigrate are the economic and social conditions in the host country.

The condition of the emigrant when he takes this decision is unclear; by the nature and dimension of this phenomenon, he is now facing maybe one of the biggest and most important decision in his life.

After 1990, the official attitude of the Romanian authorities towards the migration of Romanians was rather passive. This is easy to understand, because the Romanians were seeing then an almost impossible dream coming true: the freedom to travel to foreign countries.

This attitude was kept for a rather long period of time, fact that was explained by the transition the economy was going through after December 89.

In a period marked by many transformations that Romania had, from a centralized economy to a transitional one, the migration of Romanians took a background role, being considered at that time as a good thing for our country, as a way to economic recovery and a method to increase the spirit of adventure of the Romanians.

From 1990 until 2012, Romania passed through a lot of changes and transformations, with positive or negative impact on our people. All these changes affected the income of the citizens and the labor force market.

In communist Romania, the main trend was internal migration, from the countryside to the city (to the big industrial cities).

Now, the main trend is the temporary migration, as a consequence of regionalization and Romanian’s ascension to the European Union.

¹¹Cohen,Robin (2008), *Global Diasporas: An Introduction*,Second Edition: Seattle – University of Washington Press, USA ,pp.13 -14.

The main trend that remains unchanged in Romania is the existence of regional and territorial disparities, strongly differentiated between Moldova, Transylvania and Banat.

Dimitriu Radu in his work: „*The Recent Dynamics and Structure of International Mobility of Moldavian Population*” emphasized that the economic underdevelopment of the northern part in Moldova is caused partly by the lack of natural resources, by the geographic location and by the fact that throughout history it was under the influence of the Soviet Union (today, Russia) ¹²

Therefore, if the capital and the South-West region (Transylvania and Banat) had a high living standard and low unemployment, this cannot be said about the northern part of Moldova (Botosani- Vaslui).

According to Daniela Dănăciță there are four phases (migration „waves”) in the postcommunist Romanian migration history, which had an important impact on our country and led to creating favorable grounds for the current migrationist phenomenon¹³:

In the first phase, in the early '90s, the ethnic motivation was the main factor for maintaining a high level of external mobility by changing the residence. The biggest departing flows started in the regions with high ethnic concentration in Transylvania, leaving for Hungary and Germany.

The second phase of external migration is mainly temporary. This phase was based on the „walked path” principle, based on kinship, friendship, neighborhood, on the novelty element of a „new gate to West”, opening the appetite and curiosity to travel and work of the Romanian deprived from freedom in the communist era. .

The expansion and prosperity of the European Union culminated in that time with the accession of new member states, with a large number of emigrants. In time this led to emphasizing the positive and negative consequences. In the case of the European Union one cannot determine a definite internal or international migration which took place inside the same community.

The third phase of external migration started with an increased growing of the migrationist. It started after January 1st 2002 as a consequence of lifting the Schengen visa for the Romanians. Between 2002 and 2006 the migration is mostly temporary, characterized by massive flows to Italy, Spain, Israel, Germany, Hungary, Great Britain and Portugal.

The fourth phase of external migration is considered to be the one after Romania's accession to the European Union (January 7th 2007), and still in progress. The period between 2007 and 2012 is represented by the external migration of doctors and high educated persons. This last phase is known as the „brain drain” phase.

¹²Dimitriu,Radu(2010), *The Recent Dynamics and Structure of International Mobility of Moldavian Population, Human Geographies, Journal of Studies and Research în Human Geographie* 4.1, pp.89-104.

¹³Dănăciță, Daniela (2010), *Characteristics of Romanian migration*, Constantin Brâncuși University, Târgu Jiu, Economics, Nr.2, pp.189-201.

2.4. The profile of the Romanian emigrant

Many of the Romanians leaving to work abroad and cross for the first time the borders of another country bring with them their children, relatives, friends, start „colonies”. These colonies later become Diasporas, generating a real clash of civilization and of assimilation of a new culture, tradition and customs.

Once arrived „on the promised land” our fellow citizen rewrites his biography, changes his looks, is ashamed of his origin, of his home country, of his fellow citizens and even of the belief of his ancestors and prefers to hide in an unknown place. These losses of country identity makes most of the Romanian immigrants, even the ones with a strong religious conscience, become prostitutes, thieves, beggars, criminals, or become involved in human trafficking.¹⁴

Professor Vasile Miftode in his paperwork „The personality of the Romanian migrant and the destiny of the abandoned children” puts together an empirical and factual analysis of the group of Romanian migrants, thus offering the possibility to identify some personality patterns¹⁵ A first category of migrants is the one of the people with a strong determination to change the living environment and even of the „inter-human relations”, which in time generates bureaucracy, corruption, physical and verbal violence and poverty. A second category is the „folkloric” one, specific to the migrants that want to „get lost” and they use migration to „run” from responsibility in an unknown world, so that they would not be held responsible for the „disaster in the country”.

Maybe the largest category of migrant Romanians, with a strong impact on the origin community is the one of the nostalgics, „incapable of integrating in the host country”.

These, despite their efforts to integrate, visit their country of origin very often. They bring their children with them abroad, they integrate them in the school of the community where they work, create friendships within the local population.

In the last decades of the 20th century, the labor force migration was considered as one of the main causes of the increase of income disparities in the developed countries and in the developing countries.

From a socio-economic point of view, a country gains if the immigrants have an education and professional training level higher or at least the same as the one of the local active population.

The existence, at a global level, of the economic, social, technological and environmental disparities especially between the developed countries and the developing or poor ones, prove that international migration will be completely stopped in the next three decades of the 21st century.

¹⁴Sorlescu, Mariana; Cristian, Elena, Raluca (2009), „*The Romanian Migrational Evolution Phenomenon*”, pp.579-585.

¹⁵Miftode, Vasile (2007), „*The personality of the Romanian migrant and the destiny of the abandoned children*”, Univesitatea Al. I. Cuza, Iași, pp.17-24.

3. Conclusions:

International migration implies a series of major changes in the life of the migrant, his separation from the family, a new residence, a new language, a new culture, another civilization, the migrant being forced to integrate in a new environment which is relatively new and unknown to him.

The decisive role must be played by the states involved in this process, these being forced to undertake a series of measures for stopping the migrationist phenomenon, through social measures applying to the local labor force, creating new jobs, encouraging the investors, stimulating the productivity, consumption and income.

At least in our country, migration is not only a simple phenomenon that grew during the last 24 years since the fall of communism. It is a well-known phenomenon throughout the history of many countries.

The motivation is the only act that makes the difference between the countries of the world. For many of those, migration became in time an aspiration, an almost unreal process

The dimension of the migrationist phenomenon is closely connected to the fiscal systems in use.

All these add to the ecologic issues, major natural calamities or some humanitarian aspects (worsening of the living conditions, high national or local unemployment, dramatic drop of income level, the ageing of the population, high mortality rate combined with low birth rate).

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THE ROLE OF RISK MANAGEMENT AND TREATMENT METHODS APPLIED IN TODAY'S ECONOMY

Alexandra Dănciulescu*

Abstract

Risk is one of the biggest and most fascinating challenges of all times for humanity, because of its presence in all fields. Risk management as a component of modern management, has become a main concern for the modern world and one of the “key mechanisms” of economic development, a complex process that includes a series of activities meant to alleviate the impact of risk over business and planned or foreseen results. Risk management in an organization means to determine what risks that should be avoided and what risks should be accepted as they are.

The organization plan for risk management, no matter how good and effective cannot be translated in another organisation. Every plan should be adapted to the company and its field of activity. The article at hand focuses on the role of risk management in the organisation, as well as on the treatment methods used by an organisation.

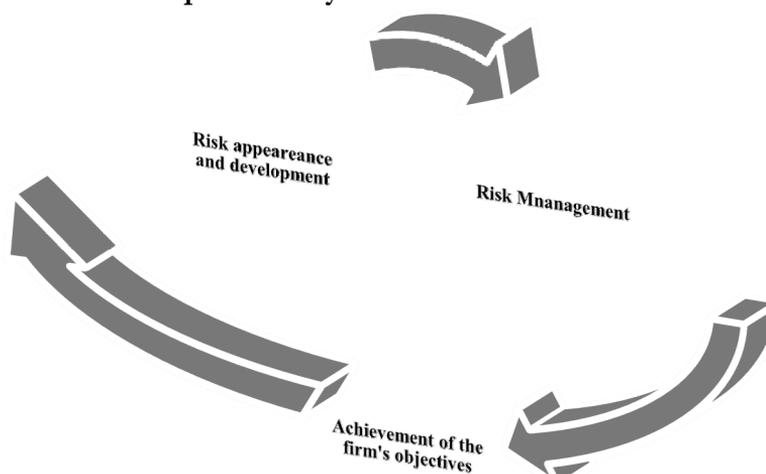
Keywords: risk management, strategies, risk, organization, treatment methods.

JEL Classification: M16, M21, G32

The purpose of each company is reflected by the way that it achieves its mission. Whether it is a public sector company (with whole or state majority capital), or a private sector company that we analyze, its purpose is fulfilled to the extent that it succeeds to achieve its goal.

Since the event risk in the firm may result in extreme bankruptcy, it is necessary to define a risk protection instrument by which any firm can operate and achieve their goals. This instrument is called risk management and consists both in preventing and minimizing the occurrence of events that may affect the company's activity and may depart from achieving its mission as well as in the process of identifying, evaluating and quantifying them as shown in Figure 1.

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Figure 1: The steps taken by the firm in order to achieve its mission

Risk management is how the negative effects of event risk is managed and how the potential opportunities are exploited. For example¹, the company must take into account the effect of the mortgage crisis, oil prices, and the impact of Chinese and Indian economies in the short term and long term.

Risk management is a central part of the strategic management of any company, represents the process by which companies deal methodically with risks for each activity in order to obtain benefits from all company activities. Risk management focuses on identifying and treating these risks, the main objective being to add value to all company activities.

Risk management increases the probability of success and reduces the probability of failure, and also of the uncertainty of failing to meet the company's objectives.

Risk management should be a continuous and developing process in the company strategy and in its strategy implementing; it should address all past, present and future risks associated with the company's activities.

Popular opinion about risk management was that it would protect the company from loss, avoiding the disadvantages. A more complex approach of risk management would be" that it searches advantages while managing disadvantages".

The International Organization for Standardization (ISO/IEC-International Electro technical Commission, Guide 73), defines risk, in the Risk Management Standard (Risk Management Institute, 2002), like the combination of probabilities of a certain event and its consequences, that is risk management focused on the negative and the positive side of risk.

¹ Paul M.Collier, Fundamentals of Risk Management for Accountants and Managers-Tools and Techniques,Elsevier Ltd, Great Britain, 2009;

Literature defines risk as the threat that an action or event will affect in a negative way the ability of a company to achieve its goals and to successfully execute all its strategies².

In 1921, Frank Knight published the book: *Risk, Uncertainty and Profit*. According to him, risk means the fact that you don't know what will happen in the future, but that you have the possibility to estimate the probabilities while uncertainty means the fact that you don't know the probabilities.

Risk started to be studied in a series of publications like: *The society of risk* (Beck, 1986, translated in 1992), *Risk* (Adams, 1995), *In spite of probabilities* (Bernstein, 1998), and the more recent publication *Organized uncertainty* (Power, 2007).

The International Accounting Federation (IFAC) has published in 1999, a study on *Increasing the wealth of a stakeholder through a better organization of business risk*. The study defined risk as future uncertain events that can influence the strategic, operational and financial objectives of the company. This study translated the negative concept of risk into a positive interpretation that presented risk management as a component generating sustained value of stock.

The report argues that risk management establishes, calibrates and aligns the relationship between risk and profit growth. In a similar way, the Turnbull report (issued by England and Wales Accounting Institute in 1999), now a part of *Combined Code on Corporate Governance (Financial Council, 2003)*, defines risk as any event that could affect the performance of a listed company, including social, ethical and circumstantial risk.

The purpose of risk management is to increase the company value. If it is correctly implemented, risk management may represent an effective decision framework for managers. The existence of an efficient risk management leads to:

- increase capital efficiency by setting objective basis of resource allocation;
- reduce spending on intangible risks and exploiting the natural advantages;
- support decision making by identifying areas with potential adverse impact;
- identifying and exploiting those decisions that present economic benefits;
- Building investor confidence by establishing a process to normalize accounting results by protecting them from external influences and also showing proactive assistance system for risk.

Risk management follows these objectives in a company:

- ✓ determines the necessary level of risk capital for the firm;
- ✓ shows effective methods of capital investment and company profit growth;
- ✓ allows favourable capital allocation to business sectors, increasing the performance of these segments;
- ✓ helps the company's management to evaluate alternative structures generating profit;

² Phil Griffiths, *Risk-Based Auditing*, Gower Publishing Limited, Aldershot, England, 1998, a definition by Economist Intelligence Unit, British Government department ,pg. 17;

- ✓ provides a method that insures profit for stakeholders depending on the degree of associated risk ;
- ✓ helps to stabilize income by identifying and managing volatile risks;
- ✓ guides the development of a better management strategy for the risks identified;
- ✓ Provides detailed information that increases transparency between interested parties of the company.

The objectives of risk management may suffer alterations, because they have to adapt to the needs of the company, either circumstantial or time lined.

Nowadays economic conditions generated the necessity of an international standard regarding risk management. This was completed by a definitions and terms guide that insured a unique terminology on risk. Later, they were linked by a standard on evaluating risk techniques; together they provide a set of instruments for approaching situations that could prevent achieving their objectives.

ISO 31000-Risk Management-Principles and Guidelines contain the principles, framework and requirements needed to run a management process of any form of risk in a transparent, systematic and credible way within the scope. By implementing ISO 31000, organizations can compare their risk management practices with an internationally recognized benchmark, providing sound principles for an effective management. The standard recommends that organizations implement and continuously improve risk management process as a primary component of the management system. For this standard companies cannot claim certification.

ISO / IEC 31010:2009, Risk management - Risk assessment techniques, was developed by ISO and IEC (International Electro technical Commission) and is a support for the ISO 31000 standard. It provides guidance on selecting and applying of systematic techniques for risk assessment.

Romanian legislation established a structure for organising an enterprise through the following regulations:

- ✓ *Order no. 946/2005* for the approval of the Internal Control Code, including management standards / internal control for public entities and for developing management control systems, as amended and supplemented;
- ✓ *Methodology for the implementation of the standard 11 – “Risk Management” of Order no. 946/2005*, prepared by the Central Harmonization Unit for Financial Management and Control Systems - Ministry of Finance, 2007;
- ✓ *Government Emergency Ordinance no. 90/2008* on statutory audits of annual accounts and consolidated annual financial statements, as amended and supplemented;

- ✓ *Order no. 3055/2009* for the approval of Accounting Regulations according to the European directives.

The development of risk³ management generates a series of advantages for companies:

- Support for business strategies planning;
- Helps achieving companies' goals;
- Improves communication between different levels in the company;
- Promotes progress;
- Offers the certainty of control over the activity performed;
- Leads to operational efficiency;
- Allows understanding of threats for an activity or project.

Companies can avoid this risk but it requires conducting operations in markets that are not exposed to risk. In an open economy this alternative of risk-hedging is unlikely, because even if companies can avoid⁴ direct exposure to risk through business relationships they have, they are inevitably exposed to indirect risk.

To implement the strategy defined by the company on risk is necessary internal organization and establishment of actions that lie on the strategy adopted and the involvement of all employees (the activities and organizational entities, hierarchical levels) in achieving its objectives. Within this activity:

- All causes and possible sources of risk will be identified ;
- All types of risk that could manifest will be identified;
- acceptable levels will be set based on the impact in sizing risk and the likelihood of their event for shaping a common image of the most significant risks;
- target values of key risk indicators will be established ,in order to identify potential risks;
- Treatment measures will be taken for each type of risk manifested measures based on economic and technical arguments, following the impact of the activities throughout the company, and the impact on the external environment. If risks can not be controlled from the inside, then you have to consider different methods of transfer by calling upon insurance or financial market instruments.

Depending on the specific situations that can be applied, there are five distinct categories of risk mitigation strategies⁵:

1. Accepting risks – refers to how the manager understands the risk and its probability of happening, as well as the consequences arising and makes the decision to not remove the risk . This kind of strategy is usually used when the probability of risk appearance is small or/and the consequences arising are insignificant.

³ Cristian Paun, coordinator, Risk Management in International Business, Universitară, 2009,pag.54-55

⁴ Economic Tribune, Romanian economists' publication, editions 42-46, 2007

⁵ Paul Marinescu, Project management, course, Bucharest,2007

2. Avoiding risks –the second strategy used in certain conditions in order to minimize risks. Minimizing risks does not represent avoiding making decisions or eliminating risk from the project. This strategy is used when it is necessary to change the goal or to eliminate a part of the project, a situation that causes interference in the expected activities and the final results; thus considering an act of wisdom from the manager avoiding the risk of accepting certain alterations that could lead to special problems.

3. Risk monitoring and training plan for the unexpected- this process is based on choosing a set of indicators and following them evolve. Planning for an unpredictable situation appeared as an alternative for risk, by preparing a response strategy before the situation happened. Usually these plans are based on response strategies in case of financial risk (budget overrun, unexpected expenses) or technological risk (unforeseen failure of installations and equipment, inaccuracies relating to technology). The ultimate goal of these plans for the unexpected is that in case of major risk situations, the management team should already have a viable response able to avoid blocking the whole business or even bankruptcy. To this regard, these plans can be similar to certain insurance methods of a company when involved in certain projects.

4. Transfer and risk distribution- in activities that involve special risks or use expensive technologies is preferable to ensure them to specialized insurance companies. This process is practically, a risk transfer to another institution that will insure monitoring and controlling risks. When dealing with important projects, with consistent amounts of money every insurance company must reassure itself in order to avoid risk. Thus, a risk transfer exists even when insurance companies are considered.

An important chapter for risk transfer, specific to financial projects is reimbursable expenses⁶. They refer to the payment of work subcontracted to other companies or businesses regarding labour, equipment or materials used. The contract management of reimbursable expenses is similar to team management within a company, requiring a clear direction for its activities, setting tangible results and especially monitoring them.

5. Systematic mitigation of risks – is mainly a complex of methods and strategies meant to decrease risks until they become acceptable. Usually, although they were addressed separately, these mitigation strategies are rarely used individually, the most frequently used form, being that of combining them in order to use a complex strategy, capable of providing an appropriate response in an appropriate amount of time.

Based on this it is hard to identify and indicate a unique method of treatment of a certain risk because each risk is treated in a different way by each company. Especially when the environment is in a continuous change, risks evolve and treatment methods have to change as well.

⁶ John Holliwel, *the Manual of Financial Risk. A Systematic Guide to Identify and Managing Financial Risk*, London; Pitman, 1997, pg.120

Any system of risk treatment should provide as a minimum⁷:

- *effective and efficient operation of the organisation;*
- *effective internal controls;*
- *Compliance with laws and regulations.*

Conclusions

The essence of risk management is not to eliminate risk but to decide what risk can be exploited what risk can be overlooked or avoided.

Risk management of an enterprise is constantly changing as a result of process development by entities like: the Sponsorship Committee of Organizations (COSO), the Risk Management Institute and the Institute of Internal Auditors, as well as academic perspectives that help understanding risk management and its role in today's society.

Specialized firms continue that process by improving the products offered, by trying to beat competitors. The process is also improving through risk managers that develop new instruments and techniques, proving their value through publications and conferences.

The increase of risks and their complexity forced companies to recognize the importance of risk management; they understood that it is better to prevent than to suffer losses.

Risk management's infrastructure is viewed as a process constantly moving, constantly evolving, and allowing making decisions based on probability evaluation and interpretation.

Integrating risk management into the business planning process is an important component of enterprise risk management and ensures that the organization is able to take advantage of emerging opportunities while also being able to deal when something goes wrong. The focus on risk and strategy is that enterprise risk management is primarily concerned with the failure to achieve business objectives. Thus, integrating risk management with strategy leads to a focus on the "performance" rather than "conformance" aspect of risk.

Strategic planning and risk management should not be distinct activities. Strategies to manage risks and enhance opportunities should be incorporated into strategic plans and should be kept up-to-date. Both strategic and risk management plans will support specific projects and actions that provide the basis to take advantage of opportunities.

⁷ A Risk Management Standard, 2002, published by AIRM, the National Forum for Risk Management in the Public Sector, The Institute of Risk Management

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THE IMPACT OF ROMANIA'S ACCESSION ON ECONOMIC GROWTH

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Abstract

The EU integration is a complex process that involves a series of coherent actions taken by the New Member States which must give priority to both nominal and real convergence in order to eventually succeed to adopt the single currency. Romania has made a significant progress, but the vulnerability of the economy was quite high when the spread of the economic-financial crisis occurred, since the economic development has not reached a sustainable level and it has been based on ineffective principles (too much consumption and indebtedness). The forecasts concerning the integration showed the growth would continue for 3-4 years, but it was proved to be inappropriate, because Romania, along with some of the new members have considerably suffered from external negative phenomena triggered by the global crisis.

Key words: economic growth, convergence, European Union, gross domestic product, foreign direct investments, productivity

JEL Classification: F43, F15, E21

1. Introduction

Romania has developed commercial relations with Europe, long before the start of accession negotiations. This paper deals with economic developments between 1990-2012. The first part briefly captures the measures taken by Romania in the 70s to take advantage of the best possible exports to countries in Europe. In the next part of the article is presented the economy of Romania before accession and the efforts made by this country to meet the requirements for growth and development. This paper also shows some of the effects (positive and negative) resulting from integration, but also their limitation due to the crisis.

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2. Romania's way into EU

The economic integration, defined as "the elimination of the economic borders between two or more states" in order to enable the actual or potential mobility of goods, services, productive factors, communication flows" is a challenge for all countries that joined the European Union. The central and Eastern European states have removed these barriers since the early '90s, even though the European agreements concerning market liberalization were made much later. The trade between the E.U and these countries has increased significantly long before the final stage of the accession process. The goal of the ambitious project for the EU enlargement is a united, free and prosperous Europe. Experts believe that the opportunity of this process exceeds the potential obstacles and the involved costs.

According to H. Grabble, joining the Central and the Eastern European countries is based on a mix of political, economic and security motivations². The new Member States have considered that enacting the EU membership is a way to regain the European identity, and their accession to the EU represents "a central strategy to meet the need of inclusion."

Romania's interest for the development of foreign trade originated long before the '90s. In the period 1972-1973 there were signed agreements with the EEC on tax exemptions (partial or total) for Romanian exports of food (pork, poultry, eggs, cheese). Moreover, there were made agreements on the access to this market of textiles, steel and other industrial products. It is noteworthy that in 1980, Romania is the first country in Central and Eastern Europe to recognize the EEC as an entity by signing the Agreement on the founding of the Joint Commission Romania-EEC. In 1989, the negotiations regarding The Agreement on trade, commercial and economic cooperation with our country were suspended, but since 1991, Romania has been subject to the same treatment that was applied to the developing countries.³

2.1. The evolution of the Romanian economy before joining the EU

The trade relations with the EU states have improved considerably in the period 1980-1990 (about 40% of exports and over 25% of imports).

All the above mentioned issues, aspects are the basis of what was to follow.

The transition from a centralized market economy to a functional one triggered major changes both at the economic and social level. The economic indicators fluctuated due to the influence of internal factors (the privatization and restructuring process, the inappropriate monetary and fiscal policy) and external factors (the requirements of IMF). In the period 1990-1992 the real growth rate of GDP decreased, and the agricultural and industrial production has considerably diminished. In the following years (1993-1996) there were made efforts to stabilize the economy and to reduce the rate of inflation. The effects were not long lasting because the fragility of the economies in transition was felt again in 1997. The real GDP growth rate was on a downward spiral and the price levels increased

² Grabble, H. - *Profiting from EU enlargement*, CER, London, 2011 (pp.7)

³ Fota, Constantin – *Integrarea României în Uniunea Europeană- "ante" și "post" aderare.*, Editura Universitaria, Craiova, 2008, pp.31-32

dramatically. As a consequence, the inflation rate reached 154.8%, compared with 38.8% in 1996.

In the period 2000-2006, the inflation rate decreased (from 45.7% to 6.56%), the interest rate diminished (from 35% in 2001 to approx. 8.5% in 2006), and also the budget deficit decreased (from 22.5% of GDP to 12.5% of GDP), the capital movement was gradually liberalized, it was established an economic framework for the business development, and the household income increased. Thus, on the 1st of January 2007, Romania (along with Bulgaria) became members of the European Union.

2.2. Post-accession period

The steps taken by Romania to integrate in the European structures and bodies faced a number of changes that have reformed the entire economy. The concerns related to sustainable development and progress are subject to community principles that have a great importance. These include: environmental protection, nuclear security, crime combat, food standards. Without neglecting their importance we would like to mention that the analysis herein focuses on the economic aspects.

Being part of the Single Market, our country benefits from free movement of goods, services, capital and persons. As expected, becoming a EU member our country fostered significant inflows of foreign funds. In the first half of 2007, the currency was appreciated. The second half brought a new challenge for the Romanian economy. Food prices increased as a result of the dry agricultural year, of an inadequate wage policy and credit expansion. Still, our country managed to maintain the average inflation rate at a lower level than the inflation rate from the previous year. The 4.9% value exceeded the 1.8% percentage established by the EU, but it is worth noting that Romania had far better values than other EU new member countries (Lithuania 5.8%, Estonia 6.7%, Bulgaria 7.6%, Hungary, Latvia 7.9%, 10.1%). Even if the results were favorable on this indicator over the past decade, there was a vulnerability of the entire economic sector as a result of measures taken in terms of reaching productivity growth by increasing wages and excessively financing loans. Regarding the public finance criterion Romania had a positive development, public debt was much lower than 60% of GDP (about 13% of GDP) while the budget deficit, although higher than in 2006, did not exceed 3% of GDP (around 2.9% of GDP). The influence of the accession process had a great impact not only on the nominal indicators but also on the real ones. The GDP increased by 2007 to about 5.6% annually, and when joining the EU the GDP per capita was only 40% of the EU-27. This negative aspect was taken in consideration, but there was a priority in the sense that the focus was on sustainable development, not on its speed. This indicator was influenced by investments (positively) and exports (negatively). It was necessary to enforce a policy in the coming years to limit consumption and to promote the exports by not stimulating the imports

In 2008, Romania passed a period with both benefits and costs of capital liberalization. The first semester of this year was favorable, the GDP increased, but the global economic crisis affected the economic growth and the foreign investor confidence diminished. The budget deficit exceeded the reference value, reaching 5.7% of GDP, due to the higher pension percentage (from 32 to 45 percent of the

average salary) and the Romanian state had to pay damages for refugees in Basarabia, Bucovina and the Quadrilateral areas. The economy of all countries was affected that year. The reference value of the inflation rate in the EU-27 reached 4% and thus Romania witnessed the first change of the inflation rate. The average value of this indicator for 2008 was about 8%. This change was due to the tensions caused by the oil prices, the price of food and the imports of raw materials. The negative consequences continued in terms of differences in productivity growth (below 10%) and salaries (over 20%). Thus, the Romanian products were expensive and the vast European market competitiveness decreased significantly.

The global financial and economic crisis had tremendous effects on the Romanian economy in 2009. The Romanian exports decreased. Foreign investors showed a greater aversion to risk and preferred to retreat to their home markets and also they chose not to invest in other countries in such a period of uncertainty that even the developed countries faced. The investments diminished by over 25%, the exports decreased by 5.5% and the private consumption by 9%, all these affected the evolution of real GDP, which decreased by 6.6%. The decrease of the domestic demand, due to the population's lower incomes had a positive impact on the dynamics of imports (-20%). The budget deficit continued to grow throughout the year reaching 9% of GDP. An increase of the budget deficit was reported in the entire European Union. The public debt remained below the reference value, but its alarming increase by more than 10% in just one year brought additional concerns to the Romanian state. A favorable evolution was registered by the inflation rate - 5.59%, which was below the previous year, due to the volume of the food supply, the lower gas prices, the adjustment of costs to the labor force.

The economic decline continued in 2010, the GDP decreased again this year, but only by 1.1%, which is much lower than in 2009. Moreover, the model of economic growth was changed. If until 2010 it had excessively been based on consumption, exports began to have a significant role from then on. Their increase by 28% was due to the external demand, to the exploitation of new growing export markets and due to the efforts to increase competitiveness. Romania's exports in this period were based on machinery, electrical equipment and transport means. Thus, imports of raw materials increased. Under these circumstances the budget deficit narrowed to 6.8% of GDP, but it still continued to increase the public debt by 30.5% of GDP (+ approx. 7 percentage points compared with the previous year). In the first semester of 2010 the national currency was appreciated because of the improved perception on the Romanian economy, but in the next semester the trend of the exchange rate changed due to the sovereign debt crisis Greece was facing at that time, investors fearing that such a critical situations may occur in other states. The average inflation rate increased slightly by 6.09% due to the higher VAT rate. The degree of openness of the Romanian economy, improved slightly but it was still far inferior to other new member states (Poland, Hungary).

In 2011, Romania continued the macro-stability economic policies, which aimed to reduce the inflation and the budget deficit and to provide sustainable economic growth. The inflation at the end of 2011 had low values (3.14%), and the average was below the previous year (5.79% versus 6.09%). The improving perceptions

concerning the market risks reduced the interest rate on a long-term. Moreover, a reduced value was reached as compared to the reference value. It was also registered a progress on fiscal consolidation. The budget deficit was reduced to 5.5% of GDP and even if public debt increased by 3 percentage points (these changes appeared on the one hand because of deficit financing and on the other hand because of the cash reserves established by treasury) had much better values as compared to values registered in 2008-2010. Thus, the economic openness improved. Exports and imports were on an upward trend, and net exports had positive results. Unfortunately FDI continued to decrease (-15%). The dynamics of GDP mirrored a positive growth (+2.2%), as a result of the favorable developments in industry, agriculture and construction, and also as a result of the increased domestic supply. The negative dynamics of real income, the high indebtedness of the population, the consumer uncertainty about the economic environment, along with reluctance of lending and a slightly negative value of net exports, made the GDP growth be limited. During 2011, the Romanian government took steps to increase the absorption of EU funds, but this level remained and still remains low (5.5% of the allocation for the period 2007-2013), although the absorption is higher than in 2010.

It was registered a slight revival of the Romanian economy in 2012, but this was not sufficient, because our country missed a number of targets set by European authorities that made agreements concerning the mentioned targets with the international lenders. The year was marked by two main aspects: political instability and the recession of the euro zone. The unemployment rate registered in December was among the lowest in the EU, but it still remained at a high level. The annual inflation rate was 3.3%. The price of food and nutrition products increased considerably mainly due to the fruits and vegetables sector was severely affected by drought. The budget deficit is another missed target of Romania. Poor income and the blockage of EU funds led to a value of 2.5% of GDP in December, 0.3 percentage points more than the one set between the national authorities, the IMF, the European Commission and the World Bank. Positive signals were registered in the foreign direct investment sector, which in the first eight months of 2012 increased by 55% as compared with the same period of the previous year.

Obviously, 2013 will encompass a new period of challenges. Romania's economy is largely influenced by the external environment. If the euro area and the Member States will be able to get rid of the recession, there may be registered an economic growth in the sense that Romanian exports to the EU countries will increase. This year, efforts and steps must be made to build trust with the foreign business environment in order to attract foreign investors and European funds.

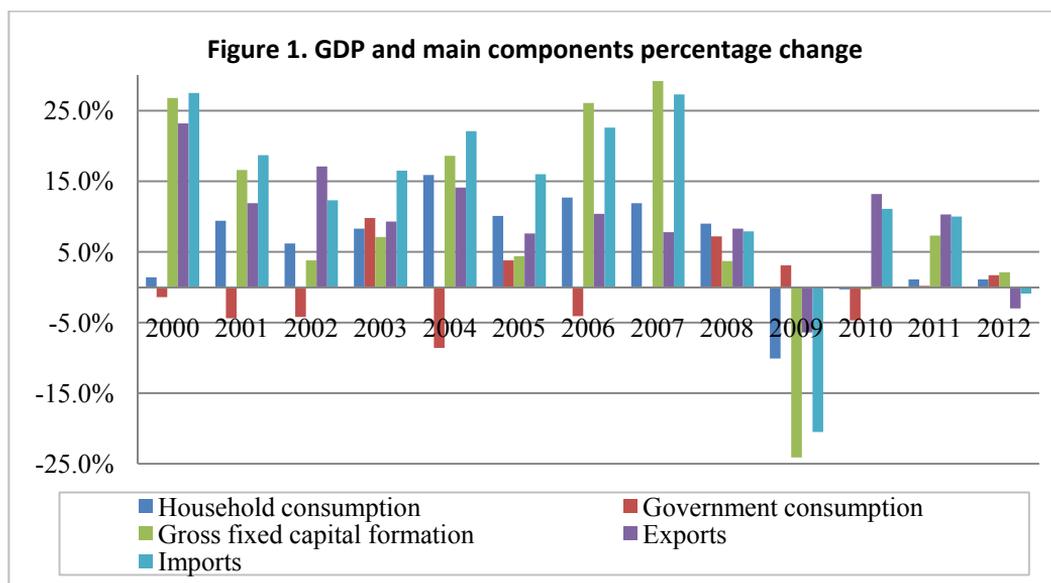
2.3. The effects of integration

Any new Member State has the goal of adopting the single currency, but to achieve this goal, it has to meet certain requirements, which concern the nominal and the real aspects of the economy. In the Treaty of Maastricht there were settled the nominal convergence requirements the new members have to meet in order to integrate in the European Monetary Union. All these requirements are not sufficient and a new member state must also consider the real aspects of the economy (GDP,

income, productivity), the latter ones providing the sustainability for the development process and for the economic growth. Thus, it appears that beyond accession, the new member states, along with Romania will have to strive to continue the process of alignment with the EU requirements and to improve all the sectors of their economy.

In the first years after accession (2007 and 2008) it was registered a positive development of the Romanian economy, which enjoyed a high degree of integration regarding the goods and services market, the labor and capital market. Thus, the standard of living and the capital accumulation increased.

As shown in Figure 1, the economic expansion was mainly due to the household consumption, especially due to the credit expansion and the increasing purchasing power. All these causes determined the increase of imports by 27.3% in the first year of integration compared to the previous year. This trend changed in the late decade of 2008.



Source: Eurostat

With a greater economic openness and the increased investor confidence, gross fixed capital formation reached the highest values in 2007. The investments made in the pre-accession increased the productivity and improved the competitiveness of the Romanian products by implementing modern technologies and by increasing the labor force formation. All these, along with the markets liberalization led to the increased trade between Romania and the European Union member countries. Also, as shown in Figure 1, the exports registered a continuous growth until 2009.

The economic crisis has severely affected the Romanian economy. One can see the economic decline in 2009 (as it is showed on Table 1). Of all the components of GDP, the one that increased is the government consumption. This happened due to the electoral pressures exerted during this period. The most significant decrease and decline was registered in the investments sector. As described above, Romania does not provide

to investors, to equity holders (both national and international ones) a healthy economic environment. In comparison with the first year after accession the economic decline was obvious again and the market risks were higher and higher. Local businesses substantially reduced the financial capacity to invest and foreign investors withdrew from the Romanian market or headed to other states where incomes were lower, but those economies were able to cope with the worldwide recession.

Table 1. - Romania's Macroeconomics Indicators

Indicator		2000	2006	2007	2008	2009	2010	2011	2012
Real GDP growth rate	%	-0,4	7,9	6,3	7,3	-6,6	-1,1	2,2	0,7
Primary Sector ⁴	% of GDP	12,0	8,9	6,5	7,5	7,9	8,8	-	-
Secondary Sector ⁵	% of GDP	34,4	36,2	37,8	37,7	37,9	38,8	-	-
Tertiary Sector ⁶	% of GDP	53,6	54,9	55,7	54,8	54,2	52,4	-	-
GDP / capita	euros	2.700	4.000	4.200	4.600	4.300	4.200	4.300	-
Labour productivity per person employed	% of EU average	23,7	39,7	43,4	49,2	49,4	48,5	49,2	-
Real desposable income	% of EU average	26,2	34,2	37,3	44,4	40,8	39,3	38	-
Business Investments ⁷	% of GDP	18,8	23,7	25,6	30,2	31,9	24,0	24,6	-
FDI growth rate	%	-	0,6	-0,2	0,3	-0,6	-0,4	-0,2	-
Saving Rate	% of GDP	12	12	12	16	19	19	21	21
Investment Rate	% of GDP	19	27	32	30	25	26	27	27
FDI	% of World FDI	-	0,8	0,5	0,8	0,4	0,3	-	-

*Source: *Eurostat, BNR, INS*

⁴ The Primary sector includes the production of raw material and basic foods. Activities associated with this sector include agriculture, forest, farming, fishing, mining. The productivity is low and it depends on the mother nature, and the demand is inelastic.

⁵ The Secondary Sector includes manufacturing, processing, and construction. Activities associated with this sector include automobile production, textile production, energy utilities, engineering, constructions. The productivity is higher than the primary; the demand is elastic.

⁶ The Tertiary Sector provides services to population and to business. Activities associated with this sector include retail, transportation and distribution, entertainment, restaurants, tourism, insurance, banking, healthcare, law. The productivity is highest.

⁷ The indicator gives the share of GDP that is used for gross investment. It is defined as gross fixed capital formation (GFCF) expressed as a percentage of GDP for business.

The developments registered in the period 2010-2012 emphasized the high vulnerability of the Romanian economy due to external influences, and it also appeared and manifested as a result of the high interdependence of its relations with the external environment. As it can be seen in Table 1, even if the GDP continued to decline in 2010, the decline was not so significant because the exports registered a 10% increase. GDP per capita at PPP almost get doubled during 2000-2012, but compared to UE27, it can't exceed 20%.

Labour productivity per person employed has improved significantly. They reached values twice larger, and Romania had the highest growth in the region (from a level of 23.7% of the EU27 average in 2000 to 49.2% in 2011). Determinants consist of increasing workforce skills, the availability of equipment and attracted new technologies in the production process.

Real disposable income is reduced comparing with other new members. Despite its growth efforts to improve the standard of living of the population, at the end of 2011 the Romanians had disposable income of only 40% of the EU27 average (the lowest value, except Bulgaria), by 6 percentage points below 2008 (Table 1). Reducing these revenues may be caused by the need of governments to adopt a policy of increasing the amounts collected to the state budget by raising taxes for income in the period after 2009. Romania can improve the standard of living of the population by rising income per capita as a result of increasing labor productivity and this can cause long-term reduction in population that migrates to other states.

Structure of Romanian economy differs from that of the EU27, which is why structural divergence index is very high. During 2006-2008 it tends to be reduced to 33% but it returns a little over 40% after 2009. The divergence starts mainly due to the high share of primary sector in GDP. In the European Union it is 1-2%, but in Romania last few years was about 8%. After 1990 its share still decreased but we cannot say that it has reached levels comparable to other Member States. Structural gap is due to the services which have a contribution to GDP of about 50%, while the EU27 average is somewhere over 70%.

The Percentage of business investments in GDP increases continuously between 2001 and 2008 (from 15.83% to 24.43%) in the coming years diminishing up to 13.34% (in 2011); but, during the entire period continued to be higher than average value of EU27. This shows that the private sector has a high growth potential, but to continue, Romania needs to develop its capacity to absorb EU funds. The possibility of such funding allows reconstruction, strengthening and eliminating disparities in relation to the other Member States but European funds becomes difficult in condition of co-participation.

Romania's economy has developed mainly on the basis of funds raised from outside because the savings rate was quite low, especially until 2007. The key to future growth is the foreign direct investment (FDI), which is still from the pre-accession an engine of development and progress. Their volume has increased rapidly since foreign investors have exploited market opportunities (greenfield investments, mergers, acquisitions). FDI flows reached maximum values in the year

2008 (8491 million - about 0.8% of global FDI), but the spread of the crisis led to a decline of over 50% in 2009 and continued to decline until 1484 million in 2011 (0.3% of global FDI). FDI flows are needed, they increase productivity, competitiveness, skill levels of employees. If the external situation improves and the Romanian authorities will continue structural reforms and adopt appropriate policies, foreign investor confidence can be regained. It is a reality that Romania needs major investments that only domestic savings can not support.

3. Conclusions

There were advantages once with the EU expansion, both for old and new members, being a process that still reinforces peace and stability in the region. Romania, along with other New Member States felt the allocation and accumulation impact. Since the signing of the first trade agreements between Romania and EU, the trade volume increased almost 3 times. The liberalization had also a positive and a negative feedback. The uniformity of incomes was a slower process, since it involved a longer period, and labor force could migrate to markets with higher marginal incomes, thus enhancing the already existing gaps between center and periphery (a situation faced by Romania after accession). Today, another effect is the possibility of the domestic producers to enter new markets, but also the possibility of the foreign producers to enter the domestic market, but still problems arise in the sense that the Romanian businesses are not capable of producing competitive goods and services concerning both price and quality; moreover, the domestic companies have to cope with the increased, even fierce competition, if not, they are going to be eliminated. The EU membership generally builds trust with investors which as noticed at the beginning of the accession negotiations were highly interested in Romania. A larger volume of investments has definitely a great impact on productivity growth, employment and a better technological transfer. The accession to this group which has economic and political power brought benefits, but as you can see the initial enthusiasm diminished after accession. The convergence process must be continued but it requires substantial efforts, mainly due to the global economic environment - global crisis.

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THE DEGREE IN WHICH THE EXTENT OF THE EMOTIONAL COMMITMENT IS REFLECTED IN THE WAY OF EXPRESSING THE INTENTION TO CONTINUE THE RELATION WITH THE ORGANIZATION

Cristina Neagoe,
Nicoleta Rossela Dumitru*

Abstract

The emotional commitment is a relatively new concept. The organizations do not already have all the answers regarding the manner in which the mechanism operates. In these conditions, I have considered as necessary a deepening of the conceptual and methodological specter in this field. The purpose and objectives of the research have been achieved. Also, it must be stated that a series of unintended information has been acquired. The results of the multiple carried out analyses lead to valuable conclusions regarding the extent of the emotional commitment and the means in which it reflects on the intention to continue the relation with the organization and also, they provide a real decisional support with the purpose of improving the relations with the ensured parties, while creating a strong foundation for declaring the “commitment” as integral part of the loyalty strategy. One of the research’s most valuable conclusions is proving that the emotional commitment is a critical factor in developing long-lasting and mutually advantageous relations with the clients.

Keywords: emotional commitment, relational marketing, satisfaction, insurance market, intention to continue the relation

JEL Classification M31

1. INTRODUCTION

The emotional commitment is a relatively new concept. The organizations do not already have all the answers regarding the manner in which this mechanism operates. Therefore, these results can have significant managerial implications by bringing along the following premises:

- the client’s value increases along with the period of time of collaboration with the company.

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The obvious recommendation for the companies is to pass over the stage of repeated acquisition of new clients. Concentrating on maintaining and developing the relation with the clients shall determine an increase in the degree of satisfaction.

The paper contains five parts, each belonging to a scientific mechanism designed to specifically serve in attaining the general purpose of the present scientific document.

The paper's logical phased construction plan is based on a rich and extensive analysis of the scientific assembly from the reference field of relational marketing. Thus, in the first stage, there are presented the most recent approaches regarding the conceptual sphere with which the present paper operates: "the emotional commitment" and "the intention to continue the relation".

With reference to the second part of the scientific research, a special part has been dedicated to the analysis of the insurance sector, as the quantitative study itself has been achieved within this market. The role of this analysis is to ensure a thorough methodological foundation of the carried out marketing study.

The actual carried out research is presented in the fourth part of the present paper. This allows for a better representation of the current knowledge stage, adding, from the practical and conceptual point of view, to the field under research. The purpose and the objectives of the research have been attained, but also, it must be stated that a series of unintended information has been acquired. The results of the carried out analyses lead to valuable conclusions regarding the extent of the emotional commitment and the means in which it reflects on the intention to continue the relation with the organization. Also, they provide a real decisional support with the purpose of improving the relations with the ensured parties, while creating a strong foundation for declaring the "commitment" as integral part of the loyalty strategy.

2. LITERATURE REVIEW

On the conceptual side of the researches carried out in the relational marketing field, the progress is huge. Many authors dedicated a great deal of their research efforts on identifying and developing strategies able to lead to perennality with reference to the collaboration with the clients.

Among the new concepts that appeared in the specialty lexicon, we find "the emotional commitment" included on a special position in the conceptual assembly. The current stage of knowledge in the reference field, as well as the systematic analysis of the main designated directions, present the clients' emotional commitment as an element of significant importance in attaining the ambitious objectives of the modern organizations. Thus, the reference scientific studies show a strong connection between the "clients' commitment" and the "clients' satisfaction". Taking into consideration a series of markers, both from the conceptual field and from the practical one, we consider that the commitment also strongly influences the "intention to continue the relation" (variable that starts in the present and "looks" in the future).

2.1. *Clients' satisfaction*

In essence, clients' satisfaction is the main means through which the organization, as of the present moment, can obtain profit. Various industries and markets have been impacted by the way of customer perceive value in context of economic evolutions [Preda O., Negricea C., (2007)]. In these conditions, it is obvious that numerous scientific researchers have been dedicated to the intensive study of the means through which the degree of client satisfaction can be increased. The company's success depends on client satisfaction (internal and external), therefore the package of value proposed to clients must correspond to their expectations. In case the proposal does not correspond to the expected performance, a feeling of discontent appears and that implies lower profit for the organization.

Client satisfaction is, consequently, the measure in which the supplied product/rendered service corresponds to the clients' expectations [Armstrong, Kotler, (2007)]. In case the organization repeatedly proves the fulfillment of its promises, client satisfaction shall reach a higher degree, and, on a long term, this means increased profitability. Also, repeated satisfaction leads to commitment on behalf of the clients.

2.2. *Emotional commitment*

Awareness definition for "emotional commitment" knows different forms, each of them being thoroughly argued by the supporting authors. Among the definitions that enjoyed large acceptance, we mention [Gustafsson A., Johnson D., Roos I., (2005)]:

Client's commitment represents:

- The intention to maintain a relation;
- A guarantee of continuity between parties;
- The sacrifice or potential sacrifice should a relation come to an end;
- The lack of competing proposals.

In the context in which the importance of relational marketing and of the positive effects of the clients' commitment within the process of loyalty and perennial and mutually advantageous development of relationships is increasing continuously, the researchers' interest in identifying the elements that lead to stimulating the client's commitment are increasingly accentuated.

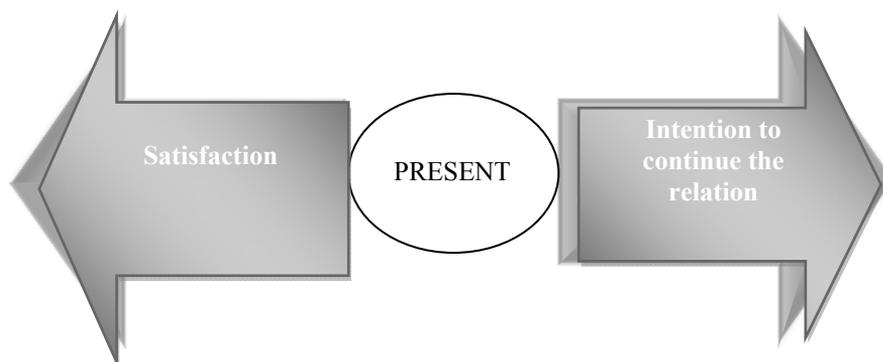
The emotional commitment and the rational one are, also, important components within the process of client loyalty and can be found in many studies orientated towards determining the considerations that could lead to loyalty. An important existing conceptual difference derives from the fundamentals that support the development of the client's commitment with regard to the organization. The rational commitment appears as a consequence of the action of some economic type factors (more advantageous prices, the perception of a risk in case of changing the supplier, offices located near the client, etc.), while the emotional commitment is represented by the consumer's behaviour determined by emotional considerations (quality, emotional messages, attachment with regard to the organization, etc.).

The strategic planning of loyalty programs requires strictness in attaining the objective of creating the client's commitment as "both the emotional commitment as well as the rational one can lead to long-lasting relations, thus consolidating the organization's performance" [Ahmed F., (2009)]. [Neagoe C., (2012)].

2.3. *Intention to continue the relation*

Some authors defined clearly two of the concepts with which the theoretical assembly of relational marketing operates: "client satisfaction" and "intention to continue the relation with the organization". The conceptual difference being introduced is tightly connected to the longitudinal aspect of the two variables. The diagram below presents the directions depending on the longitudinal nature of the interaction with the client.

Figure 1: Ratio between client satisfaction and the intention to continue the relation



Thus, client satisfaction "looks back", emphasizing the performance up to the present moment, while the intent to continue the relation with the organization "looks forward" expressing the soundness of the relation and the intent to evolve in the future" [Gustafsson A., Johnson D., Roos I., (2005)].

3. ROMANIA INSURANCE MARKET

The quantitative study has been carried out within the Romanian insurance market. Accordingly, a special section within this paper is dedicated to the analysis of the insurance sector in our country.

The insurances proposal in our country, according to the latest Report presented by the Insurance Surveillance Committee, is based on the following reference criteria:

- In Romania, 44 insurance trading companies run their activity; among these, 12 offer both general insurances as well as life insurances, 21 offer only general insurances and 11 offer only life insurances;
- In 2008, in our country, 7 branches of foreign insurance companies have been opened;
- The total of issued and paid up share capital of the 44 authorized companies is 2.879.242.354;
- Out of the market total, the insurance companies set up based on Romanian capital hold a share of 12.47%; the participation share of foreign investors to the issued share capital represents a percentage of 87.93% (the most important investors being: the Austrians – 33.36%; the French – 22.47%, the Dutch – 10.38%);
- The insurances proposal is strongly concentrated among the first 10 insurance companies; they hold a total share of 79,08% out of the total of insurances market (both general and life insurances);
- The general trend for insurance companies is to diversify the proposals; this is mainly due to foreign investors that have as objective aligning Romania to the international practices and, in the same time, to the need to adapt to the increasingly complex requests coming from request holders;
- According to the predictions, the number of insurance companies with foreign capital, of branches and offices opened in our country, could double in the following years; a number of 80 insurance companies from the European Economic Field informed CSA regarding the intention to practice the insurance activity within Romania.

4. CASE STUDY

From the multitude of marketing research versions, with respect to drafting the present study, a quantitative approach has been decided upon. The method used in designing the research is inquiry and the research tool, the survey. “The survey is a form of interview or a measuring tool, by means of a set of standardized questions, designed with the purpose of obtaining the necessary information from the respondents” [Malhotra R., Birks D., (2007)].

4.1. *Decisional problem*

Correctly expressing the problem often holds a role more important than even the solution itself [Albert Einstein]. The support brought to achieving the quantitative research’s objectives by the means in which this first stage is being covered is considerable. Since stating the problem is the first stage in running the research, it is important to abide by a series of rules such as: avoiding ambiguity, clear enunciation, etc.

The study regarding the role of <emotional commitment> on the <intention to continue the relation with the organization> has not been developed following an encounter with a major problem. In view of taking advantage of the relational marketing opportunities, a higher and higher attention falls upon the information regarding the mode in which the organization’s practice can improve so that the percentage of clients that express the intention to continue the cooperation with the company increases.

Therefore, we essentially aimed for obtaining an as reliable as possible image on the mode in which the commitment can contribute to the perennality of the relation between the organizations and their clients.

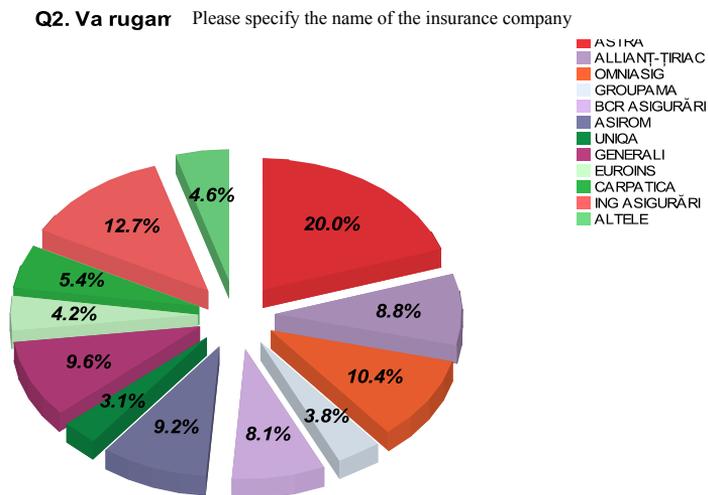
4.2. *Sample*

With the purpose of obtaining the best representativeness, we proceeded in selecting experimental units while taking into account some relevant criteria for this study:

- the type of insurance policy (to cover the potential cases: general and life insurances – maintaining the proportion existing on the real market);
- age of respondents (to clearly perceive the differences existing in the insurance activity and the communication depending on age).

The materialization of the debated problem has been achieved by means of a quantitative study among 260 insured parties – natural persons.

Figure 2: The insurance companies within the quantitative research



Source: Own research supported by using the SPSS 19 statistic program

Table No. 1 Distribution of respondents from group 1 depending on the type of insurance policy

Q1. What type of insurance policies do you have?

	Frequency	Percentage	Valid Percentage	Cumulative Percentage
Valid Life insurances	33	12.7	12.7	12.7
General insurances	199	76.5	76.5	89.2
General and life insurances	28	10.8	10.8	100.0
Total	260	100.0	100.0	

The table above presents the research sample depending on the type of insurance policy that the respondents hold. As expected, life insurances have a lower percentage (12.7%). But, it must be stated that representativeness is ensured as the proportion existing on the market between general and life insurances is mostly kept (general insurances hold a more wider coverage; in the study, about 77% of respondents hold only a general insurance).

4.3. Objectives and hypothesis of the research

The research's objectives are causal and by expressing them we aimed towards obtaining some directions that can offer a managerial help in order to optimize specific strategies.

The main objective can be expressed synthetically as follows: "Knowing the extent in which the intention to continue the relation with the insurance company is influenced by the emotional commitment" and the main hypothesis is the following "The emotional commitment leads to expressing the intention to continue the relation".

4.4. Results

A clear delimitation is indicated, in the reference literature, between client satisfaction and expression the intention to continue the relation. The argument is represented by the fact that <satisfaction> "looks back", reflecting the relation up to a certain moment, and <the intention to continue the relation> "looks forward", expression the future predictions regarding the relation between the client and the company.

$$\text{Model c: } a + b \cdot X + \varepsilon = Z \quad \left\{ \begin{array}{l} X - \text{emotional commitment (Independent variable, causal)} \\ Z - \text{intention to continue the relation (dependent variable.} \\ \text{effect)} \\ a, b - \text{regression coefficient} \end{array} \right.$$

The constructed ergonomic model is valid as the linear regression parameters are significantly different from 0 (prob. < 0,05) and the Fisher test is high enough (F = 53.749).

Table No. 1 Fisher Test

ANOVA^b

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	502.902	7	71.843	53.749	.000 ^a
	Residual	336.832	252	1.337		
	Total	839.733	259			

a. Predictors: (Constant), Q5_7, Q5_6, Q5_2, Q5_3, Q5_5, Q5_1, Q5_4

b. Dependent Variable: q7q8_all

Source: Own research supported by using the SPSS 19 statistic program

The emotional commitment explains significantly, about 60%, the variation of the dependent variable – the intention to continue the relation.

Table No. 2 Regression model

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.774 ^a	.599	.588	1.15613

a. Predictors: (Constant), Q5_1, Q5_2, Q5_3, Q5_4, Q5_5, Q5_6, Q5_7.

Source: Own research supported by using the SPSS 19 statistic program

The impact of each item that describes the emotional commitment regarding the intention to continue the relation is presented in the table below where the regression coefficients are contains.

Table No. 3 Value of the linear regression coefficients

Coefficientsa

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	
		B	Std. Error	Beta			
1	(Constant)						
	* the items that describe the X independent variable X*	.872	.440		1.982	.049	
	Aa1	In choosing the insuring company, the main criteria is the quality	.167	.049	.184	3.421	.001
	Aa2	I believe in the products and/ or services proposed by the insurance company	.010	.062	-.009	-.156	.045
	Aa3	Signing the insurance policies has always been a transparent process	.209	.043	.245	4.862	.000
	Aa4	The insurance company has a favorable reputation within the market	.256	.056	.257	4.572	.000
	Aa5	The insurance company is benevolent with reference to solving my problems	.180	.046	.215	3.940	.000
	* Aa6	The optimum solving of prejudices is the main criteria for renewing the insurance policy with the same insurance company	.036	.048	.039	.746	.456
	Aa7	I do not perceive the competing insurance companies as being more performant	.080	.035	.104	2.287	.023

Source: Own research supported by using the SPSS 19 statistic program

From the interpretation of results, we obtain some important information.

<The intent to continue the relation> with an insurance company is highly influenced by its reputation on the market (coefficient value = 0.256), followed by the collaboration with a high degree of transparency (coefficient value = 0.209) and demonstrating a benevolent behavior while solving the clients' problems (coefficient value = 0.180).

In the same time, as can be observed from table analysis, the item "quality" is significantly appreciated (coefficient value = 0.167); hence, we assess that quality is also considered by the respondents as one of the conclusive conditions when expressing the intention to continue the relation with an insurance company.

5. CONCLUSIONS AND MANAGERIAL IMPLICATIONS

From marketing perspective, the study holds a series of significant implications on the mode of strategic planning. One of the most valuable research conclusions is

proving that developing the client's emotional commitment is a decisive factor in view of developing long-lasting and mutually advantageous relations with the clients (<emotional commitment> explains, in a percentage of 60%, the variation of the dependent variable – <intention to continue the relation>); and the most important elements that help building the clients' commitment are:

- the company's reputation;
- transparency;
- quality.

Within the scope of some future researches, the strategic levers through which the three elements can be developed must be identified so that companies be able to stimulate, to a higher percentage, the emotional commitment of clients in relation with the company.

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FINANCIAL STABILITY AND DEVELOPMENT OF CAPITAL MARKETS

George Horia Ionescu and
Ruxandra Dana Vilag*

Abstract

Liquidity crisis emerged in the U.S. market had a significant impact on the European financial markets. To restore confidence in the financial system, authorities took measures to reduce systemic risk and limit the impact on the economy. These measures were aimed at monetary stimulus, fiscal, liquidity injections by Central Banks and direct action to support systemically important institutions. Also, the Basel Committee adopted in September 2010 new standard relating to capital and liquidity requirements will require financial institutions from 1 January 2013, as Basel III. Financial integration in Europe is of particular importance since both economic theory and empirical results show that integration and financial development contributes to economic growth by eliminating barriers to the transfer of capital between countries in a more efficient allocation of it. These benefits to financial stability complement the critical role that capital markets play in efficient resource allocation and in reducing over-reliance on the banking sector for the mobilization of savings and financial intermediation. Regulators are often faced with the perennial question of whether and how they should intervene to manage irrational exuberance and panic in the market.

Keywords: financial stability, capital market, financial integration, financial crisis,

JEL Classification: G01, G15, E44

1. Introduction

Financial stability is a broad concept which considers different aspects of the financial system - infrastructure, institutions and markets. The term encompasses both the financial system and monetary system processes, structures and principles of private financial institutions. Given the financial system functions, we can say that it is stable when it is able to efficiently allocate resources, assess, measure, allocate and manage financial risks and to self-correctly when is affected by external shocks. We believe that

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the financial system is stable when it is able to facilitate the performance of an economy and the imbalances that occur as a result of significant shocks.

Safeguarding financial stability requires the identification of the main sources of risk and vulnerability: inefficiencies in the allocation of financial resources from the investors as equity holders and errors in financial risk management. Monitoring sources of risk must be proactive as they can compromise the future financial stability and therefore economic stability. The role of institutions in the financial system is the link between those who have money and those who need them, which involves the transfer and the management of risk. These risks arise due to differences in maturity, the need for short-term liquidity appears while assets have a maturity term and may be less liquid.

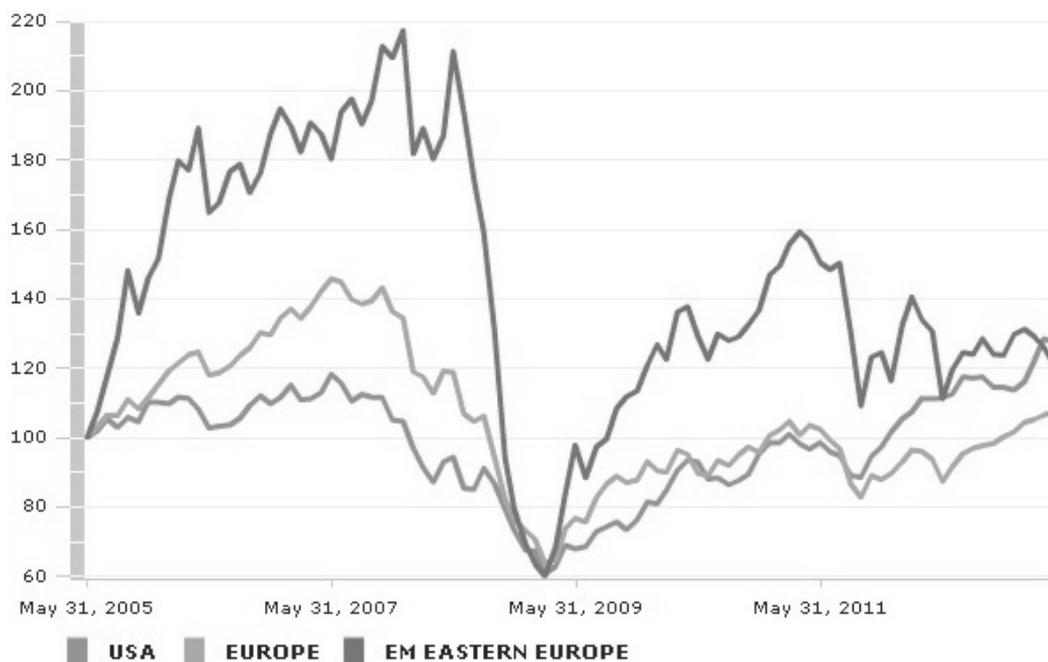
The accumulated losses due to mortgage devaluation in the United States financial system has started the financial crisis. Developing and increasing the number of transactions with more complex structured instruments, without a proper understanding of the risks and without the implementation of appropriate management methods, the lack of transparency of these products and underdeveloped regulatory framework led to the rapid expansion of crisis at global level. Financial institutions reduced their risk appetite and increased demand for liquid assets. Due to the uncertainty and lack of confidence created strong market assets have suffered impairment in value, which resulted in a loss of liquidity in the market. Participants were hesitant to trade in the market which has led to increased financial insecurity.

Registered economic boom until 2007 was due to growth and stable financial conditions. Recorded historically low real interest rates and abundant liquidity led to increased risk borrowers, investors and brokers were willing to accept. All this led to an increase in the financial system to provide credit and generate profits but exceeded capacity to manage risks.

Since 2003 has begun a global decline in risk premia, volatility and low expectations of strong growth in revenue bonds generated by loans - structured products that were given top marks by major international rating agencies. Credit default swap market growth and market related indicators made that credit risk be avoided more easily traded and, thereby supporting increased liquidity attracted to these credit instruments. Easy credit, asset price increases and consumer confidence have contributed to a significant decline in the number of companies that have gone into default, which has led to strong growth across the economy. Increased demand for assets with high profitability, easing standards and conditions for granting loans, regardless of the degree of risk that they had sold products and practices eroding important segments of the financial market has increased the concentration exposures innovative products with large expected yields but whose function was poorly understood by the market.

Driven by consistent incentives to attract new loans, without taking into account the quality of assets, the banks and other financial institutions have boosted funding by removing risky assets off balance sheet and developing innovative financial instruments with high ratings they had in turn as collateral mortgage-backed bonds. Credit risk transfer through securitization has increased bank balance sheets are marked to market. Due to insufficient or enabling regulations, these institutions have functioned without sufficient capital reserves, with significant liquidity and maturity, investing in assets without understanding their structure. Both banks and credit rating agencies had judged wrongly liquidity and concentration risks that can be caused by a general deterioration in economic conditions.

Fig. no. 1 - MSCI USA, EU and Eastern Europe Indices 2005 – 2013



Source: *www.msci.com*

Calvo and Mendoza (1999) argue that globalization can cause contagion through incentives such as the cost of collecting information and imitating arbitrary market portfolios. In the presence of short-selling boundaries, the yield of assembling information at a fixed cost may diminish with market increase. Moreover, if the marginal cost of a portfolio manager in case of a decline in market return exceeds the marginal gain of achieving above market returns, there

will be a variety of optimal portfolios in which all investors imitate arbitrary market portfolios and their number will increase with market widening. Numerical simulations suggest that these frictions can have significant implications over capital flows of emerging markets.

Their analysis shows that informational frictions itself can't produce contagion. The existence of contagion assumes that this friction can be combined with certain institutional and regulatory features of financial markets. For fixed information costs, the gain given by the acquisition of costly information drops as the market grows if investors face short sale constraints. For variable costs, an area of multiple optimal portfolios contagion exists only if the incentives are such that the marginal cost of loss exceeds market marginal gains. In this context, policies that otherwise may seem useful instruments to limit volatility of capital flows, may actually contribute to exacerbating the problem. Therefore the role of investors' decisions in determining contagion is very important.

The liquidity crisis in the U.S. market had a significant impact on the European financial markets. Political interventions, which have facilitated access to liquidity to limit systemic risk, have failed to solve the problems of banks accessing funds. Most of the multinational banks were involved in transactions with toxic assets and had to support their liquidity refusing to provide liquidity to other institutions. This led to a contraction of the interbank market and a substantial increase in the risk premium, especially in the United States and Europe.

Easing of monetary policy by central banks has not proven effective through strong depreciation of asset prices and increase in credit spreads applied. Financial institutions have tried to reduce their risks so have reduced the volume of loans. Central banks have tightened regulations on lending conditions. To prevent systemic risk central banks and governments have intervened with important financial resources.

All these measures have failed to calm the markets and increase investor confidence. Capital markets indexes, loan spreads increased and capital markets in emerging countries continued to have a negative trend. Market participants have reviewed counterparty risk being forced to close, compensate and to restore positions or large losses. The market is awaiting further bankruptcies and many banks were forced to recapitalize, particularly as a result of the new requirements imposed by regulators.

Table no. 2 – Largest global rated defaulters by year

Year defaulted	Issuer	Amount (mil. \$)
1991	Columbia Gas System	2,292
1992	Macy (R.H.) & Co.	1,396
1993	Mesa, Inc.	600
1994	Confederation Life Insurance	2,415
1995	Grand Union Co./Grand Union Capital	2,163
1996	Tiphook Finance	700
1997	Flagstar Corp.	1,021
1998	Service Merchandise Co.	1,326
1999	Integrated Health Services Inc.	3,394
2000	Owens Corning	3,299
2001	Enron Corp.	10,779
2002	WorldCom Inc.	30,000
2003	Parmalat Finanziaria SpA	7,177
2004	RCN Corp.	1,800
2005	Calpine Corp.	9,559
2006	Pliant Corp.	1,644
2007	Movie Gallery Inc.	1,225
2008	Lehman Brothers Holdings Inc.	144,426
2009	Ford Motor Co.	70,989
2010	Energy Future Holdings Corp.	47,648
2011	Texas Competitive Electric Holdings Co. LLC	32,460

Source: *Standard & Poor's Global Fixed Income Research and Standard & Poor's CreditPro®*

2. The banking crisis and default entry cycle

Volatility remained high on European markets putting pressure on sovereign debt. In addition to negative effects on banks' funding costs, higher spreads in interbank rates have powerful effects on how monetary policy transmission. A change in policy interest rates is transmitted through monetary and inter-banking interest rates, with influence on loans to households and non-financial companies and thus supporting domestic consumption and investment. Interconnections between monetary and credit markets have developed in the last two decades, increased the failures in financial markets, with adverse macroeconomic consequences.

In accordance with the Basel I terms, interbank deposits with maturity up to one year are risk weighted by a factor of 20 percent. Basel II uses rating agencies, as an external evaluation, to determine risk weights. While the minimum weight remains 20 percent, it can be higher for deposits with maturity over three months or deposits denominated in another currency. As a result, banks are encouraged to ensure exposures to counterparty banks or, if the loan is unsecured, to fall in maturities of three months or less. Lately interbank loans were granted for short periods of a week or less, mostly overnight. Most short-term bank financing from sources such as money market funds, debt securities portfolios reinvested foreign exchange reserves of the central bank. Despite extensive research in this field, changes recorded by asset prices remain difficult to explain. First, asset prices are following a downward trend and this is not to be made public in advance.

In the empirical literature, Karolyi and Stulz (1996) and Connolly and Wang (2003) find that macroeconomic indicators and other information of public interest, does not affect the "parallel movements" of the Japanese and American stock markets. King, Sentani and Wadhani (1994) find that the observable economic variables explain only a small part of the "parallel movements" of international capital markets.

Because of lack of evidence that macroeconomic fundamentals can serve as determinants of contagion, researchers have found alternative explanations. Models have been developed according to arbitration limits allow crises to spread through assets held by international investors. Kodres and Pritsker (2002) develop a theoretical model of financial contagion through rebalancing portfolio containing international assets. One implication of the model developed by them is that "parallel movements" of this indicators must be symmetrical in both upturns and downturns. Kyle and Xiong (2001), Calvo (1999) and Yuan (2005) argues that the effects of crisis spread between markets due to investors who are limited in terms of assets held, and that correlations between markets are higher during crisis periods. More Kyle and Xiong (2001) argue that when investors suffer a great loss because of investments held in the country in crisis, they may be forced to liquidate positions held in other countries and thereby bring stock prices to depreciate in these other countries. Moreover, Calvo (1999) and Yuan (2005) find that income effects persist even when only a small fraction of investors are limited in terms of wealth held as long as they are relatively better informed (they argue that rational uninformed investors are unable to distinguish between selling due to liquidity shocks and sales resulting from fundamental shocks). In the presence of informed investors, contagion is likely to result from uninformed investors becoming confused. Although theoretically these statements may convince us, there is little empirical evidence supporting the contagion induced by the investors.

Due to the explosive development of the economies of developed countries, the increase in developing countries was boosted further with revenues from exports, higher commodity prices and foreign direct investments. Economic growth in developed economies increased demand for exports, so exports of developing countries have accelerated growth. Meanwhile, commodity prices experienced a

significant increase. Emerging development was based on substantial capital investments in developed countries. Consequently, emerging economy achieved the highest growth rates in the period 2007-2008.

The rapid growth in the volume of capital invested has increased real estate prices to unrealistic levels in some emerging markets. Commodities prices increases recorded in the first phase, from 2002 to 2006 were offset by lower production costs. Cheap exports from these countries allowed the world economy to continue to achieve both high growth and moderate inflation.

The summer of 2007 triggered the crisis in high-risk mortgage market, driven by strong increases in credit defaults. Many „innovative” financial products, based on toxic assets, often proved to be more risky than initial assessments indicated. The collapse of the value of these assets generated a pressure on the balance sheets of many financial institutions, these important losses.

Table no. 3 - Global corporate default summary

Year	Total defaults*	Investment-grade defaults	Speculative-grade defaults	Default rate (%)	Investment-grade default rate (%)	Speculative-grade default rate (%)	Total debt outstanding (bil. \$)
1981	2	0	2	0.14	0.00	0.62	0.06
1982	18	2	15	1.19	0.18	4.41	0.90
1983	12	1	10	0.76	0.09	2.93	0.37
1984	14	2	12	0.91	0.17	3.26	0.36
1985	19	0	18	1.11	0.00	4.31	0.31
1986	34	2	30	1.72	0.15	5.66	0.46
1987	19	0	19	0.95	0.00	2.79	1.60
1988	32	0	29	1.39	0.00	3.84	3.30
1989	43	2	35	1.74	0.14	4.66	7.28
1990	70	2	56	2.74	0.14	8.09	21.15
1991	93	2	65	3.27	0.14	11.04	23.65
1992	39	0	32	1.50	0.00	6.08	5.40
1993	26	0	14	0.60	0.00	2.50	2.38
1994	21	1	15	0.62	0.05	2.10	2.30
1995	35	1	29	1.04	0.05	3.52	8.97
1996	20	0	16	0.51	0.00	1.80	2.65
1997	23	2	20	0.63	0.08	2.00	4.93
1998	56	4	48	1.27	0.14	3.65	11.27
1999	109	5	92	2.13	0.17	5.55	39.38
2000	136	7	109	2.45	0.24	6.14	43.28
2001	229	8	173	3.77	0.26	9.74	118.79
2002	225	13	158	3.54	0.41	9.32	190.92
2003	120	3	89	1.90	0.10	4.98	62.89
2004	56	1	39	0.79	0.03	2.05	20.66
2005	39	1	30	0.58	0.03	1.44	42.00
2006	29	0	25	0.45	0.00	1.13	7.13
2007	24	0	21	0.37	0.00	0.89	8.15
2008	126	14	88	1.74	0.41	3.56	429.63
2009	265	11	223	4.06	0.32	9.52	627.70
2010	81	0	63	1.15	0.00	2.82	97.48
2011	53	1	43	0.75	0.03	1.71	84.26

Source: *Standard & Poor's Global Fixed Income Research and Standard & Poor's CreditPro®*

Despite fewer financial and economic headlines than in the past four years, 2011 was still a year of unprecedented events in global credit markets, marked by sovereign downgrades, most notably the U.S. In 2011, 53 global corporate issuers defaulted, down from 81 defaults in 2010 and the record high of 265 in 2009 (Table no.2). One of the 53 defaulters began the year rated investment grade (MF Global Holdings Ltd.). The debt amount affected by these defaults fell to \$84.2 billion, from \$95.7 billion in 2010.

At the end of December 2011, the speculative-grade default rates fell to 1.98% in the U.S., 0.59% in the emerging markets, and 5.98% in an assorted grouping of other developed markets (including Australia, Canada, Japan, and New Zealand). In Europe, however, the default rate rose slightly at year-end 2011, to 1.6%. When including all rated entities, the global default rate declined to 0.75% in 2011 from 1.15% a year earlier¹.

After hitting an all-time high of 265 defaults in 2009, the count of defaulting companies fell off considerably in 2011, to 53. This includes publicly and confidentially rated entities as well as entities that were not rated at the time of default. Although distressed exchanges have remained popular over the last few years, missed principal or interest payments were responsible for the largest proportion of defaults in 2011, at 43% of the total. Distressed exchanges accounted for 23% of all defaults.

3. Conclusions

The development of deeper domestic capital markets can improve the economy's stability to absorb shocks and manage financial risks. These benefits to financial stability complement the critical role that capital markets play in efficient resource allocation and in reducing over-reliance on the banking sector for the mobilization of savings and financial intermediation. Diversified capital markets provide investors with alternative asset classes in times of financial stress. However, developing such markets is a long-term process that requires proper planning and commitment as well as appropriate prioritization and sequencing.

Capital markets in emerging markets and developing economies have become more interlinked within the local and global financial systems, but remain vulnerable to changes in investor sentiment and contagion effects. Compared to advanced economies, capital markets in emerging markets and developing economies are more shallow and susceptible to sudden price movements and greater disruption that may undermine confidence in their integrity. Liquidity in those markets can erode quickly, causing panic sales and contagion effects resulting in disorderly markets and financial instability, as evidenced by a number of crises affecting these economies in the past two decades².

¹ 2012 *Annual Global Corporate Default Study And Rating Transitions*, Standard & Poor's, 2012

² *Causes, effects and regulatory implications of financial and economic turbulence in emerging markets*, Emerging Markets Committee, IOSCO, 1999

In many emerging markets and developing economies, there is a lack of a sufficiently diverse and deep pool of investors that can act as a source of stability in times of crisis. The efficiency of the intermediation process in capital markets is highly dependent on the investor base, which should have a combination of domestic retail and institutional investors as well as foreign investors. In most emerging markets and developing economies, there is rarely a balance across those three categories of investors and, as a consequence, capital markets become vulnerable to the behavior of the dominant class of investors. For example, in times of capital flight by foreign investors (as a result of an exogenous event) and in some cases by domestic retail investors (as a result of major changes in market sentiment), the presence of strong domestic institutional investors with a predominantly domestic investment mandate can play a key role in acting as a “buffer” against severe price declines³.

Regulators are often faced with the perennial question of whether and how they should intervene to manage irrational exuberance and panic in the market. While there are arguments for and against the imposition of market intervention measures, often a judgment call by the market authorities is required, and this may involve significant reputational risk. Regulators need to consider the introduction of various robust intervention tools (e.g., market-wide circuit breakers, trading halts, price limits, etc.) as a means of providing market participants an opportunity to pause and assess market conditions during significant market declines. However, such market intervention measures should have clear rules and parameters. This is particularly important for discretionary market interventions, especially market closures, which may have the most severe impact and reputational damage on emerging markets and developing economies markets. This will also ensure that markets are not indiscriminately closed under political or stakeholder pressures. It is crucial to apply such measures consistently across all exchanges and/or markets to prevent regulatory arbitrage. For example, a survey⁴ of emerging markets and developing economies shows less than half the markets halt trading in derivatives when the underlying stock is halted. It is critical therefore for regulators to ensure that rules on interventions aimed to ensure the stability and integrity of markets are consistent across all exchanges and/or markets.

In terms of the extent and forms of interventions, the regulatory philosophy and the state of development of the individual markets are important considerations that require careful evaluation. Some markets which operate under a free market philosophy lean towards a framework with minimal intervention in order to keep trading continuous at all times. On the other hand, other markets, including a number of emerging markets, have regulatory frameworks that tend to be more protectionist in nature, where a basket of intervention measures are in place to protect the markets from extreme market volatility and severe market disruption.

³ *Financial Stability Issues in Emerging Market and Developing Economies*, Financial Stability Board and International Monetary Fund and World Bank, 2011

⁴ *Effectiveness of Market Interventions in Emerging Markets*, Emerging Markets Committee, IOSCO, 2010

This includes interventions which are automatic and are based on pre-determined set of parameters (e.g. price limits and circuit breakers), as well as discretionary interventions that depend on the judgment of the authorities (e.g. trading halts and market closure).

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STRATEGIES FOR THE IMPROVEMENT OF THE HUMAN RESOURCE MANAGEMENT IN PUBLIC HOSPITALS

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Abstract

The HRM improvement strategy concerns the entire sanitary system and it must be correlated and adjusted to the structural areas that are subject to changes. One of the major coordinates of the sanitary system is the development of the professional skills in the sanitary management given that the increase of the efficiency and quality of the medical activity depend on performing management.

Key words: Strategy, improvement, efficiency, quality, sanitary system

JEL Classification: I1, J4, M5

1. Introduction

The human resources department is the most important resource within an organization and, especially, it represents an essential component of the medical organizations' success and for the proper functioning of the entire health system.

Thus, in the health system, the human resources (medical and non-medical staff) are those which enable the system's operation.

The HRM improvement strategy, as component of the general strategic management, which concerns the entire sanitary system, must be correlated and adjusted to the structural areas that are subject to transformation.

2. Contents

After 1989, the sanitary system has undergone significant changes, with structural reforms still in development, with changes influenced by health ministers, who left behind unfinished strategies and enforced incoherent policies and biased decisions as regards the distributions of the funds for investments in the medical infrastructure and equipment, the financial resources required by the development of

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the hospital management and professional training of the medical-sanitary staff, whose salary is humiliating compared to other European countries.

The consequences of such *whirl of changes* have become obvious and thus, Romania has lost a significant part of its good and performing doctors, who emigrated in mass and those who remained, have been encumbered with additional unpaid overtime, having direct repercussion on the patients while mal praxis cases have increased in number.

Therefore, the current strategy of the national health system is focused on several major areas:

- To develop professional skills in the sanitary management
- To prepare and implement coherent sectorial policies regarding the professional training and development of the sanitary-medical staff and the distribution of the necessary financial resources
- To decentralize the training system for the resident doctors
- To improve the financing of the national health programs
- To decentralize and rationalize public hospitals
- To improve the doctors' salary systems
- To improve the computerization of the health system

The development of the professional skills in the sanitary management is one of the major coordinates of the sanitary system given that only a performing management can lead to the increase of the efficiency and quality of the medical activity.

In this respect, the Romanian-Swiss Center for the Development of the Health System (the CRED Foundation) in collaboration with the National School of Public Health, Management and Improvement in the Sanitary Area (SNSPMPDS), the University Hospital from Freiburg, Germany and Advanced Thinking started in 2010 a wide project called "*Centre regionale de excelență în domeniul îmbunătățirii performanței proceselor din sistemul de îngri-jiri de sănătate din România*".

The project was made public at the beginning of 2011 and will take two years, with end date on November 2012, having the following objectives¹:

- ⇒ To create and operate regional network of excellence centers
- ⇒ To identify and implement a modern form of organization in order to assure the quality and efficiency of the public health system's management at local level
- ⇒ Professional training and transfer of skills as regards the implementation of the innovative methodology for the optimization and cost-improvement of the processes from health facilities
- ⇒ To ease the transfer of *know-how*, knowledge and good practices established internationally.

¹ Mathis R.L., Nica P.C., Russu C. op. cit., p. 23-24.

The preparation and implementation of coherent sectorial policies regarding the professional training and development of the sanitary-medical staff and the distribution of the necessary financial resources is the main point of the health system's reform, focused on the multi-sectorial development of the system, coordinate by the Ministry of Health.

Under such circumstances, one of the recommendations stipulated by the *Report of the Presidential Committee for the analysis and preparation of health policies*, published in 2008, refers to the urgent need to prepare an official document to define at least the parameters specific to the following basic areas of the policies on the health human resource²:

- ◆ Planning of the sanitary staff, overall and per various professions and specializations
- ◆ The process under which the staff – per types of professional categories – is “*produced*” and endowed with the necessary skills, knowledge and practical abilities in order to accomplish the health objectives
- ◆ The distribution of the human resources per different types of medical services and different country regions
- ◆ To create the organizational environment likely to enable the performing activity of the health human resources

The commission recommends involving the local communities in the distribution of the necessary financial resources and in the development of projects on long term in order to attract sanitary-medical staff in the areas with staff deficits, using various means such as granting study scholarships, covering transport, accommodation costs, equipment costs, etc.

In this respect, the ministry of health, Cseke Attila, at the beginning of 2011, demanded the local authorities to distribute at least 3% of the local budgets, to their hospitals, proving thus the responsibility and implication of such authorities in the management of the medical facilities.

Decentralization of the training system for resident doctors is a measure which interests over 4000 doctors/physicians who train for their residency exam.

Since 2011, a new legal deed has been into force which amends the Government Ordinance no. 18/2009 on the organization and financing of the residency exam.

The main aspect of this amendment refers to the fact that university centers from Romania will be able to organize the residency exam through the Universities of Medicine and Pharmacy and will be fully responsible for the professional training of the future doctors.

The exam has been so far organized at national level, usually in Bucharest.

Another provision of the said deed refers to the doctors' possibility to be hired in a medical facility even though they have failed their exams, starting with limited practice competences, stipulated in the Certificate of free practice issued by the College of Doctors.

² Russu C., Gheorghe Il., op. cit., p. 42.

The improvement of the financing of the National Health Programs refers both to programs in execution, where the focus is on the investments in medical equipment directed to oncological and intensive care programs and new programs, for instance, those on oncological screening for colorectal cancer, cervical cancer, breast cancer or *in vitro* fertilization.

To attract European funds, a series of projects has been launched, for instance³:

- ◆ „*The system for professional system of the medical staff in the area of new technologies from the health system (molecular diagnosis)*”, coordinated by the Oncological Institute “Victor Babes” in collaboration with UMF “Gr. T. Popa” from Iasi and the Oncological Institute “Prof. Dr. I. Chiricuta” from Cluj-Napoca.
- ◆ “*The Pathological Anatomy Laboratory – professional and organizational training by implementing the quality management system*”, coordinated by UMF “Victor Babes” from Timisoara, UMF “Gr. T. Popa” from Iasi and Università degli Studi di Torino.
- ◆ “*The professional and organizational training in the immunology laboratories through the implementation of cutting-edge technologies and quality management*”, initiated by the Immunology Society from Romania in collaboration with the Oncological Institute “Victor Babes”, INCDMI “Cantacuzino” and the University of Göteborg.

The decentralization and rationalization of public hospitals is a project conducted in 2011, according to which 182 medical facilities remained without legal personality, 111 were proposed to be merged and the rest of 71 to be transformed into retirement homes. Moreover, 560 management positions will be terminated and 4808 hospital beds will be removed from the medical circuit, which, according to the Health Minister, will lead to savings of over 20 mil Lei.

The savings, according to the statements of the Health Minister, Cseke Attila, will be redirected to develop the emergency system and new emergency vehicles will be bought and the emergency and SMURD services will be equipped.

These statements started quite a storm in the medical world and the reactions were not late to appear: the accusations of the doctors concern the incoherent and biased policy as regards the distribution of investment funds while hospitals face a sharp lack of financial resources, being incapable of covering current expenses while the patients have to buy their own medicines.

The improvement of the doctors’ salary system; The low salaries are the main cause for the medical staff’s exodus in other countries.

At the beginning of 2011, the Health Minister announced that a project would be debated on the salaries of the doctors from public hospitals and that they would be removed from the *public area* by means of the conclusion of medical services contract with public hospitals, as free lancers/certified natural persons.

In our opinion, this measure will be the heaviest blow for the Romanian sanitary system, which will lead it to an irreparable crisis.

³ Bühner R., op. cit., p. 38.

There is, naturally, a series of questions concerning the pre and post-surgery care, the medical assistance, severe cases or emergencies which might appear at any moment and the continuity of the medical activity in public hospitals.

These are only few of the multiple problems which might push public hospital to a direction which is not, at any rate, favorable for the patients.

The improvement of the health system's computerization; According to the opinions of some experts⁴, the computerization of the medical system is a project requiring proper financial support and which needs the fulfillment of three main conditions:

a. The preparation, based on the consent of the interested parties (Ministry of Health, CNAS, MCSI and other insurers) of a *national health strategy* which considers the *e-sanatate* applications existing or under construction, other national information projects and the projects and strategies from European countries. The strategy should contain standards and code like to assure wide inter-operability.

b. The legal framework allowing public funding only for those *e-sanatate* projects which fit the adopted strategy, fact certified by the permanent expert body dedicated to strategy elaboration process.

c. The organization of a permanent expert body, subordinated to the Ministry of Health, with representatives of the main interested structures and institutions. This body should have the necessary resources to develop and update the strategy based on the needs, technological requirements and innovations and to monitor the compliance of the public *e-sanatate* projects with the adopted strategy.

Therefore, the implementation of the national computer system in the health area is a complex process requiring a close collaboration with other ministries – Minister of Internal Affairs – population matters, Ministry of Communication, etc.

On the other hand, the IT experts to assure the implementation of the computerized system at national level and its maintenance are also a problem as difficult as that regarding the number of the necessary doctors given that the current salary level does not allow stimulating remunerations for attracting such experts.

THE ANALYSIS AND STRATEGIC PLANNING OF THE HUMAN RESOURCE DEPARTMENT RELATED TO THE OVERALL STRATEGY OF THE ORGANIZATION

The strategic analysis of the human resource department and the positions to be designed based on the analysis' results involve the common effector of the decisional factors at the organization level.

In units with high fluctuations of staff, the analysis of the positions is a constant activity because when employees leave the works is changed and the job requirements need general reviews.

⁴ Măţăuan G., Gheorghe M., 1996, *Strategii manageriale de firmă*, Editura economică, Bucureşti, p. 376.

For instance, if an employee demands the termination of the individual employment contract, until such employee is replaced, the job duties and responsibilities are distributed to another employees. Thus, new positions can be created with different responsibilities and the analysis of the human resources will be resumed to establish new coordinates according to the occurred changes.

The strategic planning of the human resources is closely related to the organization's overall strategy given that the lack of specialists and executive staff able to take over future duties and responsibilities can affect severely the strategic planning process for the entire activity of the organization.

Thus, the periodical review of the employees supports efficient planning, allowing forecasts on the staff needed for each position, degree of professional class.

According to the numeric and quality planning of the human resources, the staff expenses can be forecast for salary payment, training activities, employment and staff promotion.

The process of strategic planning starts with the identification and recognition of the organization's philosophy and mission, stage when a series of questions is asked: "*Why does the organization exist?*" "*Which should be its contributions?*" "*Which are the main values and motivations for the managers and shareholders' solutions?*"⁵.

Therefore the organization's philosophy and mission are established according to the data arising from the perusal of the external environment and the evaluation of the organization's strengths and weaknesses which directly influence the organization's capacity to capitalize opportunities and the commencement of the development plan, its implementation and review are substantiated by the organization's philosophy and mission.

The strategic analysis and planning of human resources in the health area can be reported to the level of the entire sanitary system or the level of a medical facility.

In terms of the entire **system**, the analysis of the management positions existing in the Romanian hospitals and the related costs was conducted for the preparation of the National Strategy for Hospital Rationalization.

In our opinion, the measure to **merge** 111 hospitals, which led to the termination of 330 management positions, does not solve the problems related to the hospitals' budget given that the persons who held those positions are still employees of such hospital, but on a different position.

The management of a hospital is conducted by a board of directors with functions provided by the Law no. 95.2006 on the health reform, as further amended and supplemented. The management positions are: manager, medical director, financial-accounting director and for hospitals with over 400 beds – care director.

The manager, in most cases, is among the hospital's employed doctors, chiefs of section or teaching staff for clinic hospitals and during their terms (three years) the position held before is kept on the position roll if the management contract terminates for whatever reasons.

⁵ <http://www.ms.ro>

Therefore, once the manager position terminated, the doctor resumes their activity in the section of their employment, the doctors is included in the shift schedule and the income will be comparable to the manager position or even higher because a manager has a monthly salary established under the management contract, without other benefits and cannot make shifts during the term while the doctor or the chief of section is entitled to all these benefits.

The medical director has situation similar to the manager, namely the medical director is a doctor or teaching staff, employee of the hospital.

The financial –accounting director is, usually an economist who, if the position is terminated, will continue their activity on the position held before, but the salary will be reduced by approximately 40%.

The measure to **close** the hospitals and **transform** them into retirement homes was motivated by the fact that, at present, according to the data provided by the Social Assistance Offices from the Ministry of Labor, 2800 elder persons are on the waiting list for a place in a retirement home. These applications cannot be settled because there are only 25 retirement homes in Romania, with 1570 beds financed by the local authorities or from the state budget, 53 facilities financed by ONGs and 51 facilities for mentally disabled people. Newly established homes will care for 2500 – 4800 people.

In reality, the termination of 71 medical facilities will reduce the number of beds by approximately 4800 and 791 doctors and 2532 nurses will have to be distributed in the newly established facilities.

Thus, the 4800 reduced beds are removed from the Ministry of Health's system and are to be managed by the Ministry of Labor. In such case, the same state budget will bear the costs of such transfer only the source of financing will be formally changed.

As regards the infrastructure investments, almost nothing has been said, but we believe that they will be significant in value since the transformation of buildings used as hospitals and relatedly equipped into retirement homes requiring further refurbishment will lead to new investments.

The transfer of the medical-sanitary staff cannot be performed entirely given that doctors are specialized and licensed to conduct certain activities, according to their training and licensing strategies which confirmed them as specialists and primary doctors.

It is not logic for a doctor specialized in surgery, ORL, anesthesia and intensive care, obstetrics – gynecology to be redistributed in a retirement home because, on one hand, the doctor would lose their license and, on the other hand, the skills for such situation concern internal medicine, cardiology, physiotherapy or geriatric.

General nurses or, even more, those specialized in various areas such as X-rays, pediatrics, obstetrics – gynecology, midwives, etc. are in similar situation given that they will have to reconvert, performing social assistance work instead of the activity they trained for, this activity being of social nurses, a distinct activity.

The transformation of hospitals into retirement homes-hospital might be a more efficient solution as a large part of social cases in charge of public hospitals might be solved. Most times public hospitals have to extend the admission of elderly people suffering from severe irreparable illnesses because their families do not have the means or the necessary conditions to care for them and the exiting retirement homes-hospitals do not cover the need for such situations.

3. Conclusions

Human resources are the most important components in the supply of health services.

The management of the health human services is currently subject to various challenges.

The promotion of a new and innovative human resource management is the key to improve the performances of the sanitary system.

The planning of the human resource department, especially for doctors, must be a priority for the strategy to improve the human resource management in public hospitals.

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COMPETITION POLICY IN ROMANIA AFTER THE EU ACCESSION

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Elena-Mihaela Pavel²

Abstract

Prior to Romania's accession to the EU, the Competition Council's activity was mostly concentrated on the Romanian legislation's compatibility with European competition legislation. After January 2007, since the Competition Council has acquired the power to directly apply the common rules on competition, attention has shifted to its effective contribution to competition's protection on Romanian market by monitoring, identifying and sanctioning any distortive behaviour under competition law's provisions. In this context, the main purpose of this paper is to analyze Competition Council's activity during the pre and post accession period taking into account the number and also the types of issued decisions and comparing it with other European jurisdictions (Poland, Czech Republic, Hungary and Germany). Our analysis revealed that the Competition Council's activity has been concentrated mostly on mergers and acquisitions, the same situation being registered also in other new members states analysed. In Romania, decisions covering economic concentrations are still at a significantly higher level than those regarding other anticompetitive practices.

Keywords: competition policy, Competition Council, decisions

JEL Classification: F15, L40

1. Introduction

Competition policy's development and implementation represents a process by which governments seek to enhance competition and create the right environment for it by prohibiting or restricting certain types of commercial practices which may restrict competition. Thus, the objectives for any competition policy should be concentrated on the development of competitive markets and promote innovation, with implications for prices, welfare's determinants and sustainable economic growth. (OECD, 2007)

In the current context marked by deep economical and political changes determined especially by the challenges posed by the economic and financial crisis, the EU is designing a new model of competition policy which focuses on a coordinated set of group actions to ensure transparency and a level playing field both for countries and for companies operating within the single market. The regulatory and institutional framework's modernization requires an assessment of the

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implementation's results of the common competition policy at the group level but also at the level of each Member State.

Since Romania's accession to the European Union, once the Competition Council has the power to directly apply the Community rules regarding competition, attention has shifted from the efforts made by this institution towards Romanian legislation compatibility with European competition law to the effective contribution of this institution to protect and enhance competition in Romania in order to ensure a normal competitive environment.

If in terms of legal and institutional framework convergence with the EU *acquis*, studies have shown a high degree of concordance of Romanian legislation with the *acquis* in the field ever since the accession negotiations on Chapter 6 - Competition and State Aid, EU accession removing some incompatibilities due to compulsory full harmonization of legislation in this field, not the same can be said regarding the effectiveness of the competition policy enforcement and its effective contribution to improve the competitive behavior. (Fuerea et al., 2004)

The main conclusion of some recent studies highlighted that at the EU level there is a gap between the new member states and EU15 group in terms of the quality of actions undertaken to ensure a level playing field for companies. (Hölscher and Stephan, 2009; Ichim, 2010). Thus, for the newcomers to the EU, a more detailed analysis is required regarding national competition authorities' work by reference to criteria related to number of investigations initiated, training of personnel, financial resources or the coordination degree between actions undertaken by competition authorities and other public institutions towards improving the overall economic performance.

2. Competition policy's enforcement in Romania

Until Romania's accession to the EU, the Competition Council's activity was appreciated largely in positive terms only regarding the efforts made towards Romanian legislation's compatibility with the European competition law, contribution recognized by the European Commission in its monitoring reports. After January 2007, since the Competition Council has acquired the power to directly apply the common rules on competition, attention has been focused primarily on its effective contribution to protect and stimulate competition in Romania in order to ensure a normal competitive environment. Until January 2007, the Competition Council's work in this area, and other public authorities, was appreciated as deficient and lacking the support of business representatives and consumers. (Vass, 2007) In this context it cannot be considered surprising the results of a study carried out in 2007 which aimed to identify the level of knowledge and use of anticompetitive practices and which confirmed the low level of economic agents' knowledge regarding competition law's provisions and actions taken by the Competition Council.

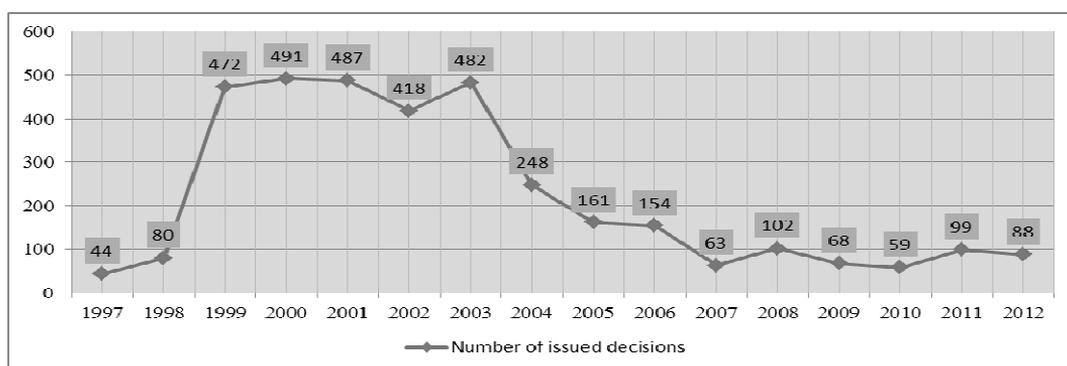
The same study highlighted, however, that the Romanian business environment expected some changes regarding the Competition Council's activity after the EU

accession due to the adoption of the EU standards, market size's increase and consequently competition, developing cooperation with the EU institutions working in the field of competition, lower influence of politics and higher transparency in Council's decision making process and not the least the improvement of Council's credibility among the business community. (Dima, 2007) This attitude of the Romanian business environment seems justified as long as in transition countries the legal and institutional framework is very dynamic and competition law is applied in an economic environment marked by the presence of the state both as public authority and economic player. (Oprescu, 2003)

After joining the EU and taking into account the membership at the European Competition Network, established under Regulation 1/2003, the main priority of the Competition Council was to provide the legal and institutional conditions in order to adapt the competition policy to the new status of Romania. This commitment had to be supported by coordinated activities of the Romanian Competition Council with other Member States' competition authorities and more compelling actions regarding the preventive and corrective Council's role in maintaining a normal competitive environment by monitoring markets and supervising companies' behavior.

An overview of the number of decisions taken by the Competition Council since the entry into force of the Competition Law no. 21/1996 shows a significant increase of the number of decisions issued by this institution since 1999, with an average of about 450 decisions per year until 2003. After 2003 a downward trend started with a minimum number of decisions, 59, registered in 2010. These changes in the number of decisions issued by the Competition Council can be related to several economic and political aspects that were required by the acceleration of privatization process, national competition law compliance with EU acquis, as an accession criteria during the negotiation process on Chapter 6 regarding full harmonization of the Romanian legislation with the European competition law until the completion of the negotiations, the results of the negotiation process on different chapters and the economic reforms programs launched during this period. (Fig.1)

Fig. no.1: Number of issued decisions, 1997-2012

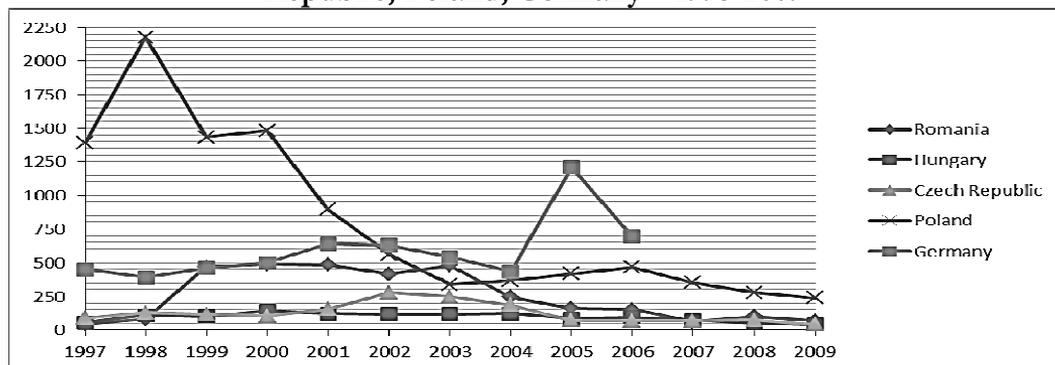


Source: Competition Council, Annual Reports, 1997-2012

Comparing the situation of Romania with other three newcomers in the EU (Poland, Czech Republic and Hungary) it can be seen that the activity of the Competition Council assessed through the number of decisions issued has the same trend with other three jurisdictions analyzed, a large number of decision adopted being characteristic for the pre-accession period, Poland registering a total of 2178 decisions in 1998, much higher than the average of any other new member states analyzed, and more than the number of decision issued in Germany, a jurisdiction with tradition in this field, taken as a basis for comparison from the EU15 group. During 2004-2009 all new Member States analyzed registered a stabilization of the number of issued decisions in the field of competition. (Fig.2)

It should be noted that the comparison based on the number of issued decisions has a some limitations determined on one hand by the impact of the economy's size on the number of decisions and on the other hand by the particularities of the investigated cases and decisions' implementation in each jurisdiction. However, what seems to be defining for the the new member states is the fact that the competition authorities focused their work especially on the control of mergers and acquisitions, a normal consequence of the privatization program launched and increasing FDI flows after EU accession. The number of decisions regarding the cartels, abuses of a dominant position and state aid was considerably lower in the pre-accession period than those covering mergers, the situation being opposite in the EU15 group. After joining the EU, specialized agencies, due to a lower number of notifications of mergers and acquisitions, have redirected their resources towards other areas of competition law enforcement. Thus, in Poland, the Office of Competition and Consumer Protection granted priority to the investigations regarding abuses of dominant positions, in Czech Republic, in addition to the increasing number of decisions on abuses of dominant positions investigations have concentrated on cartel, while in Hungary the number of decisions sanctioning the participation in cartels or bid rigging increased.

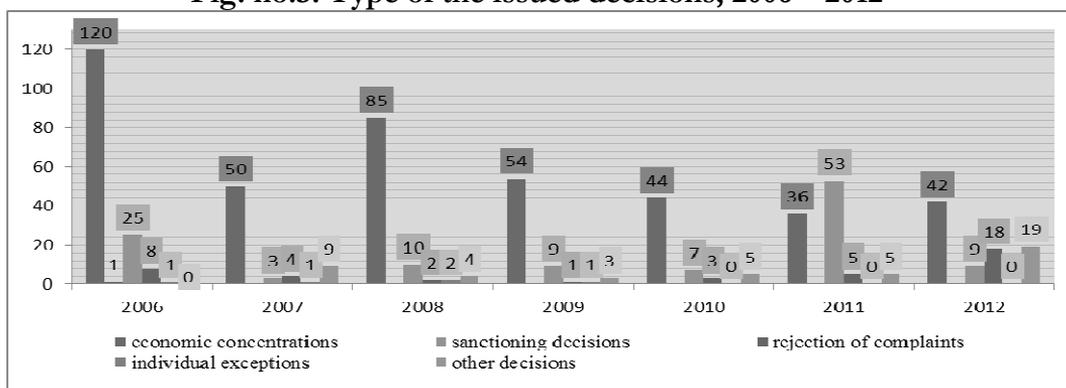
Fig. no. 2: Number of issued decisions - Romania, Hungary, Czech Republic, Poland, Germany – 1997-2009



Source: Annual Reports, national competition authorities, 1997-2009

A more detailed analysis of the structure of decisions issued by the Competition Council during 2006 - 2012 shows that it still focuses primarily on mergers, the number of decisions authorizing, non-objection or nonintervention covering mergers being at a significantly higher level than the number of decisions sanctioning abuses of dominant position or other anticompetitive agreements. The only exception was in 2011 when the number of sanctioning decisions was higher than the number of decisions on economic concentrations. (Fig.3) Also, during 2010-2011 the Competition Council imposed the highest fines for the abuses of dominant position of Orange and Vodafone and Romanian National Post Company. Before and after 2011 the value of the sanctions was significantly lower.

Fig. no.3: Type of the issued decisions, 2006 – 2012



Source: Annual Reports, Competition Council, 2006-2012

If we take into account only these figures, we can conclude that the competitive environment in Romania is not distorted by serious anticompetitive behaviors and consumers benefit of a fully functional competition. However a series of reorientations in the activity of the Competition Council, launched since 2009, concentrated on intensifying market monitoring actions can be a sign of suspicion regarding the quality of the competition process on certain markets. The main analyzed markets were those of shipping services, the Romanian drug distribution market, automotive parts, electricity market, banking sector, telecommunications, food retail sector, insurances, pharmaceutical sector and public procurements. All these fields are very important for the Romania business environment and their fluctuation can affect significantly the overall evolution of the national economy.

Many of these initiatives can be correlated with the challenges posed by the economic and financial crisis that has forced the market surveillance authorities, and the Romanian Competition Council also, to be more vigilant regarding the behavior of economic agents on the market, taking into account that during this period companies are likely to resort to practices that can distort competition as a means to mitigate the effects of the economic crisis. Even if these sectors were positively

assessed by the Competition Council's analysis in terms of competition policy framework, consumers' perception regarding competition on different markets may provide some additional warning likely to confirm that consumer welfare is affected and therefore new measures to stimulate the competitive process in these markets might be required. Identifying and sanctioning anticompetitive behaviors in these sensitive sectors may be difficult for the Competition Council which hasn't yet the required expertise and institutional maturity in order to launch some ample investigations on these markets mainly characterized by the existence of a limited number of big companies.

3. Conclusions

After the EU accession, as the above analysis revealed, the Romanian Competition Council's activity concentrated mostly on economic concentrations, the same trend being also registered in other European jurisdictions like Poland, Czech Republic and Hungary. During 2004-2009 all new member states analyzed registered a stabilization of the number of issued decisions in the field of competition, for the Romanian competition authority decisions covering mergers being still at a significantly higher level than those regarding other anticompetitive practices. The only exception was in 2011 when the Competition Council issued a higher number of decisions than in the previous years sanctioning abuses of dominant position or other anticompetitive agreements. Although the number of decisions in this field is still at a lower level than those covering economic concentrations, the Competition Council proves to be more active on the Romanian market in terms of monitoring, identifying and sanctioning anticompetitive behaviours both of private actors and public institutions.

For an operational competition authority, the promotion of a proactive competitive behavior, which gradually becomes a fundamental pillar of the new competition culture, should be a key component of competition policy as a whole. On one hand, such actions should be directed towards public authorities to convince them not to adopt anticompetitive measures that have negative effects on competition and consumers, and on the other hand to the business environment and consumers in order to familiarize them with the competition rules and its benefits on their welfare

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THE TRANSNATIONAL COMPANIES' IMPACT ON DEVELOPING ECONOMIES DURING THE GLOBALIZATION PROCESS

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Vlad Cârstea¹

Abstract

Economic reality worldwide is marked by the evolution of globalization. This process entails effects that are perceived differently at national economy levels, function of their degree of development. We will proceed by attempting a survey of aspects pertaining to the relationship between globalization and developing economies, stressing on internationalizing Transnational Corporations and its effects.

Key words: Globalization, Transnational Corporations, internationalization, competitive advantage, economic openness.

JEL Classification: F1, F13, F15, F21, F63

1. Globalization – Concept and approaches.

Regionalization, globalization and the world economy are concepts that are real in today's world. Specialists claim that the concepts of globalization and world economy are approached differently: sometimes they are synonymous and other times globalization is considered to be a step towards world economy.

As it was analyzed since the early days of its existence, it became clearer that globalization is a non-biased phenomenon, with no historical precedent, considering its scale and evolution. Although it has some negative aspects, the positive ones are more important due to the fact that they ensure welfare and equilibrium.

Globalization was the result of the intensification of competition on all known levels: economic agents, countries and regions. The market liberalization in the developing countries has taken its toll, by affecting the domestic economy. But the fact that consumers had access to cheaper products and in large quantities surpassed the negative implications.

The globalization's supporters see this process as an evolution, while the skeptics see the growing differences between the rich and the poor and it represents an "attack to welfare and democracy". In the same time they accuse the developed countries of unfair treatment towards the developing countries, because they forced the developing countries to adopt policies for economic liberalization, which the

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developed countries didn't adopt. Some analysts consider that when the globalization's objectives are set, the developing countries will always lose, or at least their economic growth is really small.

The globalization's effects are different in proportions and orientation which leads to differences and even conflicts. The anti-globalization movements across the world that gather thousands of protesters are known to everybody. Former UN Secretary Butros Butros-Ghali said that "we are living in the middle of a world evolution...Our world is under the pressure of two gigantic opposite forces: globalization and disintegration."

Globalization is the answer to a major concern: the increase of world population while the resources, mostly nonrenewable are harder to find. To most nations, globalization is a process that they cannot get away from. Moreover as shown earlier it is a phenomenon that it's imposed by other countries.

The principles of this process are established by the big economic powers. For example in the USA the process is implemented by the political and economic elite. In this global context the United States give the tone on the financial markets and in the international trade due to the fact that they have all the necessary means to exercise their super power status.

The contemporary economists believed that the world should be an organized system, under global governance and to encourage the competition between the main global actors: EU, USA, and Japan. These countries increased their connectivity, thanks to the technological progress, mainly in the communications area, but today they have to work with other possible candidates to this geo-political status, mainly the BRIC Countries (Brazil, Russia, India and China)². The top developed countries play an important role in establishing the global developing strategies, but the developing countries cannot be ignored, especially these days when their role in the global economy is growing. So, it is fair to say that the anti-globalization movement is a response to the international organisms' attitude that disadvantages the developing economies while supporting the developed ones. Moreover, the terrorist threats, around the world, present in the last years only show the cracks in this type of developing policy that generate big losses. The solution to these problems is, of course, a set of measures that need to be thought and implemented at a global level.

It is quite visible that globalization is a highly controversial process. Especially in the past few years, when the world economy had to deal and still does, which added another reason for the anti-globalization protesters to be mad about. So, it can be stated that the global economy has changed beyond recognition. Even the economic processes' cyclicity is modified in such a manner that the revival after the economic crises is no longer prolonged for big periods of time, but the resources needed for finding the necessary solutions are huge. The specialists claim that any type of economic growth must not be done uncontrollably due to the fact that it requires large amounts of natural, human, financial and informational resources. Due to the fact that a part of these resources are non-renewable and exhaustible their misuse can

² F. Bonciu, G. Baicu – Economia mondială sub lupă. De la crize acute la crize cronice

lead to natural catastrophes. This is the reason why the economic development should be based on scientific research doubled by an efficient resource usage. Unfortunately this type of research requires large amounts of capital, which is inaccessible to developing countries. As a result, while some countries are recording a strong economic growth, others are fighting for survival.

The optimists claim that globalization through its nature will improve the economic and social situation for every state, but in different proportion. On the other hand the pessimists state that the gap between the rich and the poor will widen even more, without any chance of improving this situation. All in all this process must be carried out with precaution in order to contain the possible negative effects.

2. The developing countries and the Transnational Corporations (TNCs)

The globalizations process is highly supported by the transnational corporations, which represent the main forces for globalizing the economic life.

From an economic point of view, the corporations represent the most important factor of progress and they are considered to be the main effect of an authentic global economy.

Kenichi Ohmae (Kenichi Ohmae is a business and corporate strategist who developed the 3C's Model) considered that these corporations have become the engine of a connected economy and concentrated in North America, Europe and Japan.

At a global level, the size of business has become an essential expressed by the creation of subsidiaries in different parts of the world. The development of these corporations, beyond the borders of the central headquarters, generates an operational synergy meant to reduce their vulnerability and to strengthen them for the economic shocks.

TNCs represent the main actor in the international trade, since the sales recorded by the subsidiaries are more than double than the world exports. So they have the power to modify the structure of the production factors in many countries as a result of the human capital's movement as well as technology in different parts of the world, which constitutes in a new base for tangible assets.

The development's dynamics is based on a well thought strategy regarding the capitalization of the opportunities provided by the global economic space. And so, the corporations have guided their investments towards real potential areas.

Good examples for this type of attitude are the developing countries. They ensure a proper economic, social and political climate for development. Theoretically, these countries have a lot of advantages from the corporate investments, materialized in high development levels, the increase of employment, the improvement of living standards and, last but not least, the improvement of the balance of trade and the balance of payments. For these reasons the developing economies have become more appealing for the foreign investors since the beginning of the current economic crisis, fact shown by the growing percentage of FDI Inflows for these regions.

Table 1: FDI flows by region, 2008-2010
(Billions of dollars and per cent)

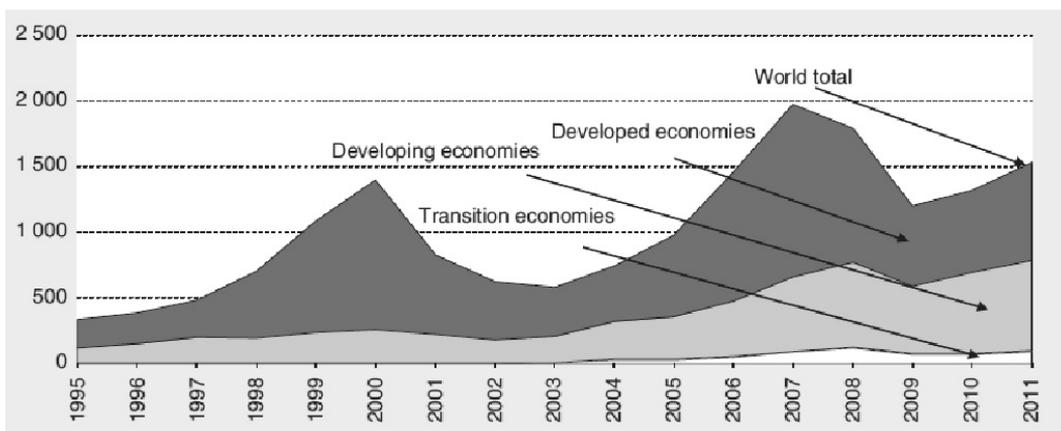
Region	FDI Inflows			FDI Outflows		
	2008	2009	2010	2008	2009	2010
World	1744	1185	1244	1911	1171	1323
Developed economies	965	603	602	1541	851	935
Developing economies	658	511	574	309	271	328
Africa	73	60	55	10	6	7
Latin America and the Caribbean	207	141	159	81	46	76
West Asia	92	66	58	40	26	13
South, East, South-East Asia	284	242	300	178	193	232
South-East Europe and CIS	121	72	68	60	49	61
<i>Memorandum: percentage share in world FDI flows</i>						
Developed countries	55,3	50,9	48,4	80,7	72,7	70,7
Developing economies	37,7	43,1	46,1	16,2	23,1	24,8
Africa	4,2	5,1	4,4	0,5	0,5	0,5
Latin America and the Caribbean	11,9	11,9	12,8	4,2	3,9	5,8
West Asia	5,2	5,6	4,7	2,1	2,2	1,0
South, East, South-East Asia	16,3	20,4	24,1	9,3	16,5	17,5
South-East Europe and CIS	6,9	6,0	5,5	3,2	4,2	4,6

Source: UNCTAD, cross-border M&A database (www.unctad.org/fdistatistics) and information from the Financial Times Ltd, fDi Markets (www.fDimarkets.com).

In the same time, trading with the developing countries is considered to be a difficult situation due to the fact that most of these countries have big commercial deficits and have problems regarding the economic liberalization. This openness involves the liberalization of economic policies, opening the national markets for allowing all types of foreign direct investments. In fact, these investments represent the only source of financing the developing economies worldwide. More than this, for the last years the foreign direct investments have been the most stable source of financing, compared with the portfolio investments and the financial loans, due to the fact that they are less affected by economic crises.

Admitting the importance of foreign direct investments, the governments open the markets in order to facilitate trade, the informational exchange, as well as people and capital flows.

Figure 1.2. FDI inflows, global and by group of economies, 1995–2011
(Billions of dollars)



Source: UNCTAD, based on annex table I.1 and the FDI/TNC database (www.unctad.org/fdistatistics).

The corporations' investment behavior is highly influenced by the short and long term changes in the business environment. The downturn periods and the economic boom ones affect the evolution of all aggregate indicators; any change suffered by the global business or political environment will be reflected with the same intensity and in the same direction towards the economic performances and capital flows' orientation.

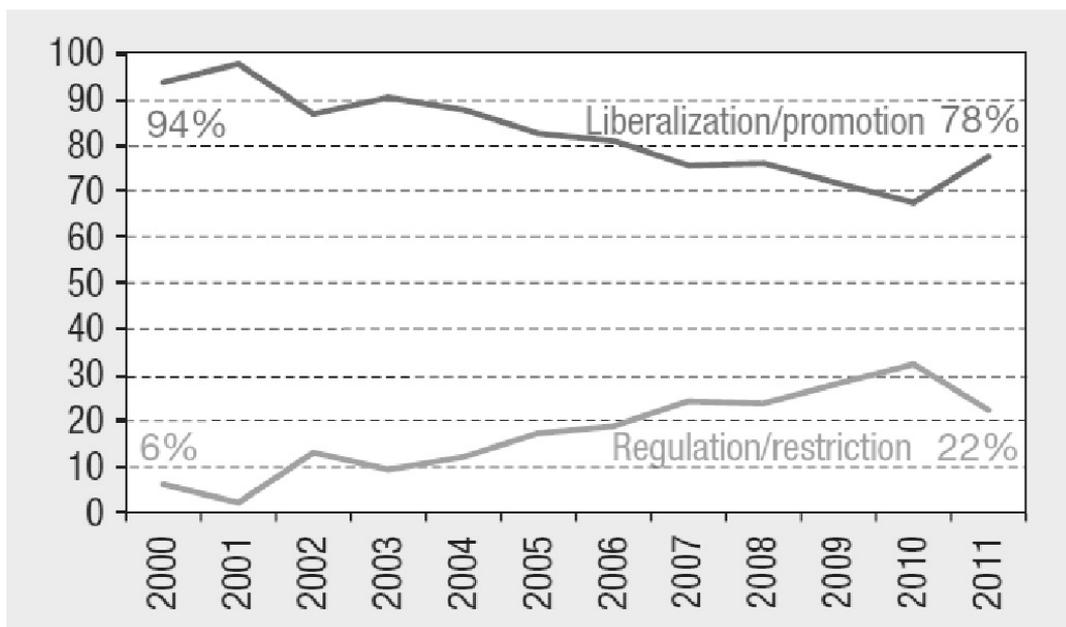
The statistics regarding the FDI regulations show us, that between 1991 and 2000, worldwide, there were 1.185 changes made to the regulations regarding the FDI, out of which 1.121 created better conditions for the investments³. For the next period 2001-2009 there were 1.651 changes made, out of which 1.411 referred to the liberalization or the promoting of FDIs.⁴ In 2011 a minimum of 44 countries, worldwide, managed to adopt 67 new regulation regarding the FDI sector: 52 referred to the promotion, liberalization and facilitation area, while 15 represented new restrictions and/or regulations.⁵

³ F. Bonciu *Investițiile străine directe înainte și după criza mondială*, Editura universitară, București 2011

⁴ F. Bonciu *Investițiile străine directe înainte și după criza mondială*, Editura universitară, București 2011

⁵ UNCTAD, *World Investment Report 2012*

Figure III.1. National regulatory changes, 2000–2011
(Per cent)



Source: UNCTAD, Investment Policy Monitor database.

In the common situation when the developing countries (Romania included) adopt a development channeled towards economic openness, those countries should record economic growth due to a more efficient resource usage. But the reality showed us, and continues to do so, that in the absence of major foreign direct investments, supported mainly by transnational corporations, the export value continues to be modest because of the low level of product competitiveness on the global market. This competitiveness is highly influenced by the level of technology in one economy. Unfortunately, the international technology transfer is controlled by the big corporations, which, as we showed, at the international level are the only economic agents that have the necessary capital. Even if the developing economies solve the capital issue, the domestic activities still remain an advantage for the transnational corporations in front of the national economic agents.

Initially the corporations invested in those sectors where the cost difference for the production factors was the most important, but gradually their operations spread to the majority of the economic sectors and production factors, drawing them into a global competition, that most of the times had negative effects on the developing countries.

Corporations increase their efforts in order to create global production networks especially through mergers and acquisitions. In fact a global market for buying and selling the companies has appeared which means that industries are consolidated or restructured at a regional and global scale.

Beyond the advantages that the developing countries have, from the globalization process and the TNCs activities, one must not forget about the negative effects regarding the social or ecological side of development.

TNCs create their subsidiaries only in specific areas that offer competitive advantages, due to the fact that they are interested mainly in maximizing the profits and the dividends. Moreover the corporation will maintain the activity in that area as long as it has those competitive advantages. The moment those advantages are no longer present and due to a high level of mobility, the corporation will relocate that subsidiary to another area where it is profitable for the activity. But the area from where the corporation left will record an economic decline visible mostly in an increasing unemployment rate, social tensions, that can evolve into conflicts and a general reduction of the living standards. The employees that have the financial power will follow the company, but the rest of them will remain there living with the hope that someday, maybe another corporation will make an investment and they will have a job again. If we talk about the shareholders, they are not limited by the space, because the distance between them and the company is not important, but the dividends are.

A global labor market offers to corporations to employ the intellectual elite with a decent financial and material effort. On the other hand the social effects of globalization appear as a result of the complexity's increase of all the technological processes and the ways of conducting the economic activities that requires new ways of professional training, a long life learning process. This involves permanent efforts, intellectually and financially and a lot of persons can not afford that type of effort. In the same time the advanced technologies have reduced the time and space barriers that people have to overcome when they need to travel from one place to another in order to get to work.

Another major problem in the developing countries is the environmental pollution. The TNCs, with high rates of profit in mind, export the polluting technologies in those countries where the legislation is a loose, not thinking about the consequences and proving that we are living in a period of social and ecological disintegration.

It is a well-known fact that today 20% of the world population utilizes 80% of the global resources. So, the more developed the world economy gets, the more necessary becomes the fact that we need to contain the economic growth in order to maintain an optimum equilibrium with nature, but keeping the production at viable values.

The best way would be promoting a sustainable economic growth at a global level, with an important ecological side. These principles should be adopted not only in the developed countries, OCDE Member states, but in the developing countries

by supporting them in creating the necessary legal framework that will ensure a sustainable economic progress based on clean techniques and technologies. But unfortunately, these objectives are hard to attain due to a decreasing state influence over the corporations.

3. Conclusions.

Globalization is a process that changed forever the way everybody thinks, acts and participates to the economic life. Of course, as any other change, it has some good parts and some bad parts. Unfortunately, the Transnational Corporations which are the engine of globalization, in their race for bigger profits brought for the developed countries, the negative aspects (increased poverty, pollution, social exploitation). But as history showed us, the state governments came up with different regulations that will ensure a better business climate for all the economic agents.

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THE IMPORTANCE OF ORGANIZATIONAL CULTURE WITHIN MANAGERIAL REENGINEERING

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Abstract

Apart from proper dimensioning of the necessary staff, professional training of the managers, redesigning the HR management may result in improving the organizational culture, which is essential for managerial reengineering. Therefore, managerial reengineering requires the existence of a flexible organizational culture, dynamic, innovative. It is advisable to make the change that convinces the employees that they work for the clients, not for their bosses, an attitude that may be supported by the retribution systems that need to be correlated to the degree of customer satisfaction.

Keywords: organizational culture, human resources management, managerial reengineering.

JEL Classification: M1, M12

1. Introduction

The process of implementing the new HR management subsystem involves both the design team of this project, as well as the design team of the company's management system, because the actions of the HR management subsystem interconnect with the other elements of the other systems.

2. The methodology of redesigning the human resources management

The methodology² of redesigning the human resources management system is highly complex and includes the following steps, found in a guide for operationalization and assessment of the human resources management system:

- 1) Creating the team for reengineering the human resources management system, determining the scope of the redesigning and setting the targets;
- 2) Creating the program for reengineering the system;
- 3) Analysis of the human resources management system;
- 4) Redesigning the human resources management system;

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²Nicolescu, O., Verboncu, I., „Managerial methodologies”, Editura Universitară, București, 2008, pag. 299-343

- 5) Implementing the human resources management system;
- 6) Evaluation of the functionality and performances of the new system.
 - ◆ Step one: Creating the team for reengineering the human resources management system, determining the scope of the reengineering and setting the targets includes creating the expert team, from determining the size and structure of the team, selecting the specialists, to determining the work methods, identifies the specific targets, the main activities related to human resources, and determines the elements that connect human resources management to the management of the company, as a whole.

During this step, the company's strategy will be analyzed, resulting the specific targets of the human resources management system, followed by the sizing from a personnel point of view, of the general objectives and of the main domains of activity.

The outcome of this step is the designation of the reengineering team and the definition of the specific goals, of the main activities and tasks to be performed in the human resources field.

- ◆ During the second step – „Creating the program for reengineering the human resources management sub system”³ the reengineering program is defined, point in which the decisions and their corresponding actions for redesigning are foreseen, which are correlated to the decisions and actions to redesign the management system of the organization. This step targets the constant collaboration between the team leader and the leader of the team in charge with redesigning the whole management system, and if needed, with the general manager.

The structure of the reengineering program must include: the action of decision, the start and end date, responsibilities and people in charge of them, various aspects to be considered and notes on them.

The methods used in this step are the program chart, which includes the items mentioned above, and a Gantt chart, which correlates in time the actions to be performed, for better supervision.

The outcome of this step is the program for reengineering the human resources management system.

- ◆ Step 3 - Analysis of the human resources management system⁴ consists of creating a registry recording the activities, attributions and tasks related to human resources and their management, identifying the strong and weak points found herein, determining the issues that need to be solved and recommendations to improve human resource training.

The result is the list including the strong and weak points, the table including recommendations for improving, the list of the elements that are the interface

³Nicolescu, O., Verboncu, I., „Managerial methodologies”, Editura Universitară, București, 2008, pag. 307

⁴Nicolescu, O., Verboncu, I., „Metodologii manageriale”, Editura Universitară, București, 2008, pag. 308

between human resources management system and the other management subsystems.

- ◆ ” Redesigning the human resources management system”⁵ is considered to be the most difficult of all, because it has to reach the following targets:
 - Identifying and determining the constructive parameters of the HR management subsystem;
 - Making sure of the functionality of the HR management subsystem;
 - Giving value to the quality of the human resources, to their development and improvement.

The result of this step is represented by three documents. These documents include the presentation of the configuration and functionality of the HR management, a description of the methods, working and management techniques for HR related activities, a description of the correlations between the HR management subsystem and the other management subsystems, on one side, but also the ones between this one and the managerial system, as a whole, on the other side.

The project of the HR management system is included in the management system of the organization.

- ◆ ” Implementing the human resources management system”⁶ targets the operationalization of the new managerial subsystem and the implementation of the HR management system.

As a start, one must meet new requirements of the new managerial change.

This step must take into consideration several aspects, including:

- the managers and specialists involved in this process must be informed on the content of the actions and on the implementing procedures.
- their training for accepting the fact that these actions are necessary, proper and efficient, using various methods: group and personal discussions, using materials presenting the actions, organizing special informational workshops etc., organizing trainings, in which alongside the members of the designing team, there will also be external consultants, all these to help reduce the resistance to change, to increase the degree of involvement, the creativity and their effort, by understanding and learning the elements of the project.
- the members of the design team and the upper level managers assist the employees in implementing the changes.
- The control and evaluation of the new managerial team and the correction of the errors, if they occur.

The process of implementing the new HR management subsystem involves both the design team of this project, as well as the design team of the company's management system, because the actions of the HR management subsystem interconnect with the other elements of the other systems.

⁵Nicolescu, O., Verboncu, I., „Metodologii manageriale”, Editura Universitară, București, 2008, pag. 310

⁶Nicolescu, O., Verboncu, I., „Metodologii manageriale”, Editura Universitară, București, 2008, pag. 313

The implementation step of the new HR management subsystem may be considered finalized only after some months (maximum 6), meanwhile the employees developing the new skills for accomplishing the new targets and for using the new methods, approaches and HR techniques.

- ◆ The last step „Evaluation of the functionality and performances of the new system”⁷ determines the ability of the new system to create efficiency and functionality within the organization and facilitates the identification of errors, if any, and of the proper corrections, and/or the improvements that may still be done to obtain increased functionality for the new system.

Because the system needs a time to adjust (approximately 6 months) in order to allow the employees to develop the habits and for the changes to consolidate, the evaluation must be done at two moments: the first one after six months from the implementation of the new system (this has to be a detailed one), and the second one after one year, emphasizing the main constructive items.

The result of the evaluation is the *recommendations list* including the main necessary improvements and *the decisions for motivating the personnel*, which take into consideration the results and the efforts, the involvement and responsibilities undertaken.

Apart from proper dimensioning of the necessary staff, professional training of the managers, redesigning the HR management may result in improving the organizational culture, which is essential for managerial reengineering. Therefore, managerial reengineering requires the existence of a flexible organizational culture, dynamic, innovative. It is advisable to make the change that convinces the employees that they work for the clients, not for their bosses, an attitude that may be supported by the retribution systems that need to be correlated to the degree of customer satisfaction.

Also, the organization undergoing reengineering promotes *behavior features* such as⁸:

- The wish to reach the highest level within the organization;
- The wish to adapt to changes, to take on risks
- The wish to take decisions;
- The desire to work in a team
- Opening to current issues;
- Developing confidence;
- Respect towards the ones that the employees interact with, but at the same time self-esteem.

Therefore, it is advisable to implement some *beliefs* as⁹:

- They are part of a team;
- Every position in the organization is important;

⁷Nicolescu, O., Verboncu, I., „Metodologii manageriale”, Editura Universitară, București, 2008, pag. 314

⁸Champy, J., „Reengineering du management”, Edition DUNOD, Paris, 1997

⁹Hammer, M., Champy, J., „Reengineeringul organizației”, Editura Tehnică, București, 1997

- The clients are the ones paying their salaries, therefore the employees should act towards meeting their needs;
- Remuneration is based on the value created by the employees, therefore they must take on responsibility for their actions and they must make their best for solving any issue;
- The employees must be interested in continuous learning.

Managerial reengineering generates *mutations* at organizational culture level.¹⁰:

✚ The systemic approach based on five categories is promoted as a main method to increase awareness, leading to the appearance and consolidation of certain values within the personnel such as: the employee's work is targeted to achieve the goals, the motivation is based only on performance, bold objectives are encouraged, the possibility to do what they know best, the devotion of the team for achieving a certain work that would bring added value. These aspects contribute to obtaining a synergy within the organization and increases the role of organizational culture in defining the individual and group identity;

✚ Motivation is based on performance, increasing the consolidation of new values such as team spirit and objective based labor, at the same time creating the grounds for new myths. The new motivation system contributes to defining the individual and group identity ;

✚ The employee will become compatible the job he obtained based on his competence. This way, the personal and official – managerial authorities will be synchronized. Thus, human quality comes first, mediocrity disappears, hiring and promoting is only based on competence.

The concepts used during the reengineering process reflects the major contribution of high level management on managerial reengineering, and the aptitudes, professional competences, qualities and habits have an impact on the new HR management system, and even on the whole management system.

3. Conclusion

Because the new HR management subsystem system needs a time to adjust, meanwhile the employees must develop the habits and for the changes to consolidate, the new skills for accomplishing the new targets and for using the new methods, approaches and HR techniques.

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THE INFLUENCE OF THE DEMOGRAPHIC PHENOMENA ON PENSION EXPENDITURE IN EU MEMBER STATES

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Abstract

The demographic situation in the EU Member States is changing and the age pyramid reverses. This indicates a low number of active people and a growing number of retired. The effect is the increase in pension expenditure. This growth pose serious problems to all Member States, as projections show growth and over 100% in the horizon of 2060 in terms of pension expenditure.

Keywords: demography, pension system; pension expenditure; age limit pension

JEL Classification: H55; H59; J11; J14; J18

1. Introduction

Demographic change is one of the greatest challenges with which the economy and society are facing and precisely in this context, it is necessary to analyze in detail the various demographic trends that are responsible for the changes that Member States are facing. In addition, demographic changes have an impact not only on population size (are responsible for the rapid growth of the world population in the twentieth century) but also to the economic slowdown. Such trends have a strong impact on social systems and are directly related to the management of pension schemes.

The main cause of aging is the transition from traditional population breeding with high birth rates, to the modern regime, characterized by low birth rates. So, fertility is in constant decline, while life expectancy is increasing slowly but continuously. Under these conditions, the main result of this evolution is the increasing proportion of elderly, so that if the decrease in fertility and birth narrows the demographic pyramid, increasing life expectancy "thickens" its top.

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The paper is structured so as to contribute to the clarification of demographic trends and the influence of the pension expenditure in EU member states, analysing both the current situation and the future one.

2. Demographic analysis of the EU member states and its influence on pension expenditure

2.1. Population size and its growth

In the last years, there have been changes in the total population in each EU Member State. The population of the European Union Member States increased, with the exception of Bulgaria, Germany, Estonia, Lithuania, Hungary and Romania. Be noted that these growth rates were quite low and were based with the exception of Spain, France, the Netherlands, Slovakia and the UK, on migration as the main component in natural population growth and not on natural growth rate. These growth rates will diminish as population projections EUROPOP 2010 shows and almost all states will face population decline in the next decades. Considering these aspects, EU Member States will need to think about measures to stimulate their social systems and the main pension schemes, as in social terms, a shrinking population indicates difficulties in providing essential public goods and services, such as social security.

2.2. Population ageing

With the slowing population growth are resulting changes in the age structure of the population, the number of older people in the European Union has already exceeded the number of children in 1995. Changes in the structure of population ageing are highlighted in particular the pyramid of aging, which it is considered that it will change considerably in the coming decades, as the population aged 65 and over in the EU-27 will increase from 17.4 % (the present value) by 30%, much of this growth is expected to occur during the period 2020-2040.

In each Member State, things are different. In every state, there were changes in the age structure of the population, and the forecasts are not encouraging. Thus, measuring the rate at which population is ageing (European Commission), Member States can fall into three groups:

- group I, in which most states will experience a poor start, continue with moderate growth, as exemplified by the case of Sweden. If in 2010 the share of population aged 65 or over is the fourth largest (18.1%) in the EU-27, by 2060, due to a lower age structure is designed to be the eighth among the lowest, reaching the 26.6%. A similar situation, although growth will be slightly faster, will meet for Belgium, Denmark, France, Cyprus, Luxembourg, Portugal, Finland and the UK. The dutch, they will be part of the group, but on the basis of atypical model: the proportion of people aged 65 and over was lower in 2010 (15.3%), but is projected to grow rapidly in 2040 (27.3 %) and thus to align forecasts for other members of this group;

▪ for the group II, countries have in common that, in 2010, the population was already aging and projections are at a moderate rate. A good example is Germany, whose share in 2010 of population 65 years and over was 20.7%, being the highest in the EU-27. The aging population in Germany is estimated that it will take a sustained until 2040 and then almost stops during 2050. Austria, Greece, Spain, Italy and Slovenia is estimated to follow the German model, while Ireland has a moderate aging model, even if it starts from a young population and an aging sustained in 2050. Similar for both groups, as we have seen, is that after 2040 will experience a moderate pace of aging;

▪ group III, consisting of the states of Central and Eastern Europe, is characterized by an aging population, especially after 2040, according to population projections. This is well illustrated by Slovakia. In 2010, he recorded the second (after Ireland, who presented a level of 11.3%) the lowest level of aging population (12.3%) across the EU, but it is estimated that by 2060 will reach 36.1%, positioning is thus second in the group of countries with the highest rate immediately after Poland, whose rate is expected to reach 36.2%. In Slovakia, aging is likely to continue at a rapid pace even after 2040. Similarly, it is expected that it will happen in Bulgaria, Romania, Cyprus, Hungary, Lithuania, Latvia, Malta and Poland, although the pace of aging will be slower. In these countries, the share of population aged 65 and over is currently low and is estimated to grow slowly in 2020, but after this time will be an increasing pace.

2.3. Life Expectancy

Life expectancy at birth has increased considerably in recent years, both for women and for men. At Member State level, the differences in life expectancy remain significant as can be seen in table no. 1. For males, the lowest life expectancy was recorded by Lithuania (67.7 years), while the highest was recorded by Sweden (79.4 years). For women, the lowest life expectancy was recorded by Romania and Bulgaria (77.5 years), while the highest was found in France (90 years). The difference between the highest and lowest life expectancy was 11.7 years for men (between Sweden and Lithuania) and 12.5 years for women (between France and Bulgaria / Romania).

Life expectancy at birth and at the age of 65 are almost perfectly correlated, this proves that, the more life expectancy at birth is higher with so life expectancy at age 65 is higher. Comparing these data, we observe that in terms of life expectancy, it is more relevant for men live longer than women.

For the next decades, in the European Union Member States (table 1.), the life expectancy is expected to increase. By 2060, the highest life expectancy at birth for men will be reach in Italy and Sweden (85.5 years) and for women in France (90 years). In terms of life expectancy at age 65 years, France is the country that both men (23 years) and women (26.6 years) will reach the highest level.

From the social point of view, increasing life expectancy will bring substantial changes in social security spending. I believe that this will lead to greater pressures on

public expenditure of services for the elderly and especially pensions. General public finances could become unsustainable in many countries, thus affecting the balance of pension systems. Allowing increase public spending by the aging factor leads to budget deficits, which would result in an intolerable debt, it creates a spiral of debt.

Table no. 1 Demographic trends and pension expenditure as a percentage of GDP in EU member states

Country	Population (mil)		Fertility rate		Life expectancy at birth-male		Life expectancy at birth-female		Life expectancy at 65-male		Life expectancy at 65-female		Net migration (thousand)		Pension expenditure as a percentage of GDP	
	2010	2060	2010	2060	2010	2060	2010	2060	2010	2060	2010	2060	2010	2060	2010	2060
BE	10,9	13,5	1,84	1,84	77,3	84,6	82,6	89	17,4	22,3	20,9	25,7	61,3	32	10,3	14,7
BG	7,5	5,5	1,56	1,67	70,3	81,7	77,5	86,6	13,8	20,6	17	23,6	-9,9	0,7	9,1	11,3
CZ	10,5	10,5	1,49	1,62	74,3	83,2	80,4	87,8	15,3	21,2	18,7	24,5	30,5	18,3	7,1	11
DK	5,5	6,1	1,84	1,84	77	84,4	81,1	88,4	16,8	22	19,5	25,1	12,3	8,7	9,4	9,2
DE	81,7	66,2	1,36	1,54	77,6	84,8	82,7	88,9	17,4	22,4	20,6	25,4	41	72,3	10,2	12,8
EE	1,3	1,2	1,62	1,70	69,8	81,6	80,1	88	14,1	20,9	19,1	24,9	-0,5	0	6,4	4,9
IE	4,5	6,6	2,07	1,99	77	84,5	82	88,9	16,8	22,2	20	25,5	-21,5	15,6	4,1	8,6
GR	11,3	11,3	1,52	1,64	77,8	84,9	82,8	88,3	17,9	22,6	20,2	24,6	26,2	25,3	11,6	24,1
SP	46,1	52,2	1,40	1,56	78,6	85,4	84,7	89,9	18,2	22,9	22,1	26,3	79,1	185,2	8,9	15,1
FR	64,9	73,7	2,00	1,95	77,9	85,1	84,6	90	18,5	23	22,7	26,6	71,9	62,9	13,5	14
IT	60,5	64,9	1,42	1,57	78,9	85,5	84,2	89,7	18,1	22,8	21,7	26,1	360,7	244,3	14	13,6
CY	0,8	1,1	1,50	1,62	78,3	85,1	82,8	89	17,8	22,5	20	25,3	2,2	4,1	6,9	17,7
LV	2,2	1,7	1,31	1,51	68,3	81,1	78	87,2	13,5	20,6	18,1	24,4	-3,4	0,6	5,1	5,1
LT	3,3	2,7	1,55	1,66	67,7	80,7	78,7	87,1	13,5	20,4	18,4	24,2	-13	0,8	6,5	11,4
LU	0,5	0,7	1,59	1,68	77,8	84,9	82,9	89,5	17,3	22,4	21,1	26,1	6,3	2,6	8,6	23,9
HU	10	8,8	1,32	1,51	70,4	81,9	78,4	87,4	14	20,9	18,1	24,6	22,5	18,9	11,3	13,8
MT	0,4	0,4	1,44	1,59	77,6	84,9	82,3	88,9	17	22,2	20,2	25,4	-1,2	0,4	8,3	13,4
NL	16,6	17,1	1,79	1,81	78,7	85,2	82,8	89,1	17,5	22,3	20,9	25,6	35,5	6,2	6,5	10,5
AT	8,4	8,9	1,39	1,56	77,6	84,8	83	89,1	17,6	22,4	20,9	25,6	19,1	25,8	12,7	13,6
PL	38,2	32,6	1,40	1,56	71,7	82,4	80,1	87,9	14,8	21,2	19,1	24,8	11,7	14,1	10,8	8,8
PT	10,6	10,2	1,32	1,51	76,5	84,2	82,5	88,6	17,1	22,1	20,4	25,1	18,5	27,8	11,9	13,4
RO	21,4	17,2	1,38	1,55	70	81,8	77,5	86,7	14,1	20,8	17,2	23,8	-0,2	7,6	8,4	15,8
SI	2,1	2,1	1,54	1,65	75,8	84	82,3	88,8	16,4	21,9	20,2	25,3	11	3,8	10,1	18,6
SK	5,4	5,1	1,41	1,57	71,6	82,2	79,1	87,4	14,1	20,8	18	24,3	10,6	6,8	6,6	10,2
FI	5,4	5,7	1,86	1,86	76,6	84,4	83,2	89,2	17,3	22,3	21,3	25,8	14,8	7,3	10,7	13,4
SE	9,4	11,5	1,94	1,90	79,4	85,5	83,4	89,3	18,2	22,7	21,1	25,7	59,9	19,5	9,6	9,4
UK	62,2	79	1,94	1,91	78,3	85,2	82,4	89,1	18	22,8	20,7	25,7	197,9	133,6	6,7	9,3

Source: Summarized from The 2012 Ageing Report: Underlying Assumptions and Projection Methodologies, European Economy 4/2011 and Ageing Report: Economic and bugetary projections for the Eu-27 member states (2008-2060), European Commission, Brussels, 2009

2.4. Fertility rate

In the last years the general trend of fertility in the European Union has been downward, so that at the present time none of the Member States achieved a fertility rate above 2, as can be seen from Table no.1. The states with the highest fertility rate were France and Ireland (2), opposite being situated Latvia with a fertility rate of 1.31, thus approaching the critical level considered to be the value of 1.3. Denmark, Hungary, Portugal and Romania are countries whose fertility rate is close to the level considered to be critical.

Projections made by the Commission and presented in Table no. 1 shows that fertility rates will decline in the horizon of 2060, so most notable value will be in United Kingdom (1.91), and the lowest will be in Portugal and Hungary with a level of 1.51.

In our opinion, the reasons for these variations are a mix of national differences, cultural, socio-economic. Should be noted, however, governments adopted policies that influence the decision to the family and, therefore, can make the difference. This may be an indicator in terms of social security because a high fertility rate is a constant of pension systems due to low replacement rates.

2.5. Migration

Most of Member States as can be seen from the table no. 1 reported a greater number of immigrants than emigrants, yet, there have been countries like Malta, Ireland, Romania, Bulgaria, Lithuania, Latvia and Estonia who reported a greater number of emigrants. Of these, Estonia recorded the highest negative net migration of 22,500 people. In absolute terms, Italy and the UK were the states that have the highest positive net migration, Italy with 360, 700 people and Great Britain with 197.9 thousands. Projections, by the year 2060, shows that there will be a negative net migration, but the states that are currently experiencing a negative migration trend will be of up to a thousand people. However, Great Britain and Italy will maintain a positive trend of net migration. EU migration movements make a much more diverse population and at the same time creates new challenges for European society, one of the challenges are related to expenditure on pensions.

2.6. Pension expenditure

Pension expenditure as a percentage of GDP have ranged in European Union member states, as can be seen from table no.1. The highest value was recorded in Italy 14%, France 13.5%, followed by Austria with 12.7%. On the opposite side Ireland is 4.1% and Latvia with 5.1%.

Projections of pension expenditure in the horizon of 2060 shows that demographic factors will seriously put their imprint. Thus, most states will register growth of these expenditures. The most notable increases will be for Greece (whose level of pension spending will double), Luxembourg (15.3%), Cyprus (10.8). The expected increase is due to the increase in old-age pensions (which will grow more than invalidity or survivors' benefits due to aging of the population) and those

anticipated (Croitoru, 2011, p.121). There are countries where evolution expenditures will follow a negative trend, Denmark, Estonia, Poland and Sweden will fall slightly. The other Member States shall record growth, but it is between 2% and 6% of GDP.

3. Conclusion

The transition from a regime of high fertility rate at the one with lower rate is observed in all the member states. The overthrow of the pyramid age, due to the increased in life expectancy, increased labor force 65 years and over and falling fertility rates will lead to significant increases in the dependency ratio retired/contributors. This report will put a serious problem when young cohorts will reach retirement age. Thus, the aging of population with demographic change can have serious economic and social consequences.

Demographic change in recent years represents an important challenge for pension systems in the Member States of the European Union, because they lead inevitably to an increased in pension expenditure and this shows the ensuring of the financial sustainability of pension systems.

The current demographic situation will increase the demand for specific old age, especially considering that the labor force is reduced due to dwindling birthrate. Along with declining birth rates, increasing life expectancy extends the period for receipt of pension, even when stimulation of the active aging is proposed by more and more states. On the other hand, the crisis felt in recent years, resulting in fewer taxpayers because the increasing of unemployment and the reducing of the wages. All these aspects mentioned inevitably lead, as we showed in increase in pension expenditure.

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THE GENDER PAY DISCREPANCIES – A GLOBAL ISSUE. THE CASE OF ROMANIA

Meral (Ibrahim) Kagitci¹

Abstract

The purpose of this article is to present the gender pay gap in the Member States of the European Union. The European legislation had a good impact on eliminating the direct discrimination between women and men regarding the pay gap. However, beside all efforts, the statistics show a persisting gender pay gap of 16,4 % on average for the 27 EU Member States in 2010, recording a slight downward trend in recent years, when the figure was around 17% or higher.

The causes of the gender pay gap are much more complex and include direct discrimination, greater difficulties for woman in balancing work and private life and stereotypes that influence the evaluation and classification of occupations or the choice of education undertaken by men and women. Even if the European Union has been taking action in the field for more than 50 years, the closing process of the gender pay gap appears to be very slow. Also, in a number of countries the gender pay gap is even widening again.

Key words: pay gap, gender pay, labour market, employment.

JEL Classification: J33,J44.

INTRODUCTION

The gender pay gap is defined as the relative difference in the average gross hourly earnings of women and men within the company as a whole.² Foubert gives a similar definition, „the gender pay gap is defined as the difference between the average pay level of male and female employees, respectively”.

The gaps between wages are sometimes based on the differences between people and their characteristics.

Usually, women are considered less prepared, less interested in their market oriented formal education because it is supposed that they expect to have discontinuous working live caused by the family life. The lack of investment in

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²Eurofound website on <http://www.eurofound.europa.eu/pubdocs/2010/18/en/2/EF1018EN.pdf>, accessed 26 April 2012.

education and the lack of experience can be translated as a low productivity and of course lower wages.

According to Blinder (1973) and Oxaca (1973) the gender pay gap can be decomposed in two parts so called the explained and the unexplained part of salaries, discrimination.

The first step of their procedure is to make a separately estimation on women and men wages and then to make the difference between the values. The difference is then analyzed and also decomposed in two parts. A part that can be explained by the characteristics, skills of a person, and the other, the unexplained part, that often it is referred to as the discrimination effect.

Discrimination it is due in most of the cases to unnoticeable differences and gaps between the wages for persons with same characteristics. It can be also defined as the difference between the observed gender pay difference and the divergence that would influence the way women and men are paid according to the same criteria (Rice 1999, Rubery et al. 2002).

As regards the gender wage gap by occupation, women's average wage is lower than men's in nearly all occupations, even if we are talking about occupations predominantly done by women, occupations predominantly done by men, or occupations with a more even mix of men and women.

Equal pay for men and women for work of equal value has been a concern of the European Union from its very beginning. The principle was laid down in the original EEC Treaty of 1957, in Article 119. In 1997, when the founding Treaties were renumbered the first time, Article 119 EEC Treaty became Article 141 EC Treaty. Currently, the principle of equal pay between men and women is embodied in Article 157 of the Treaty on the Functioning of the European Union (TFEU), which entered into force on 1 December 2009.³

According to Table 1, the wage gap has decreased gradually over the years. Some assert that it is related to the timing of market skill convergence between the sexes and to non-gender specific changes in the labour market.

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Table 1. Ratio of Female-to-Male Earnings

Year	Year-round full-time workers ^a	Full-time workers ^b	Year	Year-round full-time workers ^a	Full-time workers ^b
2002	—	77.5	1980	60.2	64.4
2001	76.3	76.1	1979	59.7	62.5
2000	73.7	76.0	1978	59.4	n.a.
1999	72.2	76.5	1977	58.9	n.a.
1998	73.2	76.3	1976	60.2	n.a.
1997	74.2	74.4	1975	58.8	n.a.
1996	73.8	75.0	1974	58.8	n.a.
1995	71.4	75.5	1973	56.6	n.a.
1994	72.0	76.4	1972	57.9	n.a.
1993	71.5	77.1	1971	59.5	n.a.
1992	70.8	75.8	1970	59.4	n.a.
1991	69.9	74.2	1969	58.9	n.a.
1990	71.6	71.9	1968	58.2	n.a.
1989	68.7	70.1	1967	57.8	n.a.
1988	66.0	70.2	1966	57.6	n.a.
1987	65.2	70.0	1965	59.9	n.a.
1986	64.3	69.2	1964	59.1	n.a.
1985	64.6	68.2	1963	58.9	n.a.
1984	63.7	67.8	1962	59.3	n.a.
1983	63.6	66.7	1961	59.2	n.a.
1982	61.7	65.4	1960	60.7	n.a.
1981	59.2	64.6	—	—	—

Source: Series on year-round/full-time workers, the U.S. Bureau of the Census; series on full-time workers, the U.S. Bureau of Labor Statistics.

During much of the post-World War II period, the human capital endowments of women entering the labour force worked against contraction in the wage gap.⁴ The educational level of the men had increased more than women's educational level; as a consequence, in the working field the number of less educated women joined the working force, than educated women through the 1970s.

The lack of experience had a negative influence on the average work experience, by holding it down. It is thus argued that the lack of skill convergence between

⁴ James P. Smith, and Michael P. Ward, *Women's Wages and Work in the Twentieth Century*, Santa Monica, Cal., The Rand Corporation, 1984.

working women and men during the 1970s kept the wage gap fairly constant, despite decreases in occupational and industrial segregation over the period.⁵

In 1980s the average work experience had increased thanks to the work experience of women increased relative to men.

About 25% of the 1% per year reduction in the wage gap between 1976 and 1989 can be ascribed to the increase in the amount of women's work experience compared to men's, and another 35%-40% to the rise in the monetary return (reward) to an additional year of experience for women compared to men.⁶

Economists have searched some factors that influence the discrimination against women and explain the gender pay gap. Also, some economists said that the wage that labour market attaches to skills can have a big influence on wages level. (Juhn, Murphy and Pierce, 1991)

According to Blau and Kahn, even if the qualifications of American women are high compared to women in other countries, the USA has traditionally been among the countries with largest gender gaps because the US labour market places a much larger penalty on those with lower levels of labour market skills or who are located in less-favored sectors of the labour market. These are disproportionately women, whose relative wages are thus potentially reduced by labour market institutions in the US.

Equal pay was a priority mentioned in the 'Roadmap for equality between women and men 2006-2010'.⁷ In 2007 the European Commission adopted a Communication examining the causes of the gender pay gap and putting forward a series of actions to tackle the problem, including, for example, the increase of care services for children and elderly people and the elimination of gender stereotypes in education, training and culture.⁸

⁵Fields, Judith, and Edward N. Wolff. The Decline in Sex Segregation and the Wage Gap, 1970-1980. *Journal of Human Resources*, v. 26, no. 4, fall 1991.

⁶O'Neill, June, and Solomon Polachek. Why the Gender Gap in Wages Narrowed in the 1980s. *Journal of Labour Economics*, v. 11, no. 1, part 1, January 1993. (Hereafter cited as O'Neill and Polachek, Why the Gender Gap in Wages Narrowed in the 1980s.)

⁷Communication from the Commission to the European Parliament, the Council, the Economic and Social Committee and the Committee of the Regions, entitled 'Roadmap for equality between women and men 2006-2010', COM (2006) 92 final.

⁸Communication from the Commission to the European Parliament, the Council, the Economic and Social Committee and the Committee of the Regions, entitled 'Tackling the pay gap between women and men', COM (2007) 424 final.

Although there has been recorded a decrease trend in gender pay gap discrimination, it does not mean that the labour market discrimination has been vanquished. This decrease might have been generated by either a limitation of statistic dates, or by a reduction of discrimination.

From the new Eurostat estimates (based on Structure of Earnings survey), it appears that there are considerable differences between the Member States in this regard, with the pay gap ranging from less than 10% in Italy, Luxembourg, Poland, Slovenia and Romania to more than 20% in Germany, Estonia, Czech Republic, Greece, Finland and Austria. The gender pay gap persists even though women do better at school and university than men.

The pay gap, it is one of the indicators that are used on evaluating the pay gap, but it is not very relevant to be used for establishing the equality between women and men since it only concerns salaried persons. This usually reflects the different working patterns of women. In most of the countries in which the female employment rate is low (e.g. Malta, Italy, Greece, Poland), the pay gap is lower than average, which may reflect the small proportion of low-skilled or unskilled women in the workforce. A high pay gap is usually characteristic of a labour market which is highly segregated (e.g. Cyprus, Estonia, Slovakia, Finland) or in which a significant proportion of women work part-time (e.g. Germany, United Kingdom, the Netherlands, Austria, Sweden). Institutional mechanisms and systems on wage setting can also influence the pay gap.

Thomson (2006) succeeded to identify the key components of the persisting gender pay gap and to determine how much of this issue can be explained by individual choices and/or discrimination for the UK population. By using secondary data, the author assessed the contribution of each significant factor, namely part-time work, education, size of the firm a person is employed in and occupational segregation, to the remaining gender pay gap.

Simón and Russell (2007) performed an analysis of the reasons of the gender pay gap in some EU countries by incorporating the workplace effect and by developing inter-country comparisons. The authors conclude that in each country, significant parts of the gender wage gap may be imputed to gender segregation in companies and to income differentials within companies for the same kind of jobs. In addition, the characteristics of the company play an important role in this gender wage gap discussion.

Haas (2007) examines the relationship between the gender wage gap and the degree of economic development for 154 countries during 1991 – 2003, by applying the basic theory of supply and demand and the human capital theory. The author

highlights the fact that, as economic development increases, the size of the gender wage gap increases, but only at high levels of per capita income does the difference in pay decrease.

With regard to the fact that the European Union has been taking action for more than 50 years to defend the principle of equal pay for equal work or work of equal value between men and women, this is a disappointing result. This explains why the gender pay gap has encouraged several initiatives by the European Commission in the last few years and continues to be one of the Commission's great concerns in the area of gender equality.

There can be found many factors and causes that influence the gender pay gap. According to Blau & Kahn (1992) there are some influence factors that have big impact on the gender remuneration: differences in human capital, sectoral and occupational segregation, working time, the access to internal and public training schemes. According to other writers there can be included in this category the labour market or family policies, the social security and fiscal regulations. According to Resking, there are exogenous causes of discrimination among which we can find social categorization, in-group preference, stereotyping, power and cognitive biases.

According to the above, there are a lot of factors that influence the gender pay gap. Even if there have been made lots of campaigns for stopping discrimination, there are still real problems on working force remuneration.

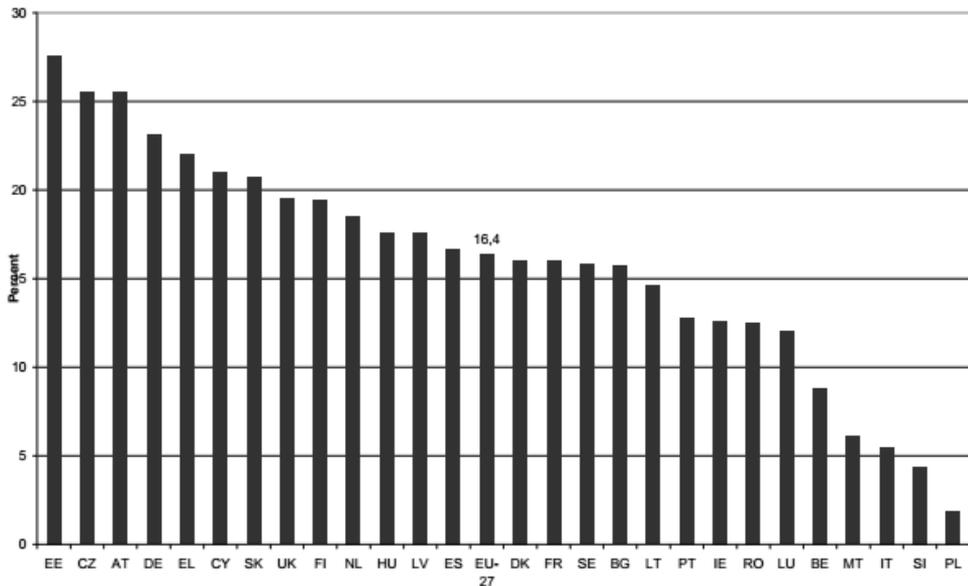
EQUAL PAY FOR EQUAL WORK AND WORK OF EQUAL VALUE

The pay gap between women and men is slowly diminished but remains high. Chart 1 shows that on average, women earn 16.4%⁹ less than men for every hour worked with considerable variations among Member States. The gender pay gap (GPG) is caused by multiple factors¹⁰ such as labour market segregation and differences in work patterns. Differences in educational choices and biased evaluation and pay systems also play a role.

⁹ Eurostat 2010

¹⁰ Information on the causes of the gender pay gap is available in the Communication "Tackling the pay gap between women and men" (COM(2007) 424 final) or on the European Commission website: <http://ec.europa.eu/justice/gender-equality/gender-pay-gap>.

Chart 1. Pay gap between women and men in unadjusted form in EU Member States - 2010



Source: Eurostat. The unadjusted Gender Pay Gap (GPG) represents the difference between average gross hourly earnings of male paid employees and of female paid employees as a percentage of average gross hourly earnings of male paid employees. EE and EL: data from 2008. EU27, BE, IE, ES, FR, IT, CY, AT: provisional data.

The EU-wide information campaign on the gender pay gap launched in March 2009 brought a new concept, The European Equal Day Pay. The dates of these days mark the days women must work to earn a man's average annual pay. The campaigns are based on previous achievements, results and the experience gained during the two previous years of implementation.

THE GENDER EQUAL PAY IN ROMANIA

In Romania, the National Agency for Equal Opportunities between Men and Women is in charge with promoting the equality principal between women and men by elaborating and implementing various programs.

From the existing statistic dates, we can see a disparity between women and men. Women are in disadvantage on the working-force market, social life, political and cultural life.

According to Table 2, on the working force there is still gender segregation, in the way that in some domains are involved especially women and the others are dominated by men. This professional segregation brings remuneration gaps between women and men, taking into account that the womanized domains are low-paid than the domains dominated by men.

Table 2. Gender segregation between men and women.

	2009	2010
Romania (%)	23	22.5

Source: Eurostat, AFM UE

Gender segregation in occupations is calculated as the average national share of employment for women and men applied to each occupation; differences are added up to produce the total amount of gender imbalance expressed as a proportion of total employment (ISCO classification).

Table 3. The unemployment rate

2010	Women	Man	Gap
EU-27	9,6 %	9,7 %	0,1 %
Romania	6,5 %	7,9 %	1,4 %

Source: Eurostat, AFM UE

The unemployment rate represents unemployed persons as a percentage of the labour force based on International Labour Office (ILO) definition. The labour force is the total number of people employed and unemployed.

Table 4. Employment rate

2010	Women	Men	Gap
EU-27	62,1%	75,1%	13%
Romania	55,9%	70,8%	14,9%

Source: Eurostat, AFM UE

This employment rate is calculated by dividing the number of persons aged 15 to 64 in employment by the total population of the same age group. Employed population consists of those persons who during the reference week did any work for pay or profit for at least one hour, or were not working but had jobs from which they were temporarily absent.

Table 5. Sex distribution of enterprise leaders

2010	Women	Men	Gap
EU-27 (%)	33	67	34
Romania (%)	29	71	42

Source: Eurostat, AFM UE

Table 6. The total worked time (paid and unpaid) for women and men

2010	Women		Men		Gap	
	Unpaid worked time	Paid worked hours + deployment period	Unpaid worked time	Paid worked hours + deployment period	Unpaid worked time	Paid worked hours + deployment period
EU-27	24,5	37,4	9,2	44,2	-6,7	15,2
Romania	21,1	46,8	5,7	47	-0,2	15,4

Source: Eurofound – The fourth investigation EWCS, 2010

Romanian women earned 13 percent less than Romanian men last year, a widening pay difference from below 10 percent in 2010, found a recent report on the gender pay gap issued by the European Commission. The figure, which places Romania among the higher pay gaps in the EU, is, however, below the EU average.

In 2010, only 29 percent of business leaders in Romania were women, while the EU average was of 33 percent.

EXAMPLE OF ACTIONS TAKEN IN DIFFERENT EU MEMBER STATES

Various countries took legislative measures regarding the gender pay gap, among which we can find Spain, France, United Kingdom, Luxembourg, Sweden, Hungary, Italy.

For example, in Spain was adopted a new law regarding gender equality. There were specified some measures for fighting discrimination, encouraging reconciliation if work and family life, promoting equality plans. In 2006, in France was introduced n obligation for the companies to take measures of closing the gender gap pay by 31 December 2010. In Italy, the companies who have more than 100 employees are obliges to provide statistical information regarding the employment conditions of their employees broken down by gender every two year.

In Germany was implemented a system that provides a data base for research on the development and causes of pay inequality, the so called Logib-D. The program gives also the possibility of identifying the causes. The instrument, developed by the German Federal Government gives the possibility to employers to find out if a payment gap exists, the reasons for this gap and also solutions to ensure a equal pay for all the employees.

In Sweden, Vastragotland carried out a survey of 650 employees in 15 sections. The survey revealed that men had a higher wage than women in equal jobs.

In United Kingdom, it was implemented the WISE campaign. The goal of this campaign is to promote domains that are likely to be made by men among girls and women. Young girls were encouraged to follow careers related to domains like science, engineering, technology.

In Slovenia, for example, there is a prize offered for companies that promote gender equality into leadership positions. The candidates have to demonstrate that they are successful and willing to take their career at higher levels.

Also there were presented various study cases on the gender pay gap that shown real examples of salaries discriminations. For example, the case of part-time worker in an enterprise who was treated differently than full time workers with regards to pay increases.

The European Court of Justice and the Austrian Constitutional Court establish that it was a case of discrimination. They have decided that part-time workers have the same rights as full-time staff regarding pay increase.

From the above we can see that there were taken various measures regarding the salaries discrimination in EU states members. From legislative measures to campaigns, countries used all kind of instruments to implement the equal pay, and to diminish the payment gap.

Case study – testing hypothesis

I tested if really is a significant discrepancy between women and men incomes, using the following hypothesis:

$$\begin{cases} H_0 : \mu_M = \mu_F \\ H_A : \mu_M \neq \mu_F \end{cases}$$

The sample covers the period 2002-2010, as reported by NIS, for the average salary earned by males and females.

The t-statistic is used, in the following approach:

$$t = \frac{(\bar{x}_1 - \bar{x}_2)}{\sqrt{\frac{s_1^2}{n_1} + \frac{s_2^2}{n_2}}}, \text{ with the degrees of freedom } \frac{(s_1^2/n_1 + s_2^2/n_2)^2}{\frac{(s_1^2/n_1)^2}{n_1 - 1} + \frac{(s_2^2/n_2)^2}{n_2 - 1}}$$

Year 2002	Lei RON	TOTAL	Male	Female
Year 2003	Lei RON	484	527	435
Year 2004	Lei RON	599	643	549
Year 2005	Lei RON	746	796	689
Year 2006	Lei RON	866	922	803
Year 2007	Lei RON	1042	1095	981
Year 2008	Lei RON	1309	1348	1264
Year 2009	Lei RON	1361	1405	1310
Year 2010	Lei RON	1391	1466	1308

Bootstrap

[DataSet0]

Bootstrap Specifications

Sampling Method	Simple
Number of Samples	1000
Confidence Interval Level	95.0%
Confidence Interval Type	Percentile

T-TEST PAIRS=MALE WITH FEMALE (PAIRED)
 /CRITERIA=CI(.9500)
 /MISSING=ANALYSIS.

T-Test**Paired Samples Statistics**

			Statistic	Bootstrap ^a			
				Bias	Std. Error	95% Confidence Interval	
						Lower	Upper
Pair 1	MALE	Mean	1025.25	2.29	122.03	771.96	1252.81
		N	8				
	Std. Deviation	359.581	-26.757	57.029	198.363	434.895	
	Std. Error Mean	127.131					
FEMALE	Mean	917.38	2.44	119.36	669.82	1142.00	
		N	8				
	Std. Deviation	351.438	-25.720	54.154	196.300	423.798	
	Std. Error Mean	124.252					

a. Unless otherwise noted, bootstrap results are based on 1000 bootstrap samples

Paired Samples Correlations

			N	Correlation	Sig.	Bootstrap for Correlation ^a			
						Bias	Std. Error	95% Confidence Interval	
						Lower	Upper		
Pair 1	MALE	&	8	.998	.000	.000	.002	.994	1.000
	FEMALE								

a. Unless otherwise noted, bootstrap results are based on 1000 bootstrap samples

Paired Samples Statistics

			Statistic	Bootstrap ^a			
				Bias	Std. Error	95% Confidence Interval	
						Lower	Upper
Pair 1	MALE	Mean	1025.25	2.29	122.03	771.96	1252.81
		N	8				
		Std. Deviation	359.581	-26.757	57.029	198.363	434.895
		Std. Error Mean	127.131				
	FEMALE	Mean	917.38	2.44	119.36	669.82	1142.00
		N	8				
		Std. Deviation	351.438	-25.720	54.154	196.300	423.798
		Std. Error Mean	124.252				

Paired Samples Test

		Paired Differences					t	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
Pair 1	MALE - FEMALE	-107.875	23.467	8.297	88.256	127.494	13.002	7	.000

Bootstrap for Paired Samples Test

		Mean	Std. Bias	Std. Error	Sig. (2-tailed)	Bootstrap ^a	
						95% Confidence Interval	
						Lower	Upper
Pair 1	MALE - FEMALE	107.875	147.5	147.070	.0004	93.750	125.750

a. Unless otherwise noted, bootstrap results are based on 1000 bootstrap samples

Based on the Pearson correlation test, there is a high degree of correlation between the two variables, as a sign of parallel evolution along time.

But as the t-test for the null hypothesis we defined shows, with an accuracy of 95% there is a significant income difference between man and woman in Romania.

In fact, with a 95% confidence level, the male income is higher than women income by 107 RON.

Conclusions

Gender pay discrimination it is a real problem in EU. Even in there were taken some actions in this field, the problem exists and increases, generating huge consequences for women: lower pensions and a risk of poverty in old age. There are considerable differences between the member states. The pay gap goes from less than 10% in Italy, Luxembourg, Poland, Slovenia and Romania to more than 20% in Germany, Estonia, Czech Republic, Greece, Finland and Austria. There are a number of complex factors that explain the gender pay gap in the EU states members such as: direct discrimination, undervaluing of women's work, segregation in the labour market, traditions and stereotypes. Closing the gender pay gap can lead to various advantages like creating a fairer and more equal society, supplying quality jobs, avoiding litigations and complaints and serving as a base for economic growth and recovery.

Romanian women earned 13 percent less than Romanian men last year, a widening pay difference from below 10 percent in 2010, found a recent report on the gender pay gap issued by the European Commission. The figure, which places Romania among the higher pay gaps in the EU, is, however, below the EU average.

As a suggestion, there is a need to establish more campaigns and other measures in order to reduce the salaries discrimination in the EU. Media should have a role in these campaigns in order to promote the reduction of gender pay discrimination.

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QUANTIFICATION OF DECONTAMINATION COST AND ENVIRONMENTAL PROTECTION - A MACROECONOMIC APPROACH

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Antoni Predescu*,

Abstract

The pollution, as a global phenomenon, is the result of (continuous) current economic mentality's influence, according to which the target to be achieved permanent is the profit maximization. At macroeconomic level, to achieve the constant target of profit maximization is to record economic growth. But, GDP does not include, in practice, externalities – e.g. polluting industrial activities; so, mechanism which generates both GDP and economic and social value of the pollution amplitude comprise at least one direct influence factor of economic growth. In conclusion, increasing the amplitude of pollution is obtainable only by positive contribution of the national economy, e.g. with net exports increasing.

Keywords: decontamination, GDP, pollution, propensity, consumption, multiplier

JEL Classification: B22, E27, O25

1. Introduction

An interesting and, especially, indispensable perspective for analysis is the perspective of the evaluation/measuring the decontamination cost, or environmental protection, from a macroeconomic point of view.

The pollution – which is, par excellence, the phenomenon that interests even company, being the unit of measure by which it can be calculated the "production" of pollutants – is and was still conscious, regarded as a phenomenon that affects more than one manufacturer, or more producers - namely countries and entire continents.

This cannot neglect the possibility to quantify the macro(economic) costs of decontamination, notwithstanding the company in this framework.

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The pollution, as a global phenomenon, is the result of (continuous) current economic mentality's influence – in a market economy – according to which the target to be achieved permanent is the profit maximization.

At the macroeconomic level, to achieve the constant target of profit maximization has a different name, namely achieving economic growth. Technologies (pollutants) are used in the economy in the long term, due to the production of new technologies (less polluting/non-polluting) with low increments or even minimal, the contact more or less unilateral, between economic growth and the most important externality generated by it, namely pollution, is a solid one.

2. Content

That is, the permanent monitoring of economic growth obtaining - preservation / expansion - is only performed just simultaneously with the production of (increasing) quantities of pollutants substances etc.

The quantification of economic growth is done basically using the indicator called **Gross Domestic Product (GDP)**. This product is or has, in brief, the value of goods and services produced, globally, in an (real) economy by identifiable companies, in administrative and economic terms, as being of a certain nationality.

In other words, GDP measure the global "amount" of added value produced by real economy as a whole, or it can be measured once the calculated value of expenses incurred in economy in order to obtain this added value, the two values being of the same size.

GDP is calculated as the sum of the following macroeconomic-sized expenses:

- 1) consumer expenses;
- 2) investment expenses;
- 3) government expenses;
- 4) (expenses incurred to generate products that "make") exports;
- 5) expenses incurred with (= for) imports.

To illustrate this, is used the following equation:

$$\text{GDP} = C + I + G + (E_{\text{xp}} - I_{\text{mp}}) [1].$$

where:

GDP = gross domestic product

C = consumer expenses

I = investment expenses

G = government expenses

Exp = exports

Imp = imports

Also, GDP can be calculated by measuring the financial status quo of all those who are paid to produce goods and services sold, gross domestic product being the sum of the income below:

- (1) income paid by employers (wages & c);
- (2) income earned by the "self-employed" (clearly the income of those who play the role of self employers in the labor market);
- (3) rent - specifically, revenue from those leases land to others (as a factor of production) and the living quarters;
- (4) profits.

The concrete link between economic growth and pollution is observed by measuring the economic growth, eg by /of G.D.P, not directly, but indirectly: the first step is to see that the GDP is not a perfect indicator, ie it doesn't measure perfect neither the sum of all incurred expenditures, nor - consequently – economic growth.

It should be noted in this regard that GDP does not include, in practice, externalities – e.g. polluting industrial activities – and, therefore, does not include (both microeconomic level and macroeconomic level), among others [Romer, (1996)]:

1. costs imposed by the de-pollution activities;
2. costs imposed by fighting/pollution prevention.

These omissions, along with others, provide the over-evaluation "substance" of the added value produced by the economy, in other words the (calculated) size of gross domestic products.

Thus, noting $GDP_{\alpha\lambda}$ - the real value of GDP, respectively GDP_{λ} - the nominal value of GDP measured by the usual methods of GDP, we obtain [Miles, (2002)]:

$$(GDP_{\lambda} - GDP_{\alpha\lambda}) > 0 \Leftrightarrow \Delta GDP > 0 [2].$$

Obviously, the size with which the calculated value of GDP is over-rated - ΔGDP - cannot be entirely attributed to the phenomenon of pollution. It can be assigned a proportion of the total amount of over-assessment, proportion described (principle) within algebraic terms:

$$\text{Pollution value} = \delta \cdot \Delta GDP > 0, \delta \in (0,1) [3].$$

The mechanism by which are generated, GDP, on one hand, and, on the other hand, the – economic and social – value of the pollution amplitude comprising at least one direct influence factor (which is not mandatory, linear) of economic growth.

We mentioned above that, due to the fact that GDP is computable, ie calculated, as a sum of expenditures, the increasing of its value is an increase in the (total) value of costs. Once a component of GDP is amplified (eg government expenses), economic and financial mechanism that resulted in this increase produces an increase of income both for businesses and for individuals. They in turn will spend their available financial resources (e.g. constituted as revenue - including incremental revenue), and so on, ad infinitum (obviously, in principle).

The indicator that, both at the microeconomic and at the macroeconomic level, can provide a projection of amplitude dynamics of expenses is **marginal propensity to consume (c)** [McConnell, (2003)].

The value of this indicator, which quantifies the amplitude increase of consumption when income increases by one monetary unit, has the important feature of:

- (a) diminishing in the short term, when income increases;
- (b) increasing in economic and financial conditions comparable, in the long term more than in the short term.

Including the perspective of economy GDP calculation, and first in macroeconomic terms, marginal propensity to consume is the marginal propensity (for) spending national income. However, in practice, is not used the value of the marginal propensity to spending national income, but the recorded value for the value of the marginal propensity to consume, in this case from the perspective of a consumer (final) - that is fairly accurate approximation to assume that we calculate exactly rather than approximate.

The indicator used to measure these increases of the expenses amplitude is the **multiplier**, exempli gratia amount of excess/deficit of global production (\cong equilibrium production \cong GDP) generated by the change - one way or another – of independent expenditures mass, indicator whose multiplier formula is expressed below [Miles, (2002)]:

$$\kappa = \frac{1}{1 - c} [4].$$

GDP consists of expenses incurred in the economy, more accurate is the sum of (overall) expenditure the realization of which is obtained (global) production of goods and services. In this sense, the multiplier, viewed through the prism of expenditure, is the size (number of) multiplication phenomenon to be recorded for the amount of overall expenses, in other words for GDP value.

This phenomenon is initiated by a (positive) change of aggregate expenses - in this case, at least of one component of GDP (this component, which likely to record

a positive change in the context of at least the assumption of economic growth is considered, usually, to be government expenditures (G)).

In algebraic form, the dynamics described above is shown in the following terms:

$$(\delta \cdot \Delta \text{GDP}) > 0 \Leftrightarrow \frac{1}{1-c} > 0 \Rightarrow (\delta \cdot \Delta \text{GDP}) > 0 \Leftrightarrow \kappa > 0 \quad [5].$$

Marginal propensity to consume usually records positive, and smaller than one values, (while the value recorded, as such, of the multiplier itself is positive, and larger than one):

$$c \in (0, 1) \quad [6].$$

Hence, the default result that the multiplier is particularly more relevant for this analysis because its size is interdependent with / of economic variables - whose dynamic influences more or less indirectly, the quality and quantity of economic processes that generate pollution.

One such variable is the sphere of imports: the imports size (expressed in monetary units), because this is what concerns us here, have an inverse evolution of the size multiplier - and therefore of GDP [McConnell, (2003)]:

$$I_{\text{mp}} \uparrow \Rightarrow \frac{1}{1-c} \downarrow$$

The above formula can be truly understood if we include it in a broader framework, where we analyze the dynamics (of size) exports. Thus, using the notation above, in the GDP come to an end, the next ("net") variable [Miles, (2002)]:

$$E_{\text{xp}} - I_{\text{mp}} = \text{Net exports } (E_{\text{xN}}) \quad [7]$$

Assuming that exports are constant or grow slowly, while imports increase (the sensible), increased size of imports generates a chain of effects:

- (1) decreasing size of net exports;
- (2) decreasing size of multiplier;
- (3) as a result of (2), mathematically, decreasing size of GDP !;
- (4) diminishing the amplitude of pollution.

In other words, increasing the amplitude of pollution ($= \delta \cdot \Delta \text{GDP}$) cannot be done, in a national space, only by positive contribution of the national economy - eg with net exports increasing. In other words, if the economy does not "become"

environmentally friendly, clean, as is the case with (what remains of) the real economy of Romania today (2013), simply disappeared towards polluting industries of the economy - the largest part industry – the pollution can still be reduced significantly:

1. if the trade balance (net) records deficits, or
2. if the trade balance (net) is in excess in the conditions under which that State exports, massive, and very lucrative, services (e.g. touristic services).

The exports size and the imports size has a direct bearing on the size of the national income, on the one hand, and on the dynamics of consumption (understood as a phenomenon developed an economy-wide), indirectly, on the other hand, shortly - in algebraic terms - on the size of the multiplier, in two(different) ways .

Two-way, because the "marginal propensity to spending national income" and "marginal propensity to consume" are two equivalent expressions, because describe, using different concepts, but with convergent implications, the mechanism of the real economy functioning in and used by economic growth phenomena.

The connection between the national income consumption, at the real economy scale, and the personal income, at the individual consumer scale, and economic growth - including pollution expanding - is quantified by the size multiplier, the indicator where are incorporated the effects of using income planning (more specifically, of two types of income described here), but the plan itself of any consumer income using is carried out taking into account the (net) size of income.

More specifically, the marginal propensities to spending national income and to consume , have sizes direct - which is not necessarily (and) linear - proportional to consumers (taxpayers) income level ; fiscal policy is thus a factor of prime importance, even for designing the pollution amplitude size.

There are at least two perspectives, to which we approach the quantification of decontamination and environmental protection costs. A view allows assessment of the (average) size of these costs at any time, while the use of the other, the increment of increasing costs mentioned above can shape, even as a (first) approximation.

1) On one hand, in short-term, fiscal policy is certainly stable - and hence the tax burden at the same time is constant. At the same time, a certain amount of marginal propensity to consume determines the multiplier value, and hence a certain growth rate, also constant, of GDP – finally, of the expansion area of pollution phenomenon.

(2) The working hypothesis according to which, in the long term, extension in order to stimulate economic growth (in the long-term) often materialises in lower tax pressure, is at least acceptable, and probable accurate. It is known that the decreasing of fiscal pressure produces the diminishing of value multiplier [Gregory-Mankiw, (1999)]:

$$P_{\phi} \downarrow \Rightarrow \kappa_1 - \kappa_0 > 0 \quad [8].$$

Thus :

$$\kappa_1 - \kappa_0 > 0 \Leftrightarrow \frac{1}{1-c_1} - \frac{1}{1-c_0} > 0 \Rightarrow \frac{1}{1-c_1} > \frac{1}{1-c_0} \Leftrightarrow (1-c_1) > (1-c_0) \Leftrightarrow$$

$$\Leftrightarrow c_1 > c_0 \quad [9].$$

Thus, the fiscal pressure can act thus indirectly as a deterrent pollution. At the same time, the economic growth, so – given current technology – extending the amplitude of pollution exist and can survive in the long term only as a direct result of increasing marginal propensity to consume.

3. Conclusions

This demonstration is quite "cohesive" to enable outlining some conclusions. The benchmark on which we report the content of these findings is that, in reality, the quantifying of these costs is strictly a mathematical operation whose utility consists of drawing the ways to reduce costs.

About the marginal propensity to consume, the true axis that moves everything, i.e. the mechanism of expenditure/income at the macroeconomic level, and thus implicitly but automatically, the mechanism for producing pollution, we mentioned the key elements of any analysis of its dynamics.

The size of the marginal propensity to consume tends to decrease, in the long term, given that (average) income of consumers increases. But it was observed that, after decreasing the tax burden – in the short term – we obtain the following results [Gregory-Mankiw, (1999)]:

$$\begin{cases} \kappa_1 - \kappa_0 > 0 \\ \Leftrightarrow c_1 > c_0 \end{cases} \quad [10].$$

This term, Δc ($\Delta c = c_1 - c_0$), justifies itself, from that inequality – $\Delta c > 0$ –, into drawing a conclusion: the marginal propensity to saving / investment decreases when income increases in the short term and tends to increase in the long term.

And this, given that we must note that replacing polluting technologies with technologies less / no pollution requires substantial investments.

In conclusion, fiscal impulse it is a tool that in a economic (and legal) framework, in which all other instruments are used properly, allows, if itself it is used in a similar manner, the quantification of the costs of decontamination and protection environmental declining.

Besides, and this may be a final conclusion , these costs can be slightly reduced – and what obviously cannot get it at all easy in practice – when the structure of the

economy is – in the long-term, and according to a plan, not random – modified to match to a certain environmental policy.

This means that pollution can be limited to a maximum, in a state, if this state is characterized by a trade balance that records excess, in the conditions under which the state exports massive and highly profitable services – instead of goods.

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CONSIDERATIONS CONCERNING THE DETERMINANTS OF THE FIRMS' DEBT

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ABSTRACT

The capital structure of an enterprise represents one of the most debated subjects in theoretical and applied finance. In the current period of deep financial disturbances at macro and micro-economic levels, capital owners select investment with much more attention, by comparing the dividend rate, offered by the enterprise, and the interest rate of the bank or the profit rate obtained from other investments. Banking markets involve productivity, risk and consumer satisfaction. The risk factor is the main activity that the bank is focused on. Under these circumstances, it is certain that the situation and the image of the enterprise depend on the profit rate which, if looked at in terms of the use of profit as development source and as a method to gain capitals, ultimately determines the place of the enterprise on the market.

Keywords: *debt, financial structure, financial sources, regression model, efficiency.*

JEL Classification: G31, G32.

1. INTRODUCTION

When talking of enterprises, capitals are fewer and fewer, more and more expensive, and, in a context of strong competence, the expected profit is obtained with more difficulty, taking greater risks which are hard to anticipate and diminish. (Vintilă, 2008)

Although there are several criteria of selecting the capital sources of the enterprises, the capital cost represents the most important criteria of choosing the financing sources as it is determined directly by the financial structure established by the enterprise with the purpose of reducing the global cost of the capital as well as by the specific costs of different capital components. Therefore, in order to reduce the capital cost, managers wish a permanent improving of the capital structure favoring those sources for which investors ask for a smaller remuneration of their capital, which means arbitrage between own sources and borrowed sources.

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Debt is always cheaper than equity, but using debt increases risk in terms of default risk to lenders, and higher earnings volatility for equity investors. Thus, using more debt can increase value for some firms and decrease value for others, and for the same firm, debt can be beneficial up to a point and destroy value beyond that point. (Damodaran, 2004)

2. CONCEPTUAL ASPECTS OF DEBT

In borrowing money, firms have to make a variety of choices including the maturity of the borrowing (short term or long term), whether the debt should have fixed interest payments or an interest rate tied to market rates (fixed and floating rates), the nature of the security offered to those buying the bonds and how the debt will be repaid over time. (Damodaran, 2004)

The primary source of borrowed money for all firms is the bank, with the interest rates on the debt based upon the perceived risk of the borrower. Bank debt provides several advantages: (Damodaran, 2004)

- it can be used for borrowing relatively small amounts of money.
- if the company is neither well known nor widely followed, bank debt provides a convenient mechanism to convey information to the lender that will help in both pricing and evaluating the loan.

The Romanian credit market – not only that it has been the most affected by the financial crisis, but it has been the crisis itself. As it was the case everywhere, we could encounter in Romania as well a strong contraction of creditation, as a first consequence of the world economic and financial crisis. Nevertheless the negative effects have been measured and evaluated by specialists, the state has reduced its financing need on the bank market and banks began to relaunch the creditation process. The effects of the crisis on the creditation process have been disastrous, registering contractions of approximately 70-80%. Companies that were highly exposed to this market have been the most affected. The stagnation tendency, despite of Romanian National Bank taking some stimulating measures still characterises the present credit market.

The vulnerability of the bank system is determined by the diminution of the quality of credits in the context of recession, to which we can add the difficult situation of debtors who contracted foreign currency credits. Although nonperformant creances are at a manageable level, their growing rhythm represents a worrying reason for the financial stability. Presently, banks have sufficient sources to cover the contingent losses generated by the creditation risk. A delayed economic relaunching, the high creditation costs and a more cautious attitude of both banks and clients points to a continuation of the present tendencies in the future.

For firms, an alternative to bank debt is to issue bonds who have several advantages: (Damodaran, 2004)

- bonds usually carry more favorable financing terms than equivalent bank debt, largely because risk is shared by a larger number of financial market investors.
- bond issues might provide a chance for the issuer to add on special features that could not be added on to bank debt.

The Romanian bonds market is represented nowadays by 3 corporatist bonds emissions, 23 municipal bonds emissions, 25 government bond emissions and 2 emissions of international bonds. In a context in which stock are of no interest, Bucharest Stock Exchange (BSE) tries to reorient itself towards developing the bondholder market, especially that investors have shown interest on such instruments. Although the value of transactions with bonds have been rising, Romania occupies the last place in Europe in this area. The growth of the bonds offer at Bucharest Stock Exchange (BSE) depends on enterprises, which are rather skeptical to the usage of this financing mechanism, although the costs generated by the bondholder loan are more reduced than the bank ones.

An alternative approach that might accomplish the same goal is to lease the asset. In a lease, the firm commits to making fixed payments to the owner of the asset for the rights to use the asset. These fixed payments are either fully or partially tax deductible, depending upon how the lease is categorized for accounting purposes. Failure to make lease payments initially results in the loss of the leased asset, but can result in bankruptcy, though the claims of the lessors (owners of the leased assets) may sometimes be subordinated to the claims of other lenders to the firm. (Damodaran, 2004)

The Romanian leasing market dropped down with 30%, the most striking lowering being registered on the real estate and transport segments. The present situation the leasing companies are dealing with makes them more careful, their main concern being the stability of their portfolio and orientation towards less developed market shares. As far as market evolution is concerned, the most important thing in this period is stabilization of portfolios. Present leasing companies function on the contracts negotiated during the previous years. Players on the leasing market consider that predictability in the economic field and support from the state would be necessary conditions for a positive evolution of the market which depends on the state budget also, on the way debts are collected and paid because this aspect influences in turn payments at the client level.

3. ECONOMETRIC ANALYSIS OF THE MAIN FACTORS OF THE DEBT

The analysis of the capital structure of the enterprises listed at Bucharest Stock Exchange (BSE) between underlines that the main financing source is represented by ownership equity having an approximatively 58% weight, the rest of the capitals coming from external sources, especially from stock emission and long-term and short-term bank loans. This analyse highlights the fact that Romanian enterprises try to cover the financing necessary especially by means of own sources and only when these reached the limit do manager try to look for external sources: bank credits, leasing, stock emission firstly and bonds emission secondly.

Considering the above, the empirical analysis of the financial data was made by a multiple regression model who analysed the influence of six independent factors on the debt:

- *total assets (AT);*
- *own capital (equity) (KP);*

- *turnover (CA)*;
- *net profit (RN)*;
- *level of taxation (GF)*;
- *market-to-book ratio (MBR)*.

$$\log DAT = \alpha_0 + \alpha_1 \log AT + \alpha_2 \log KP + \alpha_3 \log CA + \alpha_4 \log RN + \alpha_5 \log GF + \alpha_6 \log MBR$$

Following the statistical tests of correlation, the result was that only for of the six independent variables are significant from a statistic point of view. Thus, the tested regression model will have the following form:

$$\log DAT = \alpha_0 + \alpha_1 \log AT + \alpha_2 \log CA + \alpha_3 \log KP + \alpha_4 \log MBR$$

The empirical analysis has as object the financial data from a number of 60 companies listed at BVB. The reason the chosen companies were from those listed at *Bucharest Stock Exchange (BSE)* is that a company is admitted at *Bucharest Stock Exchange (BSE)* on certain performance criteria and the listing represents an award for the efficient activity of the company.

Following the estimations of the parameters of the regression model, the result was the following output:

Dependent Variable: LEV				
Method: Least Squares				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-1.43E+08	43870359	-3.270592	0.0020
AT	1.406899	0.156672	8.979891	0.0000
CA	0.477503	0.112184	4.256409	0.0001
KP	-0.805702	0.106039	-7.598164	0.0000
MBR	-0.290485	0.099693	-2.913794	0.0054
R-squared	0.907145	Mean dependent var		7.48E+08
Adjusted R-squared	0.899565	S.D. dependent var		78903945
S.E. of regression	25005838	Akaike criterion	info	36.99514
Sum squared resid	3.06E+16	Schwarz criterion		37.17930
Log likelihood	-993.8687	F-statistic		119.6760
Durbin-Watson stat	2.266239	Prob(F-statistic)		0.000000

The regression model will have the following form:

$$\log DAT = -1.43 + 1.406 \log AT + 0.477 \log CA - 0.805 \log KP - 0.290 \log MBR$$

The meaning of parameters

Statistically from the elimination process of the insignificant factors towards the dependent variable Log DAT we may conclude that only the probability value (P-value) of the parameters LogAT, LogCA, LogKP and LogMBR is smaller than 0,01. Thus, all the regression parameters are insignificant statistically with the exception of the independent variables LogAT, LogCA, LogKP and LogMBR which have an important influence on the dependent variable Log DAT.

The validation of the model

In order to decide if the model is valid we will see the value of F-statistic and Prob (F-statistic). As the probability of the test F (Prob (F-statistic)) is 0.000000 and smaller than 1% we may say that the regression model is valid and can be used for the analysis of the dependence between Log DAT and the independent variables of the model.

R-squared Coefficient R^2 is 0.907145 and proves the determinative grade used to show how the regression model explains the dependence between variables. Thus, approx. 90.71% of the dept variation (LogDAT) is explained by the parameters variation used in the regression model, namely the value of the coefficient R^2 shows a very low degree in explicating the model.

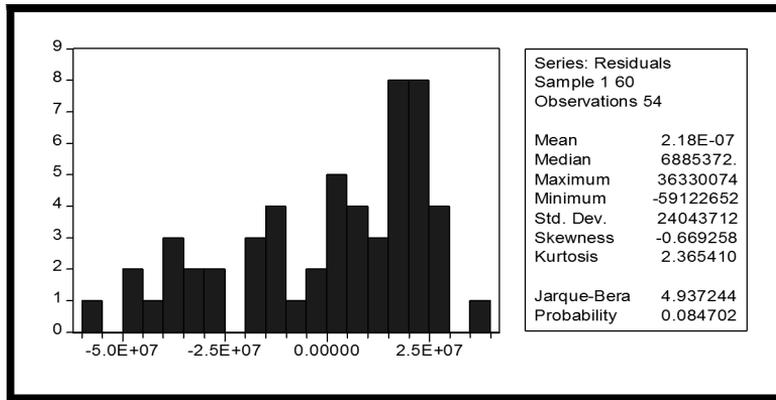
Adjusted R-squared is 0.899565.

The values calculated for *R-squared* and *Adjusted R-squared* for a regression model should show the following relation: $R^2_{adjusted} \leq R^2$. For the analysed regression model the value of the *Adjusted R-squared* is in accordance with the conclusions drawn from the analysis of R^2 .

We may consider that the Adjusted R-squared assures a higher precision than R-squared. If the Adjusted R-squared is significantly smaller than R-squared it means that certain explicit variables are missing and without these ones the dependent variable is not completely measured and this is not relevant in our case because the difference between them is very low 0.00758.

Hypothesis testing

The Hypothesis testing is checked by the Jarque-Bera test. The test measures the difference between the asymmetrical coefficient and the analyzed distribution kurtosis with the normal distribution. Thus, if the probability of the test is higher than the chosen relevant level then the zero hypothesis is accepted.



Histogram – Normality Test

For a normal distribution: the skewness coefficient is 0.669, meaning that the normal distribution is symmetrical and the kurtosis is 2.365. If the value of this indicator is smaller than 3 then the distribution is called platikurtosis.

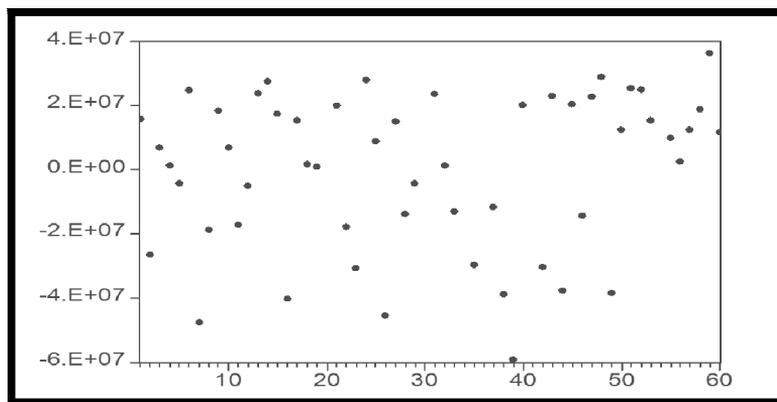
According to the results of this model the distribution LogDAT has an average bigger than zero, presents a positive asymmetry and the kurtosis has a value under 3 which means that the distribution is platikurtosis.

Taking into account that the Jarque-Bera test has a value of 4.937 and the probability is 0.084 > 1% means that the zero hypothesis is accepted.

R-squared	0.907145	Mean dependent var	7.48E+08
Adjusted R-squared	0.899565	S.D. dependent var	78903945
S.E. of regression	25005838	Akaike info criterion	36.99514
Sum squared resid	3.06E+16	Schwarz criterion	37.17930
Log likelihood	-993.8687	F-statistic	119.6760
Durbin-Watson stat	2.266239	Prob(F-statistic)	0.000000

As a result of Durbin-Watson test for the residues’ autocorrelation we get a value of 2.266239 (not being between 1, 8 – 2, 2) which means that between the residues there is correlation.

In the next figure we presented the way in which the analyzed regression residues are distributed and we may notice that the residues values have a constant distribution, being dispersed and auto correlated.



Residual distribution

Breusch-Godfrey Serial Correlation LM Test:			
F-statistic	0.472889	Probability	0.626132
Obs*R-squared	1.065203	Probability	0.587076

The most important part of the output test is the first one which presents the two statistic tests *F-Statistic* and *R-squared* and the probabilities associated to these tests. The zero hypothesis of those two tests is that *there is no serial correlation of the regression equation's errors*. If the probability associated to the two tests is lower than the relevant level then the zero hypothesis is rejected, so there is no serial correlation. Otherwise the zero hypothesis is accepted (there is no serial correlation).

According to the results of this regression the probabilities are higher than the relevant level (0.01) which means that *there is no serial correlation of the errors*.

Heteroskedasticity Test: White			
F-statistic	1.582466	Probability	0.157064
Obs*R-squared	11.85620	Probability	0.157736

As the Breusch-Godfrey test, the most important parts of the output are the two statistic tests *F-Statistic* and *R-squared* and the probabilities associated to them. The zero hypothesis of these two tests is that there is a *heteroscedasticity* of the regression equation's errors. If the probability associated to the tests is lower than the relevant level than *the zero hypothesis is not rejected*, so we have a *homoscedasticity* of errors. If not the zero hypothesis is accepted.

According to results the probability is $0.157 > 0.01$, so that the zero hypothesis is not accepted and this means that we have *heteroscedasticity* – the variables' *dispersion* is not constant.

The results obtained with the help of the regression model reflect the fact that the independent variables taken into consideration explain in a great measure the evolution of the analyzed dependent variable.

Correlation of the dependent variable with the independent variables	
Independent variables of the model	Sign of the dependent variable correlation (LogDAT) with the independent variables
AT	+
CA	+
KP	-
MBR	-

4. CONCLUSION

After processing the financial information of the companies presented in the database with the support of the multiple linear regression we may conclude that the financing structure used by the enterprises is according to the principles of the pecking order theory, meaning that at first the company will try to cover the financial needs from their own resources and then the enterprise will apply to indebtedness. Debt is always cheaper than equity, but using debt increases risk in terms of default risk to lenders, and higher earnings volatility for equity investors.

Also, as far as the structure of the debts listed at BVB, which make the object of the present study, it is obvious that the management of these enterprises prefer debts with due date shorter than one year to debts with due date longer than one year. This tendency of managers engaging debts on rather short terms can be explained by the restrictive conditions imposed by Romanian financial institutions (banks and leasing companies) when approving long-term loans.

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ECONOMIC CONCEPTUALIZATION OF NEGATIVE ENVIRONMENTAL EXTERNALITIES

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Abstract

In response to various pressures of society, economic agents polluting behaviors began to report externally on its environmental policy and performance. The importance of such an external report depends on the degree of change required in management culture and systems, in how new environmental protection measures influence management decisions.

"Internalization of externalities" implies a reassessment of how to identify and measure the relevant costs of processes and products (such as a "total cost assessment") and to design mechanisms for stimulating innovation. Following these changes, management decisions and behavior could be reoriented, aimed at the establishment of sustainable development, for example by applying a viable industrial ecology.

Key words: negative externalities, external costs, internalization of externalities

JEL classification: Q31, Q32, Q52

1. Introducing

By definition, markets do not include the effects of externalities or external costs. It is therefore important to identify the external effects of production systems and then to quantify their internalization of external costs. Internalization of external costs is made by a public authority and / or exchange through appropriate policy measures such as taxes and duties corrective changes, reduces the initial level of pollution production [10]. Before such measures are taken, policy makers should be informed about the existence and extent of external costs of different production systems. Need for calculating external costs is based on the following reasons:

- External costs immeasurable environmental conflict worsens. Decision-making process should be supported by an assessment of external costs be undergoing environmental mitigation or compensation in the final stage;
- Rules affecting competition, favoring technological development harmful ways;
- Affect the allocation of public resources, using resources from more efficient users (usually health system to reduce costs those in education and research - development);

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- Reducing efficiency and social productivity of labor, one of the main factors in the development of a state [6].

2. The importance of environmental costs

The importance of environmental costs lies in the fact that these external costs are large social system and they are not just a symptom of serious environmental problems, but also problems of economic and social justice.

External costs can vary widely between countries, regions or cities, are considered barriers to healthy development of economy. Correcting elements that generate external costs is one of the conditions for sustainable development.

Knowledge of external costs, claims, damages, economic and social operators induced by the specific activities and their calculation is important for:

- calculation of externalities is essential to obtain an accurate analysis of cost-benefit analysis (CBA);
- the existence of large externalities known people, such as those related to environmental impact, is an obstacle to market price, in an attempt to reach a state of equilibrium between supply and demand;
- public policy should act to reduce external costs by applying environmental regulation and economic fairness in taxation policy based on the principle that the "polluter pays" principle;
- It is far better to estimate external costs than to ignore their existence [14].

Economic evaluation of environmental damage and estimation of external costs are of particular importance for the design and evaluation of environmental policy instruments (economic evaluation of environmental damage is of paramount importance to substantiate tariffs and subsidies based on environmental issues). Thus, criticism of environmental policy or tax increases purely motivated by environmental taxes can be offset by a scientific foundation "safety threshold" of damage costs related to enabling a comparative assessment of the environmental

Economic evaluation aims at assigning monetary values to environmental use. In economic terms, using produce cost environment where there is conflict between uses, and / or quality of goods is affected considerably beyond tolerable. This means that the environmental good in question is a rare commodity in the economic sense. However, in addition to the direct costs of use, there are also indirect costs to be considered, such as those affecting the environment negatively impact human health, either directly or through various impact pathways. If the environmental impact is taken into account, this leads to external effects - negative effects that expressed in monetary terms are referred to as external costs [3].

This is a feature of external costs: these costs are borne by the parties responsible, but by individuals (or society as a whole), which have no direct or indirect relationship with the relevant actors on the market.

Measure propensity to pay, to incur a loss is the common goal of assessment methodologies, which distinguishes them, however, is how to calculate the willingness to pay.

Estimation of external costs is a procedure for their evaluation, both qualitatively and quantitatively being done in the following steps:

- The analysis: assessment and description of the objectives in the context of its deployment;
- Design of business impact factors and impact of the main methods;
- A quantitative estimate impact methods;
- A final economic assessment of the effects produced by the application of monetary value [2].

3. Transfer of externalities

Given the large number of external cost categories, the number of components of environmental costs and the types of impact assessed in each category often arises whether a trader polluter can afford a full study or evaluation should rely at least partly on existing case studies in the literature. However, if we rely on existing studies, the question is what studies should be considered benchmarks and the selection criteria should be applied if the average values of damages would be excluded from the case studies, the methods and assumptions that led to the results. Also, special attention should be paid to the choice of the main criteria of correction to be applied in transfer cost - benefits and key parameters affecting transfer of damages context.

In an ideal situation, when all the information needed to assess the external costs of an activity are available, external costs are measured by the sum of the variances economic utility exposed to the effects of all factors final methods planned impact generated by the activity. This shall be done following steps:

- Framework of analysis;
- Selection and modeling of different ways to impact the environmental context and time in which it operates;
- Economic assessment of utility losses arising due to the impact on the environment.

In theory, this procedure involves a complex modeling in an uncertain framework, and economic evaluation phase, the company must carry out numerous studies on willingness to pay, one for each category of impact study. In this case, we are talking about very high evaluation costs, which could be reduced by using values already recorded in the case studies in the literature. In some cases, even impact reconstruction chemical and physical methods can be simplified through an appropriate benefit transfer [4].

To avoid failures of assessment, transfer costs in the literature (an operation is inevitable to some extent) is based on the following steps:

- Knowledge of a number of case studies or reviews (authors, sponsors, assumptions, methodologies, results, etc.);
- Selecting the best values of damage or functions;
- Applying appropriate transfer criteria for social and economic context under evaluation, environmental sound criteria and economic criteria. This is the main

reason why environmental economist should always be part of the evaluation team of external costs [11].

4. Self-protection measures for environmental negative externalities

Economic actors polluting behaviors have a different attitude towards risk. This approach depends on several factors, including the nature of the risk, the probability of losing entity, the potential seriousness of loss and its economic consequences. Assuming that the operator demonstrates rationality and perfect information, economic actors are able to calculate the actual value of a given risk by discounting the magnitude of losses [9].

Polluting behavior of economic agents often reduce the severity of undesirable events. Once the risk is properly identified and assessed on the internalization of externalities decisions still need to be taken immediately. In this perspective, economic actors can have the following attitudes:

- Economic agents 'risk aversion' - businesses assume risks: are willing to pay more than the actual risk, in order to transfer its damaging consequences of someone else's work;

- Economic agents' preference for risk ", prefer to keep the risk of loss,

- Operators have an attitude "risk neutral" where are indifferent about the choice between:

- (A) Determining risk and

- (B) Transfer the risk to someone else through advance payment of an amount equal to its true value [12].

Businesses can self-protect by passing negative externalities from other agents. An economic self-protection may also reduce or filter the severity of occurrence from which other business could suffer.

I believe that X_i is physical measures of self, the agent and to adopt measures that X_j is agent j .

From formula, I express the expected damage function of agent i as follows:

$$D_i(X_i, X_j) = [1 - \pi_i(X_i, X_j)] L_i(X_i, X_j) \quad (1)$$

$[1 - \pi_i(\bullet)]$ is the probability that agent i will suffer an economic loss $L_i(\bullet)$.

Expected loss function highlights two key components of a potential undesirable event: the probability that the event will occur $1 - \pi_i(\bullet)$, and its severity, $L_i(\bullet)$, where the event actually happens. The difference between probability and severity is unnecessary. It was) demonstrated empirically (Shogren, 1991), that individuals recover more of an unwanted event less likely than reducing the severity of its occurrence [16].

The self agent will reduce the expected damages as follows:

$$\frac{\partial D_i}{\partial X_i} < 0 \text{ is } \frac{\partial \Pi_i}{\partial X_i} > 0 \text{ and } \frac{\partial L_i}{\partial X_i} < 0$$

Since a trader can resort to self-protection for unwanted environmental externality, we aim to study the efficiency of non-cooperative behavior and economic cooperation [1].

We consider two undertakings, i and j , facing possible economic losses as a result of exposure to negative externalities. In this case we have the following possible scenarios:

1. two economic agents, i and j , does not cooperate, but each take measures of self-protection;
2. the two economic agents, i and j , can cooperate if it is jointly adopt self-protection measures;

1. two economic agents, i and j , does not cooperate, but each take measures of self-protection

Given that self-protection measures exist economic costs polluters i and j can be written:

$$C_i(X_i, X_j) = P_i(X_i) + D_i(X_i, X_j)$$

$$C_j(X_i, X_j) = P_j(X_j) + D_j(X_i, X_j)$$

Expected environmental costs (minimized) for polluting economic agents i and j are:

$$\text{Min}_{X_i} C_i(X_i, X_j) = P_i(X_i) + D_i(X_i, X_j)$$

$$\text{Min}_{X_j} C_j(X_i, X_j) = P_j(X_j) + D_j(X_i, X_j)$$

Where: $C_i(X_i, X_j)$ = i the economic costs and externalities are included

$C_j(X_i, X_j)$ = j trader costs which include externalities

We form a system so that we have:

$$\frac{\partial C_i}{\partial X_i} = \frac{\partial P_i}{\partial X_i} + \frac{\partial D_i}{\partial X_i} = 0$$

$$\frac{\partial C_j}{\partial X_j} = \frac{\partial P_j}{\partial X_j} + \frac{\partial D_j}{\partial X_j} = 0$$

If there is no cooperation between economic solutions of these equations are of the form (x_i, x_j) ,

$C_i(X_i, X_j)$ can be greater than $C_j(X_i, X_j)$ ($C_i(X_i, X_j) > C_j(X_i, X_j)$) or $C_i(X_i, X_j)$ be less than that $C_j(X_i, X_j)$ ($C_i(X_i, X_j) < C_j(X_i, X_j)$)

It is noted that a lack of cooperation behavior unilaterally may lead to inadequate allocation of resources; and focused actions can increase economic efficiency. What is important to remember when uncooperative behavior is that with a self-transferable and filterable externalities can create, in turn, another externality. It is considered that most environmental policies can only transfer, not solve existing externalities [17].

In the absence of government limits imposed on the activities uncooperative, irresponsibility shown by some businesses make better environment and its preservation seem very expensive [5].

Conventional theory that ignores transferability, leads to the conclusion that the efficient resolution of externalities requires reduction. Transferable negative externalities theory shows that a trader who does not cooperate with the rest polluting businesses will cause great environmental damage. The strategic control of externalities, which encourages cooperation between economic agents polluting behavior, should be resumed consideration. When externalities transfers are possible, technically speaking, are merely strategies to increase the degree of inefficiency, emerged from uncooperative behavior [15].

2. *two economic agents i and j jointly cooperate and adopt self-protection measures*

Given that self-protection measures exist cooperative solution provides that common environmental costs to be minimized as follows:

$$\text{Min } C = C_i (X_i, X_j) + C_j (X_i, X_j) = P_i (X_i) + P_j (X_i, X_j) + D_i (X_i, X_j) + D_j (X_i, X_j)$$

$$\frac{\partial C}{\partial X_i} = \frac{\partial P_i}{\partial X_i} + \frac{\partial D_i}{\partial X_i} + \frac{\partial D_j}{\partial X_i} = 0$$

$$\frac{\partial C}{\partial X_j} = \frac{\partial P_j}{\partial X_j} + \frac{\partial D_j}{\partial X_j} + \frac{\partial D_i}{\partial X_j} = 0$$

for negative externalities $C (X_i, X_j)$ and $C (X_i, X_j)$. The estimated costs include the cost of protection $P (X)$ and damage function $D (X, q)$. Thus, it can be shown that where there is self-protection, an externality can be transferred from one company to another, then don't cooperate behavior will lead to overprotection. If self-protection or reduce externality, a trader refusal to cooperate will lead to exposure.

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Conventional theory that ignores transferability, leads to the conclusion that the efficient resolution of externalities requires reduction. Transferable negative externalities theory shows that a trader who does not cooperate with the rest polluting businesses will cause great environmental damage. Control strategies externality, which encourages cooperation between economic agents polluting behavior, should be resumed consideration. When externalities transfers are possible,

technically speaking, are merely strategies to increase the degree of inefficiency, emerged from uncooperative behavior [13].

5. Conclusions

The results suggest that coordination of protection activities among economic agents polluting behaviors earnings will increase global environmental policy. The internal European Single Market in 1992, coordination of protection between economic agents polluting behaviors, minimizes environmental costs reducing public credibility of those who claimed that these measures are very costly environmental policy.

It has become essential for businesses with polluting behavior to assume greater responsibility for environmental issues and to adapt current practices, seeking to produce increasingly less environmental damage. Harnessing this responsibility is therefore a key element in any strategy to achieve the objective sustainability [7]. Evaluating the feasibility of such a strategy requires not only scientific problems, and attention to political, economic, social and organizational, are necessary. A key factor in this process is to change the way companies make decisions that will impact on the environment.

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THE IDENTIFICATION OF THE MARKETING APPROACHES USED IN THE ROMANIAN AUTOMOTIVE MARKET - A MARKETING RESEARCH -

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Abstract

This paper represents a consistent analysis of the automotive industry in Romania based on secondary data.

The secondary data already exist, being collected for other purposes (Cătoi et al, 2009). By analysing such data, a company can comprehend the main directions and traits of a particular situation being a fast, cheap (Kotler and Armstrong, 2008) and even reliable solution. Anyway, the analysis of the secondary data sources is seldom a complete solution for uncovering the necessary data but definitely can be considered a suitable starting point (Kotler and Keller, 2006) for decision making.

The present analysis was performed using a model proposed in 2009 (Cătoi and Edu, 2009) and tested and improved in 2011 and 2012 through the analyses of the Romanian marketing companies (Edu and Negricea, 2011), banks (Cătoi, Edu and Negricea, 2011) and Internet Service Providers (Cătoi, Edu and Negricea, 2012). This model consists of a grid split mainly into seven sections: marketing environment, buying and usage behaviour, product, price, marketing communication, distribution and personnel policies.

Key words: Marketing, Secondary data, Automotive market

JEL Classification: M31

1. Introduction

The Romanian motor vehicle, also named automotive market is a highly competitive one comprising the two local manufacturers, Renault and Ford, importers and dealers. This market is still searching for ways to bounce back to the high volumes recorded prior to 2008, being hit hard by the economic downturn which affected the global and local economies. In 2012, the total number of motor

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vehicles sold in Romania reached 87.505 units representing a 20.9% drop compared to 2011 (APIA, 2013).

Across the market, total shipments (cars and commercial vehicles) decreased by 6.6.% in the first three months of 2013, compared to the same period last year. The cars are to be noted, unfortunately with a decline in sales of 6.9%.

The situation is not different from what happens in Europe, where it can be observed a significant decrease in new car registrations (-9.8% compared to the same period in 2012). The main countries (France -14.6%, Germany -12.9%, Italy - 13% and Spain -11.5%) recorded decreases above average.

In Romania, the sales are still supported by the legal entities purchases (84% of the total in March), while the sales to the individuals represent only 16% of the total (decreasing 3 points compared to the previous month). In addition, there still is the negative impact of massive import of used vehicles, at a volume of approx. 53,000 cars and 11,200 commercial vehicles having increased by 50% respective 12.3% compared to 2012. From these figures, it follows that for every single new car sold in Romania there have brought other 4.7 used cars! Even worse is the fact that 28,730 (over 54%) of the used vehicles are older than 10 years, ie 2.2 times more than the new cars sold through national networks of local producers and importers (<http://www.apia.ro/buletin-statistic/>).

For cars, in the first quarter of 2013 the top brands are Dacia, with 3,622 sold units (28.1% of total), followed by Volkswagen (1,423 units / 11.1%), Skoda (1,163 units/9%) Renault (783 units / 6.1%), Ford (725 units/5.6%) and Hyundai (628 units/4.9%). By origin, there is a decrease in the car sales from the domestic production (17.8%), while the import cars increased by 0.7%.

In terms of vans(plus minibuses), there is an increase of 15.5% compared to the same month in 2012. The top brands are Dacia, Citroen, Volkswagen, Fiat and Renault, having together about 70% of the market.

According to the forecasts of Moody's rating agency, for 2013, global car sales will increase with only 2.9%, below the forecast from the beginning of the last year which was 4.5%. The growth revision is driven by weaker-than-expected demand in Europe and slowing economic pace in China. The western European light vehicle demand will contract in 2013 by 3%, compared with its January forecast of 3% growth, because of weaker markets in southern Europe and in Italy especially. Moody's has revised lower its forecast for light vehicle demand in China, to 8.5% from its January expectation of 10% growth. (<http://www.wnd.com/markets/news/>).

2. Research methodology

1. Research purpose

Our purpose was to identify the marketing approaches used within the Romanian automotive industry.

In the automotive industry we included the manufacturers, importers and dealers acting as suppliers in Romania.

2. Research objectives

We split the purpose into seven objectives, pertaining to the identification of the:

- 2.1 Marketing approaches in relation to the marketing environment
- 2.2 Marketing approaches in relation to the determination of the buying and usage behaviour in the automotive market
- 2.3 Marketing approaches in relation to the product policy
- 2.4 Marketing approaches in relation to the price policy
- 2.5 Marketing approaches in relation to the marketing communication
- 2.6 Marketing approaches in relation to the distribution policy
- 2.7 Marketing approaches in relation to the personnel (staff) policy

3. Research hypotheses

We built one hypothesis for each of the above-mentioned objectives:

- 3.1 The Romanian automotive companies gather data about the marketing environment and pursue marketing approaches related to:
 - 3.1.1 the features of the industry/market and tendencies on it
 - 3.1.2 acquisitions and diversification
 - 3.1.3 market share
 - 3.1.4 suppliers and partners
- 3.2 The Romanian automotive companies collect data about the buying and usage behaviour and pursue marketing approaches in relation to:
 - 3.2.1 product satisfaction
 - 3.2.2 buying behaviour
 - 3.2.3 buying intentions
 - 3.2.4 segmentation studies
- 3.3 The Romanian automotive companies' marketing approaches in relation to the product policy can be found in one or more of the following categories:
 - 3.3.1 concept development and testing
 - 3.3.2 brand name generation and testing
 - 3.3.3 brand awareness
 - 3.3.4 brand image

- 3.3.5 test market
- 3.3.6 product testing
- 3.3.7 product assortment

- 3.4 The Romanian automotive companies pursue marketing approaches for the price policy in the following areas:
 - 3.4.1 cost analysis
 - 3.4.2 profit analysis
 - 3.4.3 price flexibility
 - 3.4.4 demand analysis: market potential; sales potential; sales forecasting

- 3.5 The Romanian automotive companies consider promotional approaches related to:
 - 3.5.1 motives which determine the choice for a means of communication
 - 3.5.2 mass communication means
 - 3.5.3 advertising message
 - 3.5.4 advertising efficiency: before/after broadcasting
 - 3.5.5 events, fairs, exhibitions
 - 3.5.6 sponsorships
 - 3.5.7 promotional instruments such as special offers, prizes, coupons etc

- 3.6 The Romanian automotive companies use distribution approaches which cover the following areas:
 - 3.6.1 office location
 - 3.6.2 distribution channel's performance
 - 3.6.3 distribution channel's coverage
 - 3.6.4 network infrastructure
 - 3.6.5 international cooperation

- 3.7 The Romanian automotive companies consider marketing approaches in relation to the personnel policy which could refer to:
 - 3.7.1 recruitment policy
 - 3.7.2 training
 - 3.7.3 staff compensation
 - 3.7.4 interaction procedures with clients

4. Research variables

Table 1- Research variables

Variable	Definition	Directions for research
Marketing approaches	Objectives, strategies and tactics used in order to create and deliver value to customers in order to gain value in return	Objectives, strategies and tactics pertaining to: <ul style="list-style-type: none"> - business/ economic or company - buying behaviour - product - price - promotion - distribution - personnel
Marketing environment	The sum of forces which act in a direct or indirect manner upon the organisation	Data about: <ul style="list-style-type: none"> - industry/market features and tendencies - acquisitions and diversification - market share - suppliers and partners
Buying and usage behaviour	The sum of individual or group decisions directly connected to the acquiring and use of goods and services for the satisfaction of the current and future needs, including decision processes which precede and determine these acts	Data about: <ul style="list-style-type: none"> - product satisfaction - buying behaviour - buying intentions - Segmentation
Product	The product, service, idea or combination of these with which the organisation is present in the market	Data about: <ul style="list-style-type: none"> - concept development and testing - brand name generation and testing - a test market - brand awareness - brand image - product testing - product assortment
Price	The sum of money which must be paid by the buyer to the seller in order to acquire the offer	Data about: <ul style="list-style-type: none"> - cost analysis - profit analysis - price flexibility

		- demand analysis: market potential; sales potential; sales forecasting
Promotion	The endeavours in which the prospect is informed about the organisation's offer and persuaded to purchase it	Data about: - motives which determine the choice for a means of communication - mass communication means - advertising message - advertising efficiency: before/after broadcasting - events: fairs, exhibitions etc - sponsorships - promotional instruments such as special offers, prizes, coupons etc
Distribution	The processes and routes through which an offer reaches a client	Data about: - office location - distribution channel's performance: partners, dealers - distribution channel's coverage - network infrastructure - international cooperation
Personnel	The function and processes which handle recruitment, training and compensation of staff	Data about: - recruitment policies - trainings and courses for the company's staff - the staff's compensation system - the procedures/ methods/ techniques used to interact with the clients

5. Population

The researched population is represented by the automotive manufacturers, importers and dealers present in Romania.

6. Secondary data study guide

The study guide was designed in accordance with the research purpose and objectives. This guide was structured in the following chapters:

- business/economic or company
- buying behaviour
- product and brand
- price
- promotion
- distribution
- personnel

For each section, the study guide had the following structure

Table 2- Business/economic or company research

Business/economic or company- data about:						
Industry/market features and tendencies	Acquisitions and diversification	Market share	Suppliers and partners	Other	Description	Source

Table 3- Buying behaviour research

Buying behaviour – data about:						
Product satisfaction	Buying behaviour	Buying intentions	Segmentation	Other	Description	Source

Table 4- Product research

Product and brand- data about:									
Concept development and testing	Brand name generation and testing	Brand awareness	Brand image	A test market	Product testing	Product assortment	Other	Description	Source

Table 5- Price research

Price- data about:						
Cost analysis	Profit analysis	Price flexibility	Demand analysis: market potential; sales forecasting	Other	Description	Source

Table 6- Distribution research

Distribution- data about:							
Office location	Distribution channel's performance: partners, dealers	Distribution channel's coverage	Network infrastructure (number of stores, types etc)	International cooperation	Other	Description	Source

Table 7- Promotion research

Promotion- data about:									
Motives which determine the choice for a means of comm.	Mass communic. means	Advertising message	Advertising efficiency: before/after broadcasting	Events: fairs, exhibitions etc	Sponsorships	Promotional instruments, such as special offers, prizes, coupons etc	Other	Description	Source

Table 8- Personnel research

Personnel- data about:						
Recruitment policies	Trainings and courses for the company's staff	Staff compensation systems	Client interaction procedures/ methods/ techniques	Other	Description	Other

7. Sources of secondary data

The secondary data sources were structured in several chapters to facilitate the study:

- 7.1 Web sites of motor vehicle manufacturers with plants in Romania
- 7.2 Web sites of motor vehicle importers and dealers
- 7.3 Reports and statistics issued by public and private institutions
- 7.4 News Web portals
- 7.5 Newspapers
- 7.6 Specialised publications in motor vehicles
- 7.7 Blogs and forums about or related to the automotive market and industry

8. Research conclusions

After analysing the secondary data sources⁴ structured in: Web sites of motor vehicle manufacturers with plants in Romania, importers and dealers, reports and statistics issued by public and private institutions, news web portals, newspapers, specialised publications in Auto, blogs and forums about or related to the automotive market and industry- 363 relevant references were identified. These references were

⁴ The analysis was performed with the help of students from the Master of Business Marketing as part of their semester project

analysed using the subcategories of the study guide with a special consideration for the “other” subcategory.

In order to match these references with the research objectives, each objective was analysed considering on one hand the predefined subcategories and on the other hand the “other” subcategory.

Objective no. 1- The identification of the marketing approaches in relation to the marketing environment.

After analysing the collected data, it was concluded that this objective had been accomplished. In this regard it can be said that the Romanian automotive companies gather data about the marketing environment and pursue marketing endeavours related to:

- the features of the industry/market and tendencies on it
- acquisitions and diversification
- market share
- suppliers and partners

The Romanian automotive companies gather data, also, about other aspects related to the marketing environment and consider of significant importance marketing actions in areas, such as:

- environment
- competitive strategies
- state-supported car replacement programmes

The hypothesis formulated for this objective was partially confirmed because other marketing approaches were found besides the ones asserted in this hypothesis.

Objective no. 2- The identification of the marketing approaches in relation to the determination of the buying and usage behaviour on the auto market.

The analysis of the gathered data concluded the accomplishment of this objective. The Romanian automotive companies collect data about the buying and usage behaviour and pursue marketing approaches in relation to:

- product satisfaction
- buying behaviour
- buying intentions
- segmentation studies

Related to this section, the Romanian automotive companies gather data about other aspects and, as a consequence, pursue marketing actions in areas, such as:

- consumer behaviour measurement instruments
- user benefit improvement

The hypothesis formulated for this objective was partially confirmed because other marketing approaches were found besides the ones mentioned in this hypothesis.

Objective no. 3- The identification of the marketing approaches in relation to the product policy.

The analysis of the collected data concluded the accomplishment of the 3rd objective. The Romanian automotive companies assume product decisions which cover the hypothesised categories:

- concept development and testing
- brand name generation and testing
- brand awareness
- brand image
- test market
- product testing
- product assortment

Other product-related marketing approaches were uncovered by the collected data which could be grouped as follows:

- car tuning services
- car repairing services
- second hand sale
- innovation
- car rentals
- buy-back offers
- test drives

The hypothesis formulated for this objective was partially confirmed because other marketing approaches were found besides the ones asserted in this hypothesis.

Objective no. 4- The identification of the marketing approaches in relation to the price policy.

The analysis of the collected data concluded the accomplishment of the 4th objective. The Romanian automotive companies pursue price-related marketing approaches which cover the following areas:

- cost analysis
- profit analysis
- price flexibility
- demand analysis: market potential; sales potential; sales forecasting

In accordance with the collected data in the “other” subcategory, the Romanian automotive companies assume price-related marketing approaches pertaining to:

- price level determination
- financing

The hypothesis formulated for this objective was partially confirmed because other marketing approaches were found besides the ones asserted in this hypothesis.

Objective no. 5- The identification of the marketing approaches in relation to the marketing communication.

Based on the analysis of the collected data, the 5th objective was accomplished. The collected data reflect that the Romanian automotive companies’ marketing approaches related to the marketing communications lie within the following categories:

- motives which determine the choice for a means of communication
- mass communication means
- advertising message
- advertising efficiency: before/after broadcasting
- events, fairs, exhibitions
- sponsorships
- promotional instruments such as special offers, prizes, coupons etc

Other marketing approaches were identified in relation to the marketing communication. These approaches refer to:

- showroom design and maintenance
- online community management
- direct communication
- discounts
- cross-communication messages

The hypothesis formulated for this objective was partially confirmed because other marketing approaches were found besides the ones asserted in this hypothesis.

Objective no. 6- The identification of the marketing approaches in relation to the distribution policy.

Based on the analysis of the collected data, the 6th objective was accomplished. The Romanian automotive companies’ marketing approaches pertaining to distribution refer to:

- office location
- distribution channel’s performance
- distribution channel’s coverage

- network infrastructure
- international cooperation

Based on the gathered data, these companies consider, also, marketing approaches related to:

- exclusivity for a brand or for a geographic area

The hypothesis formulated for this objective was partially confirmed because other approaches were uncovered by the collected data.

Objective no. 7- The identification of the marketing approaches in relation to the personnel policy

The analysis of the collected data concluded the accomplishment of the 7th objective. The personnel-related marketing approaches of the Romanian automotive companies lie, mainly, within the categories mentioned below:

- recruitment policy
- training
- staff compensation
- interaction procedures with clients

The hypothesis formulated for this objective was entirely confirmed because all collected data was included in the pre-defined subcategories.

Conclusions

It can be concluded that the marketing approaches of the Romanian automotive companies are broad and diversified, covering a wide myriad of areas, objectives, strategies and tactics.

This research represents a starting point in understanding the complexity of the automotive market and provides comprehensive information about the endeavours of the suppliers in this market. These outcomes can prove very useful to businesses acting in this market or related markets, such as insurance, banking, garages and the current model can be tailored to accommodate different peculiarities required by different entities (businesses, regulatory authorities, associations etc).

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PROSPECTS FOR EURO ADOPTION IN ROMANIA

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Abstract

Enlargement of the Union is one of the major projects undertaken by the European Union. Basically, Romania's decision to join the European Union is a strategic orientation in close contact with all political forces of the country. Through this study, are highlighted provisions imposed to Romania by the European Union covering the road to euro adoption, and within our country falls or developing solutions on the economy, thus boosting Eurozone entry. So we can say that the euro adoption process will not be easy. By adopting a mix of economic policies in a country should be considered conditions in the country, the policy effects that will take place in previous years and especially targets that are pursued. Euro means a safe monetary policy with one single essential objective - the monetary stability. Also, the introduction of the euro lay the foundations for large building whose lifting will have to contribute all.

Keywords: monetary integration, convergence criteria, adoption of the euro, inflation

JEL Classification: E31, E52, E60

Introduction

Accession to the European Union on 1 January 2007 did not mark the end of the nominal and real convergence towards the euro area, on the contrary, it should continue, perhaps even faster than before. In this context, monetary policy plays a key role in the convergence process, achieve and maintain price stability stimulating sustainable economic growth.

Based on these considerations, in the research, we analyzed the theoretical foundations of monetary policy, the process of European monetary integration and common monetary policy, research focusing on the final monetary policy pursued by the National Bank of Romania, its evolution, its impact on the economy real and particular challenges you have to face in the future from the perspective of euro adoption.

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Next, I made a summary of the main sources of literature on monetary integration dominant theory - the theory of optimum currency areas and the steps and conditions for the Monetary Union.

In the last part we made an analysis of real and nominal convergence criteria that need to be fulfilled by Romania before the adoption of the single currency. Regarding the situation of the achievement of nominal convergence criteria by Romania, it is characterized by an unfavorable time, only one criterion being fulfilled at this time.

Economic and Monetary Union and the euro

Although the problem of monetary unions is perhaps more relevant than ever, both for developed countries that have already joined the euro area and for the least developed preparing to meet the criteria for being accepted, in the economic literature this subject appeared long time ago. The classical theory of optimum currency areas has existed since 1961 in an article by Robert Mundell, article which subsequently proved to be of great importance in the literature. Robert Mundell managed then a very interesting thing: identify specific criteria to be fulfilled for a country that wants to have net benefits from the integration in a monetary union. These criteria are actually the proper functioning of a monetary union. The role of this theory was to show when it is beneficial for two or more states to create a monetary union. In this context, Robert Mundell demonstrated almost 50 years ago that "the adoption of a single currency in the wrong time can have more negative than positive consequences!"

So, start time reaching the stage of Economic and Monetary Union is represented by the Treaty of Maastricht.

It was decided that joining the European Union member countries in the European Monetary Union to be made gradually as certain criteria are satisfied nominal convergence, the purpose of these requirements is to ensure long-term economic stabilization and a sufficiently high level convergence of the economies of the euro movement, prerequisites for the proper functioning of the monetary union.

Maastricht Treaty signed on February 7, 1992, outlines a strategy of focusing on two aspects of EMU. First established steps that must follow the Member States to participate in Economic and Monetary Union and the second specifies the criteria that must be fulfilled by participants. The treaty sets a firm timetable for the realization of EMU and two reference data for introduction of the euro on 1 January 1997 at the earliest and not later than January 1, 1999.

Costs and benefits of euro

Romanians will benefit mainly as a result to macroeconomic stability and thanks to a best international positions. Benefits will result from price stability, access to a wider and financial market transparency, or elimination of production fluctuations could be due to different economic policies. Price stability lead to lower interest rates, and this shows another advantage for both government and consumers or firms.

Introduction of the euro will have positive effects on the Romanian foreign trade, given that 2/3 is oriented towards the EU. The new currency will stimulate the imports and exports of Romanian companies. Introduction of the euro will be a stabilizing factor that will greatly reduce losses of local traders caused by currency risks.

Once removed monetary barriers within the EU, exporters will benefit from easier access to the markets of member countries. This will reduce the number of intermediaries, businesses increasing their revenues as a result of direct exports.

Another important advantage offered by the euro is transparency. All prices in euros will help Romanian companies to choose suppliers to ensure the lowest cost and for export to countries where they can get the highest income.

Adopting the euro in Romania

Accession to the European Union implies adopting the euro in a time horizon depends on the degree of economic integration with the euro area. According to the fifth edition of the Convergence Programme (2011-2014), 2015 is maintained by the authorities aimed to adopt the euro.

The main objective of economic and monetary policy remains to maintain price stability.

Criterion on price stability

During the reporting period April 2011 to March 2012, the reference value for the criterion on price stability was 3.1%. This value was calculated by adding 1.5 percentage points to the unweighted arithmetic average of HICP inflation over the 12 months in Sweden (1.3%), Ireland (1.4%) and Slovenia (2.1%). In the light of developments in each Member State during the period, three of the eight countries, namely Bulgaria, the Czech Republic and Sweden, have recorded lower average rates of inflation - in the case of Sweden, far lower - reference value. In other countries, inflation stood at values higher than the reference, the largest deviation is observed in Romania (Table 1).

Tabel 1.		Economic indicators of convergence						
		Stabilitatea preturilor	Finantele publice			Cursul de schimb		Rata dobanzii pe termen lung
		Rata inflatiei IAPC ¹	Tara cu deficit excesiv ^{2, 3}	Excedentul (+)/ deficitul(-) bugetar ⁴	Datoria publica bruta	Moneda care participa la MCSII	Cursul de schimb fata de euro ⁵	Rata dobanzii pe termen lung ⁶
Bulgaria	2010	3,0	Nu	-3,1	16,3	Nu	0,0	6,0
	2011	3,4	Da	-2,1	16,3	Nu	0,0	5,4
	2012	2,7 ¹	Da	-1,9	17,6	Nu	0,0 ³	5,3 ⁶
Republica ceha	2010	1,2	Da	-4,8	38,1	Nu	4,4	3,9
	2011	2,1	Da	-3,1	41,2	Nu	2,7	3,7
	2012	2,7 ¹	Da	-2,9	43,9	Nu	1,8 ³	3,5 ⁶
Letonia	2010	-1,2	Da	-8,2	44,7	Da	-0,4	10,3
	2011	4,2	Da	-3,5	42,6	Da	0,3	5,9
	2012	4,1 ¹	Da	-2,1	43,5	Da	1,1 ³	5,8 ⁶
Lituania	2010	1,2	Da	-7,2	38,0	Da	0,0	5,6
	2011	4,1	Da	-5,5	38,5	Da	0,0	5,2
	2012	4,2 ¹	Da	-3,2	40,4	Da	0,0 ³	5,2 ⁶
Ungaria	2010	4,7	Da	-4,2	81,4	Nu	1,7	7,3
	2011	3,9	Da	4,3	80,6	Nu	-1,4	7,6
	2012	4,3 ¹	Da	-2,5	78,5	Nu	-6,1 ³	8,0 ⁶
Polonia	2010	2,7	Da	-7,8	54,8	Nu	7,7	5,8
	2011	3,9	Da	-5,1	56,3	Nu	-3,2	6,0
	2012	4,0 ¹	Da	-3,0	55,0	Nu	-2,4 ³	5,8 ⁶
Romania	2010	6,1	Da	-6,8	30,5	Nu	0,7	7,3
	2011	5,8	Da	-5,2	33,3	Nu	-0,6	7,3
	2012	4,6 ¹	Da	-2,8	34,6	Nu	-2,8 ³	7,3 ⁶
Valoarea de referinta⁷			3,1%			-3,0 %		60,0 %
5,8 %								

¹ Variatii procentuale anuale medii. Datele pentru anul 2012 se refera la perioada aprilie2011-martie2012.

² Se refera la situatia in care o tara a constituit obiectul unei decizii a Consiliului UE privind existent unui deficit excesiv pentru cel putin o parte a anului.

³ Informatiile pentru anul2012 se refera la perioada anterioara datei-limita pentru transmiterea datelor statistice (30aprilie2012)

⁴ Procent in PIB. Datele pentru anul 2012 provin din prognozele Comisiei Europene-primavara anului 2012

⁵ Variatii procentuale anuale medii. Datele pentru anul 2012 sunt calculate ca variatii procentuale ale mediei pentru perioada 1 ianuarie 2012-30 aprilie 2012, comparativ cu media anului 2011. Valoarea pozitivă (negativă) indică aprecierea (deprecierea) în raport cu euro.

⁶ Rate ale dobânzii anuale medii. Datele pentru anul 2012 se referă la intervalul aprilie 2011-martie 2012.

⁷ Valoarea de referință se referă la perioada aprilie 2011-martie 2012 pentru inflația măsurată prin IAPC și pentru ratele dobânzilor pe termen lung și la anul 2011 pentru soldul bugetar și datoria publică.

Forecasts indicate the likelihood that major international institutions in most countries analyzed, the average annual inflation to remain broadly stable or decrease in the next period 2013.

Conclusions:

Romania has made progress in recent years in terms of real and nominal convergence. However, in order to adopt the euro, it is absolutely clear that further progress is needed in terms of nominal convergence, but particularly in terms of real convergence to prepare the economy to successfully cope with a single monetary zone. Weighing the pros and cons, the paper points out that maintaining current timetable for accession to the euro area is the best solution and accelerate the accession to the euro area would have major disadvantages. There are many reasons not to hasten the adoption of the euro by Romania. They are primarily related to the relatively low level of real convergence of the economy and the need to fulfill the nominal convergence criteria.

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ASSESSMENT METHODS OF INTANGIBLE ASSETS USED IN ROMANIA. HOW SITES SHOULD BE ASSESSED

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Abstract

In the context of the new reality and trends of XXIst century, most of the countries are committed, with different intensity and results, to promoting a development process based on knowledge; in the most advanced countries, the knowledge-based society is already a present fact. It is to be noticed that the enterprises allocate major resources for performing intangible investments, that contribute to maintenance and development of the company's potential, such as human capital investments and investments for the increase of company's sales force. According to the Romanian law, the recognition of an intangible fixed asset in the balance sheet is conditioned by estimation of future economic benefits, and determination of a cost that could be assessed reasonably. Unfortunately, most of intangible assets do not meet the requirements for recognition and registration in the traditional financial statements (for instance: lists of customers, internally generated goodwill, etc.)

JEL Classification: G12; M21; M41

Key words: intangible assets, income capitalization approach, assessment

1. Income capitalization approach – concept, methods, specific

The income capitalization approach estimates the value of an intangible asset or the property rights on the asset, by calculation of discounted value of anticipated benefits [8, p.82].

The income generated by the intangible assets may have the following forms [9, p.26]:

- Gross operating profit;
- Net operating profit;
- Net current profit;
- Gross or net royalty;
- Additional profit obtained from a higher sales price or a profitable contract;
- Gross operating cash flow;
- Net cash flow.

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The two methods of this approach are the following:

- Direct capitalization of income
- Discounted cash flow analysis (DCF)

The *direct capitalization of income* can be calculated as a ratio between the representative level of income and a capitalization rate, or the representative level of income multiplied by an income multiple (capitalization factor).

The *discounted cash flow analysis* supposes estimation of cash flow proceeds for each of the future periods. These proceeds are transformed into value by application of a discount rate.

The specific characteristics of intangible asset assessment method used in the income capitalization approach are the following:

- Only the types of income related to the intangible asset to be assessed shall be discounted, unlike the assessment of an enterprise, in which case the total income shall be discounted;
- With respect to the assessment of depreciable intangible asset, the fair value of the asset is made of two elements:
 - a. Fair value after taxation (in order to recognize the fiscal deductibility of the replacement cost)
 - b. Fiscal benefit resulted from amortization of intangible asset (tax amortization benefit – TAB – equation (1))

$$TAB = VAT * \left(\frac{n}{n - (F_{cap} * s)} - 1 \right) \quad (1)$$

Where:

VAT = total net discounted saving (total discounted income)

TAB = fiscal benefit resulted from amortization of intangible asset

n = number of years in which the intangible asset is depreciated

m = $[1 - (1+k)^{-n}] / k$

F_{cap} = capitalization factor related to „n” and „k”

s = profit taxation quota

k = selected discount rate

Intangible asset value = VAT+TAB

2. *The on-line environment in the context of global economic*

In order to create a true image of the on-line environment during the economic crisis, at national and international level, we shall present several relevant studies in this respect.

The most relevant image of the European on-line market is presented in the fourth edition of ADEX report. This report was been elaborated based on the information provided by 23 IAB Europe [2]¹ member countries. The data were aggregated by Screen Digest Company, and reflect the values and dimensions of online advertising markets from Austria, Belgium, Bulgaria, Croatia, Denmark, Finland, France, Germany, Greece, Hungary, Italy, Holland, Norway, Poland, Slovenia, Romania, Russia, Spain, Slovakia, Sweden, Switzerland and Great Britain.

The study shows that the total value of on-line advertising market in 2009 was 14,7 billion Euro, with an increase of 4,5% from 2008 (13,2 billion euro). The percentage of on-line environment within the entire advertising market reached 20%, and almost doubled in the latest 2 years. Although they represent 76% of the total European on-line advertising market, the first 6 countries registered a relative small increase: Great Britain +4.6%, France +1.7%, Germany +5.2%, Holland +1.9%, Spain +7.7% and Italy +6.5% [2].

Regarding Romania, we can mention the report elaborated by Internetics concerning the evolution of on-line environment during the economic crisis, based on questions asked to Romanian on-line industry players. The Internetics report confirms that the Romanian on-line environment will experience a growing development in the next period [6].

Other relevant research in this field is the ROADS study ("Romanian Online Advertising Study") [7] elaborated by IAB Romania and PricewaterhouseCoopers (PwC) Romania, which shows that the total value of Romanian on-line advertising market was approx. 17 million euro in 2009; this reflects a decrease of 10% from 2008. However, at the end of 2009, the market registered an increase of 3% (semester II 2009 against semester II 2008). Despite the decrease of 10%, in the crisis year 2009 the on-line advertising market was 53% higher than the market of 2007 [1].

¹ IAB Europe is a federation of national Interactive Advertising Bureaux (IAB) across Europe. Its mission is to promote the growth of the on-line advertising markets on behalf of its clients and national members. Supported by every major media group, advertisers, agency, portal, technology and service provider, its voice represents the interest of more than 5000 company members. IAB Europe coordinates activities across Europe including EU authorities relationships, public affairs, benchmarking, research, setting standards and best practices. The member countries are: Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Netherlands, Norway, Poland, Portugal, Romania, Russia, Serbia, Slovakia, Slovenia, Spain, Sweden, Switzerland, Turkey, Ukraine and the UK.

The corporate members include: Adobe, ADTECH, Alcatel-Lucent, AudienceScience, BBC.com, CNN, comScore Europe, CPX Interactive, Ernst & Young, Expedia Inc, Fox Interactive Media, Gemius, Goldbach Media Group, Google, GroupM, Hi-Media-AdLink, InSites Consulting, Koan, Microsoft Europe, Netlog, News Corporation, nugg.ad, Nielsen Online, Orange Advertising Network, Publicitas Europe, Sanoma Digital, Selligent, Truvo, United Internet Media, Value Click, White & Case, Yahoo! and zanox. The associate members are: Advance Media International, Banner, Business Week/Bloomberg, Dynamic Logic, Emediate, OMD and Right Media.

We consider that a decisive factor, which determines the on-line market evolution, is the budget allocated to advertising by the large companies. For instance, in the first 5 months of 2010 the largest advertising investors were Procter & Gamble, Unilever, Orange, Vodafone and Henkel [4]. Procter & Gamble is one of the major advertising investors on the local market; some of the brands promoted by this investor are Ariel, Gillette, Head & Shoulders, Lenor, Pampers; the total investments have reached 122.216.461 euro. Other important actors were Unilever, with investments of 84.300.813 euro in advertising (Dove and Dero), Orange with 76.927.493 euro, Vodafone, 72.264.093 euro and Henkel Romania, with 68.495.195 euro (Persil, Palette and Ceresit).

We consider that the on-line budget will continue to grow, despite the economic crisis, due to the companies' intent to increase sales, which shall lead to a stabilized on-line market.

According to the PwC report, „Global Entertainment and Media Outlook” 2010, at the end of 2010 the advertising market shall reach 308 million euro, decreasing by 9% from the value registered in 2009, in compliance with the estimates of the yearbook Media Fact Book [3]² elaborated by Initiative Romania. In accordance with the Initiative representatives, the optimism of the first months of 2010 resulted in a market increase by approx. 3%. The Media Fact Book study shows that the on-line market will never come back to the past situation, but despite all crisis-generated problems, which may continue for a while, the industry is developing. With regard to the overall advertising costs, an increase by approx. 5% is expected until 2014 [3] “.

We can conclude that, although affected by the economic and financial crisis and considerable budget cuts, in general, the on-line market evolution registered a growth, because the on-line environment is the most dynamic and accessible communication media, cheaper than the off-line, with real results achieved in a short period.

3. Web-site assessment by income capitalization

We will use the example of the trade company TransNet S.A.³, Romania. We have selected this company because we consider that the IT firms are representative

² Media Fact Book is the only paperwork that analyses the mass media and advertising market in Romania; it is a guide elaborated by Initiative agency in 1997. Initiative is one of the largest independent media network at international level; it provides specialised services such as media planning and media purchasing, media strategy and consulting, new media services. The agency has been operating on the Romanian market for 17 years, and it is member of the group: Lowe&Partners, Brand Connection, Lowe PR, HyperActive, Medic One and Scholz&Friends

³ The company's name was changed, in order to protect data confidentiality. In addition, the company's financial statements data have been multiplied by a coefficient, and thus the evolution and real trends of the indicators have been maintained.

for the category of knowledge-based companies. TransNet S.A. is a top company in the web design field; the sites of its portfolio cover a large range of domains, and are adapted to the market demands and internet consumers' needs. By means of these sites, S.C. TransNet S.A became famous as a market leader for the segment of 17 – 29 year old people. Its main sites comprise over 100 million pages accessed monthly by approx. 14 million visitors [10].

Our intention is to assess the TransNet sites – as intangible assets, by means of the income capitalization method. The „income” element used is the net residual income. For the assessment, we have used the data and information of the annual financial statements, and the internet documentation.

The objectives of our research are the following:

- Estimation of sites value
- Final conclusion on the value.

The sites market value has been estimated in lei and euro.

The exchange rate of the national currency = 4.3771 lei/€ [5].

All values included in this research have been calculated without VAT.

In order to perform a correct analysis of the assessment objective, it is necessary to analyze the on-line environment in the context of the economic crisis.

The application of this method included the following phases (Table no. 1):

- establish the annual net operating income, generated by all assets involved into the operation of the assessed site;
- determine the market value of invested capital components involved into the site operation;
- establish the requested rate of return for each invested capital component;
- allocate the net operating income by invested capital components, based on the required rates of return and market value of the invested capital component;
- extract from the total net operating income (phase a) the net income allocated to invested capital components (phase d), and determine the residual net income to be allocated to sites only;
- determine the sites value.

Table no. 1 - Sites assessment by means of income capitalization method

(a) Annual net operating income:		
Annual turnover, out of which:	260,273.35 Lei	100%
- Total operating costs	242,885.18 Lei	93.32%
- Gross operating income	17,388.17 Lei	6.68%
Income tax	2,782.29 Lei	
Net operating income	14,605.88 Lei	
(b) Market value of invested capital components (VCI):		
- Tangible fixed assets	98,757.37 Lei	94.94%
- Working capital	5,208.83 Lei	5.01%
- Intangible fixed assets	59.91 Lei	0.06%
VCI market value	104,026.12 Lei	100%
(c) Rate of return required for invested capital components (ROA)⁴:		
- Tangible fixed assets	8%	
- Working capital	10%	
- Intangible fixed assets	12%	
Required return on assets	8.08%	
(d) Allocate the total net operating income by invested capital:		
- Tangible fixed assets	7,900.59 Lei	(98,757.37 * 8%)
- Working capital	520.88 Lei	(5,208.83 * 10%)
- Intangible fixed assets	7.19 Lei	(59.91 * 12%)
Total net operating income allocated	8,428.66 Lei	
(e) Net operating income allocated to sites (net residual income)		
Pnr	6,177.22 Lei	
- If the remaining duration of sites is 5 years and the discount rate is 8,08%, the result is: - capitalization factor:	3.9843 Lei	
- site value before obtaining the fiscal benefit (VAT)	24,611.90 Lei	
- Tax amortization benefit	3,612.76 Lei	
Site value	28,224.66 Lei	
Site value (round)	28,224.66 lei	
BNR exchange rate on 04.02.2013	4.3771 lei/€	
Site value in euro (round)	6448,26 €	

4. Conclusions

For evaluating intangible assets in Romania, we used the income capitalization method, a method presented by the International Valuation Standards, GN4 respectively. We chose this method because if intangible assets, and there is no active market, the sales comparison method can be applied. Also, calculate the replacement cost (cost approach) is often difficult or even impossible, because it cannot

⁴ The rates were estimated taking into consideration the on-line environment evolution and site performance [10]

determine the market cost of purchasing an asset or similar (not on market sites content (content) similar) is also difficult to calculate the cost of production necessary to create a similar intangible asset, using the same resources (the cost of creating a website or similar). In the decision of choosing a method of evaluation of intangible assets should be considered the characteristics of each element and the reliability of the information available. Depending on them may be necessary to use one or more methods.

The values obtained were influenced by the estimated rates of return on invested capital components, that were calculated taking into account the effects of economic crisis on the Romanian on-line environment. In addition, we can state that the obtained value is an estimated value, calculated based on the financial statement data. Another limitation of the study is the absence of assessment methods for generally accepted intangible assets that would have an accurate basis and would be adaptable to each intangible element. In addition, one or several methods may be necessary, depending on the characteristics of each intangible element assessed and credibility of available information.

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TAX PROGRESSIVENESS – PROS AND CONS DEBATES

Stela Aurelia Toader*

Abstract

The progressiveness of taxation, widely debated by economists, academics, politicians, as well as all other taxpayers, in general, is today a problem whose solutions have not been found, as there is no unity of views on a number of issues such as: choosing the most suitable criterion for determining the tax burden, the effects on the economic, social and financial environment, etc. Which of the two ways of placing the tax burden - proportional or progressive - is closer to the requirements of fairness and efficiency - is definitely one of the most debated topics related to taxation issues.

This paper aims, combining scientific considerations with some empirical approaches to make a foray into the wide and controversial issue of the tax progressiveness.

Ultimately, the distribution of the tax burden between the members of the society is a matter of political choice, which obviously cannot please everyone and this is because "in a coercive system, such as the tax one, the structure of government finances ... will be neither efficient nor equitable in terms of all taxpayers.". [J. Nemeč, G. Wright, 2000]

Keywords: progressive taxation, effective tax rate, statutory tax rate, marginal tax rate, tax burden, the benefit principle, the ability-to-pay principle, substitution effect, income effect

JEL classification: H21, H23, H24

1. Introduction

Originating in the first of the 4 imperative rules (canons) on the settlement and collection of taxes, enunciated by Adam Smith in his famous work *The Wealth of Nations* (1776), the progressiveness of taxation is today a difficult subject to be dissected both in terms of measurement methods and how they can influence the economic decisions of individuals.

According to the renowned economist "The citizens of any country should contribute to support the state as much as possible in proportion to their capacities, i.e. proportionally to the revenue which they possess under state protection" arguing that "it is not very unreasonable for the rich to contribute to public costs, not only proportionally to their revenue, but even more than proportionally." [N. Hoanta 2010]

In this paper, we will focus the debate on issues that, although comprehensively analyzed over time, still remain highly controversial and without clear answers, such

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as: What is the most appropriate criterion which should be used to determine tax burden? When do we consider that a tax is progressive? How can the progressiveness of the tax structure be measured? Which of the two ways to place the tax - proportional or progressive - is closer to fiscal equity requirements? Does progressive taxation allow a more efficient redistribution of income in society? Does tax progressiveness influence the job offer of the human factor?

2. The benefit principle versus the ability-to-pay principle

Given that the tax is a form of collecting a portion of the income and/or wealth of the taxpayers in order to provide the resources necessary to fund the activities conducted by the state, the question is to determine the amount which each taxpayer owes. Establishing tax debt can, at least theoretically, be based on the benefit obtained by a taxpayer on account of public goods and services, either on their possibility (ability) to pay it.

The benefit criterion focuses on public expenditure, i.e. determining the amount of the tax according to the public utilities functions used by every taxpayer, individually or together with their family. The tax is thus seen as the price paid for the public goods and services "purchased" by each individual. This principle excludes the social role of the state and thus any redistribution through taxes. Moreover, in such optics, if all taxpayers were able to pay, considering the obvious assumption that the unit price of those public goods could be set in place (this is one of the criticisms made of this principle, namely that it measures what cannot be measured, for example the service brought to the taxpayer by military expenses) for the goods and services purchased from the state and each would pay just enough to meet their needs, so the very notion of state would be called into question because in such conditions, there will be enough bidders, including the private area to provide such goods and services. In addition, based on a personal assessment of the public goods and services, this criterion is doomed from the start, given that the desire to not contribute to their funding, enough taxpayers will undervalue the public goods and services.

In reality, not all individuals have the ability to pay for all the goods and services required by their very existence and therefore I believe that the existence of the contemporary state is justified and of the tax used as a means of income redistribution. From this perspective, linking the tax burden to the achieved benefit is incompatible with social justice as the main beneficiaries of public services (those who most need them) are exactly those who cannot afford them (the elderly, the unemployed, etc.).

Despite all criticism, most of the citizens in a democratic society will not tolerate, on the long term, a tax system from which they will not have any benefit, which is the main argument in support of this principle.

If the ability to pay is taken into account, a problem arises in determining it. The tax practice has embraced the idea of its measurement proportionally to the income obtained, although, in some opinions, it could be equally plausible, but more difficult

to quantify, the measurement of the ability to pay based on the income earned by an individual, considering the possibilities, their intellectual, physical capacities and not only. Such opinion might gain meaning given that some individuals diminish their efforts to generate revenue and therefore, besides the fact that they support a reduced tax burden, they also enjoy the same public goods and services as the taxpayers whose work efforts are significantly higher (to note that a feature of public goods is that they are equally and concomitantly used by all the members of the society regardless of the effort they have made to their funding). Establishing the income based on the achieved income excludes that the welfare of an individual is measured only based on it as free time is an important element, maybe as important as the welfare of an individual. From this perspective, tax progressiveness sensitively alienates from ensuring a certain social justice (fairness) through taxation. However, in practice it is very difficult, if not impossible, to determine a taxation system based on the capacity of an individual to generate income and not on the actually achieved income.

As regards the contribution ability, taxes seen as the sacrifice that the taxpayer must accept so the state will fulfill its functions and role, among which we can underline the role to monitor a proper redistribution of wealth in the society in order to avoid malfunctions and to support those with reduced possibilities.

Starting from this principle, the notions of horizontal fairness (equal taxes for those with equal contribution abilities) and vertical fairness (different taxes for those with different payment abilities) are established. Thus, if the achieved income is the marker mostly used by the tax practice to point out an individual's contribution ability, the income tax is the closest income to the requirements of tax fairness and the taxpayers must pay taxes according to their achieved income.

Vertical equity, the most controversial requirement of the principle of fiscal equity implies, ultimately, providing equal tax treatment for all taxpayers. Equal tax treatment (or equality before tax) should not be understood, however, as a sort of mathematical equality, but as personal equality, taking into account the personal situation of each taxpayer (income level, dependents and so on), thus imposing different tax burdens (both in absolute and relative size) in relation to the power of contribution. The requirement of fiscal equity has led to the use of percentage rates of tax, and the progressive rates being considered those that ensure the highest degree of fiscal equity, considering the criterion of the ability to pay.

From the perspective of tax fairness, the proponents of the progressive taxation argue that this requirement is already met since the absolute paid amounts increase with income, even if the tax rate remains constant. From this point of view, a similar situation can be reached when using regressive tax rates (the income of 2,000 u. m., a tax rate of 10% results in a tax payment of 200 u. m., while for an income of 10,000 u. m., a tax rate of 3% leads to a tax payment of 300 u. m.). Can this be considered a fair situation? Obviously, no. The ability to pay should not be viewed in terms of amounts owed / paid as tax, but in terms of the capacity of an individual, as we saw above, related to income received, to support the payment of a tax up to a certain

rate. Unfortunately, the problem seems related to determining the affordability and in this respect the ability-to-pay principle does not offer solutions.

According to a utilitarian perspective, vertical equity can be ensured through an equal waiver to the utility by the taxpayers' equal sacrifice. Agreeing on the idea that paying a u. m. is a lower sacrifice for people with high income than for those with low income (given that the marginal utility of a unit of income decreases as income increases), individuals should be taxed so that the burden to determine for each of them is an equal loss of welfare or an equal sacrifice. The theory of the equal sacrifice, advocated by Stuart Mill, has been criticized mainly in terms of its practical utility: the impossibility to determine the utility of each unit of income and taxability when comparing these utilities between individuals.

Progressive taxation was introduced in the tax practice towards the end of the nineteenth century and early twentieth century, mainly as a solution to increase the role of the state in the economy, which state became during that period both state investor in public companies and state insurer and protector. In that period, the redistribution of income between the members of society was one of the important functions of the public sector and progressive taxation - the main tool for achieving it.

3. When do we consider that a tax is progressive?

Progressive taxation is characterized by the fact that the tax rate increases as the taxable material increases, making the dynamics of the tax to overtake that of the taxable matter. Or in other words, a progressive tax structure is when the tax liability of a taxpayer, as a share of income, increases with income.

In this context, it is necessary to distinguish between the various manifestations of tax rates. Thus, it is necessary to distinguish between statutory rates (as set by regulations) and effective rates (rates which actually measure the tax burden borne by the taxpayer, determined as the ratio between paid taxes and achieved revenues). Regarding the last two, we meet marginal tax rate, respectively the rate of tax due for the last unit of income received. This can be a statutory marginal rate or an effective marginal rate.

Although, most times the progressiveness of a tax is assessed by reference to the statutory tax rates, considering that a tax is progressive if the statutory marginal rate increases with income, in the tax practice, a tax can provide a progressive taxation even with a proportional statutory rate, especially after applying clearings, deductions, etc., on the tax base

To exemplify, we will consider on one hand a tax structure established in progressive statutory rates and another set in statutory proportional rate of 15%. The progressive statutory rates are:

Taxable income	Tax rate
Up to 1500 u. m.	9%
From 1.501 to 3.000 u. m.	15%
Over 3.000 u. m.	21%

In both cases, a deduction from the tax base of 100 u. m. is applied. We consider two taxpayers, who achieve the following income: taxpayer A – 2,000 u. m., taxpayer B – 3,500 u. m.

When progressive statutory rates are applied:

- Taxpayer A owes a tax of 1,500 u. m. \times 9% + 400 u. m. \times 15% = 195 u. m. and bears a tax burden of $(195/2.000) \times 100 = 9,75\%$ (effective marginal tax rate)

- Taxpayer B owes a tax of 1.500 u. m. \times 9% + 1.500 u. m. \times 15% + 400 u. m. \times 21% = 444 u. m. and bears a tax burden of $(444/3500) \times 100 = 12,68\%$ (effective marginal tax rate).

When the proportional statutory rates are applied:

- Taxpayer A owes a tax of $(2.000 - 100) \times 15\% = 285$ u. m. and bears a tax burden of $(285/2.000) \times 100 = 14,25\%$ (effective marginal tax rate)

- Taxpayer B owes a tax of $(3.500 - 100) \times 15\% = 510$ u. m. and bears a tax burden of $(510/3.000) \times 100 = 14,57\%$ (effective marginal tax rate).

Briefly, the change of the marginal tax rates is illustrated in the table below:

Table no.1: Statutory rates vs. effective taxation rates

Gross income (V)	Taxable income	Progressive statutory rates			Proportional statutory rates		
		Tax (I)	Marginal rate		Tax (I)	Marginal rate	
			Statutory	Effective		Statutory	Effective
2000	1900	195	15%	9,75%	285	15%	14,25%
3500	3400	444	21%	12,68%	510	15%	14,57%

As we can notice, the tax burden in the second case, expressed by marginal rate, shows an upward trend even if the statutory rate is proportional. In conclusion, we can consider that, given that, in practice, the taxable income of a taxpayer is almost never equal to income, a tax is proportional if the effective marginal tax rate increases with income, the statutory marginal rate failing to provide an accurate representation of the true progressiveness.

On the other hand, there are a number of other considerations that should be taken into account in establishing the true tax burden borne by the taxpayer and which influence the level of progressiveness of a tax, such as:

- Tax burden resulting from a tax is often shared between several individuals (the legal enforceability differs from the effective enforceability of a tax). To determine the effective enforceability of a tax involves determining who actually bears the tax burden, or who benefits or suffers from its relief or worsening,

following the change of the tax rates or its settlement. For example, because a high progressiveness discourages well paid professional activities, the salaries for such professions will be higher than regularly. Therefore, the taxes paid by high-income employees who engage in such activities, expressed in terms of tax burden, will be overestimated and part of the tax burden will be borne by employers

- The net tax, determined as the difference between the tax paid a taxpayer and the direct social transfers used from the budget, as various distributions, compensations, etc. given that, most times, such transfers are for the benefit of people/families with low income, their tax burden is overestimated related to the actual one.

The rhythm of effective marginal rates increase can be constant or variable, considering that a tax structure is more progressive than another one if the effective marginal rate increases faster than the income. If a tax structure is more progressive (the progressiveness is more pungent), the degree of redistribution through tax is higher.

To measure the level of progressiveness of a tax structure, the literature offers at least two solutions.

In the first variant, the higher the ratio of the absolute change in the effective marginal tax rate, the absolute change in income is higher, the more progressive the tax is:

$$P_1 = \frac{\overline{R_{i_1}} - \overline{R_{i_0}}}{\overline{V_1} - \overline{V_0}} = \frac{\frac{I_1}{V_1} - \frac{I_0}{V_0}}{\overline{V_1} - \overline{V_0}}$$

A second variant is that where the progressiveness level is determined by comparing it to the tax elasticity related to the achieved income, or, in other words, is the tax elasticity is higher, the progressiveness is higher:

$$P_2 = \frac{\frac{\Delta I_{1/0}}{I_0}}{\frac{\Delta V_{1/0}}{V_0}} = \frac{\frac{I_1 - I_0}{I_0}}{\frac{V_1 - V_0}{V_0}}$$

Using any of the relations in the example above, we can notice that the level of progressiveness is higher in the case of the progressive statutory rates ($P1 = 0,0117$, $P2 = 1,702$ fata de $P1 = 0,0014$, $P2 = 1,0525$). However, under certain circumstances, the two relations for the progressiveness' level can indicate contradictory results. Unfortunately, at present, there is no consent as regards the best method of measuring the progressiveness level for a tax structure.

The table below illustrates the calculation of the tax burden (considering and without considering the social contributions) borne by a Romanian taxpayer who achieves salary income (without dependents). The calculations were made from 100

to 100 lei, starting from a gross salary of 800 lei (the minimum gross salary in Romania to be paid starting with July 1st, 2013).

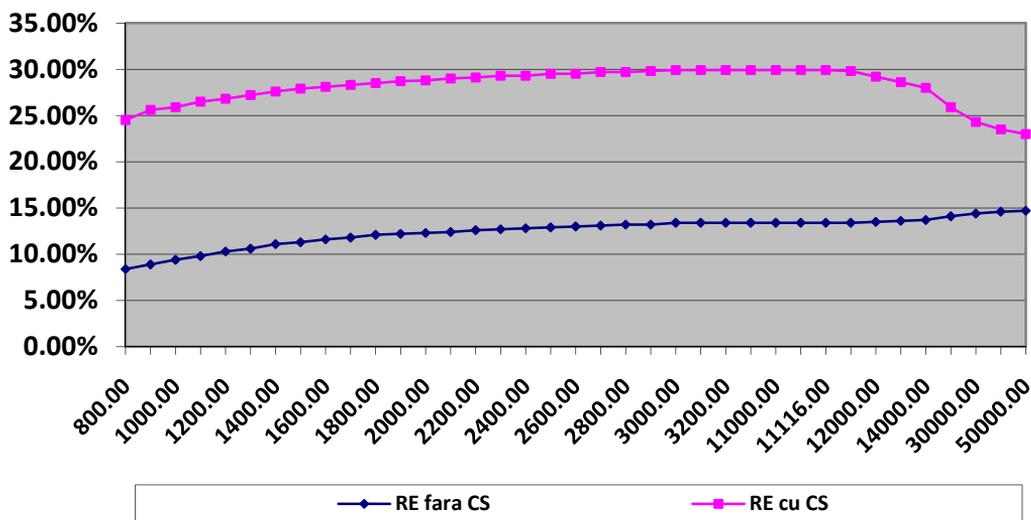
Table no. 2: The effective tax rate for salary income in Romania for a taxpayer without dependents

Salary gross income	Social security contributions	Health contributions	Unemployment contributions	Personal deductions	Tax	Actual marginal rate without social security contributions	Actual marginal rate with social security contributions
800	84	44	4	250	67	8,4%	24,9%
900	95	50	5	250	80	8,9%	25,6%
1.000	105	55	5	250	94	9,4%	25,9%
1.100	116	61	6	240	108	9,8%	26,5%
1.200	126	66	6	230	124	10,3%	26,8%
1.300	137	72	7	220	138	10,6%	27,2%
1.400	147	77	7	200	155	11,1%	27,6%
1.500	158	83	8	190	170	11,3%	27,9%
1.600	168	88	8	180	185	11,6%	28,1%
1.700	179	94	9	170	200	11,8%	28,3%
1.800	189	99	9	150	217	12,1%	28,5%
1.900	200	105	10	140	231	12,2%	28,7%
2.000	210	110	10	130	246	12,3%	28,8%
2.100	221	116	11	120	261	12,4%	29%
2.200	231	121	11	100	278	12,6%	29,1%
2.300	242	127	12	90	293	12,7%	29,3%
2.400	252	132	12	80	308	12,8%	29,3%
2.500	263	138	13	70	323	12,9%	29,5%
2.600	273	143	13	50	339	13%	29,5%
2.700	284	149	14	40	354	13,1%	29,7%
2.800	294	154	14	30	369	13,2%	29,7%
2.900	305	160	15	20	384	13,2%	29,8%
3.000	315	165	15	0	401	13,4%	29,9%
3.100	326	171	16	0	414	13,4%	29,9%
3.200	336	176	16	0	428	13,4%	29,9%
10.000	1.050	550	50	0	1.336	13,4%	29,9%
11.000	1.155	605	55	0	1.470	13,4%	29,9%
11.115	1.167	611	56	0	1.485	13,4%	29,9%
11.116	1.167	611	56	0	1.485	13,4%	29,9%
11.200	1.167	616	56	0	1.498	13,4%	29,8%
12.000	1.167	660	60	0	1.618	13,5%	29,2%
13.000	1.167	715	65	0	1.768	13,6%	28,6%
14.000	1.167	770	70	0	1.919	13,7%	28%
20.000	1.167	1.100	100	0	2.821	14,1%	25,9%
30.000	1.167	1.650	150	0	4.325	14,4%	24,3%
40.000	1.167	2.200	200	0	5.829	14,6%	23,5%
50.000	1.167	2.750	250	0	7.333	14,7%	23%
100.000	1.167	5.500	500	0	14.853	14,9%	22%

Source: Personal calculations

Based on the data calculated in table below, the figure below shows the evolution of the level of the progressiveness of the tax on the salary income in Romania for a taxpayer without dependents.

Figure no. 1: The level of progressiveness on the salary income in Romania



According to the correlated analysis of the data provided in table no. 2 and figure 1, we can draw the following conclusions:

- For the amount segment from 800 lei to 3,000 lei, the taxation is progressive, with a higher progressiveness level in the first part of the segment and lower, towards its end, according to the level of personal deductions, constant in the first part and regressive after 1,000 lei.

- For the amount segment from 3,000 lei – 11,115 lei, the taxation is proportional as the two effective marginal rates are constant. The explanation is that for this segment, personal deductions are not granted.

- After the threshold of 11,115 lei (the equivalent of 5 average gross salaries per economy – the calculation base capped for the social security contributions), the effective tax rate, calculated without considering the social security contributions, proves again an upward trend towards the statutory rate of 16% while the effective rate calculated considering social security contributions (which points out better the true tax burden borne by the employed taxpayer) shows a downward trend. Thus, the total tax burden borne by a taxpayer with a gross salary of 30,000 lei – 24.3%, is slightly lower than the one borne by a taxpayer with a minimum gross salary – 24.9% and sensitively lower than the maximum level of 29.9% for the taxpayers with salaries from 3,000 to 11,115 lei.

4. The role of the progressive tax in ensuring the redistribution of income

Regarding the role of the progressive tax in ensuring the redistribution of income between the members of the society, F. Hayek, although favoring a system of proportional taxation, said that progressive taxation "is the primary means of income

redistribution, and in the absence of such, a policy would be extremely limited." [F. Hayek, 1998]

Tax progressiveness is strongly supported, since the second half of the nineteenth century by the proponents of the fiscal interventionism that assigns to tax a vocation for the distribution and equalization of wealth in the society. However, the use of the tax progressiveness alone cannot generate a satisfactory situation in improving social welfare, which must be supported by budgetary allocations for low-income people.

The mere reduction of the tax burden in case of proportional taxation, does not lead, as most time considered, to the increase of the redistribution degree, as vice versa is not true as well. In the case of proportional taxation, the increase or decrease of the taxation level will keep the same proportions between the available incomes of the members of society. Therefore, the true redistribution through tax occurs when using progressive taxation, and in this context we consider that as the tax (and overall, a tax system) is more progressive, the better it will respond to the redistribution objectives.

The question is whether the redistribution of income through taxation is necessary and ethic and if the individuals whose income will be complemented due to progressive tax, will use those taxes more efficiently than those from which they were taken. If at microeconomic level, the first will record an increase of wealth, which could be ranked higher to the loss suffered by the latter (if the theory on the decreasing marginal utility is taken into account), at macroeconomic level, the effects appear to be more difficult to identify. It may be possible for the optimal level of transfer to be that where the remaining income available to those with higher contributive abilities will not affect the economic behavior, especially their investment efforts, to the extent that it can be assumed that up to a certain level, low-income taxpayers use a good deal of the income for current consumption or in other words the redistribution of income through taxation should not affect, at macroeconomic level, the total investment and labor supply.

From an ethical perspective, the question is whether reducing inequalities through tax as means of redistribution as is necessary or not. It depends on the side we are on. For high-income taxpayers (and we cannot think of the efforts made to obtain them), income redistribution is not fair, ethical or moral by any means. From the point of view of the Christian morality and the fact that a civilized society should not focus on the principle "every man for himself", the objective of the redistribution appears necessary, especially if we consider that not all individuals have equal opportunities regarding revenue generation opportunities and sometimes higher income people do not always prove the abilities justifying such income.

The problem on the redistribution of income and assurance of minimum living conditions for all individuals exceeds, at present, the economic boundaries and gains connotations directly related to the human rights in society, interpersonal non-discrimination, etc.

The justification of the redistribution through tax has its origin in the operation of the market economy, considered as able to reach an economic optimum, but not a social one. And thus, the government's intervention is needed to correct inequalities, given that the "market capitalism generates inequality rather than harmony, as regards democratic values. The sources of such inequality cannot be repaired without sacrificing the flexibility and efficiency of capitalist economies. Thus, redistribution through taxation is necessary "[J. Tobin, 1994].

5. Does tax progressiveness influence the job offer of the human factor?

It is possible in such manner for the tax placed progressively, to distort labor supply and the inclination to any income-generating economic activity, "killing the goose that lays the golden eggs" and that because no matter how much we want "the tax is, by its nature, outside neutrality" [N. Hoanță 2010].

Thus, Milton Friedman [quoted by N. Hoanță 2010] shows that, although progressive tax was one of the most common methods used by governments to change the distribution of income in society, progressiveness discourages the implication in highly taxed activities and stimulates the occurrence of tax evasion. It is hard to say if opinions are purely principled against progressiveness or merely reasoned to defend the interests of the wealthy whose appetite for work would be reduced in proportion to the increase in the tax burden. This equation overlooks that the unequal opportunities existing between individuals (in a society less moral, as the human society, most of the wealthy, and who often control the power through money, will not ensure a fair game for everyone) and the fact that whenever other individuals will be willing to make an extra effort to achieve the same level of income or perhaps a slightly lower one, which will thus ensure a more efficient use of resources.

Using tax as means of reducing inequalities in society through the redistribution of income between the members of society influence, undoubtedly, the employment of the human factor either downward or upward and, thus, we can say that it influences the use of one of the important factors of production – the labor factor. Leaving the pursuit of activities, individuals create lower added value, so we talk of a waste, a waste of wealth-creating ability.

The effects of progressive taxation and hence the increase of the tax burden with the income's increase, on the options of the taxpayers either in favor of time for work or leisure, is a concern of the economic theory, given the consequences produced in the social, economic and financial environment.

Increased taxation reduces the actual salary received for the work done (net unit wage for each hour of work performed additionally) and how it represents, ultimately, the price of leisure (that the taxpayer gives up for that salary), which leisure, thus, becomes a cheaper asset. In such a situation, the taxpayer may be tempted to consume a larger quantity of this asset - free time. Following the decrease of the available income, the taxpayer decides to replace the time for work with leisure

time. Thus, following the manifestation of the substitution effect, the job supply will be reduced.

An effect opposed to the substitution effect which can, also, manifest itself following the increase of the tax burden, is the income effect. It can manifest itself when the taxpayer decides to increase their productive effort to achieve the salary income obtained before the increase of the tax burden, and, thus, the offer supply will increase.

To appreciate, on theoretical basis, which of the two contradictory effects mentioned above will act, is a very difficult endeavor. In this respect, knowing the elasticity of the labor supply with respect to net income is decisive for determining the impact of taxes on work effort. If labor supply is very elastic, the substitution effect will dominate. But if it is inelastic, then perhaps the number of working hours will not be reduced, but also is likely to increase.

Empirical studies conducted so far do not provide enough meaningful results. For example, in the case of married women, whose decisions on allocating time between work and leisure depend significantly on the total family income, including the income of spouse, it seems that the substitution effect is dominant. In contrast, for men aged between 20 and 60, the empirical literature suggests a low elasticity of 0.05% which indicates a prevalence of the income effect [H. Rosen, T.Gayer, 2010]. But age is not the only variable considered in the analysis of the labor supply elasticity. Estimates made by revenue led to the conclusion that high earners options are not identical to those with low and middle income [C. Corduneanu, 1998]. It seems that the distribution of income in the form of social transfers (usually for the benefit of those with low income) cause the "effect of income in return", which according to the level of income in return, determines the prevalence of the substitution effect. "This effect (the substitution effect) remains dominant for high income earners compared to the income effect given that the income effect in return disappears " [C. Corduneanu, 1998]. Thus, under high fiscal pressure (above a certain threshold of affordability - see the Laffer curve), the substitution effect seems to be dominant, given that the income effect is transferred from the official economy to the underground economy. But which is the optimal level of bearable tax burden - there is no answer to this question yet. Perhaps this varies from one taxpayer to another depending on many variables, among which the most important may be the level of income. In these circumstances, the taxation in progressive rates seems justified.

Although progressive rates are harshly criticized by the supporters of the economic liberalism, these are still applied in most EU member states and especially in those states with long traditions in the market economy.

Table no. 3: Statutory tax rates applicable in the EU states in 2013

EU member state	Tax on salary income– statutory rates
Austria	Progressive rates – statutory marginal rate 50%
Belgium	Progressive rates – statutory marginal rate 53,7%
Bulgaria	Proportional rate – 10%
Cyprus	Progressive rates - statutory marginal rate 38,5%
Czech Republic	Proportional rate – 22%
Denmark	Progressive rates – statutory marginal rate 55,6%
Estonia	Proportional rate – 21%
Finland	Progressive rates – statutory marginal rate 51,1%
France	Progressive rates – statutory marginal rate 50,2%
Germany	Progressive rates – statutory marginal rate 47,5%
Greece	Progressive rates – statutory marginal rate 46%
Hungary	Proportional rate – 16%
Ireland	Progressive rates – statutory marginal rate 41%
Italy	Progressive rates – statutory marginal rate 43%
Latvia	Proportional rate – 24%
Lithuania	Proportional rate – 15%
Luxemburg	Progressive rates – statutory marginal rate 43,6%
Malta	Progressive rates – statutory marginal rate 35%
The Netherlands	Progressive rates – statutory marginal rate 52%
Poland	Progressive rates – statutory marginal rate 32%
Portugal	Progressive rates – statutory marginal rate 53%
Romania	Proportional rate - 16%
Slovakia	Proportional rate – 25%
Slovenia	Progressive rates – statutory marginal rate 50%
Spain	Progressive rates – statutory marginal rate 52%
Sweden	Progressive rates – statutory marginal rate 56,6%
Great Britain	Progressive rates – statutory marginal rate 45%

Source: *Taxation trends in the European Union, edition 2013, www.europa.eu*

As we can see above, in the European Union, there are only 8 states which apply proportional tax rates on the income of natural persons. The progressive taxation is present in most states, especially in the developed ones, where the objectives of the redistribution through tax and the volume of public goods and services provided to the members of the society are more important.

6. Conclusions

As regards the criteria considered for determining the tax burden, the benefit criterion, the ability-to-pay criterion and the criterion of equal sacrifice do not provide a perfect viable solution in this respect. However, tax practice has embraced the criterion of the ability to pay expressed by the obtained income. There are, however, several reservations on the valences of the income achieved by an individual to express their true ability to pay. Perhaps if taxation was done on the basis of possibly achieved income, the discussions on the selection of progressive

taxes - proportional taxes would be less fervent and the fiscal equity requirement would be easier to accomplish.

Regarding progressive taxation, it is ensured when the effective marginal tax rate increases with income. The statutory marginal rate does not provide an accurate representation of the true progressiveness. In determining the tax burden and, as appropriate, its progressiveness, there should be taken into account, in addition, to the statutory tax rates and the availability of tax base adjustments, the current phenomenon of tax translation and the social transfers. Knowing the level of the tax burden and the progressiveness of a tax depends on establishing its actual incidence, without which the benefit principle and the ability-to-pay principle cannot be applied (the government cannot know whether those who pay benefit from public utilities or if the taxes are paid by those who have the ability to pay). The issue of the actual incidence of a tax is defining for the correct appreciation of justice and the real effects of a tax.

In Romania, up to a level of a gross salary income of 3,000 lei, taxation is progressive, with a more pronounced progressiveness in the range up to 1,000 lei. Between 3,000 and 11,115 lei (the equivalent of 5 average gross salaries in the economy - the ceiling base for social insurance contributions) taxation is proportional. After this level, it becomes regressive (if social security contributions are taken into account). In these circumstances, it is difficult to argue that taxation of wages in Romania is done on an equitable basis.

As concerns the role of the state in ensuring the redistribution of income between the members of society, role undertaken as a result of the market's failure in the provision of certain social welfare, it is thought that it may be best accomplished through the use of progressive tax rates- proportional rates, whether growing or decreasing, always keeping the same ratio between the available income of the members of society. To the extent that there is not always an interdependent relationship between the achieved income and the efforts of an individual to produce it, and considering that not all individuals have equal opportunities in terms of income generation opportunities, the redistribution through tax occurs socially justified.

From an economic perspective, there may be an optimum level of the transfers through tax that do not affect, at macroeconomic level, the total investment and labor supply.

Moreover, the use of tax as means of reducing inequalities between members of the society influence, undoubtedly, the job offer of the human factor. In this respect we can speak of an income substitution effect and an income opposite effect. Empirical studies do not provide enough meaningful results. Probably, the elasticity of the labor supply varies from one individual to another depending on sex, age, income, family situation, aspirations, etc. The idea, that increasing the tax burden induces a substitution effect in the formal economy following the transfer of income to the regulated economy, seems plausible.

Among other arguments in favor of progressive tax, we can mention:

- It provides more to the government income as the income of citizens from the lower and the middle class grows. It meets best the function of an automatic stabilizer. In periods of economic boom, income growth is tempered by the automatic action of progressive taxation and thus the economic expansion is diminished. The action of the progressive tax unfolds in reverse when the economy is in a period of decline. If the fluctuations of the economic cycle – development-decline, have negative consequences on the economic activity, then as long as they cannot be avoided, it is at least recommended to mitigate the "violence" of such fluctuations. The progressive income tax has a role in this direction automatically without involving any intervention from authorities.

- Without progressive taxes, there would be the risk for all wealth to be concentrated in the hands of few people. Progressive taxation reduces income inequality and prevents social stratification, which exceeding a certain level, can be harmful to the society.

Ultimately, the distribution of the tax burden between the members of the society is a matter of political choice, which obviously cannot please everyone and this is because "in a coercive system, such as the tax one, the structure of government finance ... will be neither efficient nor equitable in terms of all taxpayers." [J. Nemeș, G. Wright, 2000].

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DOMESTIC COMPANIES' PERFORMANCE ANALYSIS IN THE CONTEXT OF THE CURRENT ECONOMIC AND FINANCIAL CRISIS

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Abstract

The choice of rates must be made according to the position where the analyst is placed and the problems that are to be solved. Therefore, the financial manager is concerned, for example, with obtaining the highest possible profit in order to remunerate the share-holders, to self-finance the expansion, to assure the capacity of financial debts reimbursement, while the investors wish to know, in particular, the profitability of the investments and the risks related to the debts repayment.

It can be said that the importance of the method of analysis by means of financial rates lies in that it allows a systematic management analysis at a certain point. At the same time, its evolution over a period of more consecutive exercises provides suitable information regarding the causes and effects of certain changes as well as the answers to the questions that the business interlocutors ask and the steps that can be taken in order to reach the objectives.

Keywords: *financial rates, economic risk, financial performances.*

JEL Classification: G31, G32.

1. Introduction

Good company management requires managers to know the state of their enterprise in the smallest detail and to timely detect the various causes, effects and issues that generate expected or unwanted changes in its activity. To attain this purpose, the use of rates represents a means to analyze and establish the financial diagnosis, also being known as a *method of analysis by means of financial rates* (By rates one understands the ratios between sizes or levels, closely related between them and which characterize general situations or sectors of activity. The ratio must be significant and the calculation elements must be comparable and related, generally, by a cause-effect relation. Therefore, the rate serves to measure this relation, and its result can be expressed under the form of a "coefficient" or "percentage"). These rates are perceived as orientation parameters for the company management with regards to the influence of the cost of financing sources on the degree of efficiency of the company activity, but also as vital information for the prospective investors concerning the borrowed capital reimbursement risk (Vintilă, 1998).

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The choice of rates must be made according to the position where the analyst is placed and the problems that are to be solved. Therefore, the financial manager is concerned, for example, with obtaining the highest possible profit in order to remunerate the share-holders, to self-finance the expansion, to assure the capacity of financial debts reimbursement, while the investors wish to know, in particular, the profitability of the investments and the risks related to the debts repayment.

It can be said that the importance of the *method of analysis by means of financial rates* lies in that it allows a systematic management analysis at a certain point. At the same time, its evolution over a period of more consecutive exercises provides suitable information regarding the causes and effects of certain changes as well as the answers to the questions that the business interlocutors ask and the steps that can be taken in order to reach the objectives.

2. The analysis of the financial profitability rates

The financial profitability expressed under a relative form shows the degree of remuneration of the capital invested into an entity by the investors.

The financial profitability rates can be categorized as follows:

- *the common equity profitability rate*
- *the engaged capital profitability rate*

The return on common equity (ROE) shows the efficiency of shareholders capital usage and can be determined as the ratio between the net profit obtained (RN) and the common equity (CPR) as follows:

$$ROE = \frac{RN}{CPR} \times 100$$

The importance of the analysis of this indicator is due to at least the following reasons:

- the indicator shows the degree of allotment of the share-holders' funds into the current activity, on the one hand, as well as the efficiency with which the company engages the share-holders' capital in business, on the other hand.
- the indicator also shows the profitability of the share-holders' capital, constituting an instance of the entity's capacity to pay for the dividends due to the share-holders;
- the indicator allows the estimate of the profit per capital unit invested in shares or the profit that is to return to the owners for the investment made in the company.

The return on common equity can also be expressed by means of the interconditioning factors and causes in the framework of a multiplicative model as follows:

$$ROE = R_{MRN} \times K_{AT} \times Lev_F = \frac{RN}{CA} \times \frac{CA}{AT} \times \frac{AT}{CPR}$$

R_{MRN} represents the rate of the net profit margin, a significant indicator for the dimension of the *trading profitability* of the activity; it is to be determined as the ratio between the net result of the exercise (RN) and the net turnover (CA).

K_{AT} represents the rotation speed of the total assets, a representative indicator for the *assets management reflection* by means of activity indicators; it is to be determined as the ratio between the net turnover (CA) and the total value of the assets as shown by the balance (AT).

Lev_F represents the financial leverage, a significant indicator for the *degree of indebtedness* dimension; reflects the degree to which the total assets (AT) are financed by company sources (CPR).

The analysis of the common equity profitability rate aims at:

- *for share-holders/investors, raising* this rate becomes an incentive for the participation to the social capital augmentation both for the existing share-holders and the investors as well. By means of this the latter „appreciate if their investment is justified and will go on to support the development of the entity by bringing in new capitals or by giving in, for a limited period of time, a part of the dividends due to them” (L. Bușe, 2005:285).
- *for managers, raising* the profitability rate of the share-holders’ capital also constitutes a goal to be attained because it is only by means of this that they can keep their position and be supported by share-holders in the creation of future value.

Drawing the comparison with the *domains of activity average* of the common equity profitability rate is relevant for the evaluation of the profitability status of share-holders’ capital.

The analysis of the multiplicative model of financial profitability formation shows that the increase of the net profit margin, of the rotation speed of the total assets as well as of the degree of financing the assets out of company sources represent the *factors-main ways of raising* financial profitability. Consequently, the common equity rate fluctuations can be explained by means of a factorial analysis on the basis of the three factors mentioned in the analysis model.

The engaged capital profitability rate¹ or that of the permanent capital (RCPM) represents the profit the entity yields from the capital invested in the business. One is to determine as ratio the results obtained by the entity before the interest clearing and profit tax (RBDI) clearing, the total of the capital invested into the entity both by the share-holders and the long-term creditors (CPM).

$$R_{CPM} = \frac{RBDI}{CPM} \times 100$$

For the numerator one can also use the gross result of the exercise (RBE) or the net result of the exercise (RNE), but the option of using the result of the exercise before the profit tax (RBDI) and interest payment is the one favored and recommended by accounting regulations in Romania.

The analysis of the engaged capital profitability rate aims at: Increasing this rate is appreciated as an objective to be reached both by the share-holders and the financial

¹ The engaged capital can be found in the balance structures recommended by the O.M.F.P. 3055/2009 on the position “Total of assets minus current debts”.

creditors who will thus deem the investment made in the respective entity as efficient.

3. Analysis of the economic (exploitation) risk

Risk, in general, represents the possibility of an occurrence that would jeopardize the entity activity. The economic risk constitutes the enterprise incapacity to adapt on time and with the lowest costs to the environment variations. More precisely, it expresses the volatility of the economic result under the exploitation circumstances.

The activity of an enterprise is subject to the economic risk because it cannot certainly foresee the various components of its result (cost, quantity, price) and of the exploitation cycle (buying and selling). The economic risk is translated by the possibility of recording an insufficient result or even a loss. This possibility is related to the importance of fixed costs that diminish the flexibility of the enterprise, namely its capacity to adapt to the turnover (CA) fluctuation.

In the economic literature the economic risk analysis is to be achieved from various points of view. One point of view starts from the analysis of the cost – resulted volume relation also called the analysis of the profitability threshold as an operational and efficient method of risk analysis. The profitability threshold is the point where the turnover covers the exploitation costs delimited as fixed costs and variable costs, by calculating it as physical or value units, for a product or the entire activity. According to the units of expression, the profitability threshold is determined as follows:

$$CA^* = \frac{CF}{1 - Rv} = \frac{CF}{Rmv}$$

CA^* represents the turnover related to the critical point;

Rv represents the medium rate of variable costs;

Rmv represents the variable costs margin rate.

The economic risk analysis starting from the profitability threshold is made by calculating the following *indicators*:

$$\alpha = CAN - CAN^*$$

CAN represents the net turnover corresponding to a certain level of activity;

CAN^* represents the critical turnover.

The indicator of position expressed in absolute values is also called „*absolute flexibility*” and it expresses the capacity of the company to modify the production and adapt to the market requirements. The larger this indicator is, the larger the entity flexibility gets, namely the exploitation risk is more reduced.

$$\alpha = \frac{CAN - CAN^*}{CAN^*} \times 100$$

The position indicator expressed in relative values is also called „*volatility coefficient*” and has got the same interpretation as above. Statistics studies have proven that entities can undergo the following economic risk:

- High economic risk when the net turnover is situated at more than 10 % over the profitability threshold;
- Medium economic risk when the turnover is over 10% up to 20% larger than the one corresponding to the profitability threshold;
- Low economic risk when the net turnover exceeds the profitability threshold by over 20%.

Closely related to the economic and financial risk there is the entities' bankruptcy risk.

The study of entities found in difficulty presents a special importance for a large series of business partners as follows:

- banks, which are obviously concerned by the quality of the credit portfolios that they forms;
- various categories of share-holders, who are interested in protecting the invested capital and enjoying the benefits offered by the respective investment (obtaining dividends);
- investors, who wish to know the state of the entity before investing the owned capital;
- creditors, who are interested in recovering the capital granted as a loan;
- business partners (clients, suppliers) wish to sign up with safe companies that are able to meet the contract requirements.

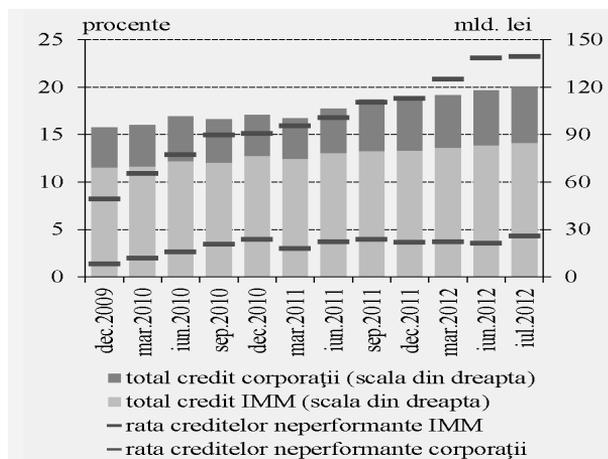
4. Companies' economic and financial performances

The main challenges coming from the dynamics of the companies' financial situations have had mixed evolutions: the financial health of companies improved, but the evolutions were heterogenous, with important vulnerabilities in their structure and the process of sustainable change of the economic growth model continued.

At the aggregate level, companies have recorded an improvement of financial situations. Capital profitability increased by 2% as compared to previous years (2010-2011), reaching 8,2% (2012), in the context of an intensive use of the assets (the assets' rotation speed increased at 84,9%). The cash flows resulted from the basic activity were reduced to 4%, but the total cash flows were positive and increasing. The favorable evolutions mentioned were manifested unequally in the framework of the economy, with important differences in the structure.

The company analysis according to the dimension criterion shows that small and medium-sized enterprises (SME) have registered an increasing credit risk (the rate of non-performing credits in the case of SMEs was 23,2%, while in the case of corporations the rate of non-performing credits was 4,3%).

Graphic 1. Evoluția creditelor neperformante în funcție de mărimea solicitantului



Sursa: Raport de stabilitate financiară 2013, BNR

The increase of the risk in the case of SMEs occurred because of:

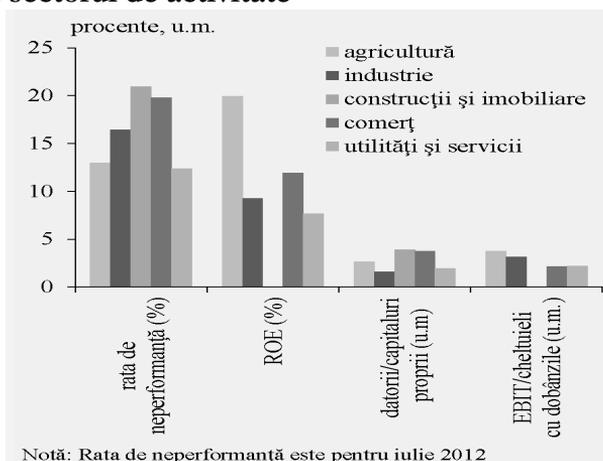
- a reduced rate of covering costs by profit interests;
- cash flows generated by the reducing basic activity;
- diminishing the gross profit margin. This last unfavorable evolution was counteracted by the increase of the indebtedness degree and the rotation speed of the assets, so that the capital profitability was slightly increasing.

The SMEs that were supported by the credit guaranteeing funds had superior performances:

- capital profitability was 23,5%;
- the rate of covering costs by profit interests maintained as supraunitary and at a comfortable level 2,1%;
- the degree of assets use was superior (the assets' rotation speed was of 125%);
- the rate of non-performing credits was significantly less than the average of 10,9%.

The analysis according to the activity sector criterion highlights the fact that trading, constructions and real estate businesses exhibit a riskier financial profile and honor their commitments to banks more difficultly (these owning 48,7% of the portfolio of credits given to businesses). The rate of non-performing credits in the case of constructions and real estate businesses is 21,5%, and the one pertaining to trading businesses is 20%.

Graphic 2. Evoluția indicatorilor de performanță financiară a companiilor structurate după sectorul de activitate



Sursa: Raport de stabilitate financiară 2013, BNR

At the same time, businesses in the mentioned sectors have the highest indebtedness degree of all economic sectors, while the capacity of constructions and real estate businesses to pay the credit interests from the obtained profit is reduced. The modest economic and financial performance of trading businesses will improve as the economic growth consolidates, and the perception to risk of consumers will get better.

According to the origin of businesses capital there can be identified two challenges:

a) *private companies having major Romanian capital have registered a modest evolution of the financial situation.* The capacity to honor the debt service was reduced, and the rate of the non-performing credits reached 20,9% as compared to 12,6% in the case of private companies having major foreign capital in the context of:

- a degree of covering costs from decreasing profits;
- diminishing the capital profitability to 10,2%;
- the contraction of the gross profit margin to 2,7%.

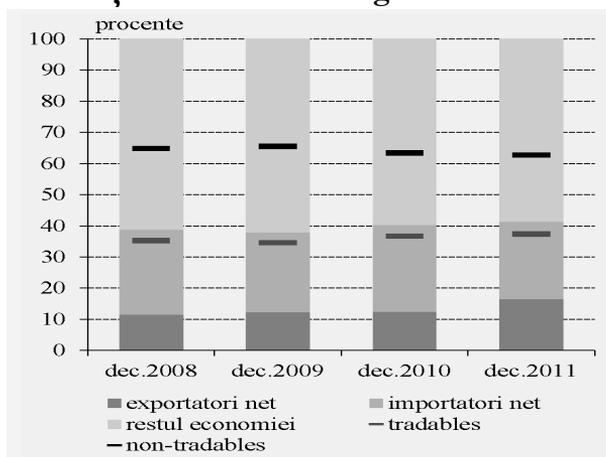
b) *companies having major state-owned capital continues to characterize the same mixed evolution, the majority of these having had a positive net result,* so as the capital profitability was 2,9% as compared to 9,8% which the major private capital businesses registered. The degree of assets use is maintained at a low level (the rotation speed of assets is 29,5%, while in the case of major private capital companies this reached at 95%).

Companies in the process of insolvency or bankruptcy generates certain challenges on the financial stability by means of the large volume of: owned bank credits, generated major payment incidents and arrears to partners.

There are three challenges on the financial stability generated by these companies:

- *The debt of the businesses in insolvency or bankruptcy to the banking sector is relatively important. The credits granted by banks to these represent approximately 14,4% of the bank creditting of non-financial businesses. The companies in insolvency generates 66% of the credits of non-financial companies affected by arrears exceeding 90 de zile.*
- *The companies in the process of insolvency or bankruptcy significantly influences the payment discipline in the economy. The major payments incidents generated by these companies rose to 57,7% of the total of the major payments incidents generated by non-financial companies.*
- *The arrears to trading partners generated by insolvent companies are important, the long term of debt recovery partly explaining the reduced capacity to honor obligations. Arrears to suppliers generated by insolvent companies amounted to approximately 28% of the total arrears to suppliers generated by the non-financial companies. These are recorded in the context of a risen level of the debts' volume, while the annualized debt recovery deadline is of 295 days, as opposed to 100 days the average value per economy. The trading debts from balances are of 47,4% of the total of the trading debt of non-financial companies.*

Graphic 3. Contribuția la valoarea adăugată brută din economie



Sursa: Raport de stabilitate financiară 2013, BNR

The sustainable change of the economic growth pattern continued, confirming expectations. During the 2010–2012 period, domestic banks increased their exposures on the *tradables* sector by 17% in real terms. These companies have had favorable evolutions superior to the ones from the *non-tradables* sector:

- their position in economy consolidated (the VAB preponderance created by *tradables* businesses in the VAB total generated by the non-financial companies rose to 37,3%;
- the capacity to cover interest costs from profit is satisfying;

- the risk generated in the banking sector is inferior to the one pertaining to the *non-tradables* businesses (the rate of non-performing credits *tradables* businesses is 14,8%, as compared to 19,1% pertaining to the *non-tradables* sector).

The *tradables* sector's reduced degree of indebtedness (the debts versus common equity ratio is 1,5, under the empirical threshold of alert of 2 and significantly smaller than 3,5 in the case of companies in the *non-tradables* sector), together with the favorable evolutions enumerated above, provide support for the creditors to continue to increase the exposures to the *tradables* sector businesses.

The premises for the change of the economic growth model were consolidated by the increase of exporting net companies' economic performance and of their role in the economy. The preponderance of the added value generated by exporting net enterprises in the VAB total created by the non-financial companies' sector increased to 16,5%, in the context of a profitability exceeding the economy's average. The capacity to honor the duty service is significantly better in the case of exporting net enterprises as compared to the total of the non-financial companies' sector (the rate of the non-performing credits is 4,4% as compared to 17,6%, the economy average), also sustained by a very good and increasing coverage of interest costs by profit (the ratio between the EBIT and the interest costs being 6,4).

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DELOCALIZATION – THE AUTOMOTIVE INDUSTRY’S ANSWER TO COST REDUCTION

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Abstract:

Delocalization is a relatively new term that defines a very old technique of reducing production costs, when you are a Transnational Corporation. Unfortunately this shift across the global economy has some negative effects for the home countries, which will resume basically to social effects. In the automotive industry, one of the most competitive economic sectors, this type of procedure has helped a lot of manufacturers to overcome the present economic crisis, but for others it meant some major losses due to a lower level of quality

Key words: delocalization, car manufacturers, Transnational Corporations, production cost, developing countries.

JEL classification: F1, F13, F15, F21, F23, F63

1. Delocalization. How do we define it?

The delocalization process has been utilized by the Transnational Corporations in their quest for higher profit margins, for quite a few years now. Mainly, the TNCs move the production line from a developed country that has higher operational costs to a developing country that allows the corporation to reduce the costs. Due to the present economic crisis this type of economic reaction is more common than ever.

This process cannot be totally dissociated from globalization which is a feature of today’s world economy. Moreover, just like globalization, delocalization has its fans or its enemies, depending on the side you’re asking: the country that receives the new investment, or the country that had lost that investment. The advantages of this process for the receiving country are easy to guess: new jobs, more revenues for the state or the region, a higher level of competition which stimulates the local economic agents to improve the quality of their products or services and son on. The disadvantages are related to an increased unemployment rate, a lower volume of revenue for that country or region, basically a lower level of living standard.

Nowadays, delocalization is a highly debatable and debated topic due to its implications for all the involved parties. But the theoretical knowledge about his concept is pretty scarce. So defining this concept is not an easy task. Nonetheless,

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according to a few scientific institutes that study this phenomenon there three definitions:

1. it refers to the change of place for a production facility. This means closing up a factory in the country of origin and opening a new one in a foreign country. This change takes place without affecting the goods' or services' destination, which is the domestic market;

2. the corporations' sub-contracting operations towards a foreign company in order to deliver to it goods or services that prior to this engagement were produced in the domestic corporation. This situation is often called offshore outsourcing

3. it refers to the creation of a new production facility in a foreign country rather than in the country of origin. In this situation the process is a bit more complicated provided that the receiving country can offer the necessary framework for that operation.

So delocalization is an old process that appeared along with the transnational corporations, but only recently has become a scientific subject, due to its importance in the global economic development.

2. Delocalization in the automotive industry.

The automotive industry is one of the most competitive industrial sectors in a national economy, but in the global economy as well. Every car manufacturer offers new products that are guaranteed to offer more comfort, less pollution, better styling and a number of positive features that will make the consumers go to a specific producer or another. Of course, in this equation the price plays an important role. So in the context of an expanding global market and in order to offer as many of these characteristics as possible, the manufacturers have to invest more, in production facilities, that will offer more products, in less time, and at correct prices. So the natural solution is delocalization.

According to UNCTAD several car manufacturers were going to create new production facilities outside their country of origin. Such an example is Volkswagen who intends to invest in a new factory in Brazil \$4.5 billion until 2016.

Another important car manufacturer that has announced his intention of investing outside the country is Nissan that will start the production at the new factory in Rio de Janeiro in 2014, after investing \$1.5 billion, while modernizing the existing facility from Curitiba.

BMW is another car manufacturer interested in opening a new factory in Brazil, as well as the Chinese producer, Cherry, who already begun the construction of a new plant totalizing a \$400 million investment.

But Latin America, although it is a new comer regarding the receiving of important foreign direct investments, was not the only destination for the car manufacturers that wanted to relocate some of their facilities. For instance in Europe, the Japanese manufacturer Suzuki opened a plant in Hungary in 1991. At first this factory produced only one model, the Swift, but after the years has become to manufacture almost the entire range of cars. Suzuki also opened a few other

factories, around the world (India and Pakistan), in order not only to reduce costs but to conquer new markets as well.

The German sports car manufacturer, mentioned earlier, BMW, opened its first factory outside Germany in 1994, in Spartanburg North Carolina, USA. The motive behind the built of this factory was, according to BMW's officials, the brand's strengthening at the international level.

Another German car builder that opened a new facility in United States is Mercedes-Benz that opened a factory in 1996 at Tuscaloosa, Alabama. This factory produced the first real full size SUV, the M-Klasse, release a year after the factory was built, in 1997. Of course today the factory produces other models from the range and as the latest official information show that in 2014, the mid-size sedan the C-Klasse will be built only in the Alabama factory.

The French car manufacturer, Renault, built a new factory in Tangiers, Morocco, opened in 2012. According to Carlos Ghosn, CEO of Renault, the demand for Dacia is growing and the Romanian plant cannot cope with the increasing demand. So the "Tangiers factory will relieve the Pitești factory", said Ghosn at the opening of the new factory which began production with 170.000 per year with prospects of producing up to 400.000 units. Here, the newest models of Dacia are produced (Lodgy, Dokker, Dokker Van), while the rest of the models are still produced in Romania.

After presenting these successful examples, we may be tempted to think that delocalization has only benefits both from the manufacturer's and the consumer's point of view. But this is not always the case, because, the practice showed us that sometimes with lower production costs, comes a low or lower quality products or services. And since we are talking about the automotive industry, we can refer to a major case of failure due to delocalization and that is Toyota. The Japanese car manufacturer had to recall, from 2009, 8.5 million cars due to an electrical failure, and another 412.000 cars for problems with the steering. As a result, Toyota recorded an important reduction in sales.

3. Conclusions.

Delocalization is a well-known process for all the TNCs CEOs and used mainly for cost reduction and due to its connection with the corporations, which are the engine of globalization, it is very difficult to separate these concepts. So it is even more difficult to elaborate a real definition for this process. But thanks to different scientific bodies that study this type of corporate management, we can better understand the costs and the gains of this process.

The corporations are inclined to use this method due to their benefits for the business. The countries that receive those Foreign Direct Investments, mainly the developing countries will benefit from these movements of capital, as this represents a sure way to economic growth.

On the other hand the developed countries are disfavored by the loss of investments and as a result by an improvement in the living standards, as a whole.

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AUDIT PROCEDURES – RECEIVABLE AND SALES

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Abstract

The overall objective of the audit of accounts receivable and sales is to determine if they are fairly presented in the context of the financial statements as a whole. The sales account is closely tied to accounts receivable; therefore, evidence supporting accounts receivable tends to support sales. For example, having determined that an account receivable is valid, the auditor has thereby supported the validity of the sale.

Analytical procedures can often be used to test the sales account. An unusual relationship detected in the audit of receivables and inventory may reflect a problem for the reported sales figure as well

Keywords: *audit, procedures, receivable, sales*

JEL classification: M42

An effective and efficient audit approach for sales usually is to limit the testing in this area to analytical procedures. See the discussion titled "Analytical Review Procedures" later in this chapter.

The table below summarizes specific audit objectives related to financial statement assertions for accounts receivable and identifies common, but not all inclusive, substantive audit procedures that accomplish these objectives.

Specific Audit Objectives	Common Substantive Audit Procedures	Financial Assertions	Statement
Accounts receivable reflected in the balance sheet exist, are for valid transactions, and include all authentic obligations of third parties to the entity.	Test the reconciliation of the aged subsidiary ledger of individual accounts to the general ledger.	Existence Completeness Existence	Occurrence Rights and Occurrence
Billings are for the correct amount and uncollectible accounts are promptly identified and provided for; the allowance for uncollectible accounts	Mail confirmation requests to customers and reconcile confirmation exceptions. Mail confirmation requests to customers and reconcile confirmation exceptions. Review analysis of doubtful accounts and bad debt expense	Accuracy Cutoff Classification Valuation and allocation Presentation and disclosure: Occurrence and rights and obligations Presentation and disclosure ¹ . Completeness	

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<p>is adequate. Receivables are properly classified in the balance sheet between current and noncurrent assets and disclosures are adequate with respect to assigned, pledged, unbilled, discounted, and related-party receivables, and transfers of receivables. Disclosures are clearly expressed.</p>	<p>and related documents. Review bank confirmations for indications of liens on receivables. Inquire about receivables that have been assigned, pledged, unbilled, or discounted or are with related parties. Review aged subsidiary ledger of individual accounts for amounts due from employees, credit balances, or unusual items.</p>	<p>Presentation and disclosure: Understandability and classification Presentation and disclosure: Accuracy and valuation</p>
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Reconciling the Aged Subsidiary Ledger of Individual Accounts to the General Ledger

The first step in auditing accounts receivable is to reconcile the aged subsidiary ledger of individual accounts to the general ledger control account. This is ordinarily done before any other tests to assure the auditor that the population being tested agrees with the general ledger. In addition, the auditor traces a sample of individual balances to supporting documents, such as duplicate sales invoices, to verify the customer name, balance, and proper aging.

Confirmation of Accounts Receivable

The Confirmation Process states that the confirmation of accounts receivable is a generally accepted auditing procedure and should be performed in all audit engagements, except under one or more of the following circumstances:

1. The accounts receivable balance is immaterial to the financial statements.
2. It is expected that the use of confirmations would be ineffective.
3. The auditor's combined assessed level of inherent risk and control risk is low, and the assessed level, in conjunction with the evidence expected to be provided by analytical procedures or other substantive tests of details, is sufficient to reduce audit risk to an acceptably low level for the applicable financial statement assertions.

Although the confirmation of accounts receivable is not necessary when audit risk can otherwise be reduced to an "acceptably low level, Statements of Auditing Standards points out that such a situation is unusual by stating that "in many situations, both confirmation of accounts receivable and other substantive tests of details are necessary to reduce audit risk to an acceptably low level for the applicable financial statement assertions."

From a practical standpoint, it is rare that a sample of receivables is not circularized for confirmation where receivables are material, as third-party verification of an entity's records provides greater audit assurance than evidence from within the entity. When the auditor concludes that it is not necessary to confirm accounts receivable, that position must be documented in the workpapers, along with

the way the auditor overcame the Statements of Auditing Standards general requirement to do so. Thus, the workpapers must include a full explanation based on one or more of the three circumstances listed above.

When performing confirmation procedures, the auditor must use judgment to determine the following:

- Design of confirmation request
- Confirmation date
- Number of accounts to be confirmed

Design of confirmation request The Confirmation Process states that, when designing the confirmation request, the auditor should consider the following factors:

- Form of confirmation request
- Auditor's prior experience with the client
- Nature of information being confirmed
- Characteristics of respondents

Form of confirmation request Two common types of confirmations are used for confirming accounts receivable: positive and negative.

A *positive* confirmation request is addressed to the customer requesting that it send directly to the auditor confirmation of whether the balance stated on the confirmation request is correct or incorrect. A *negative* confirmation request is addressed to the customer and requests a response only if the customer disagrees with the stated amount on the confirmation request. A positive confirmation request is considered more reliable because it requires affirmative action on the part of the debtor.

The determination of which type of confirmation to use is an auditor's decision and is based on (1) the strength of the client's internal controls, (2) the nature of the accounts receivable population, and (3) the facts and circumstances of the individual audit. A more detailed explanation of positive and negative confirmations follows:

1 *Positive confirmation request*—A positive confirmation may be designed in two ways. The information to be confirmed may be indicated in the confirmation request, or the request may be blank, requiring the respondent to fill in the missing information. There is a trade-off in the selection of the complete or incomplete request. When an incomplete form is completed and returned by a respondent, more competent evidence is created than when the respondent is simply asked to sign a completed confirmation form. However, when the incomplete form is used, the response rate generally will be lower and it may be necessary to perform alternative audit procedures to supplement the confirmation process. When a positive confirmation is used and the request is not returned, no audit evidence is created.

2 *Negative confirmation request*—A negative confirmation form requires the respondent to return the confirmation only if there is disagreement with the amount owed. When negative confirmations are not returned, the evidence generated is different from that generated when positive confirmations are used. That is, the lack of returned negative confirmations provides only implicit evidence that the information is correct. The Confirmation Process describes this limitation as follows:

Unreturned negative confirmations do not provide explicit evidence that the intended third parties received the confirmation requests and verified that the information contained on them is correct.

Because of this limitation, the negative confirmation form should be used only under the following conditions:

- The combined assessed level of inherent and control risk is low.
- The audit population contains a large number of relatively small individual balances.
- There is no reason to believe that respondents will not give adequate attention to confirmation requests.

Even under the conditions described above, Statements of Auditing Standards expresses a concern that the use of negative confirmations will not generate sufficient competent evidential matter and concludes that "the auditor should consider performing other substantive procedures to supplement the use of negative confirmations." For example, if the auditor uses negative confirmations to test the existence of accounts receivable, it may also be advisable to use additional tests, such as reviewing subsequent cash collections and vouching, to determine with reasonable assurance that accounts receivable do exist.

When a response is received from a negative confirmation indicating disagreement with the amount owed, the auditor should investigate the reason for the disagreement. If there are a number of disagreements or the disagreements appear to be significant, the auditor should reconsider the original assessment of the level of inherent and control risk. This reassessment may lead to the conclusion that the combined assessed level of inherent and control risk is not low, in which case the auditor should modify the originally planned audit approach appropriately.

Auditor's prior experience with the client When designing confirmation requests, the auditor should consider information from prior experience with the client and with similar clients. This information includes response rates, knowledge of misstatements identified during prior years' audits, and any knowledge of inaccurate information on returned confirmations. Prior experience may suggest, for example, that a confirmation form was improperly designed or previous response rates were so low that audit procedures other than confirmation should be considered.

Nature of information being confirmed The auditor should consider the capabilities of the respondents when determining what to include in the confirmation request. Respondents can confirm only

what they are capable of confirming, and there is a tendency to confirm only what is relatively easy to confirm. For example, when designing an accounts receivable confirmation, the auditor should consider whether respondents are more capable of verifying an individual account balance or transactions that make up a single account receivable balance.

Information to be confirmed with respondents should not be limited to dollar amounts. For example, in complex transactions it may be appropriate to confirm

terms of contracts or other documentation that supports such transactions. In addition, it may be appropriate to confirm information that is based on oral modifications and, therefore, not part of the formal documentation. Statements of Auditing Standards provides the following guidance with respect to oral modifications:

When the auditor believes there is a moderate or high degree of risk that there may be significant oral modifications, he or she should inquire about the existence and details of any such modifications to written agreements.

If the client responds to the auditor's inquiry by stating that there are no oral modifications to an agreement, the auditor should consider confirming with the other party to the agreement that no oral modifications exist.

Characteristics of respondents Confirmation requests should be addressed to respondents who will generate meaningful and competent evidential matter. Factors to be considered in this regard include the following:

- *Competence of the recipient*—Recipients may be apathetic about the confirmation process, and management may have assigned responsibility to an individual who will sign and return the confirmation without adequate concern for its accuracy.
- *Knowledge of the respondent*—Confirmations may be signed by persons who have no knowledge of the account and no authority to respond.
- *Objectivity of the respondent*—For example, the reliability of confirmations from related parties may be questionable.

If information concerning the above factors, as well as other relevant factors, comes to the auditor's attention, and that information suggests that meaningful and competent evidential matter will not result from the confirmation process, the auditor should consider using other audit procedures to test financial statement assertions.

Statements of Auditing Standards specifically warns that under some circumstances the level of professional skepticism should be increased, resulting in a closer scrutiny of the respondent. Two examples presented in The Confirmation Process are: (1) significant, unusual year-end transactions that are material or (2) where the respondent is the custodian of a material amount of the client's assets.

Confirmation date

The confirmation date relates to the timing of the confirmation procedures. Whether confirmations are requested as of year end or as of some other date will depend on the overall design of the audit approach, with the aim of making the examination more efficient or meeting client deadlines. A confirmation date other than year end can be justified when internal controls are sufficiently reliable to produce reasonably accurate revenue and collection data between the confirmation date and year end. Otherwise, confirmation must be performed at or very near to the balance-sheet date. Other factors the auditor should consider when deciding on a

confirmation date include (1) the materiality of the accounts receivable balance and (2) the auditor's exposure to lawsuits because of the possibility of client bankruptcy and similar risks.

If the auditor makes the decision to confirm accounts receivable prior to year end, the auditor may find it necessary to test the transactions occurring between the confirmation date and the balance-sheet date by examining such internal documents as duplicate sales invoices, shipping documents, and evidence of cash receipts in addition to performing analytical procedures of the intervening period.

Number of accounts to be confirmed

The auditor also must decide how many confirmations to send and to which customers. The auditor may determine the extent of confirmations to send by using statistical analyses or by judgmentally determining the sample size. The primary considerations affecting the decision on the number of confirmations to send are:

- The materiality of total accounts receivable (i.e., if the accounts receivable balance is highly material relative to the other asset balances, a larger number of accounts would be necessary than when the balance is immaterial)
- The number of accounts receivable
- The distribution in the size of the accounts
- The results of obtaining an understanding of the client's internal control and tests of transactions
- The results of the confirmation tests in previous years
- The type of confirmation being used (more confirmations usually are required for negative than for positive confirmations)
- The results of related analytical procedures

In most audits, the auditor's emphasis should be on confirming accounts with the following characteristics:

- Accounts with larger balances
- Accounts with older balances
- Accounts in dispute
- Accounts with credit balances
- Accounts with related parties

Usually, the auditor selects all accounts above a certain dollar amount and selects a sample from the remainder. During selection of the accounts for confirmation, it is important that the auditor have complete discretion and independence in choosing the accounts to be confirmed. However, clients sometimes request that certain accounts not be confirmed. In these cases, the auditor should determine (1) the client's reasons for the request and whether they are valid, (2) whether the amounts involved are material, and (3) whether it is possible to verify the balances in the accounts by other means (e.g., testing subsequent collections).

If the client dictates which accounts to select or refuses to grant permission to confirm certain accounts and the auditor cannot confirm the validity of the accounts by other means, the auditor should evaluate the effect of this scope limitation on the overall audit and whether an unqualified opinion can still be issued on the financial statements.

Occasionally, the client may ask the auditor to perform procedures that go beyond the minimum scope requirements of the audit. For example, the client may ask the auditor to confirm certain customer accounts receivable that are below the cutoff amount determined by the auditor or to confirm all customer accounts receivable. While it is permissible for the auditor to accommodate the client's wishes, the auditor should indicate clearly in the workpapers which tests are being performed to be responsive to the client's expectations.

Performance of confirmation procedures

For confirmation procedures to be effective, the auditor must maintain control of the confirmations from the time they are prepared and mailed until they are returned by the customer. The confirmation process should be executed so that the client does not have an opportunity to intercept requests when they are mailed or when they are returned from respondents.

The confirmation process ideally involves the auditor mailing a confirmation request directly to a respondent and receiving the returned confirmation directly from the respondent. When positive confirmations are used and there is no response, the auditor should consider sending second and, possibly, third requests.

Statements of Auditing Standards recognizes that other means of confirmation may be used but notes that the auditor must consider using additional audit procedures to reasonably ensure that a response is authentic and relevant. Specifically, The Confirmation Process discusses the use of facsimile and oral responses.

When a fax is received from a respondent as part of the confirmation process, some degree of uncertainty arises concerning the source of the information. Problems may arise if auditors rely on faxes as audit evidence without performing corroborating audit procedures. For example, it is possible to preprogram a fax machine with an incorrect transmitting number and name, which leaves the recipient with no other information about the source of the document. Another problem is that information contained in the faxed document itself can be easily manipulated. If a fax can be intercepted, a dishonest party can remove and replace key information.

While Standards of Auditing Standards recognizes that fax confirmations may be used, it notes that the auditor must consider using additional procedures to reasonably ensure that a response is authentic and relevant. When a fax is received from a respondent as part of the confirmation process, some degree of uncertainty arises concerning the source of the information. To reduce that risk, procedures such as the following may be used:

- Verify the source and content of the fax by telephoning the respondent.
- Request that the respondent mail the original confirmation directly to the auditor.

When information is confirmed orally, the content of, and circumstances surrounding, the confirmation should be documented in the workpapers. If the information confirmed orally is significant, The Confirmation Process requires that the auditor request the respondent to confirm the information in writing.

Auditors sometimes are able to directly access online information held by a third party concerning a client's account balance or other information.

Alternative procedures—nonresponses

For negative confirmations, no problem exists for nonresponses because the customer was not requested to respond if the balance or information was correct. Once an account is selected for positive confirmation, on the other hand, the account usually must be supported. Nevertheless, the auditor often is unable to obtain a 100% response rate when positive confirmations are used. When information has not been confirmed, alternative audit procedures must frequently be employed.

Statements of Auditing Standards concludes that it may be acceptable to omit the use of alternative procedures when the auditor has not received replies to positive confirmation requests if both of the following conditions are met:

- The auditor has not identified unusual qualitative factors or systematic characteristics related to the nonresponses, such as that all nonresponses pertain to year-end transactions.
- When testing for overstatement of amounts, the nonresponses in the aggregate, when projected as 100% misstatements to the population and added to the sum of all other unadjusted differences, would not affect the auditor's decision about whether the financial statements are materially misstated.

When information has not been confirmed for positive requests and the auditor has decided to use alternative audit procedures, the specific nature of the alternative procedures depends on the account balance and the client's internal control. Common alternative procedures include examining subsequent cash collections and reviewing documentation.

- *Examining subsequent cash collections*—The auditor may examine cash receipts subsequent to the confirmation date to determine if the receivable has, in fact, been collected. Evidence of the receipt of cash subsequent to the confirmation date includes examining remittance advices and related bank deposit tickets, entries in the cash receipts records, and subsequent credits in the accounts receivable subsidiary records. This verification, along with shipping documents that indicate that the goods were shipped prior to the confirmation date (or documentation that services were delivered), provides good evidence that the receivable was owed as of the confirmation date. Additional care should be taken to match subsequent payments with specific invoices outstanding as of the confirmation date. One particular fraud

scheme called "lapping" involves applying funds subsequently paid by another customer to the wrong account to conceal a misappropriation. Careful examination of subsequent remittances to determine if they were applied to the correct account would uncover this scheme.

Because review of subsequent cash collections involves an examination of evidence outside the entity, it is usually considered to provide more reliable audit evidence than a review of internal documentation.

- *Reviewing documentation*—The auditor may review the documentation that gave rise to the receivable. For example, a sales invoice should be issued on the date the receivable was created and there should be shipping documents related to the sale. By examining the sales invoices and shipping documents, the auditor can verify the actual date of the billing and the shipping date.

Alternative procedures—responses with differences

Confirmation responses sometimes contain differences noted by the customer. The auditor must determine the reasons for the differences and clear them satisfactorily. In many cases, differences are caused by timing differences between the client's and the customer's records. It is important to distinguish between these differences and *exceptions*, which represent misstatements of the accounts receivable balance. The most commonly reported types of differences in confirmations are as follows:

- *Payment has already been made*—Reported differences typically arise when the customer has made a payment prior to the confirmation date, but the client has not received the payment in time to record it before the confirmation date. The auditor should carefully investigate these instances to determine the possibility of a cash receipts cutoff error, lapping, or cash theft.
- *Merchandise has not been received*—Differences typically arise because the client records the sale at the date of shipment and the customer records the purchase when the goods are received. The time the goods are in transit is frequently the cause of differences reported on confirmations. These should be investigated to determine the possibility that the customer did not receive the goods at all or that a cutoff error in the client's records exists.
- *The goods have been returned*—The client's failure to record a credit memo could result from timing differences or from the improper recording of sales returns and allowances. Again, these differences should be investigated.
- *Clerical errors and disputed amounts exist*—Differences typically arise because the customer states that there is an error in the price charged for the goods, the goods are damaged, the proper quantity of goods was not received, or there is other customer dissatisfaction. These differences should be investigated to determine whether the client is in error and, if so, the amount of the error.

The auditor should investigate all differences between the client's records and the information provided by respondents. If such differences cannot be resolved or if the auditor determines that they represent misstatements, the auditor should:

- Determine the cause of the misstatement.
- Extrapolate the misstatement (together with other misstatements included in the same sampling application, if applicable) over the population to determine whether additional audit evidence is required to reduce the risk of material misstatement to an appropriately low level.
- Consider the possibility that fraud may have occurred.
- Determine whether additional audit procedures are necessary to achieve the desired confirmation audit objectives.
- Report all unreconciled misstatements to a client personnel not directly involved in the area subject to confirmation.
- Consider whether responses indicate matters that should be reported to the audit committee.

Errors noted while performing additional tests of accounts receivable balances at the client's request may receive different consideration.

Evaluating the results of confirmation procedures

When all differences have been resolved, including those discovered when performing alternative procedures, the auditor should determine whether the related assertions have been sufficiently tested. Statements of Auditing Standards concludes that the following factors should be considered:

- The reliability of evidence obtained through the confirmation process and alternative procedures
- The nature and implications of exceptions discovered
- The evidence obtained by the auditor through the use of procedures other than confirmation and alternative procedures
- Whether additional evidence is needed

If the auditor concludes that evidential matter obtained through the confirmation process, alternative audit procedures, and other audit procedures is not sufficient to substantiate relevant assertions in the financial statements, additional evidence must be obtained. The additional evidence may be acquired by applying whatever procedures the auditor deems appropriate, including additional confirmations, tests of details, and analytical procedures.

It will be necessary for the auditor to generalize from the sample to the entire population of accounts receivable. Even though the sum of the errors in the sample may not significantly affect the financial statements, the auditor must consider whether the population is likely to be materially misstated.

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CAREER MANAGEMENT IN THE HEALTHCARE SYSTEM

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Abstract

Career management is a specialized activity that provides the relation between HRM and the individual and organizational career planning. The health system is changing, more than any other field. Career Management in the health care system involves a complex process of analysis and human resource planning at both the organizational and the individual level.

Keywords: *career, human resources, management, profession, planning, analysis*

JEL Classification : I1, J2, M5

1. Introduction

The concept of career management is a relatively new concept, which involves a process of analysis and a human resource planning at both organizational and individual level.

Career management refers to the potential of human resources and to the management succession, but in order to plan and develop the individual and organizational career it has to take into consideration the goals and strategies of the organization so that it could provide the financial resources that will support the subsequent steps, endeavours.

There are many types of careers in the healthcare system, therefore in the healthcare system employees can have multiple and long-term careers, taking into account the time needed to reach the professional maturity.

2. Contents

From the theoretical point of view, there were formulated numerous definitions of the concept of "career", this one being associated with multiple meanings of words such as promotion, profession, succession of positions or jobs throughout life, etc.

Career is often associated with the position of manager, director or other executive positions, ignoring the execution positions. But, regardless of the

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perspective from which we approach this notion, it is definitely about work, lifestyle and even extra professional life.

According to the opinion expressed by David J. Cherrington¹, career can be defined as a sequence of individual experiences related to work and gained throughout life; other authors consider "career" as a succession of positions in a hierarchy, together with other related positions and R.L. Mathis, P.C Nica C.Rusu define career² as a sequence of positions which each employee has, in an ascending order of their prestige, according to a predictable rule. Sharing the same opinions one can say a career can be long or short, and an individual may have multiple careers, one after another or simultaneously.

Douglas T. Hall³ considers that *career is the individual perception of the sequence of attitudes and behaviors associated with the working experiences and activities throughout personal life*. The individual perception, he says, may have both *objective and subjective aspects*.

The objective aspects are related to the professional development of each individual, his/her outcomes and experiences that can lead to international career prospects.

The subjective aspects refer to self-assessment, how each individual estimates his/her potential.

Thus, different definitions of career are sometimes contradictory, for instance *the sequence of the individual working experiences that are gained throughout life* does not mirror the idea that an individual can have *more long or short careers*, at the same time or one after another.

On the other hand, while some authors present career as a sequence of positions, others consider it as a sequence of experiences or behavioral attitudes.

In this context, we agree with the idea that an individual can have several careers in his lifetime, and we even agree with the idea that they could coexist at the same time, except for the executive positions. This situation does not occur because it leads to incompatibility and sometimes to a conflict of interests, both situations being provided in the current legislation, especially for public institutions.

Thus, *career can be defined as a sum of experiences gained on account of the performed activity, regardless of the position held, which can influence the individual's professional ascent in accordance with his/her skills, qualifications, abilities and, last but not least, his/her willingness*

From the point of view of the individual career development, many experts have tried to outline the stages of career development. Thus, Torrington D. and L. Hall⁴ present nine stages of a career (according to E. Schein) in the following table:

¹ David J. Cherrington, op. cit., p. 81.

² R. L. Mathis, P. C. Nica, C.Rusu, op. cit., p. 135.

³ T. H. Douglas, 1986, *Career Development in organization*, Jossey-Bass, San Francisco, p. 67.

⁴ D. Torrington, L. Hall, 1995, *Personnel Management: HRM in Action*, Prentice-Hall International, London, p. 439.

Table 1 - *The stages of career development (according to E. Schein)*

No.	Age	Stages	No.	Age	Stages
1	0-21	Development, fantasies, exploration	6	35-45	Crises in the middle of career
2	16-25	Employment	7	After 40	Late career
3	16-25	Main qualifications	8	After 40	Decline and retirement
4	17-30	Early career	9	After 40	Retirement
5	after 25	Middle of career			

Source: D. Torrington, L. Hall, op. cit., p. 439.

Other specialists⁵ consider that the career stages are four as follows:

1. establishment, when the employees are aged 18-24, when the individual gains the basic knowledge and the skills related to the position;
2. promotion, from 25 to 39 years old, when he/she gets his autonomy;
3. maintenance, from 40 to 54 years old, characterized by the development of qualifications and the gaining of esteem;
4. retirement from 55 to 65 years old, when there is the gradual loss of the work identity and the work experience is shared with the others.

In the contemporary society, however, *we cannot speak of a career decline after 40 years old or of a retirement after 55 years old because in certain fields the specific skills and the professional specialization are achieved after a long period of time, therefore after 40-45 years old one can hardly be considered to have completed the qualification-training cycle.*

Career Management is the relation between the individual and organizational career planning, it is a specialized activity of HRM, correlated with the activities specific to the specialized departments.

The concept of career management involves a process of analysis and a human resource planning at both organizational and individual level.

M. Armstrong⁶ *defines career management as the design and implementation of goals, strategies and plans which enable both the company to meet the needs for human resources, and individuals to meet their career goals.*

Gheorghita Căprărescu⁷ mentions that *career management is the process which provides the promotion of employees and the succession of the managing board, in accordance with the needs of the company, with the employees' qualifications, performances and preferences.*

⁵ J. L. Gibson, J. M. Ivancevich, J. M. Donnelly, 1988, *Organizations*, Business Publications Inc., Texas, p. 660.

⁶ M. Armstrong, *Handbook of Human Resource Management Practice*, 1999, Kogan Page, London, p. 471.

⁷ Gheorghita Căprărescu, op. cit., p. 116-123.

Thus, while the first definition refers to the goals, strategies and planning of the company that will determine the development of the human resources, the second relates directly to the employees' promotion and the succession of the managing board.

Career management aim at both the potential of human resources and the succession of the managing board, but in order to elaborate a plan for the individual and organizational career development, we have to take into account the goals and the strategies of the company to provide the financial resources that will represent the base of the subsequent steps.

According to R. L.Mathis⁸'s opinion and other specialists' opinion, career planning models in which the entire staff of a company may be comprised, are presented below.

The "*chance and luck*" model which is based solely on chance and "blind" luck to get the right position and requires that the person be at/in the right place at the right time, this model being followed by most of the employees, but most of the time, it leads to a high rate of delusion;

The "*company knows best*" model, according to which the employee move from one position to another depending on the needs of the company, the model can be accepted by some young people who depend on adults, but it can have negative effects on adults because of the perception that the company is abusing them;

The self-oriented model that aims at the performance and satisfaction, according to which the employees themselves have the ability to evaluate their own career development opportunities.

Furthermore, it is estimated that employees who feel that the manager is interested in their careers are loyal, performing at the same time, quality work.

According to a study made by Duke University in the U.S., *people who have a stable job, good working conditions and professional satisfactions live longer than those who consistently change the job or are discontent with their careers and job positions.*

Considering the models and typologies presented herein, it can be concluded that for the development of individual careers, it is necessary for the employees to know their own personality and their abilities, they should not limit just to chance or luck, because it is said very often, "each person makes his/her own luck."

Career choice is an individual act, which is a general concern, mainly among young people, that are more concerned about building a career, though often they are tempted to pass over certain stages of professional development to reach directly the top of the management hierarchy. Their wish comes true and successful if they have the *chance and luck* but most of the time, a position obtained in this way cannot be preserved for a long time.

⁸ R. L. Mathis, P. C. Nica, C. Rusu, op. cit., p. 141.

The healthcare employees and their career development

The main types of careers are on a short or a long term, they can be subjective or objective, singular or multiple. In this context it can be said that the healthcare staff in hospitals have a multiple career, as follows:

- a professor of the Faculty of Medicine may work, in addition to his/her teaching career, as a doctor in the hospital and even as the head of medical department, medical director or manager, but his work in the hospital must be part-time and his/her appointment as a doctor must be in accordance with his/her professional status and degree.
- the nurse employed in a public hospital may also work the same hours in a private hospital, only after she finishes her tasks at the workplace in the public hospital.

On the other hand, if we refer to the stages of career development cycle (according to E. Schein), which finishes at 40 years old, when it is considered that the career development cycle ends, or if we refer to the four stages of career development illustrated by J.L. Gibson, which consider that employees aged 55-65 begin the retirement process, we noticed that the healthcare system has some peculiarities, namely:

- if we analyze the career of a *doctor*, who definitely has to cope with a very long period of study, six years of faculty, the internship and the residency year between 3 and 7 years, we can say that after 10-14 years of training a resident doctor can become a specialized doctor after passing an exam according to the law, and after 5 years of experience he/she can become a primary doctor after passing another exam according to the law. So, only after he/she is 40-45 years old it can be said that he/she was able to go through almost all the stages of his/her professional development, and he/she can access a management position after the age mentioned previously.

Therefore, the individual career path of a doctor is a non-traditional one, and this career path could have an upward and downward mobility. The career path is predicted when the doctor has already chosen the medical specialty and has passed the residency exam;

- *the nurse* has a more traditional career path, because after graduating the sanitary school the nurse is appointed as junior nurse for a period ranging from six months to one year. In order to get a higher position a nurse has to pass an examination based on his/her gained knowledge and the next step in his/her career development is the major medical nurse position. Moreover, nurses can have administrative positions such as department chief nurse or healthcare Administrator in the Board of Directors of the hospital.

In 2006, the University of Medicine and Pharmacy established faculties for nurses, thus enabling nurses to develop their career in the sense that they obtain a bachelor degree in their field of activity.

In some cases, due to individual counselling, some nurses change their career by enrolling to the Faculty of Medicine to become doctors.

When the employer makes the selection using specific techniques and methods, he gets to know the candidate in terms of his/her achievements proven by the documents presented at the time of selection and evaluation.

Therefore, the individual career planning made when getting employed has a certain bias and to increase its objectivity, it should be reviewed periodically in the light of the subsequent development of the employee.

The individual career will be influenced by the quantity and quality of human resources and, therefore, the evaluation of performances is meant to identify the weaknesses of employees and to provide a baseline plan to establish professional development and training in order achieve the proposed goals.

The development and training of the human resources and *Career Management*, are activities specific to HRM that can be treated simultaneously, as an entire process of training and improvement of individual career which is focused on the career development that the employee proposed to accomplish or on the career he/she was advised to build, in accordance with his creative skills that have been discovered subsequently.

The healthcare staff can have multiple, objective and long-lasting career goals, considering the time needed to reach professional maturity.

But, there are also situations quite frequently encountered in public hospitals, when a doctor performs four different activities simultaneously, building for each performed activity a type of career. For example, a hospital manager, in addition to his /her administrative and managerial work, he/she performs teaching activities, he gives medical examinations, prescriptions, treatments and therapy for both the hospital patients and the patients of private clinics.

Therefore, we brought into discussion *four different careers* so that we could mention that each of them has a profound bias, and to motivate this aspect we enumerated some reasons, as follows:

- Business management requires the manager's total involvement in the management of financial and human resources, administrative organization, collaboration and participation in the collective meetings with the management structures, etc. and also his/her constant concern for legislative information and documentation so that the manager be able to build a real strategy, based on the adoption of the coherent policies in relation to the legal directions for future actions oriented on the investment and organizational development;

- Teaching implies a special responsibility, commitment to the students that become doctors, their work being carried out both in terms of teaching the basic theoretical concepts, as well as presenting the practice techniques considering the medical cases;

- Medical work done at the bedside may not be interrupted, according to the doctor's availability, because the diagnosis and the medication must be followed by a therapeutic care which changes depending on the medical state of the patient;

- Collaboration as a doctor with private clinics should be classified in the category of conflicts of interest, but this is allowed because the number of beneficiaries of this system is increasing, and major decision makers in the Ministry of Health are doctors, too.

Therefore, it is obvious that it couldn't be registered performances as long as all the activities presented above are performed simultaneously, due to the fact that, on the one hand, there is not the physical time needed to perform all the activities simultaneously, and on the other hand, most of the problems and their structural typological differentiation decreases the manager's ability to concentrate; having no qualifications and training in the economic field, he cannot appreciate or perform activities such as those specific to HRM or accounting, their decisions are mainly based on personal considerations, on sympathy or on personal grudges against the specialized personnel.

Poor hospital management has thus become a *rule* rather than an *accident*, and measures to remedy this situation are not taken, not to generate a wave of mass discontent, as it happened in 2007, and these measures especially aim to replace the doctors that have management positions with qualified personnel, specialized in management.

3. Conclusions

Nowadays, more than ever, the healthcare system has focused increasingly on career planning and management. This is justified by the rapid economic change, a fact that makes the current careers be less clearly delineated and predictable than in the past.

The objectivity of the career development is rendered by the fact that is reviewed periodically in the light of the employees' further developments. To build individual careers, it is necessary for individuals to know their own personality and their own potential, and they should not limit to hazardous aspects.

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SMS's INNOVATION AND HUMAN RESOURCES MANAGEMENT

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Abstract

This paper aims at analysing the relationship between innovation and human resource management (HRM), attempting to establish whether innovation determines the firm's human resource management or, conversely, human resource management influences the innovation level of the company. Based on this review, some research hypotheses are formulated. Article's findings results provide evidence that, in order to affect employee behaviour, the firms must develop a bundle of internally consistent HRM practices.

Keywords: Innovation; Small to medium-sized enterprises; Human resource management.

JEL Classification: L25, M54.

1. Introduction

Innovation and human resources management play an increasingly important role in sustaining "leading edge" competitiveness for organisations in times of rapid change and increased competition. "Discontinuous change requires discontinuous thinking. If the new way of things is going to be different from the old, not just an improvement on it, then we need to look at everything in a new way".

The continuous hegemony of innovation and creativity arises from organisations recognizing that correctly harnessed creativity can offer companies a competitive advantage (Porter, 1980). The analysis of the strategies of the top companies of the future, the structural flexibility and innovative power were listed among the top drivers of future success.

Today, firms are facing a competitive and continuously changing situation. In this context the performance, and even the survival, of firms depend more than ever on their ability to achieve a solid and competitive position and on their flexibility, adaptability and responsiveness. Therefore, it is hardly surprising that there is growing interest in innovation as a strategy that allows the firm to improve its flexibility, competitive position and performance.

A company will create new products for a variety of reasons, but usually in an attempt to increase profits. The most profitable new products will be those that meet the customer needs more effectively than competitors' products, and are therefore

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preferred by more customers. Companies need to identify those needs, and then generate ideas and solutions to address them.

Many articles on innovation and creativity begin with a general statement that companies must innovate or they will die. While this is generally true, any company that is inefficient in vetting and implementing new product ideas or a company that continually introduces the wrong products will consume its own resources and will also fail.

In the management field, a host of variables has been identified as influencing organizational innovation:

- *having a vision of what the organization wishes to be,*
- *searching for opportunities, experience and technological potential*
- *following market orientation,*
- *market evolution and segmentation and the promotion and management of creative resources.*

Human factors and, in particular, human resource management, are today considered key elements of successful innovation, since the human element is involved in the whole innovation process. Specialists state that there are no good technologies or good innovations without competent people who can adequately use them and get benefit from them. At the same time, no competent people can be available if there is not, first, a business project defining the role that technology and innovation must play and creating the necessary and sufficient conditions for channelling aptitudes, capacities and attitudes of the individuals towards the established direction.

Considering that HRM determines and modifies, to a large extent, these aptitudes, capacities and attitudes, it seems clear that it becomes a crucial element in the development of innovation activities. Human resource management has been, up to now, scarcely treated in studies on innovation in the firm. Although there have been some empirical studies in recent years, their conclusions are heterogeneous and most of them have focused on U.S. firms.

2. Dimensions of SMS's growth through innovation

Three main sources of growth can be determined:

a) *Technological improvement* – It is well known that processes and technology improvements can contribute to meeting quality and process - performance objectives.

b) *An increase in the quantity of capital* – Very often, technology is deeply linked to investment because it is embodied in new machinery and better equipment.

c) *An increase in the number of workers, their skills and educational levels.*

Industry growth depends on several internal and external factors, such as physical assets, technologies all along the chain value, human resources in general and qualification levels in particular and also organizational capabilities. In general, the firms are more likely to reap profits and social benefits when they are in high-growth industries.

SMEs can increase their activities and businesses in some ways and grow in some dimensions. The following dimensions can be identified:

a) *Raise the level of integration of the technologies* – The management of technologies and the exploitation of all their potential is strictly linked to the possibility of integrate their synergies.

b) *Intensify innovative technology processes* – This direction of innovation is a decisive contribution for the modernization of businesses and the implementation of competitive strategies.

c) *Increase the number of markets where the company operates* – Internationalization and globalization are direct consequences of this decision.

d) *Increase businesses' portfolios* – The company that today is involved in a given industry can tomorrow widen its investment to other industries;

e) *Increase the number of operational uses of technologies* – Many technologies can have applications in operations of a different nature.

To position strongly for future growth in the global marketplace, an organization has to make some effort to increase its investments in R&D and to focus on the implementation of advanced production innovations and practices.

The growth of an organization, the technologies that are being used along all its activities, and business strategies that have been formulated are strictly related. Even organizational culture deals with technologies and growth.

Technological progress driven by a decision to enhance productivity and profitability often fosters growth. The competitive success of most enterprises is strongly related to decisions such as:

- *producing products and services according to high quality standards;*
- *quantifying production in the correct manner;*
- *anticipating and responding to changing consumer needs;*
- *reducing production costs in order to enhance profitability.*

The growth effort has to include:

- *New technologies for manufacturing with ecological safety.*
- *Designing and modelling of secure facilities.*
- *Adopting zero-waste procedures in manufacturing and processing.*
- *Upgrading of existing installations.*
- *Developing new organizational tools and methodologies.*
- *Reducing resource consumption in order to reach competitive production costs.*

The success of SMEs depends on:

- *using advanced technologies in an integrated manner,*
- *being aware of changing clients' needs, producing quality goods and services,*
- *enhancing profits by reducing costs,*
- *reaching new markets within a competitive perspective,*

- *wide-open mentality.*

Many SME's are not able to envisage growth as a competitive need and this difficult mentality and/or reluctance should be understood.

The identification of innovative improvements that could enhance organizations' movements for growth is a decisive process to reach growth objectives. Innovation in production, distribution, and communication processes serve as a vital source of productivity growth and other competitive advantages. The success of most management innovation processes is also a function of competitive efforts.

The managerial decision regarding obtaining growth results has to take into account what is needed to reach a rapid modification in the professional qualification levels of workers and managers. It is indispensable that a strict and dedicated cooperation exists among governmental entities, industries and educational sectors. When an entrepreneur does not have experience and technical knowledge in the financial domain he may have a distorted perception of the reality, because an increase in sales does not necessarily correspond to an increase in profitability and, therefore, does not open the possibility of self-financing. It is well known that some entrepreneurs prefer self-financing because it provides them with more control. It is required to create new higher education models in the domain of entrepreneurship. We agree that a new higher education models will require the commitment of governments, universities, and associations.

3. The relationship between innovation and HRM

There are no best HR practices, because in order to be effective, HR practices must be consistent with other aspects of the organisation, specifically its strategy. The most suitable HRM practices for firms trying to develop a competitive advantage based on innovation will be different to those practices suitable for firms seeking other kind of competitive advantage.

Some studies have focused on some isolated HRM practices while others have focused on the HR system adopted by the firms. The underlying assumption of these studies is that the impact on organizational performance of sets or "bundles" of interrelated HR practices can be greater than the cumulative impact of all the individual practices comprising the bundle. Most of the above mentioned studies are based on the models proposed by well-known specialists (Miles and Snow and Schuler and Jackson). Their model proposes the development of a market-type HRM system for those firms defined as prospectors, firms characterized by the search for new products and markets, which are, therefore, the innovators. They argue that it is very difficult for the firm to provide the necessary abilities for a new market or product from inside the company and, more importantly, to provide them quickly. Therefore, these authors recommend searching outside for these abilities whenever the organization needs them, i.e. developing a market-type HRM system.

Other specialists (Schuler and Jackson) establish a connection between HRM practices and three types of strategy: costs, quality and innovation, defined from Porter's (1980) classification of competitive strategies. Their model starts by analysing the employees' behaviour required by each kind of strategy; subsequently they propose HRM practices for the development of these behaviours. In their view, when contemplating an innovation strategy, the firm needs creative employees who are flexible and tolerant of uncertainty and ambiguity; people who are able to take risks and assume responsibilities, very skilful, able to work in a cooperative and interdependent way and with a long-term orientation.

The HRM practices that those systems include are listed in Table I.

We can say that, between specialists, there is agreement, first, about the importance of linking HRM and innovation and, second, regarding the form of some HRM practices, particularly the use of external sources of recruitment, performance appraisals and incentives. There is no consensus regarding other HRM practices such as employment security, training, career paths or employee participation. Furthermore, empirical research conclusions are also heterogeneous.

For this reason, can be formulated propositions about the relationship between innovation and HRM practices following both Miles and Snow (1984) and Schuler and Jackson (1987).

The first hypothesis refers to isolated HRM practices.

1. The strategy developed by a firm determines the HRM practices it carries out. Thus, innovative firms will carry out HRM practices consistent with this strategy.

This hypothesis is broken down into two according to the theoretical model employed:

- a. *Firms following an innovation strategy will be characterised by the use of external sources of recruitment, low employment security, narrow application of training, very little use of internal career paths, the use of performance appraisal systems, incentive-based compensation and low employee participation.*
- b. *Firms following an innovation strategy will be characterised by the use of external sources of recruitment, high employment security, broad application of training, the use of internal career paths, the use of performance appraisal systems, incentive-based compensation and high employee participation.*

The second hypothesis is formulated from a configurational perspective:

2. The strategy developed by a firm determines the HRM system it implements. Thus, innovative firms will implement an HRM system consistent with this strategy.

Table 1 - HRM practices for innovation

	Miles and Snow's model	Schuler and Jackson's model
<i>Recruitment and selection</i>	Emphasis: "buy" Hiring almost exclusively from outside the organisation Selection may involve pre-employment psychological testing Very little employment security given Little if any socialisation taking place within the organisation	External sources of recruitment Technical and research competencies High employment security
<i>Training</i>	Skill identification and acquisition Limited training programmes	Broad application Employees are responsible for learning Jobs that allow employees to develop skills that can be used in other positions in the firm
<i>Development and internal career opportunities</i>	Very little use of internal career ladders	Broad career paths
<i>Performance appraisal</i>	Results-oriented procedure Identification of staffing needs Division/corporate performance evaluations Cross-sectional comparisons	Mandatory competency growth Process and results criteria Performance appraisals that are more likely to reflect longer-term and group-based achievements
<i>Compensation</i>	Oriented toward performance External competitiveness Total compensation heavily oriented towards incentives and driven by recruitment needs	Many incentives Internal equity Low pay rates but employees are allowed to be stockholders and have more freedom to choose the mix of components that make up their package Team innovation awards Competency-based pay
<i>Other HRM practices</i>	Low employee participation Implicit job analysis Job enrichment	High employee participation Implicit job analysis Job enrichment Cross-functional teams Communication: feedback on new product sales

source: Daniel Jimé'nez-Jimé'nez and Raquel Sanz-Valle

As in the previous case, alternative hypotheses are formulated according to the reference models, Miles and Snow (1984) or Schuler and Jackson (1987):

- a. *Firms following an innovation strategy will adopt an HRM system characterised by the use of external sources of recruitment, low employment security, narrow application of training, very little use of internal career paths, the use of performance appraisal systems, incentive-based compensation and low employee participation.*
- b. *Firms following an innovation strategy will adopt an HRM system characterised by the use of external sources of recruitment, high employment security, broad application of training,*

the use of internal career paths, the use of performance appraisal systems, incentive-based compensation and high employee participation.

The assumption that strategy determines the firm's HRM practices is implicit in these hypotheses, as most of the contingent literature suggests.

3. **The HRM practices developed by a firm determine its strategy.** Thus, firms that carry out HRM practices consistent with innovation will follow an innovation strategy.

- a. *Firms characterised by the use of external sources of recruitment, low employment security, narrow application of training, very little use of internal career paths, the use of performance appraisal systems, incentive-based compensation and low employee participation will seek a more innovative strategy.*
- b. *Firms characterised by the use of external sources of recruitment, high employment security, broad application of training, the use of internal career paths, the use of performance appraisal systems, incentive-based compensation and high employee participation will seek a more innovative strategy.*

Regarding the configurational approach, the following hypotheses are formulated:

4. **The HRM system developed by a firm determine its strategy.** Thus, firms that implement an HRM system consistent with innovation will follow an innovation strategy.

- a. *Firms adopting an HRM system characterised by the use of external sources of recruitment, low employment security, narrow application of training, very little use of internal career paths, the use of performance appraisal systems, incentive-based compensation and low employee participation will seek a more innovative strategy.*
- b. *Firms adopting an HRM system characterised by the use of external sources of recruitment, high employment security, broad application of training, the use of internal career paths, the use of performance appraisal systems, incentive-based compensation and high employee participation will seek a more innovative strategy.*

Some European studies based on the models mentioned above, on small and medium enterprises, revealed the relation between HRM and innovation. According to the literature, HRM is a key element for the success of innovation, not many empirical studies have provided support for it.

Using a contingency approach, different strategies will require different employee skills, knowledge and behaviours to be implemented. Presumably, HRM policies can influence these employee characteristics.

There is agreement between specialists about, first, the relationship between innovation and HRM and, second, that in order to improve innovation, the adoption of HRM bundles is superior to any of the individual HRM practices of which they are composed. On the other hand, there are inconsistencies in the literature about the contents of these bundles. Some authors suggest that employment security, extensive training or employee participation have a positive impact on innovation, while others think they have the reverse effect.

4. Conclusions

Alternative hypotheses, following the two most widely-accepted theoretical models, have been proposed in this paper. The conclusions drawn from European studies about HRM impact on firms' innovations using the above models are the following:

- *There are empirical evidences that innovation explains the adoption of some HRM practices. The choice of an innovation strategy implies the use of an incentive-based compensation, the encouragement of employee participation, the use of appraisal systems and the use of broad internal career opportunities.*
- *The HRM practices condition the firm's orientation towards innovation. The participation and the use of promotion plans significantly explain the firm's innovation orientation.*

The importance of aligning HRM practices and innovation is a clear implication for managers. Schuler and Jackson's model and Miles and Snow's explains the fit between innovation and HRM. The firms that adopt an innovation strategy are more likely to use internal labour markets than external ones.

The use of HRM practices aimed at building a stable group of employees in the company, which can adopt risks and experiment and which can participate in the adoption of the decisions that affect their jobs. This is more likely to create the conditions for the emergence of the new ideas that feed innovation.

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ISLAMIC BANKING SYSTEM. THE CASE OF THE KINGDOM OF SAUDI ARABIA

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Motto: „Al-ghunm bil-ghurm!”

Abstract

As know already for the past 15 years, despite of the global financial crisis Saudi Arabia is one of the world's fastest growing banking markets. This can only mean that the commercial banks that are operating in this environment have an advantage due to their position within the Kingdom of Saudi Arabia and are likely to be more efficient in the near future then their European counterparts

As it was expected, due to their atypical growth during the financial turmoil, many researches have been done in this context on a regular basis, to outline the factors contributing to this unusual situation. These researches now represent the basis for governments, economists and other users in fetching the information on the current and future scenario of the banking sector of this country.

We have focused on this issue in order to evaluate the different factors affecting its growth, and to know their impact on the economy of the Kingdom, and how the future is envisaged based on the current growth patterns of the industry.

Key words: Islamic banking, interest risk, profitability, banking control regulation.

JEL Classification: G21

Introduction

The motivation of choosing this paper comes from the willingness to show within the actual context of the global financial crises, a totally different banking system specific to Arab States. This difference might be the reason why the Arab States weren't influenced so much by the financial crisis and maybe the existing banking system here will be a model for the other states, including Europe or other continents.

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¹Anyone can win if he agrees to assume responsibility for and bear the losses

The words from the motto represent the principle that underpins the functioning of the Islamic banking system. This is differentiated from the conventional type due to a much higher level of the degree of correlation between risks incurred by Islamic credit institutions and profitability, especially in the context of the current global financial crisis.

The lack of interest, the desire to minimize uncertainty and speculation, the contribution to achieving economic wellbeing, these are other features that shape the originality of Islamic banks. Some of these factors put their mark on the risk and profitability, especially the ones that reflect the transposition of existing religious Sharia principles' in the Qur'an and in the financial system. Musharakah, Murabaha, Ijarah, Imam, Hasan, Qard. These are arrangements for financing and investment in the banking system which not only has the role of an intermediary, but it also is the direct participant to economic development.

Why present the Islamic banking² system in the Kingdom of Saudi Arabia? Political stability, capital market liberalization, the implementation of the rules laid down in the Basel II, the growth rates of deposits in the two-digit level, assets and loans to these credit institutions. Here are some of the reasons that have led to the focus on the Islamic banking system in the Kingdom of Saudi Arabia, the country where 100% of the total number of inhabitants are Muslim! Other competitive advantages of this State are represented by increasing the liquidity available to the general public amid rising trend followed by the price for a barrel of oil.

This structure is one that highlights the features of the Islamic banking system in the Kingdom of Saudi Arabia in terms of risk and return associated with credit institutions which are guided by the principles set out in religious Sharia. Thus, it is illustrated how the financing arrangements, investment and saving exercise their influence on risk and profitability that characterize Islamic banking system from this Kingdom.

1. Islamic Banking

1.1. How the Islamic religious principles influence the risks the new Islamic Bank in the Arab States assumes?

Have they any implication on profitability which characterizes these financial institutions? Here are some questions for which the answer can only be "Yes", given the fact that the main feature of Islamic banking is the sharing of profit and loss, between the financial institution and its customers, which means that both parties assume a number of risks that must be taken into consideration in order to achieve a rate of return as high as possible. This trait is highlighted especially by means of religious principles that underlie the Islamic banking system set out in the Qur'an and Sharia.

²Ahmad, Z. – Islamic Banking: State of the art,
http://www.irti.org/irj/portal/anonymous/irti_search_en?SearchType=quick, pp. 7

1.2. The uncertainty and speculation

One of these principles is freedom from Gharar³ in operations, transactions or contracts concluded by Islamic banks. For any of these principles to be in accordance with the rules of Sharia, it is necessary that the subject and their price is determined prior to the actual deployment of the operation. Islamic religious principles prohibit hedge operations (Maysir). If you have these interdictions one would be able to consider *that* they are characterized by a low risk, which is a false statement. This is due to the fact that credit lending and offer of Islamic products come without saving to protect against credit risk, liquidity risk and market risk. It all comes down to the religious principles which represent the guides that do not allow the use of derivative products as well as options, swaps, forward contracts, futures contracts. *This is also a feature that makes a difference between an Islamic Bank and a European.*

1.3. The influence of the absence of the interest risk and profitability of the Islamic banking system-specific

The most important principle is the prohibition of the payment of interest (riba). The concept of the Muslims is that there is no difference between interest and usury, so that Islamic banking institutions may not charge interest on the loans that they grants, and neither do they pay interest on deposits made by their clients, the interest being shown in the Koran, in contrast with the donation and trade (al-bay): "Allah allows trade, but prohibits usury!" (Sura 2, Verse 275, Qur'an).

What is the reason underlying this principle? Justice must be done! This means that your capital must assume a portion of the risk associated with them because he sought to make profit. According to followers of Islam, the banking system based on the existence of interest is inequitable because one supplier has the certainty that capital will be paid at a fixed rate of return, while the recipient of these funds bears the whole risk. Also, the use of interest by an Islamic Bank would be tantamount to its revenue growth as a result of a reduction in those reviews, seen especially through verse, Surah 4: "they take interest although it is banned and grow their wealth at the expense of property of others! They do not believe, Allah has prepared for them a chastisement terrible!"

Unlike the people who use the products of the Islamic banks', general depositors, expect to receive an interest income associated with default rates, fixed or varied according to an interest rate reference, with their conventionally saving. In turn, these benchmark rates can present volatilities, which cannot be predicted

³ In the Arabic language is the equivalent of excessive Gharar uncertainty in relation to be covered by a contract or its price, giving it a speculative character. Thus, one of the parties to the agreement obtains a profit which is not appropriate because it is obtained at the expense of the loss suffered by the other party.

"What I'll do with usury in order to increase your wealth at the expense of people's wealth will not increase from Allah, but those who do alms, desiring to fulfill the will of God, will be bent!" Verse 39, Sura 3.

with precision and whose occurrence is determined by changes involved at the macroeconomic level or at the level of the sectors of activity. Thus, there is a probability that the bank should not be able to honor obligations to clients. Unlike conventional banks, Islamic ones have led depositors to realize that it's saving products profitability is influenced by changes that take place at macroeconomic level and that its value will be one that will at a minimum be equal to the profitability generated by real investment. Due to the fact that the latter can be null or negative, even in the Islamic banking system deposits are not guaranteed.

Because Islamic banks depositors assumes much higher risks than those of conventional banks, the level of profitability for saving products that comply with Sharia is one superior interest at rates that are paid in cash reviews by conventional banks operating in the Kingdom of Saudi Arabia.

1.3.1. Musharakah

If you do not receive interest on credits and it is not allowed to offer interest on deposits received, what other tools of lending and saving does the Islamic Bank use to be able to work and make a profit? Achieving an equivalent for "joint venture"!

This is the manner of financing names used by credit institutions to lend by the Islamic banks from which they obtain additional income. It is used mainly for financing business "start-ups", the Bank becomes a partner of the entrepreneurs by holding a percentage of the total number of shares. Where the company will conduct business that will allow obtaining profit, out of which a part of it, fixed in advance with the Bank, at the end of the contract, will be awarded to the banking institution. Part of the profit which corresponds to the Bank shall be determined by applying the percentage to the gross profit, negotiated and not the net profit. The percentage provided for in the financing agreement and applied to the result obtained by the company differs from the ratio of the capital invested by the Bank and the company's share capital, settling according to the way in which the Islamic Bank will be involved in the operation and management of the company where it holds participating interests.

Another unique feature of this financing is represented by the fact that the contribution to the capital brought up by the Bank and the client shall be made in cash. This is another difference in comparison with a European Union bank.

What will happen with Islamic banks if the financing of customers was granted on the basis of the principle of Musharaka and investment proved to be an unprofitable? In order not to deal with such issues, Islamic banks will diversify its client portfolio to which funding has been granted on the basis of this principle, so that if some of them are facing losses, there is are a lot more substantial profits to gain which would enable the Bank to meet its obligations to depositors.

1.3.2. Ijarah

Another way that Islamic banks in the Kingdom of Saudi Arabia grant funding to their customers is Ijarah, the equivalent of leasing in Western finances. To be in

accordance with the Sharia, the contract is signed and the rate cannot be increased unilaterally by lessor. What happens if a debtor delays the payment records? Islamic Banks are prohibited to levy penalties. Thus another difference in comparison with a credit institution from a EU country. Instead, within the contract a clause is inserted which stipulates that the debtor, if he does not comply with his obligations, is required to donate a sum of money to a charitable fund of the Bank. The amount to be donated is determined on the basis of the amount due and the duration of the delay. Also, the lessor may not terminate the contract unilaterally.

Another way through which Islamic banks provide funding is resulted by combining the principles of Ijara and Musharaka. How can one person use these principles? Where there is a lack of the necessary amount for a certain purchase of assets or for setting up a company, he will receive funding from the World Bank, a credit institution having the status of co-owner, one that it will gradually lose, with the passage of time. How is this possible? The customer shall pay the Bank a fee because it is allowed to use an asset that is owned entirely by him and periodically will purchase a certain proportion of shares held by the World Bank. Thus, after a period of time, determined in agreement with the World Bank, he will become the sole owner of the asset or company in question. This way of financing is often used in relation to loans granted by banks to customers wishing to purchase a home. The value of the rents paid by the client over time varies, being dependent on the shareholding owned by the World Bank. The World Bank will sell from time to time some of the cash and securities held at a price set by an appraiser.

1.3.3. Mudarabah and Wakala⁴

Are the principles related to the involvement of the Bank with its clients, and the Division of profits and losses. Here are the most important features of the Musharaka, some of which are no longer found in contracts that are based on the principle of Mudarabah. If the Bank had the quality of Musharaka purveyor of funds within this role Mudarabah is owned by the customer, the one who needs saving products, and not lending. Under this contract, the Bank is exposed to less risk due to the fact that it has a mission to put the cash to the customer in order to obtain a rate of return as high as possible, with the certainty that it will return and it will be a part of the profit. Musharaka, Mudarabah is also characterized by the existence of a contract based on a partnership between the client (rabb al-mal) and the Bank (mudarib)⁵.

Unlike the Musharaka, the client does not get involved in the management of liquidity, this is only the banks mission. The way in which banking institution invests client's money leads to the dealing with the losses, they will not be generated by the

⁴ It is considered that the Islamic Bank recorded losses highlighted the fact that he has taken in vain efforts to capitalise on the client and that liquidity has never been able to get profit.

⁵ Ibn Quadamah, Al-Mughni, 5: 167

mudarib, but only by the rabb al-mal. There are however exceptions. The Bank will be forced to compensate the customer where he is able to give evidence of neglect or acted in its interest and at the expense of the customer. Although in appearance, the risks associated with the products offered by saving by the Islamic banks are higher than those in the conventional banking systems, it should be noted that the loss is recorded in a certain period covered by profits that are obtained in the following periods.

Because saving products are based on the principle of Mudarabah which comply with Sharia, the manner in which the Division of profits is made between the client and the Bank has to be established from the moment of signing the contract to lay the Foundation for the partnership. Part of the profits will return to the Bank and must not be fixed depending on the invested capital. Mudarib is not entitled to receive any fee for the period of the contract.

Wakala is another way of attracting the resources of the Islamic banks, they have the role of agent (wakil), being forced to fructify the availability of reviews at a rate of yield fixed in agreement with them. Where the yield is higher than that required by the depositor, the difference, rests entirely with the Bank.

Usually Islamic banks customers have preferred to place their funds in deposits that work as Mudarabah, over 80% of total resources raised from depositors being found in this type of saving and investment. It should be noted, however, that the evolution of the share of funds in total deposits Mudarabah is on a downward trend.

1.3.4. Murabahah

Were Mudarabah and Musharakah, Wakala is used by banks in Islamic ways of investing the resources attracted, Murabahah is financing for clients, natural persons or legal entities, who are facing shortage of liquidity. What operations are conducted under the Murabahah? An Islamic Bank buys an asset in order to resell it to his client at a higher price than that of the purchase, the difference representing the profit. Profit from the banking institution can be established as a fixed amount or as a percentage of the purchase price of the asset. Additional costs incurred by the Bank as well as those concerning transport and customs duties may be included in the price charged to the debtor. Because such a way of financing corresponds to the principles of Sharia, it is necessary for the asset to be physically there at the time when the transaction takes place. Also, the Bank must be the owner of the asset in question when it resells it to the customer.

The customer can pay the duty towards the Bank through the repayment of the loan rates, with established dates or periods in which these payments must be made, thus contributing from the moment of signing the agreement. Its value cannot be changed, even in situations where the customer is unable to pay the debt to the Bank; some borrowers will intentionally use delays for the payment, being aware of the benefit of this clause. Therefore, Islamic banks are more exposed to credit risk as

opposed to the conventional credit institutions. In order to protect themselves against credit risk they are able to ask the client to issue a mortgage in their favor, thus the common mortgaged will coincide with the purchased one. Banking institutions may also accept guarantees from third parties.

The downside for Murabahah is constituted by the fact that it cannot be issued on the basis thereof to trade securities on the secondary market due to the fact that the Act signed by the borrower would highlight its debt, so the amounts to be paid by him to the third party would be in the same currency and would amount to a transfer of money, to be released only at par to meet Islamic standards.

1.3.5. Imam

Imam is a way of financing through which those who do not have sufficient resources to produce goods or construct buildings, are forced to buy the raw material to do this. Goods resulting from the manufacturing process don't have to be delivered at a fixed time, but it sets a time limit within which they must be produced or manufactured. Thus, on this basis transactions can be carried out with goods that do not yet exist.

What is the role of banks in financing schemes? Natural or legal persons are in a contract with the Bank of Imam, which attaches in parallel, funding of this type to the manufacturer required by the customer, the profit then coming from added margin over the price paid to the producer or manufacturer. To protect themselves against the risk of Islamic banking, credit institutions are allowed to charge the customer warranties. This is way of financing also the Governments for the construction of bridges, roads and highways. Imam is the least used way of funding by the Islamic banks, the ratio of the value of its assets and that of total loans granted being the smallest.

1.3.6. Qard al-Hasanah

This is another way of financing through which Islamic banks granted loans without interest and without having to establish partnerships with borrowers who are forced to pay the principal and administrative costs related to the management of the loan, which was granted. Those who can benefit from this type of loan are those who want to build houses, but also, cooperatives, micro-enterprises and farms that operate in the agricultural industry. There is a similarity between this way of financing and that used by the Greemen Bank of Bangladesh, dubbed the "poor man's Bank".

2. Islamic banking and financing within the Kingdom of Saudi Arabia

Dubbed the Islamic banking and finance (IBF), the growth associated with this system has been considered for the past 15 years as the trend setter in terms of global economic growth. It has gathered momentum to become a significant benchmark of the financial landscape in the twenty-first century, for all nations worldwide. Over the recent years we have seen a increasingly 'Western' character of IBF which has shown that various economic geographical and social theories might

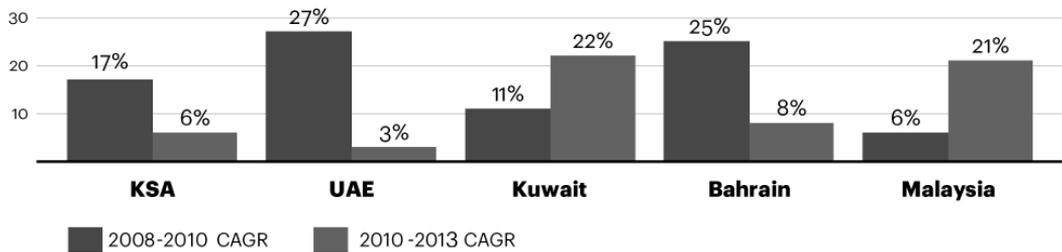
conceptualize its development. Having witnessed double-digit growth rates for the past years, many the Islamic banks have proved once again their capacity in surpassing their conventional counterparts in the European Union. On a superficial glance, the Islamic banking industry is on the up-ward path and there seems to be enough space for growth as they rarely exceeds a third of total market share.

A closer look, however, the figures suggest that the market dynamics are changing, also due to the try to recover from the global financial crisis. Two key indicators should be cause for reflection in the Islamic banking industry: growth rate and profitability.

Chart 1: Growth rates and profitability

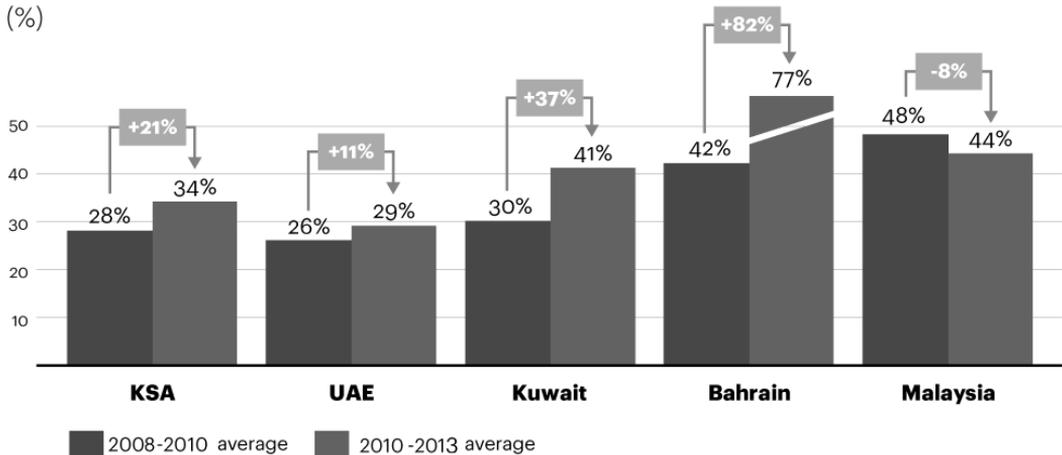
Banking asset outgrowth

(%)



Cost income ratio

(%)



Note: Outgrowth is defined as the difference between Islamic banking asset growth and conventional banking asset growth.

Source: www.alahli.com

As it is visible from the figures above, the growth of Islamic banks is now slowing down, although not stopping or reversing as in conventional banks in most markets, soon, growth could match the general market, thus suggesting that the Islamic banks may have to change the way they have been performing their operations.

Although the Islamic banks have generally had a lead on growth this is not valid for profit. Profitability is still under the influence of regional economic crisis and this has resulted in declining profit margins over the past five years.

Thus the Islamic banking system has to start to tackle the issues of more sophisticated leveraging and the fact that they need to seek greater efficiency across the value chain by not purely emulating a conventional bank's offering .

2.1 Saudi Arabian Monetary Agency

As SAMA is the Central Bank of Saudi Arabia, within the most important and main functions of it we can mention the issuing of the national currency (the Saudi Riyal), promoting price and exchange rate stability, supervising of the commercial banks of the country, managing foreign exchange reserves and ensuring the growth and soundness of the financial system, operating a number of cross-bank electronic financial systems such as SPAN, SARIE, and SADAD.⁶

When established, the Kingdom of Saudi Arabia did not have a national monetary system. As a curious case only foreign currencies were used as a medium of exchange but they were circulating together with Saudi silver coins. At that point there were no banknotes issued by the state and the banking operations were conducted by foreign bank branches. As it became obvious the first and most important task of the SAMA was to develop a Saudi currency and issue it on the market. On a second level SAMA also promoted the growth of the national banking system by encouraging citizens to use and trust the national banking system. In March 1961, Saudi Arabia converted to the Saudi Riyal, in accordance with Article VIII of the Articles of Agreements of the International Monetary Fund. As the economy flourished, all along the 1970s and early 1980s, the SAMA also focused on controlling the inflation by expanding the banking system and by also managing foreign exchange reserves. Since then SAMA's priorities have been to introduce financial market reforms and policies to streamline the banking sector.

2.2 Kingdom of Saudi Arabia – banking system

Under the supervision of SAMA Saudi Arabia has managed to face with strength the global financial crisis, and to manage its impact by implementing decisive steps, and even if not every aspect of the banking system was triumphant the

⁶ Hertog, Steffen (2007). "Shaping the Saudi state". *Int. J. Middle East Stud.* 39: 539–563.

industry as a whole has weathered the crisis relatively well. The banking system now is well capitalized and as has a proof of future confidence in dealing with severe temporary shocks. However the link between this system and the oil price decline can put a large strain on the ability to face any challenge. The country has now turned its focus on developing strategies and policies to further strengthen the bank resolution regime, but also on the fact the independence of bank supervision would be desirable.

It is important to mention some values forecasted for 2013, even as they are forecasted for some important indicators within a national economy:

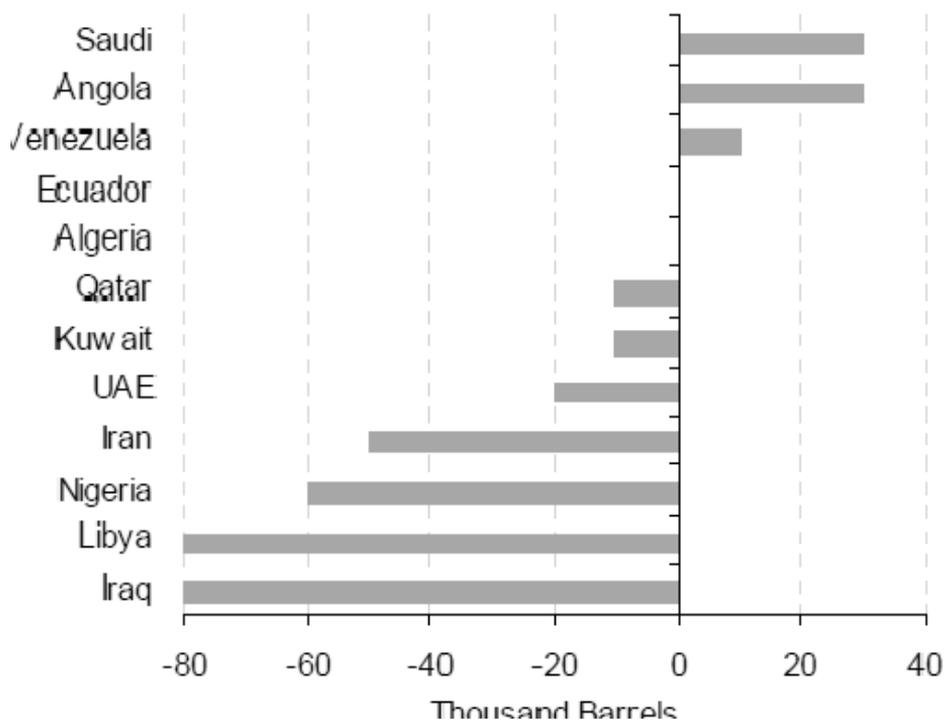
- Real GDP Growth Rate for Oil Sector: -3,1% and for non-oil sector 7,6%
- population 30,1 million
- population growth rate 3,0%
- GDP/capita (expressed in USD) 24,127.9
- CPI Inflation 4,5%,
- Oil Exports in USD billion 324,6
- Non-oil Exports in USD billion 42,2
- Merchandise Imports, USD billion (135,2)
- Total Revenues/GDP for Central Government 39,6%
- Total Expenditures/GDP for Central Government 32%
- Budget Balance/GDP 7,6%, Break Even Oil Price 72,8.

Regarding the financial sector, also regarding SAMA the figures forecasted for 2013 appear as follows:

- USD/SAR Exchange Rate 3,75,
- Growth in Broad Money (M3) 8,1%,
- Growth in Credit to the Private Sector 8,1%,
- Average 3M SAR Deposit Rate 1,0%,
- Average 3M USD Deposit Rate 0,4%,
- Spread in Basis Points, SAIBOR-LIBOR 60.0.

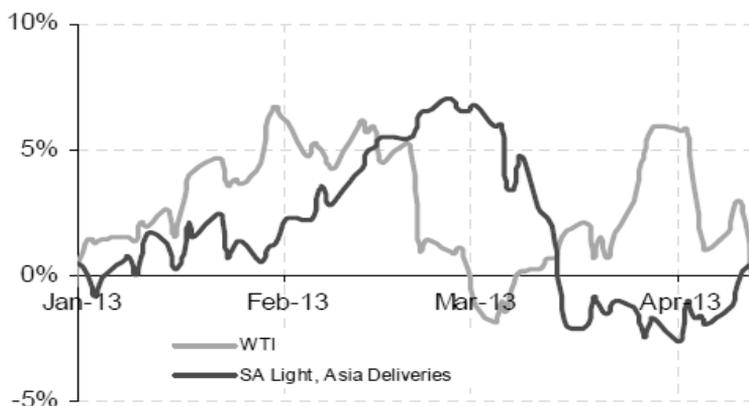
The following charts (their interpretation was used through the Saudi Economic Review, April 2013) can come as a proof for the strong banking system from KSA, especially when talking about NCB.

Chart 2: OPEC'S Monthly Oil Production Changes



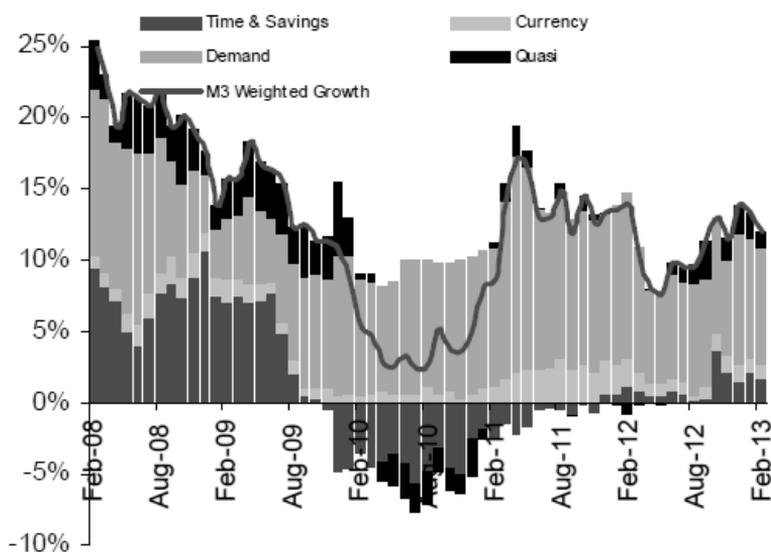
Source: OPEC Survey (in Saudi Economic Review, April 2013, NCB Monthly Views on Saudi Economic and Financial Developments)

On the supply side, rising oil demand is also likely to be met by supply. It is expected that OPEC oil production averaged 30.4 mmbd in March; nearly 1.15 mmbd lower than March 2012. This drop reflects continuing global economic slowdown and competition from other sources, especially, US shale oil. Saudi Arabia increased its production to 9.18 mmbd in March. Iraq continued its recent production surge, rising by more than 70,000 mmbd in March despite continuing infrastructure and security problems. Kuwait's oil output, on the other hand, because of maintenance, declined slightly to 2.9 mmbd in March. Iran oil production fell to 2.68 mmbd, the lowest level seen this year, and exports to its major buyers, including China, South Korea, and Japan, dropped by 250,000 mmbd in March, as sanctions took its toll.

Chart 3: Oil Price Developments, YTD

Source: Thompson Reuters (in Saudi Economic Review, April 2013, NCB Monthly Views on Saudi Economic and Financial Developments)

Since the beginning of the year, however, demand has been declining month by month, attributed largely to weaker regional demand in Asia. China's oil demand growth this year seems modest by recent standards, but emerging economies' oil demand overall is strong, as Q2 non-OECD oil demand is expected to match that of the OECD for the first time.

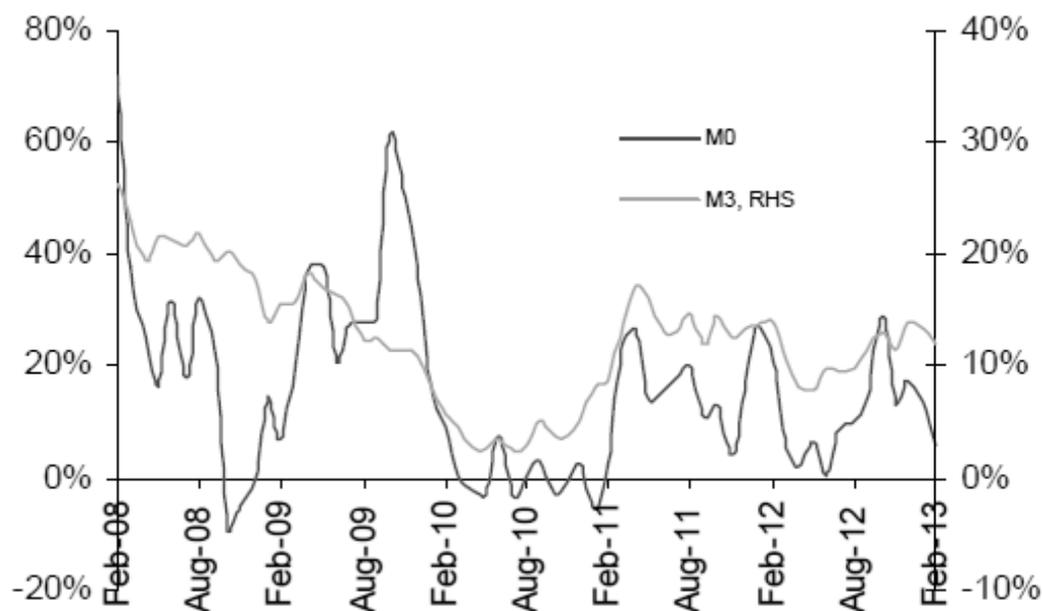
Chart 4: Money Supply, Contribution

Source: SAMA, NCB Estimates (in Saudi Economic Review, April 2013, NCB Monthly Views on Saudi Economic and Financial Developments)

As for the inflation, the annual inflation rate remained stable at 3.9%. Foodstuff is one of the influential categories in the benchmark inflation rate as Saudi is import oriented.

In February, food prices maintained its upward trend since December 2012, increasing by 5.5% Y/Y. Most of the increase is due to the rise in the fruit and nuts category by 11.5% Y/Y, meat and poultry category by 6.9% Y/Y. Additionally, the bread and cereal category rose by 6.3% Y/Y as a result of the increasing prices of Indian rice (basmati) in response to the high demand from several countries following their preferences' switch to import Indian rice instead of Pakistani rice. Rental prices continued their decelerating trend which lowered the category's inflation rate to 2.9% Y/Y during February in anticipation of codifying of the mortgage law.

Chart 5: Growth in Monetary Aggregates



Source: SAMA, NCB Estimates

Although broad money (M3) edged slightly lower than the all-time high recorded in December, M3 posted an annual growth of 12% during the month of February reaching SAR 1.39 trillion. Representing the largest share of broad money, demand deposits have witnessed a growth of 15% on an annual basis to reach SAR 769.5 billion during February. Time and savings deposits decelerated to an annual growth of 6.6% during February as opposed to January's 9% rise, reaching SAR 324.6 billion.

As a common feature with the other National Banks, SAMA or NCB from KSA have the role of controlling the banking system. All banks are required to appoint two auditors duly registered in Saudi Arabia, and to post certain statutory reserves. Banks have to send monthly reports to SAMA. The Banking Control Regulation specifically requires SAMA to lay down general principles to regulate certain specific matters, provided they are approved by the Ministry of Finance and National Economy. SAMA also has the authority to require any information from any bank and to conduct audits; the latter requiring the approval of the Ministry of Finance and National Economy.

Subject to the approval from the Council of Ministers, the Ministry of Finance and National Economy has the authority to exempt a bank from the provisions of the Banking Control Regulation; provided that such exemption is in exceptional circumstances and for a limited period.

The authority which is responsible for reviewing an application for a banking license is SAMA. This is common for the NCB from EU countries, too. However, it is the Ministry of Finance and National Economy which grants such license after approval from the Council of Ministers. The Banking Control Regulation lays down basic requirements for obtaining a banking license. SAMA has also the responsibility for regulating the bank once it has been incorporated. The Banking Control Regulation also lays down the regulatory requirement of a deposit reserve ratio being maintained together with an obligation for banks to increase their capital and reserves in the event deposits exceed the prescribed amount. As required by most central banks, the Banking Control Regulation obligates each bank to maintain a deposit with SAMA, and provides SAMA with the flexibility of increasing or decreasing such deposits within a narrow band. Furthermore, banks are prohibited from extending to any one entity a loan or credit facility exceeding in total 25% of the total reserves and paid-up capital of the bank. In addition certain other activities, such as providing credit facilities to other banks, are prohibited. Certain other activities, such as merging with another bank, are prohibited unless written permission is obtained from SAMA and subject to fulfillment of the terms and conditions laid down by SAMA.

Conclusions

From an economic point of view, the banking system of KSA are very strong regardless of the global financial crises which is affecting worldwide countries' economic solidity, with worst results as the bankruptcy of the countries in question (case of Cyprus, Ireland etc.)

Following the results presented we can say that what makes the banking system from KSA stronger and keeps all the banks coordinated is religion. It is the cornerstone for all Muslims and it is „leading” their steps even when we talk about social life, family, working environment. Maybe some countries have to use KSA as a benchmark and to follow a series of religious principles for their activities thus they will find themselves in position of winning in the end.

Thus from the above study it becomes clear that the Saudi Arabia Banking sector under the supervision of the SAMA is on a positive upward trend. Due to the financial crisis, not even KSA, considered one of the strongest economies of the world due to their growth percentages was unable to remain untouched by the worldwide financial turmoil going on. However the Saudi Banking sector is clearly one system that has made a profit when others have failed. It has become obvious for the outside world that Saudi Arabian banks are currently operating in a high efficient environment, however even with these great results it is also clear that there is room for Saudi banks to increase their efficiency.

Founded in 1952, SAMA really played an active role in the banking field, following Al-Riyadh bank's bad debt problem. In 1964 it started to act as a bank regulator and showed its effective role. SAMA played also an important role between 1975 and 1982, the period known as „Saudisation”. The result of “saudisation” was that 60% of the market share became owned by Saudi citizens. But the most important feature that makes SAMA stand out from other National Central Banks is that it is a national bank, and commercial, too.

All these attributes of SAMA have resulted in the well working banking system that is currently in place in the KSA, a model to be followed by other nations across the world.

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OBSERVING THE PURCHASING BEHAVIOUR OF THE INDIVIDUALS IN THE LARGE SURFACE STORES DURING THE 2012 WINTER HOLIDAYS IN BUCHAREST

Mihai Papuc,
Tudor Edu¹

Abstract

The purpose of our endeavour was to identify the buying behaviour during the 2012 winter holidays. We focused on large surface stores for several reasons. First of all, in Bucharest, there is a strong tendency toward purchasing from the modern retail. Secondly, the assortment displayed in these stores covers, probably, the widest array of needs. Thirdly, the consumer behaviour during this time of the year is more squander-oriented than thrift-oriented. All the above-mentioned coordinates support our idea of choosing the large surface stores as the right venues for observing where the individual goes, what he/she does and how he/she selects categories and brands.

Key words: observation, observation guide, purchasing behaviour, behaviour patterns, semi-structured, disguised and direct observation

JEL Classification: M31.

Theoretical guidelines

Observation is an exploratory or descriptive research method used to collect primary data about people, objects or phenomena in which the researcher does not interact or communicate with the subjects (Cătoi I, 2002). It entails intentional pursuance and exact and systematic recording of different individual and situational behavioural displays which could lead to certain behaviour patterns (Malhotra K. Naresh, 2004). The golden rule of this method resides in estimating and planning at least equal time shares for the field work and onsite completion of the observation notes (Patton M., 2002). The main advantage of observation as a research method lies in the recording of the actual behaviour and not of the stated one, the collected data not being distorted by the biased answers, tiredness and refusal of the researched individual (Papuc M., 2007). There are several types of observation used especially in sociology which could be grouped in: structured, unstructured; participant, nonparticipant; ongoing, sampled; disguised; undisguised (Chelcea S., 2004).

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Research objectives

We split the research goal into five major objectives with a special focus on the buying behaviour of three product categories which record high volumes during winter holidays: sweets, toys and Christmas adornments.

We defined our research objectives considering the following chapters:

1. research coordinates:
 - a. date
 - b. store
 - c. hour
 - d. duration
 - e. environment
2. purchase size
3. store travelling
4. selection behaviour
5. in-store behaviour
 - a. expressions
 - b. sensorial conduct
 - c. communication

Research hypotheses

We presumed the following aspects for the objectives pursued in this research:

1. The average time spent by an individual in a store is 30 minutes
2. 70% of the individuals reside in Bucharest
3. 50% of the individuals shop using a basket and 50% using a trolley
4. 50% of the individuals make the first stop in a store at the “sweets” section
5. Sweets are purchased in a higher frequency, followed by toys and Christmas decorations and adornments
6. More than 50% of the individuals select products from inside the section at middle height
7. The individual displays a wide variety of in-store gestures in the buying process
8. The individual tries to gather intelligence about an offer by reading the price tags, the product instructions, by touching and testing the product
9. The individual communicates with his/her companions, other buyers and store employees in the buying process

Research variables

Variable	Conceptual definition	Operational definition
Store	A venue from where products are purchased	Large surface stores: supermarkets and hypermarkets in Bucharest
Shopping device	A means placed at the store entrance to be picked up by the shopper for carrying the selected products	Baskets and trolleys
Store section	A place where a wide variety of a single type of product is found	
Shelf	A display structure in a store section located at different levels	Low, middle and high
Product category	A type of product	
In-store marketing communication	Means of marketing communication used in a store	Store ads, sales promotions, product islands etc
Expressive conduct	The conduct displayed by an individual through gestures and body language	
Reflexive conduct	The conduct displayed by an individual in the quest for information	
Verbal conduct	The communication conduct displayed by an individual	

Descriptive variables

Variable	Conceptual definition	Operational definition
Age	The length of time a person has lived ²	18-40 41-60 Over 60
Gender		M; F

² <http://oxforddictionaries.com>

Population

The researched population was represented by people over the age of 18 purchasing from large surface stores in Bucharest.

Research methodology

As a research method we used a semi-structured, disguised and direct observation performed by people in stores.

We used an observation guide with 7 topics to be completed by the observers.

As a sampling method, we used a mixture of two random sampling methods: multi-stage and systematic random sampling.

We considered two variables- gender and age- and we built our sample based on the percentages found in the observed population:

- gender: male- 48.4%; female- 51.6%
- age groups: 18-40 y.o.- 43%; 41-60 y.o.- 34%; over 60 y.o.- 23%

The sample size was set at 396 people, considering a sampling error of 3.5% and a significance level of 95%.

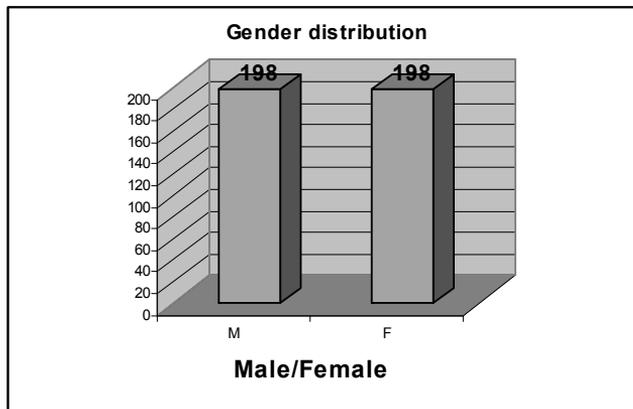
The individuals were selected using a counting system. Every other 10th individual was observed in the large surface stores from the entrance point to the exit one.

We selected randomly 8 store chains in Bucharest for our research.

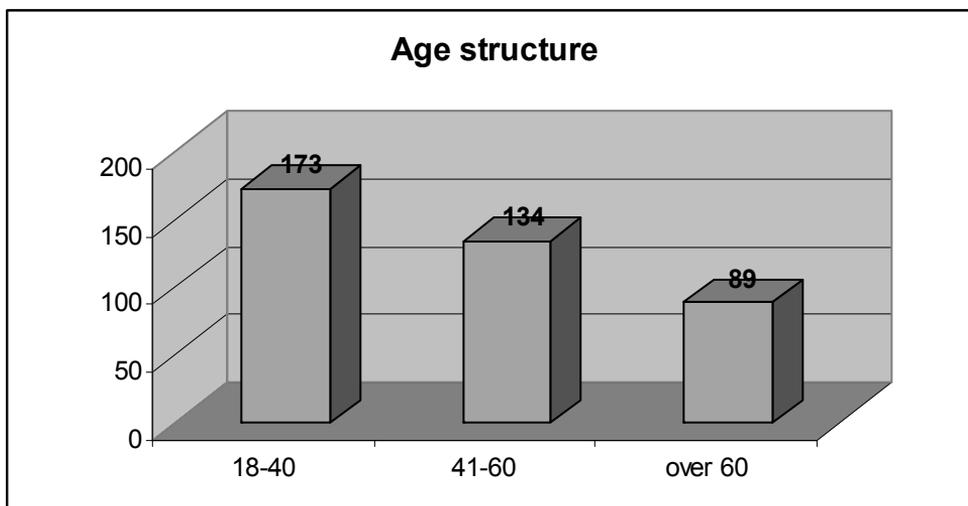
Data analysis

The data were collected with the help of 20 students from a master's program as part of their project.

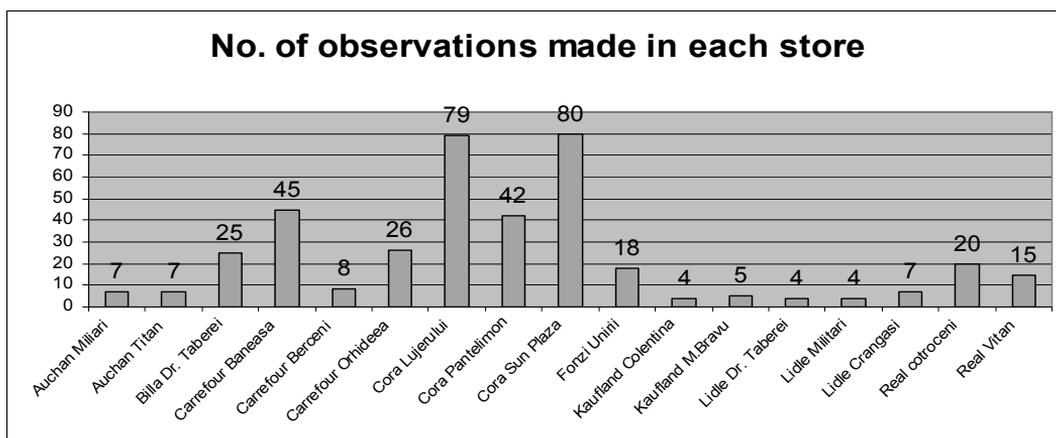
We observed 198 men and 198 women between November, 30 and December, 16.



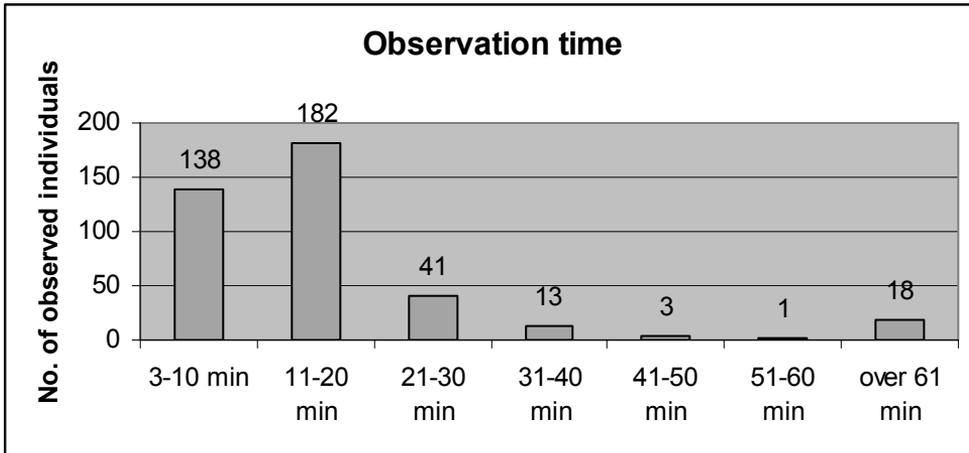
The people observed by us had the following age structure:



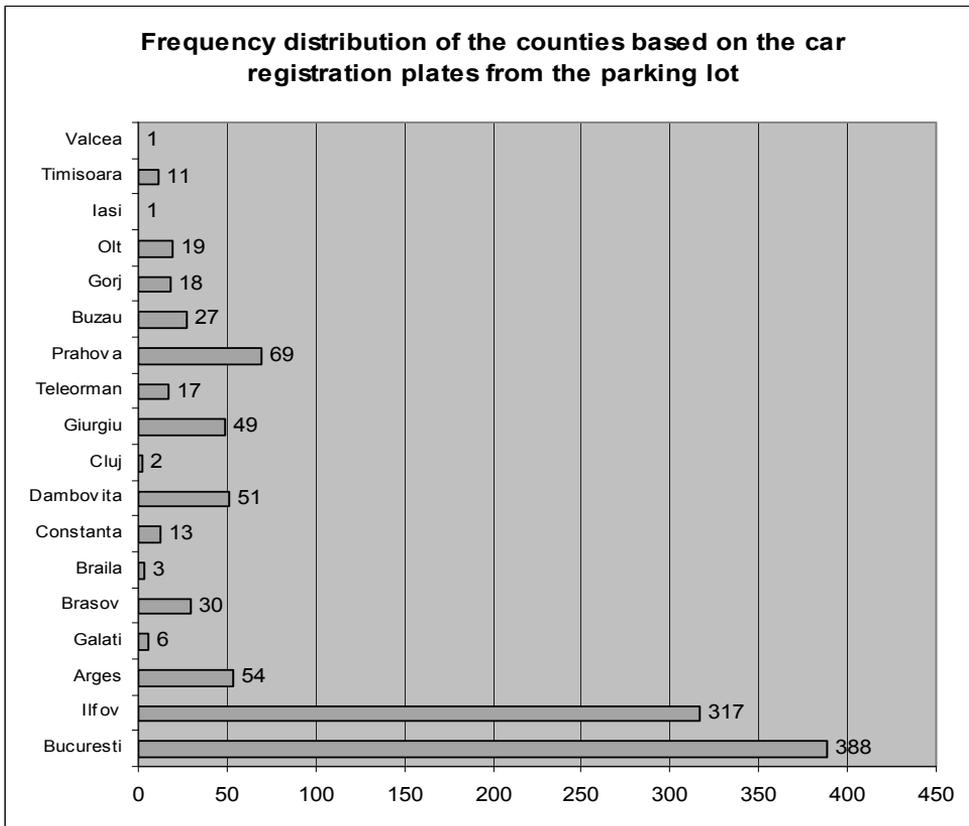
We performed our observations in 17 stores belonging to 8 chains. The chains and stores were randomly selected.



We observed the individuals from the entrance point until the exit one. The duration of our observations varied from 3 minutes to more than 60 minutes. In the below figure, we displayed the distribution of the performed observations.



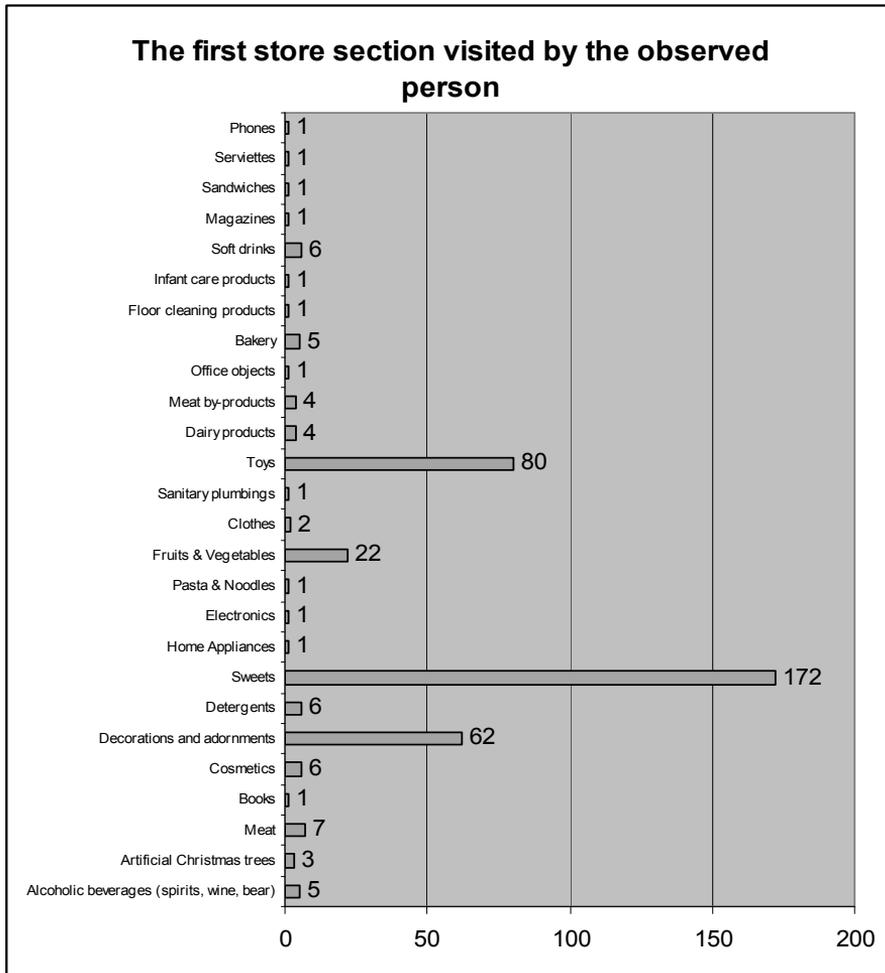
We were able to indicate the place of residence of the people found in the store at the observation moment based on the car registration plates parked in the parking lot. Based on this assumption, the overall situation is depicted in the next figure:



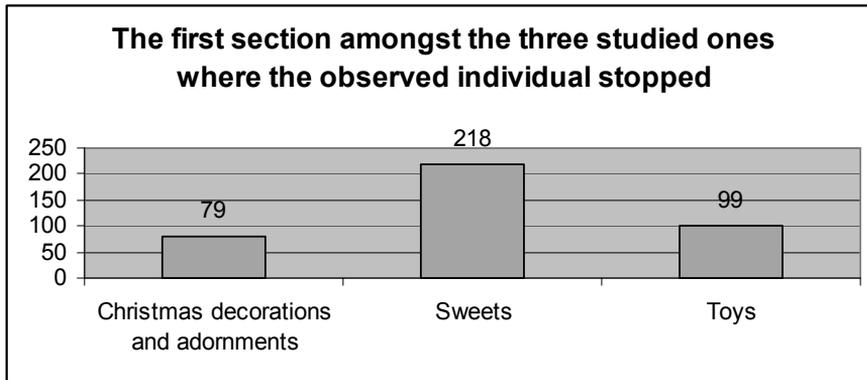
We observed the shopping device chosen by every individual upon entering the store. The distribution of our findings is found below.



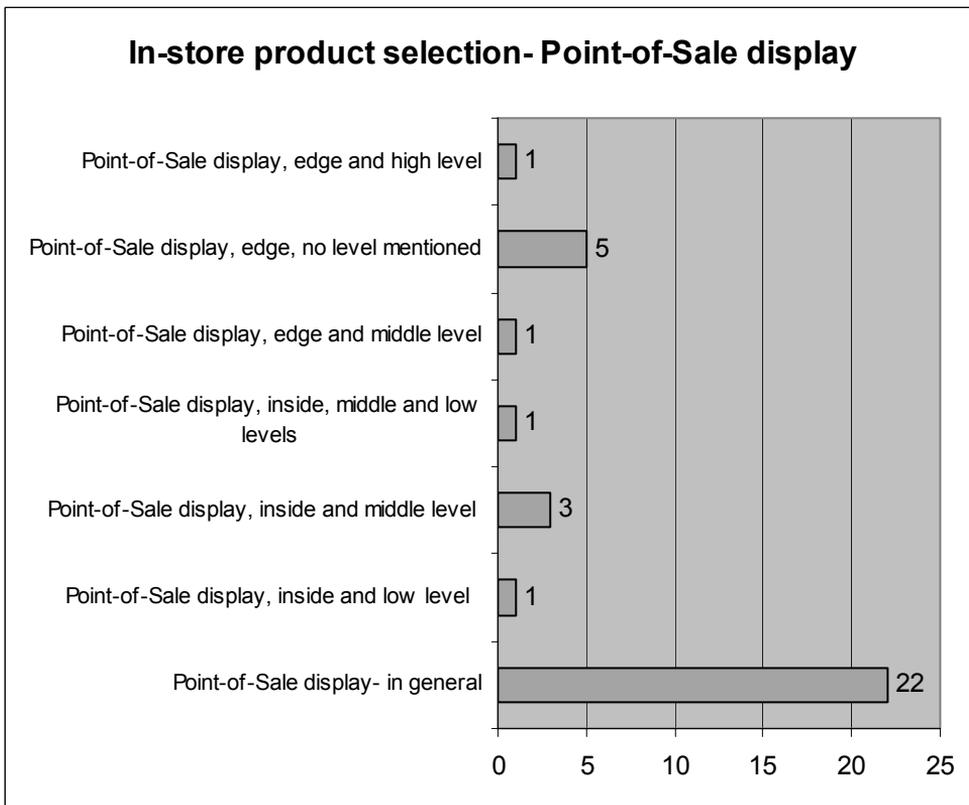
We observed the first stop of every individual after entering the store. Our observation displayed the following situation:



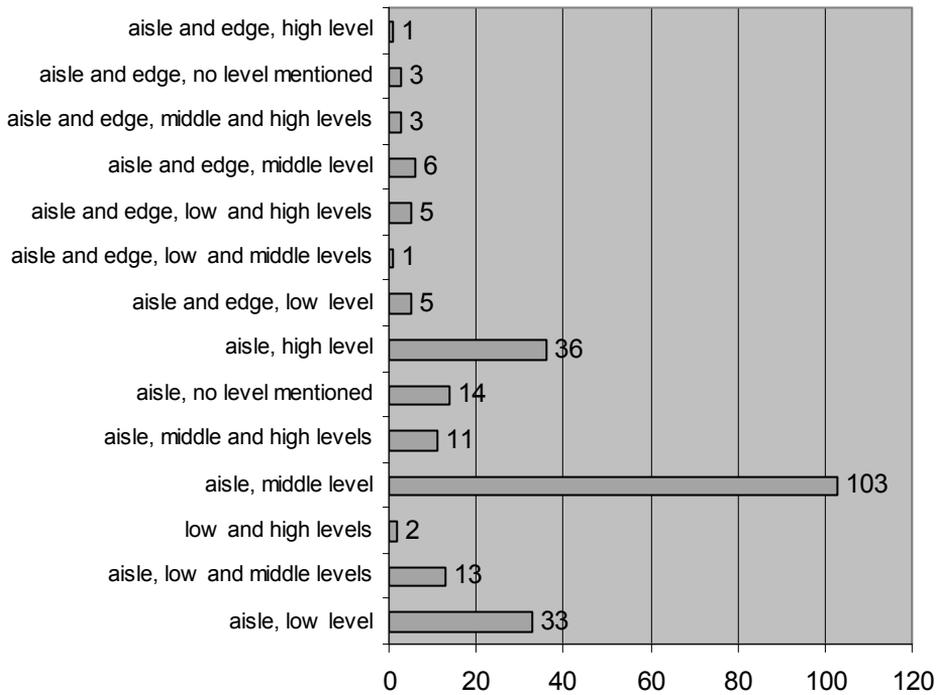
We observed where every individual stopped for the first time amongst the three observed store sections: sweets, toys and Christmas decorations and adornments



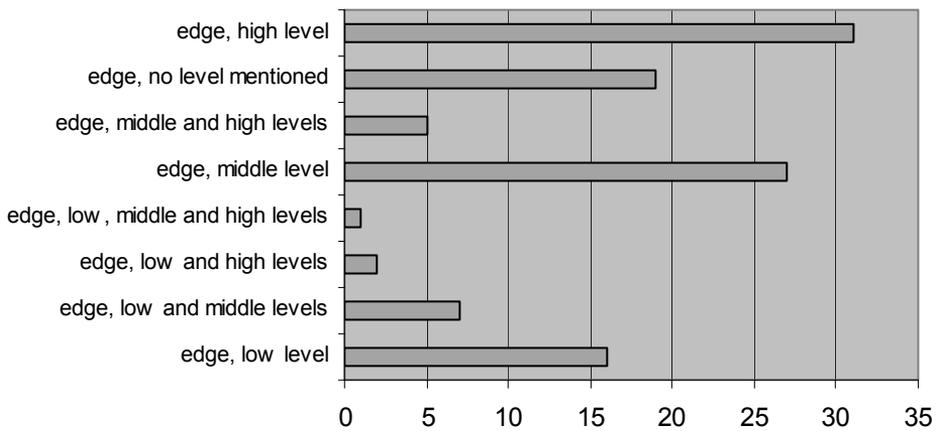
We observed the place/s and level/s from which every individual selected the products in the store. In this regard we observed that the products were selected from special places inside the stores and from designated sections at low, middle and high levels. Our findings are displayed in the next three figures:



In-store product selection- Aisle- inside and edge



In-store product selection- Aisle- only edge



Out of the 396 observed people, 18 did not place any items in a basket or trolley.

We observed the number of products placed in the basket or trolley in each of the three store sections of interest to us: sweets, toys and Christmas decorations and adornments. Our findings are shown in the next figure:



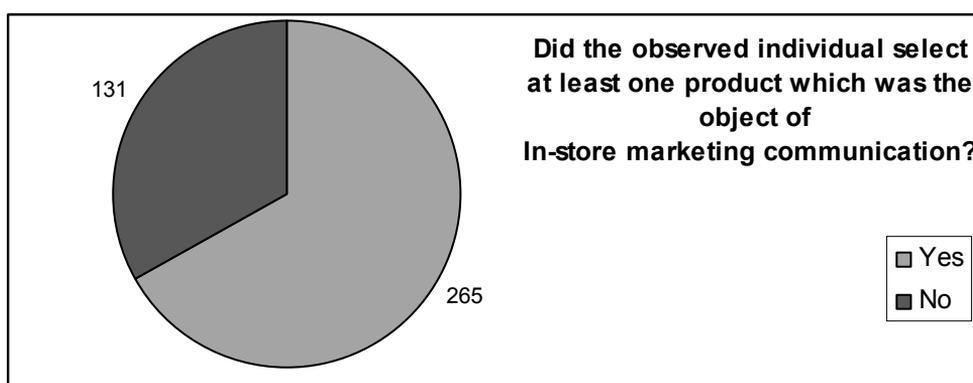
We also observed if the individual returned to the section/s previously visited. We discovered based on the findings displayed below that just around 20% returned for reasons which we were able to summarize in: to return items, to reassess options, to choose other options, to select more product units or larger quantities.



The observed individual selected a wide variety of items from the three store sections under study: sweets, toys and Christmas decorations and adornments. We were able to summarize and fine-tune the findings through content analysis into the following product subcategories:

- Christmas decorations and adornments: artificial Christmas trees, ornaments, garlands, tree tips, tree lights, table cloths, tree bows, tree candy
- Sweets: candy, chocolate bars, wafers, cookies, biscuits, cakes, chocolate eggs, sweet bread
- Toys: functional dolls, plush dolls, cardboard games, electronic games, remote control cars, robots and helicopters, drawing pencils

We observed the influence of in-store marketing communication on the buying behaviour. We uncovered that 67% of the observed individual were influenced to a certain extent by the marketing communication performed inside the store.



Through content analysis we were able to group the most important observed in-store marketing communication instruments in:

- price reductions
- contests
- product displays
- printed store advertisements
- radio advertisements
- additional quantity or product units
- printed aisle advertisements
- flyers
- merchandisers
- demonstrations and product tasting

In our endeavour we focused significantly on observing each individual's behaviour on three levels: expressions, sensorial conduct and communication.

Through content analysis we were able to extract the most important coordinates for each level.

With regard to the expressive behaviour, our main findings were: content, joy, surprise, body gestures, indifference, curiosity, hastening, uncertainty, indecision and relaxation.

As of the sensorial conduct, our main findings were: price reading, product touching, packaging analysis, offer analysis, colour and size analyses, instructions reading, price comparison, product testing and sales analysis.

Pertaining to communication, our main findings were: 203 individuals did not interact with other people in their buying decisions. The other individuals communicated with their companion/s, store staff, other shoppers and on the phone.

Research conclusions

Based on our findings we were able to conclude upon each hypothesis formulated at the beginning of our research.

1. The average time spent by an individual in a store is 30 minutes

Based on our findings, 320 individuals spent less than 21 minutes in a store, so we could not confirm the first hypothesis.

2. 70% of the individuals reside in Bucharest

Based on our findings, in 388 out of 396 cases, the cars parked in the store parking lots had Bucharest registration plates, so we could not confirm the second hypothesis

3. 50% of the individuals shop using a basket and 50% using a trolley

Based on our findings, 56.6% of the observed individuals chose a trolley, 40.2% a basket, while 3.2% did not select anything. According to these findings, the third hypothesis could not be confirmed.

4. 50% of the individuals make the first stop in a store at the “sweets” section

Our findings displayed a 43.4% with the first stop at the “sweets” section. Although our findings were not far from what we had assumed, we could not confirm the fourth hypothesis.

5. Sweets are purchased in a higher frequency, followed by toys and Christmas decorations and adornments

Our findings show that 55.1% of the observed individuals stopped firstly at the “Sweets” section, followed by the “toys” section with 25% and Christmas decorations and adornments with 19.9%. According to these findings, we confirmed the fifth hypothesis.

6. More than 50% of the individuals select products from inside the section at middle height 103 individuals (26.01%) selected products from inside the aisle at the middle level. Based on this figure, the sixth hypothesis could not be confirmed.

7. The individual displays a wide variety of in-store gestures in the buying process

We were able to uncover a wide variety of in-store gestures in the buying process, such as: content, joy, surprise, body gestures, indifference, curiosity, hastening, uncertainty, indecision and relaxation. These conclusions entitled us to confirm the seventh hypothesis.

8. The individual tries to gather intelligence about an offer by reading the price tags, the product instructions, by touching and testing the product

Our findings display the above-mentioned ideas plus others, such as: packaging analysis, offer analysis, colour and size analyses, price comparison and sales analysis. Based on these findings, the eighth hypothesis was partially confirmed.

9. The individual communicates with his/her companions, other buyers and store employees in the buying process

The ninth hypothesis was partially confirmed because 203 individuals did not interact with other people in their buying decisions. The other individuals communicated with their companion/s, store staff, other shoppers and on the phone

Our study provides comprehensive insights about the buying behaviour displayed by people during the 2012 winter holidays. These findings provide valuable information for retailers and manufacturers pertaining to product assortment, store planning, aisle structure and in-store marketing communication.

This study could be considered a suitable starting point for a longitudinal research aimed at uncovering mutations in the buying behaviour from one year to another.

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IMPLICATIONS REGARDING IMPLEMENTATION OF IAS/IFRS IN THE ROMANIAN ACCOUNTING SYSTEM

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Marilena Zuca*

Abstract

Implementing international and domestic accounting standards is very difficult. This calls for a discussion referring to the opportunity of adopting standards from other cultures- mentalities deeply rooted into principles- hence the difficulty to implement.

Implementing IFRS means more than a simple change of accounting regulations. It represents a new assessment of performance that must be implemented into the entire entity. This new system might enforce decisive changes regarding accounting and strategic management, as well as for the potential impact on primary performance indicators. To insure a correct assimilation of the international accounting referential the domestic legal framework has to be stabilized according to accounting standards. Closely related, the governance of the international accounting issues must be addressed as well as national accounting governance issues.

Among them an important role belongs to financial reporting regulations of Romanian enterprises. According to the national framework (OMFP no.3055/2009) enterprises have two sets of financial reports: one according to European directives and one according to IFRS. This double requirement for financial reports by the same enterprise implies difficulties in managing the accounting information as well as additional costs.

Hence, a solution to regulate the situation is required, because even for IASB making multiple sets of financial reports by the same entity, for different users although eased by technology, is not a viable solution.

While, Europeans hardly accepted IAS/IFRS, and only for entities listed on their consolidated accounts, Romania accepted the standards as such, at least at the standard level. In comparison with other countries where everyone was a critique (France for example), in Romania very few people had something against them.

Keywords: accounting, fiscal and accounting policies, accounting harmonization, accounting standardization, normalization, accounting standards financial reports.

JEL Classification: M41, M48

Today's accounting has to be kept according to a recognized set of international rules adopted at national level. The need for international recognition derives from social and economic globalization in which we live today, and national adoption is

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necessary due to differences in social, cultural and economic relations between countries of the world. Naming the set of internationally accepted standards is the Standards and their main content is based on a number of general principles.

In Romania the problem of adopting international standards began in 1990's even though the international and European concerns were older. The transition to market economy and democratization of social life Romanian accounting opened for acceptance of Accounting International Standards that later became the International Accounting Standards of Financial Reporting.

In the last 20 years have been some attempts more or less successful to "harmonize" the Romanian accounting with these standards. According to these standards public information must have four qualitative characteristics: understandable, relevant, reliable, and comparable and also to satisfy the information needed by external users.

In this context, the aspect we are addressing is comparison and we highlight that information gains value if it can be compared in time and space, quality insured by adopting IAS/IFRS standards.

The Standby agreement 2009-2011 made with the International Monetary Fund, European Union and World Bank states that "State enterprises are a significant fiscal burden that prevents the private sector from growing. The post –communist privatization process in Romania slowed down for the last couple of years, leaving state companies ineffective in the key economic sectors like: transports and energy"¹.

The commitment made by Romanian Government in the Letter of Intent to the International Monetary Fund , from March 10,2011, states that there will be reforming regarding state enterprises, especially those in key sectors in order to generate growth, like the energy and transports system.

Currently at global level we can talk about an intense process of accounting normalization, so that European directives issued by the CEE are heavily outweighed by the internationalization of capital markets. In this respect, we foresee the need to meet external user information, ensuring greater comparability of financial information and the creation of a single European market through the adoption of international accounting standards issued by international regulators without coercive power, that allow freedom of transposition to the legislation of the members of European Union.

Over time it has been shown that adopting the accounting standards IAS / FRS is a difficult process that is gradually implemented especially in written law countries such as Romania where professional ethics is often ignored, considering only mandatory written laws. On the other hand though the Norms represent an evolution in the accounting normalization process is not the absolute truth, as proved by certain standards (IAS 39 *Financial Instruments: Recognition and Measurement*) that stirred negative reactions thus modifying the rule or creating new rules (IFRS 9 *Financial Instrument(s)*).

¹ Stand-by agreement 2009-2011 with the International Monetary Fund, European Union and World Bank, the 7th evaluation, Report of team paragraph D, Structural Reform, point 23

And the list of disadvantages adopting the accounting standards of IAS / IFRS in the EU can continue with high costs, because there important differences between the accounting rules and standards of a nation (recognition and measurement of items in the financial statements).

As for adopting IAS / IFRS in Romania, starting the First of January, 2007, the standards apply to companies whose securities are admitted to trading on a regulated market and who prepare consolidated financial statements, as well as credit institutions starting with the financial year 2012 by Order No. 9 of the National Bank of Romania („BNR”).

So we can talk about a slow national implementation process of IAS / IFRS that not even now has been finalized. We recognize, however, an approximation of the accounting regulations approved by Order no. 3055/2009 of MFP to adopt much of the international accounting treatment prescribed by the Standards. However at present between national rules and IAS / IFRS standards there are differences in recognizing and evaluating elements of financial statements, differences that affect an entity's financial position and performance.

M. Ristea said that *the need of convergence and uniformity in accounting implies its normalization*². The globalization of the economy showed that closed economies of different countries characterized by separate national markets have been replaced by a global market. In a closed economy businesses ensured their financial resources required for development from existing banks on the national market.

Niculescu, Lavalette (1999) considers that *the new features of the international economic environment have made that information become a strategic weapon and those who know how to obtain, interpret and exploit rapidly acquire high development capacity consolidating its competitive advantages*³.

In these circumstances, investors should have access to qualitative, understandable and comparable accounting information which presents the business and its results. To this regard, the alignment to international accounting rules sets a proper framework for improving the quality of accounting information by insuring greater transparency on financial markets.

In view of achieving an international normalization it was necessary to achieve an approximation of national accounting referential. The pace of harmonization was a lower pace compared to economic globalization. Although international accounting reference have evolved, evolution was not enough to keep up with changes in the economy, and the increasing complexity of financial transactions and financial instruments. Companies whose capital was dispersed in several countries or were owned by investors of different nationalities had to submit financial statements in accordance with regulations of several national accounting referential.

This was expensive for businesses and cause confusion among those who sought information on the company's accounting data. A first step to overcome these

² Ristea M., Dumitru C., 2006, Accounting for business, Economic Tribune, Bucharest.

³ Niculescu M., Lavalette G., 1999, Strategies for economic growth, Economica, Bucharest.

disadvantages has been done by resorting to an intermediary referential. As a result of the power held by the American economy in the world economy, it was chosen as a way of presenting the accounts the American referential U.S. GAAP.

The trust bestowed upon the American standards was justified through their age and prestige, through the fact that big enterprises had adopted the American rules and through the importance granted by SEC⁴ to GAAP (SEC thought that only the GAAP could guarantee the interests of American investors). The American rules had a disadvantage though; they were very detailed which made it difficult for them to be applied especially for European users.

Financial scandals of the 2000s, 2001 which took place in the U.S. economy (the most significant example being that of Enron) have shown the shortcomings of the American Accounting system and an inadequacy of U.S. accounting rules on financial innovation development and management of companies.

International accounting standardization is the result of the globalization of national economies, especially financial markets. The conditions being set the development and use of new accounting standards was more than a necessity. This has been reinforced by factors such as increased reliability of accounting data, insurance of better conditions for comparability of accounting statements of companies that search for public loans and to facilitate business access to financial markets.

With Romania's transition to a market economy financial reporting followed a continuous process. However, most of the time, financial reporting focused on providing information to state authorities, not concentrated on providing information to investors, management, financial institutions and other users of financial statements in an international context.

The State had a normalising role of the accounting system because he was a privileged user of financial statements. At the same time, the accounting law no. 82/1991 was highly influenced by the French accounting system, similar to the 4th and 6th Directives.

In this way the accounting system corresponded to cultural, linguistic, political and legal Romanian space (Duțescu, 2001, p. 29). Applying a French accounting system adapted to Romanian conditions (started in 1994) was a first step in the modernization of the Romanian accounting system. This phase ended in 1999 when it began to produce effects Development Program Accounting System in Romania started in 1997. The year 1999 can be considered the year of change in accounting legislation in Romania. In 1999 the Ministry of Finance issued Order no. 403/1999, regarding accounting regulations harmonized with Directive IV of the European Economic Community (EEC) and International Accounting Standards.

This was the starting point for the project of harmonizing Romanian legislation in the field of accounting with IFRS and EU Directives. A first consequence of the application of Order no. 403/1999 has been the implementation of new accounting regulations harmonized with international accounting standards and the Fourth

⁴ Securities and Exchange Commission – regulatory organism of the American stock exchange

Directive EEC, experimentally, in a number of thirteen companies and national companies.

The application was carried out as of 2000. After this project there have been fundamental changes in accounting in Romanian legislation:

- *Harmonization of financial reporting for companies considered large, with IFRS requirements and to a lesser extent with 4th Directive of the European Union through the adoption of Order no. 94/2001 "Accounting Regulations harmonized with the 4th Directive of the CEE and the International Accounting Standards"* (Order no. 94/2001 which abrogated Order no. 403/1999). There was such a change of attitude by the Romanian accounting doctrine reorientation towards international accounting referential philosophy which implied a major opening to Anglo-Saxon accounting concepts and practices. At the same time, the very name of the order suggested confusion over Romanian accounting law, which had to absorb both the 4th Directive of the European Union, but also to further pursue the harmonization with International Accounting Standards. In reality there was a compromise by trying to integrate the same piece of legislation, both the European and International accounting legislation. The major difficulty was the harmonizing of those 2 accounting sources that were most of the time different:
- The influence of European regulations manifested keeping in broad linings the same structure of the 4th Directive;
- IASB influence manifested, first by the fact that Romanian companies were required to prepare annual accounts in accordance with both the Accounting Law no. 82/1991, republished, and with the Preparation and Presentation of Financial Statements of the IASB and International Accounting Standards; and second, the international influence over the order was shown by applying new accounting principles, retrieved from IAS1 *Financial statements presentation*:
 - ⇒ The concept of materiality;
 - ⇒ Principle of substance over form;
 - ⇒ Principle of separate evaluation of active and pasive.

At first glance assimilating international accounting standards didn't seem so hard. A deeper analysis of IAS 1 *Financial statements presentation* pointed out that an entity may claim that it prepares financial statements according to international accounting standards only if it "*satisfies all the requirements of each standard and every interpretation applicable of the Permanent Interpretation Committee*". Analyzing policies and options relating to the preparation and presentation of financial statements, companies had to take into account the letter and spirit of the regulations set out by the Minister of Public Finance no. 94/2001 and therefore the ones presented in the international accounting standard IAS 1 *Financial statement presentation*. According to Article 14 of IFRS, one of the goals of financial reporting is to present the management results, including the way that management used its resources.

In order for this goal to be achieved, financial statements must provide information for economic decisions to be made (for example: to keep or to sell an investment, to maintain or replace the management). Thus we can talk about a turning point in the entities' approach as an agent, a theory resulting from IFRS.

Harmonization with International Accounting Standards required adopting new accounts:

⇒ Regarding the concept of deferred tax (IAS 12 *Income tax*):

4412 *Deferred tax*

6912 *Expenses with deferred tax*

791 *Income from deferred tax*

⇒ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*:

1173 *Retained earnings from changes in accounting policies*

1174 *Earnings from the correction of fundamental errors*

⇒ IAS 37 *Provisions, contingent liabilities and contingent assets*:

1513 *Decommissioning of tangible and other similar actions related*

1514 *Provisions for restructuring*

⇒ IAS 16 *Tangible assets*:

1175 *Retained earnings representing surplus from revaluation reserves*

⇒ IAS 21 *Effects of exchange rate variation*:

107 *Reserves from conversion*

Both Order no. 94 /2001 and order no. 306/2002 have set rules about the form and content of financial statements: Order no. 94/2001 seeking *full assimilation of the 4th Directive* of the EEC and further harmonization with *International Accounting Standards*, while OMFP. 306/2002 aimed at *harmonizing with EU directives*.

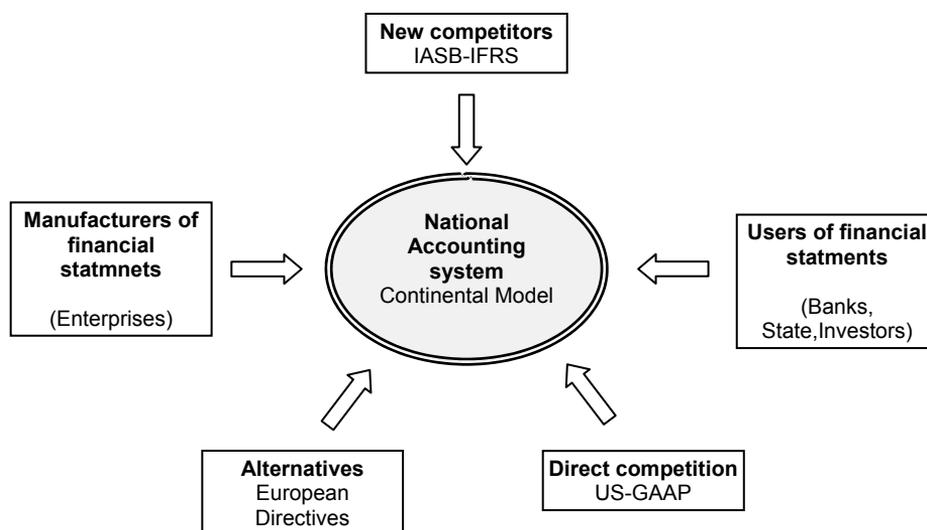
Comparing financial statements according to the orders mentioned above it appears that both the Balance sheet and the Gain and Loss account are common financial standards to both legislative stipulations (Table 1.1.)

Table 1.1. – Financial statements according to OMFP no. 94/2001 vs. OMFP no. 306/2002

Entities that applied OMFP no. 94/2001	Entities that applied OMFP no. 306/2002 and then OMFP 3055/2009
1. Balance sheet	1. Balance sheet
2. Gain and Loss account	2. Gain and Loss account
3. Changes in equity	3. Accounting policies and explanatory notes
4. Treasury flow	4. Treasury flow (optional)
5. Accounting policies and explanatory notes	

From the analysis it is clear that, by its actions, the Ministry of Finance (accounting regulator in Romania) has favored European accounting directives restricting the scope of IFRS. Figure 1 presents the analysis of the implementation of IFRS in Romania.

Figure 1 – Model analysis of IFRS implementation in Romania



The implementation of International Financial Reporting Standards in Romania has emerged as an objective necessity given that a part of the national domestic enterprises have exceeded the national frame. Access to external financing made it necessary to provide financial statements in a manner accessible to users regardless of their specificity. Identifying the best solution for the presentation of financial information implied identifying existing alternatives and choosing the best solution. The options were American standards U.S. - GAAP, already used by some of the businesses that operate on the American markets, European directives until Romania joined the EU, then becoming mandatory, and the standards issued by the IASB.

At present, Romania follows Order no. 3 055/2009 that abrogated Order no. 1 752/2005. The new accounting regulation according to the 4th and 6th Directive of CEE states that the same rules should be applied to all the economic agents with difference of the number of elements of the financial annual statements according to their size, exactly like in the Order no. 1 752/2005.

Businesses must provide the legislation that stood at the basis of their accounting policies, or the accounting regulations complied in the 4th Directive of European Economic Committees, approved by Order no. 3055/2009, or IAS/IFRS if the enterprise compiles IFRS statements.

Within the enterprise, the way performance is measured is different according to the level of responsibility. For instance, the performance of a chief of a production entity (workshop, section) can be measured by the efficient use of resources in production (if the expenses are low), if this was the main objective of management. For the Sales Manager performance will be measured by increasing the turnover in a specific period, in turn for the Head Manager performance will be measured in terms of gain and liquidities, as global objectives.

For better shaping financial performance we have to use a system of indicators that describe the strategic orientation of the enterprise, the characterization of internal and external relations, the efficacy of the activity, the capacity to adapt to market demands.

Different situations of the enterprise targets: the field of activity, the growing phase, the capacity of debt, the sensitivity to refinancing or capitalization, management methods, the specifics of the value chain, the growth rate. The use of financial and economic indicators represents the *way* the financial and economic performance is *reflected*. The indicators that measure performance provide information that helps an individual or a collective to achieve an objective or to evaluate a result. Enterprises work with different indicators, some are needed, others are forced and others because their trendy. For an indicator to be relevant and useful at any decisional level, building it has to be made by following certain rules. This is an assumption based on using qualitative indicators and materialized in: **utility, accessibility, relevance, reliability, simplicity, credibility, reactivity, coherence**.

In order to measure performance we have to take into consideration the characteristics of indicators, specifying its name, centre of decision, computing method, computing frequency, why we chose that indicator, input of information, the information computed, the normal evolution of the indicator, possible interactions, the decisions that can be made upon it, the way it is presented (rate, absolute sizes). Achieving these methodological demands represents the premises for performance relevance and utility in the decision making process.

In spite of this, the development of performance measurement indicators raises two practical problems, targeting:

1. Choosing indicators and the way to compute;
2. The real significance of the indicators for the enterprise and its partners.

Performance evaluation criteria are in constant evolution, every decade having its own specific criteria, which by default reveals the changes in economic reasoning.

In this context of economic instability, with a negative impact on organisations dealing with financial blockages or bankruptcy, can performance be measured only based upon the accounting result? We do not think so. It is well known that any organization in order to survive has to balance its earnings with the payments. Thus starts “the beginning of the end”, meaning the end of payments. On the other hand, the accounting policies applied, distort the result. Do profitable organisations have liquidities? Not in most cases. Behind profitability, they hide serious problems of treasury. The actors of financial information are interested in a flowing activity, especially in the organisation capacity to insure a proper speed for liquidities. Can this kind of demand correspond to a commitment based accounting and based mostly on profit? Under the wand of commitment accounting, „the marriage” of $\text{income}=\text{earnings}$, $\text{expenses}=\text{payments}$, will never become “official”⁵.

⁵ Răileanu V., Răileanu A.S., 2009, Accounting and fiscal approaches regarding taxes, Publishing Economică, Bucharest.

Lag time between recognition of income in accounting and cashing, and recognition of expenses in accounting and payment can decide the financial outcome of the organization. In this context, practitioners and theoreticians focused their attention on the treasury result, considered vital information for the organization, because it finances its activity and it assures its durability.

Financial specialists have to ensure the financial balance of the organisation, a balance between working capital and the need for working capital. Achieving this balance reflects the efficient conduct of the business and its maintenance over several successive financial years reflects the organization's success in economic and strengthen its market position. When earnings and payments are not synchronized, the treasury registers a positive or negative value. Positive treasury translates into financial unbalance and means monetary deficit covered by loans at high costs. In order to avoid this situation, treasury management plays a major role.

