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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.

Author Information

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

ROMANIAN ECONOMIC AND BUSINESS REVIEW

WINTER 2009

VOLUME 4

NUMBER 4



ISSN 1842 – 2497

ROMANIAN ECONOMIC AND BUSINESS REVIEW

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THE ACCOUNTING OF THE ECONOMIC ENTITIES, BETWEEN RIGOURS AND OPTIONS

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Abstract

This paper is addressing to the issues of the existence of some options in choosing accounting policies and techniques.

We proposed ourselves to establish to what extent the choices made in meeting the financial accounting function of the enterprise are free and how the options of those who prepare the annual accounts of economic entities are limited.

To achieve this goal we considered necessary to study the regulations, the rules applicable to the area of the accounting of the economic entities.

The work will respond to two questions: 1. What is the content of the set of financial statements and who must report (where they make)? and 2. Assess how the structures of assets, liabilities, equity, expenses, income, etc. the financial statements?

The ultimate objective of this work is to provide specialist financial and accounting opinion documented to support the decisions that it should adopt in the exercise of his powers.

Keywords: choice, financial statements, recognition, rules, valuation

JEL Classification: M10, M41, M48

Introduction

In the process of management of the economic entities it is necessary to make decisions daily managers are finding themselves in the position to have to choose between some different options. They must determine what kind and what sort of product or service will offer, for what market to target, how to establish the dimensions of their production, where to set the polling location for production, what kind and how to fire their staff and how to motivate them, also how to improve employees qualify, where from to purchase the necessary equipment and inventory for their work, how to ensure the disposal of production and services, to what directions to guide the research, etc.

In the management of financial, accounting and tax activity of the entity we find the same issue. It should be adopted decisions on: the selection and sizing the sources of financing, the own one and the borrowed one, the choice of the methods for buying and depreciating of fixed assets, the choice of types of taxes to which the entity has the option to choose.

Given the abundance of regulations governing this area at present, information of the specialists responsible for financial and accounting becomes more difficult and requires long study. We have to realize that the boundary between that what it is

allowed and that what it is not allowed is increasingly fragile, on the one hand, and increasingly difficult to identify, on the other hand. We will only propose ourselves the selection of the options in the economic entity's accounting, without addressing this work in detail the options in the financial and tax, field, moreover equally interesting.

Therefore we consider that it is important to seek a way to facilitate the conduct of such elections, obtaining logic of action. We must assume that the random selection of the accounting policies may have repercussions at first on the results of the activity, causing to the interests of equity holders, but it also could lead to distortion of the image on the financial position and on the performance of the entity.

In order to answer these issues, we intend to identify the main decisions which are to be adopted by the accountant, to select his possible options, but also to look over any restrictions that are operating on the decisions that we might want to adopt.

The paper is based on the accounting and financial reporting rules, also on the current applicable regulations, on the specialized literature on financial accounts. Its originality consists in the identification of the restrictions on the approach for decision-making in the field of the accounting of the economic entity and the selection of accounting policies.

Literature Review

Many financial-accounting textbooks and specialized university courses deals both with issues relating to science of accounts, and issues relating to legislation and to professional standards. Romania has a traditional and a high scientific level school of accounting. Often, professionals are not only researchers and academics having not only an extensive scientific knowledge, but also deep technical skills and an extensive experience. They often have many years of relevant experience in specialized services in accounting, accounting expertise, financial control, statutory audit, analysis and economic evaluation, tax and financial advice.

As regarding the normalization of the accounting management and organization it is necessary for us to know more general coordinates.

Range of rules which determines the accounting of the economic entities and that interests the Romanian companies and whose which operate in Romania is presented in the following regulations:

- Law no. 82/1991 Accounting Law [1]
- International Financial Reporting Standards (IFRS) including International Accounting Standards (IASS) and their Interpretations issued by International Accounting Standards Board (IASB) [2]
- Ministry of Public Finance Order no. 1752/2005 for the Approval of the Accounting Regulations in Accordance with European Directives [3]
- Other national, European and international regulations for the activities of accounting and statutory audit of economic entities: Directive IV of [4], Directive

VII of [5] and Directive VIII of [6] of the EEC, the collection of standards audit [7] Government Emergency Ordinance no. 75 [8] etc.

The range of the accounting rules for certain economic entities include other specific rules, such as those issued by the Ministry of Finance for the public institutions, International Public Sector Accounting Standards (IPSAS), those issued by the National Bank of Romania for the credit institutions, etc. [9]

Accounting is defined in our legislation by Article 2 (1) the Accounting Law as “activities that are specialized in measurement, valuation, knowledge, management and control of the assets, liabilities and equity, and the results obtained” by the economic entities. [1] Accounting tasks are related to the obligations to ensure “chronological and systematic recording, processing, preservation and publication of the information on financial position, financial performance and cash flows, both for their internal requirements, and in the relations with present and potential investors, financial and commercial creditors, clients, public institutions and other users. “[1]

It also can be defined as an information system that serves to recording, processing, control, and reporting of summary data, of the information on business and other activities of the economic entity. More simply it could be defined as the recording of the movements of funds and assets held by the economic entity.

In the service (the purpose) of the fair and true image, the annual accounts of the economic entities are constructed by a frame of reference, the applicable, appropriate categories, which include the economic entity.

The accounting regulations are issued by the specialized bodies that have such powers. These rules take into the account; they are differentiated and adapt their requirements depending on the specific features of different economic entities.

Theoretical Background

In this paper we used as they were known all the definitions of the structures we find in the balance sheet and in the other financial statements. We also considered as being known the set of generally accepted accounting principles.

I. Options on the accounting organization and on the annual financial statements of the economic entity

We will first seek some answers to the questions:

1. What do we have to do? Bookkeeping by single registration (cash accounting) or double registration (accrual accounting)?
2. In what currency will we calculate the data for reporting?
3. How do we proceed, either we hire staff, employee or we call on the services of some external partners?
4. What does include the set of annual financial statements?
5. Is it necessary to have, and if so, who provides an audit / a verification of these reports?
6. It may somehow apply generally rules? Can we talk about the convergence of them?

We found the answers below:

1. The economic entities have a legally required obligation to keep their accounts, to prepare and submit annual financial statements. This obligation derives from Art. 1. of the Accounting Law. [1]

Information provided by these entities through their financial statements serve for a wide range of users - investors and financiers, management of the economic entity, the State, the credit institutions, the commercial and social partners, the public, being necessary for them in the process of making their decisions.

Generally, financial statements are prepared on an accruals basis. It is settled by regulations what kind, what categories of economic entities could manage their own accounting in simple registration, that methodology known as cash-accounting, as we find in Art. 5. (2) of the Accounting Law. [1]

2. The currency in which are expressed the economic indicators we include in the annual accounts is the national currency, but the accounting information can also be expressed in addition, in another stable foreign currency, if the preparers deemed this is appropriate. The statements of the subunits from abroad are making an exception, where transactions might be denominated in that foreign currency and only converted at the end of the year into lei.

3. According to the Art. 11 of the Accounting Law, the fulfilment of the tasks related to accounting and financial reporting of the economic entity can be achieved either through an own section, or using services provided by specialized external partner. [1]

4. The content of the whole set of annual financial and the framework-structure of these vary depending on the purpose and the objects of the economic entity, and implicitly on the existence of specific regulations applicable for certain activities, on the form of ownership, on the size of the company, on the preferences of decision facts on a specific accounting reference. European economic integration on the one hand, and the call to public investors by listing their shares on stock exchanges, on the other hand, lead to the need for the economic entities to use general rules that apply on the construction of the annual financial statements and on the presentation of accounting information;

According to the Art. 3 (1) and (2) of the Accounting Law, those entities that at the corporate balance sheet date exceed the limits of two of the 3 criteria of size: total assets: 3,650,000 euro, net turnover: 7,300,000 EUR, average number of employees during the financial year: 50, have to prepare a set of annual financial statements including: the balance sheet, the profit and loss account, statement of changes in equity, cash flows situation; notes on the annual accounts. Legal entities which at the date of balance sheet does not exceed the limits of two criteria of size have to prepare so-called simplified annual financial statements, including: the balance abbreviated, the profit and loss account, notes on the annual financial simplified, optional, they can prepare the statement of changes in equity and / or cash flows situation. [1], [3] We can also observe that similar criteria operates in the field of the obligation to make consolidated financial reports for the group. These

limits are noted in the EU regulations, but they have an evolution accorded to the national coordinates.

5. According to Art. 5. in OMFP no. 1752/2005 for the approval of accounting regulations in accordance with European directives, the annual accounts of economic entities are audited (those of large enterprises and of public interest – the companies that are quoted on financial markets) or, if the case, verified (appropriate the simplified annual financial statements) according law. [3], [8]

The regulations on the audit are also in a process of reform and transformation. [10], [11]

6. As much as the business of an economic entity is more interesting for the users of accounting information, as much it is expected that its statements reported to be broader, more comprehensive, providing all the necessary information, in which setting to apply the general rules. We could then consider that we will find the most comprehensive information on the complete set of financial statements, as IFRS. This would induce the general option to adopt the international rules. But the reality looks different. Micro entities are generally accepted as the smallest entities within the small-and medium-sized economic entities. They are defined as less than 10 employees (including those that do not have any employees). [12]

The moving to the IFRS is generally viewed as costly. It is also known the fact that, given the changes in recent years, there is a need for stability in financial reporting requirements and standards, as the time spent understanding and implementing new rules and regulations is always taking time away from managing the business. [12]

Therefore it is preferable not to apply general rules still in the accounting of small entities. We can observe that those who set the international standards for accounting and financial reports are concerned with the formulation of easier rules and less expensive, tailored to the needs of small businesses. They concern not only the preparers of micro-entity financial reports and their information needs, but also the users of micro-entity financial reports and their information needs.

II. Options on the recognition and the assessment of the main structures

Let us now answer to the questions:

1. How do we recognize and evaluate the indicators in the balance sheet?
2. How do we recognize and evaluate the elements of the profit and loss account?

3. Could we choice in free way the method of calculation of the cash flows?

1. For this purpose we apply the general accounting principles and the requirements of some concrete rules.

The elements of the balance sheet of the economic entities are ordered so as to show their financial position. Assets are separated by liquidity, their nature and their destination. Debts are separated according to their chargeability and they can be discounted from the items in the asset structure, showing thus the working capital, permanent capital and equity.

The assets and liabilities are recognized based on criteria generally specified in rules.

- they can be evaluated by a credible manner;
- the combination of economic benefits.

The valuation of the assets is initially realised at the purchasing cost, the production cost, the amount of patrimonial contribution or the fair value, as appropriate, according to the paragraph no. 52 of OMFP no. 1752/2005, for the approval of accounting regulations in accordance with the European Directives. [3] At the annual inventory the assets are re-valuated and they are determined the fair value thereof, according to Art. 9. of the Accounting Law, which has to be calculated preferably by the specialized assessors. [1]

It is always easy to separate debts by provisions, by the criteria of the existence of the obligation from past events, but sometimes it is more sensitive to choose to form a provision or to recognize a contingent debt.

2. The elements of the profit and loss account are recognized by applying the same criteria and principles.

Current revenues and expenditures are separated in the theory of those we consider exceptional / extraordinary, because they are not connected with the business, the activity of the entity and they can not be controlled by the entity itself. However, IAS 1 Yearly Financial Statements states in paragraph no. 85 that an entity will not show any results such as an extraordinary item, neither in the profit and loss account, nor in the notes. [2]

It should be noted how does the principle of the independence of the year operates, certain elements being originally recognized in the balance sheet as of settlement structures, and then be charged to a certain period. In this case there are paid expenses / revenues received in advance of the rent, also the subsidies for fixed assets to be recognized in income on a systematic basis, etc. There are still difficult to assimilate the rules by which certain differences and surplus value at the revaluation or the differences at the re-treatment should be included in the balance sheet as capital - as reserves should be made, or the outcome period.

The structuring of the results account it is also not a free one. The model contained in the regulations classifies revenue and expenses by their nature. A report based on their classification as the criteria of functions of the enterprise should be accompanied by an analysis performed on the criteria of classification, actually required, that made by their nature.

An interesting aspect concerning the methodology for assets depreciation, leading to the recognition in a different way of the consumption, is the irreversible loss of the assets value. Here we might mention the importance of the tax treatment of depreciation, the existence or the absence of the condition of minimum value to delimit the tangible fixed assets by the objects of inventory, also the methodology for determining the taxable value and useful life of fixed assets. There seems more importance is attributed to the professional reasoning in the case of application of international rules, so in the case of the large enterprises.

3. The construction of the cash flows statement follows the same mechanism: the preferred treatment method is the direct one, in which companies are encouraged to use, as we can see in the paragraph no.19 of IAS 7 Cash Flows Statements. It consists in presenting the receipts and payments of the entity during that time interval. [2]

The alternative treatment is the indirect method, according to paragraph no.20 of IAS 7 Cash Flows Statements, this method assuming the correlation between the results and cash flows, but taking into account the gaps between sales and earnings and that between charges and payments. [2]

Conclusions

For the practitioners in the field of the accounting it is a necessary an advanced knowledge of the law and a continuous update of the theoretical information held by them.

All the constraints coordinates are imposed by the law and professional standards. Any freedom which the entity takes, it automatically seeks new obligations which the entity would assume in addition to those by the effect of law. We all want more information, but not all the users would contribute to the costs necessary to obtain that information.

For some businesses, small-sized, the accounting costs are already too high. They are associated with the large number of periodic fiscal statements, in their turn generating of costs. We are, therefore, concern about the perspectives of the small business, especially in the context of recent - introduced taxes - referring to a flat rate tax. We believe that such charges will lead to a strong selection of the viable businesses.

If we ask ourselves to what extent it is convenient for a growing, expanding entity, to opt for the preparation of its financial statements based directly on the international rules, we concluded that this option is welcome for the users, but too costly for the preparers.

They are interesting cases where the entity retreats its reports and it unrecognized an asset or part of the value of an asset. Therefore, we want to pursue in our future research this issue.

Which of the accounting choices, that the accountant has to do, that could have a fiscal impact? We will study this issue because it seems also exciting.

Another issue that concerns us relates the correlation between the method of economic and financial analysis with the reform of the general accounting, for this field of study it is also necessary to shift the interest of the specialists in the future.

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STRATEGIES FOR USE OF TAX CLAIMS TRANSFER DURING ECONOMIC CRISIS

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Abstract:

Although the provisions of the Code of Fiscal Procedure give the image of some norms that must be observed word by word, behind the legislative text there are hidden a series of options which can be taken, or some optimal strategies. The identification of the options expressed implicitly within the Code of Fiscal Procedure, as for example the option of carrying out the procedure of assignment of a claim but also its modelling by using the theory of games and the theory of the options which are subject of this study can have as a result the reduction of arrears, the increase of collections and the elimination of other consequences of the liquidity crisis.

Keywords: tax administration, insolvency risk, games theory, assignment of claim, payment.

JEL Classification: G10, G28, H21,

Introduction

Due to lack of liquidity there is a large number of debtor companies, some of them being able to extinct the claim quickly since it has been a temporary lack of liquidity, and others not, and get in bankruptcy. One of the problems that may be discussed in terms of the rapidity of the reaction of the tax administration is which is the decision that can be taken concerning the opportunity of assigning a claim for the companies situated in a potential state of insolvency.

It can be taken in consideration for example (but the fiscal claims are not the object of this study) the provisions of art. 1751 within the Code of Fiscal Procedure by which the National Agency of Fiscal Administration can assign the claims which it manages, as they are individualized, by enforceable title. Within this article it is stipulated that there can assigned the main claims and the accessories. Pursuant to this procedure, the assignee of the claim takes over as a consequence of the assignment of claim all the assignor's rights, including its guarantees.

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Modelling the exercise of the option of assigning the claims

The nominal value of the claims which are to be assigned represents the value of the claims which are to be assigned as they are individualized in enforceable titles.

We shall analyze the case where the claims can be assigned by starting with an initial price which is equal to the nominal value, but in order to determine the opportunity of this type of procedures, there shall also be carried out a theoretic study where the fiscal claims can be assigned to a price lower than the nominal value.

Taking into consideration the existent legal framework there can also be taken into consideration the information asymmetry, being the situation where the creditor holds fewer information than the assignee, namely the creditor does not know all the borrower's characteristics. In other words, the value of the claim can present for the assignee another function of utility that the creditor does not know.

According to the assignee's aversion in report with the risk, there is also the possibility that the latter should acquire the claim even at the nominal value stipulated by law.

Thus, it is optimal for the fiscal creditor to appeal to this procedure for all the fiscal claims, following to be expected an assignee who holds additional information or who has another function of utility.

Hereinafter for the development of a theoretic model there shall be analyzed the case when the initial price of the procedure can be even lower than the nominal value.

The question to ask is which would be the cases where there can be realized a benefit from this operation.

This option can be taken within the context of the analysis and the determining of the measures of enforcement, so that the realization of the claim should be done with the best advantages, but also by the followed borrower's rights and liabilities

"Which is the immediate interest?" is actually the dilemma. To increase revenues through the immediate collection of the amounts or to minimize losses due to non-payment of arrears. If the debtor is solvent, it is better that the claim should not be assigned, one receiving also overdue amounts and the delay interests.

If the state of solvency is precarious, it can then be discussed whether it is better to assign the claim, thereby limiting the losses from tax arrears.

To assess the impact of this decision it is sufficient to ask us the following question: what amount was registered on the order panel of creditors and what amount was recovered pursuant to the insolvency procedures?

Under these conditions it would have been more appropriate that the claim should have been "sold" before? At what price? When?

The result of this measure would practically create a market that would have an effect in compensation of the lack of liquidity, which would lead to the increase of encumbrances and to the decrease of arrears. During the period of economic crisis the use of these levers can be important.

The current value and future value are the principles that lead to a correction of synthesis documents and accounting reporting.

For the case in which the price of the title on the market may not be used, two situations that can occur should be taken into consideration: either the enterprise continues to manufacture and achieve profits, or it only brings losses and therefore should be liquidated.

These two positions really express the optics of evaluation. The winding-up value of an enterprise is determined by the flow of liquidity that can be obtained in case of cessation of trading and selling each asset considered individually, piece by piece.

There can be identified several possible values: the value of cassation, the proper winding-up value, the liquidative value.

The value of cassation can be considered as the smallest value of winding up; it is the case of the assets which are totally worn or which are strictly specific to the company and that are no longer of interest to any possible purchaser.

In this case, liquidity flows correspond to the amount of the sale price of the component parts.

The winding-up value is itself an assessment of the companies at loss. In estimating the flow of liquidity, the amount of liquidities obtained by selling of assets as such shall be considered as the starting point, but for the sake of caution also the hypothesis of forced sale of assets.

The liquidative value is a value of winding-up calculated less severe. It is estimated in terms of further activity, the calculations have as a starting point the flows of collections and the progressive sale of company assets under the market conditions.

The value of further activity is determined by the updated amount of future cash flows generated by the activity of the enterprises.

Within the study there shall be considered the risk of insolvency for a limited liability company using the model Merton for the evaluation of the corporate debentures¹, and it is estimated for the simplification of the model that in case of bankruptcy there shall be used the value of cassation and that within enforcement there shall be used the liquidative value.

If the company which is with a limited liability is insolvent at maturity, it shall be declared by the creditors as being bankrupt.

In this situation the creditors should receive the value capitalized by the operation of bankruptcy that is, the cassation value (L) and in case of enforcement there shall be collected a liquidative value ($b \times L$).

$L =$ cassation value

$b =$ coefficient which determines the value of sale of the assets at the value of winding-up

Winding-up Val = $b \times$ cassation value

The problem specified above practically makes us face the following game:

¹ Altar, Moisa, Financial Engineering, part I - version 3, January 2002

If the company does not exercise the procedure and assigns the claim and the company cannot recover itself by reorganization (insolvent) it can win a percent from the value of the claims ($z \times F$) where z is the percent from the claim where the auction for claims assignment can start.

If the administration exercises the procedure and assigns the claim and the company recovers itself by reorganization, the state can reclaim a part of the claim, but it loses the difference up to the value of the claims.

If the claim is not assigned and the company cannot recover itself by reorganization, (insolvent) the state wins until the end the value of winding-up L .

If the administration does not close the procedure of assignment and the company recovers itself by reorganization, the state shall reclaim the claim so the state wins bL .

	P	1- P
	Insolvency	No insolvency
Start Procedure	$z \times F$	$z \times F$
Do not start Procedure	L	bL

• $z \times F$ = the value where there assigned the claims (z =percent of assignement)

• F = claim value

• $V1$ = Expected Value at starting the procedure = $(z \times F) \times p + Z \times F \times (1-p)$

• $V2$ = Expected Value if the assignment is not started = $L \times p + b \times L \times (1-p)$

$V1 > V2$ implies :

$$(z \times F) \times p + (z \times F) \times (1-p) > L \times p + b \times L \times (1-p)$$

$$p = \frac{zF - bL}{L - bL}$$

The adequate option is to initiate a procedure of assignment of claim when the probability of bankruptcy (calculated for example according to the model Merton) in is larger than p calculated above. ($p_f > p$)

$$p_f = 1 - N(d2) =; \quad p_f > p$$

At balance $p_f = p$

$$z = L/F (p_f - p_f b + b)$$

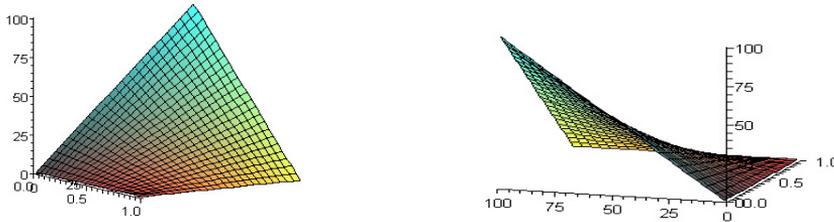
The condition $Z < 1$ means that it is appropriate to exercise the option of assignment when $L < F (p - pb + b)$ that is, when the value of winding-up is less than one percent of the claim.

We denote that $L/F = \alpha$ = the report between the value of winding-up and the value of the claim.

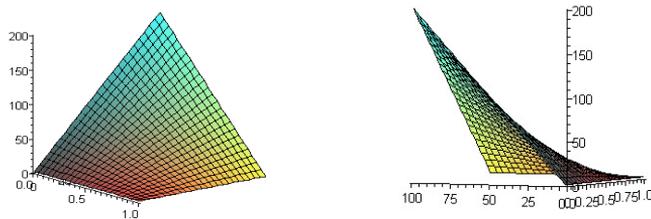
$$z = \alpha (p - pb + b)$$

This way it can be represented graphically $z = f(p_f - p_f b + b)$, with p comprised between 0 and 1 and b comprised 1 and 100, fact which expresses the variation of z according to p and b

Study with three-dimensional graphic .

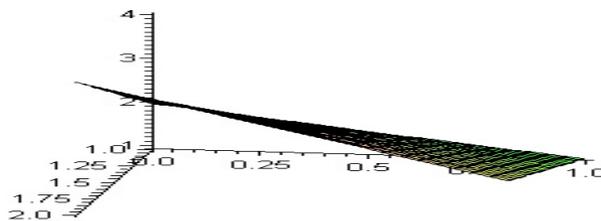


Graphic 1. We shall consider $\alpha=1$ that is, we shall consider Winding-up Val= cassation value.

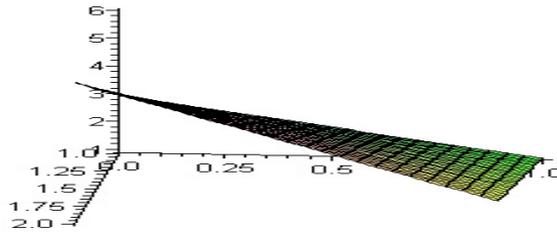


Graphic 2. We shall consider $\alpha =2$ that is, we shall consider Winding-up Val= 2 * cassation value

To illustrate an evolution graphic in various concrete cases we develop analysis for the following examples: b = 2 , b = 3 , b= 4



Graphic 3. : b =2 liquidate val = 2* cassation value. $z = L/F (p_f - p_f 2 + 2) = (2- p_f) L/F = \alpha* (2- p_f)$



Graphic 4. $b = 3$ liquidate val = 3* cassation value. $z = L/F (p_f - p_f 3 + 3) = (3 - 2p_f) L/F = \alpha * (3 - 2p_f)$



Graphic 5. $b = 4$ liquidate val = 4* cassation value. $z = L/F (p_f - p_f 4 + 4) = (4 - 3p_f) L/F = \alpha * (4 - 3p_f)$

Conclusion

The fundamenting of the decision of assignment is based on the value of the assets, on the volatility of the assets, on the value of the claim, on the interest rate but also on the difference between the value of winding-up and the value of cassation.

Note that the graphic analysis of the measure increases the coefficient b z is diminishing, and how α increase the value of z also increases proportionately.

Graphic from the study observed that there are areas where the auction can begin even from scratch (when L / F is zero). It also notes areas admissible ($z < 1$).

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PROFITABILITY AND RISK. ESSENTIAL COORDINATES OF OUR EXISTENCE

Ivona Gabriela Mica*

Abstract:

Profitability is the fundamental issue of the entire economy and of each individual economic operator. Profitability expresses the efficiency of economic activity, but it is also the driving factor of economic growth. Profitability can be measured by means of profit and net income in absolute sum, as well as by means of rates of return as relative values.

Keywords: profitability, risk, efficiency, income, profit.

JEL Classification: G32, M19, M40

Introduction

Any economic activity is subject to risk, meaning to the danger of failure. What leads to progress is the minimization of risk with regard to its occurrence possibility rather than the reduction in activity in order to ensure a lower level of risk.

Profitability and risk are two of the essential coordinates of our existence and, implicitly, of contemporary economy, coordinates which affect our present and influence our future to an even greater extent.

Their quantification and the determination of the influences they have on our lives and on the economic phenomena constitute a challenge for humanity in general and for decision makers, in particular. At the same time, on micro-level, risk management is a fundamental issue for managers and successful companies.

The risks of economic activity primarily result from the incapacity of a company to continuously adjust its costs (meaning reduce the costs) and to adjust itself to the economic environment. The risk can be approached from the point of view of the internal activity of a company or from the point of view of the external environment in which the company functions – within its framework, the companies procure their resources or reimburse the funds.

The economic efficiency is one of the most important aspects of life, of the activity performed by the human society. There is no field of economic or social activity in which the utilization of resources with maximum cost-effectiveness in order to obtain maximum results is not a central issue.

The improvement of the efficiency of an economic activity means obtaining maximum results with a minimum human, material and financial effort, it implies the intensification of efforts in order to use the work instruments with a maximum of efficiency, to save material means, reduce the costs and increase profitability.

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Profitability is the fundamental issue of the entire economy and of each individual economic operator. Profitability expresses the efficiency of economic activity, but it is also the driving factor of economic growth. Profitability can be measured by means of profit and net income in absolute sum, as well as by means of rates of return as relative values.

Each economic operator calculates the profitability threshold (break-even point) for each manufactured product, for the entire production and turnover. The analysis of the profitability threshold relies on the distinction between overhead costs and variable costs:

- overhead costs depend on the structure and organization of the company – they are determined by a constant level of the production facilities
- variable costs depend on the number of produced and sold units; they can depend on different reference values (production, sales, covered kilometers etc.)

The profitability threshold or break-even point corresponds to the turnover for which the company realizes neither loss, nor profit. There is an analogous calculation for the liquidity threshold as well, meaning the sales volume which covers all running expenses from the receipts (running receipts).

Basically, the price policy must consider the fact that prices must at least cover the direct costs. The lower price limit for different cost units is given by the variable costs in case the marginal contributions of the other cost units cover all overhead costs; otherwise, losses will occur which can be borne only as long as the equity is able to cover them.

An economic-financial analysis is necessary in order to understand the economic activity in detail so as to be able to take the best decisions.

This analysis studies the formation and modification mechanism of phenomena by decomposing them into component parts, into simple parts, by determining the influencing factors. The decomposition takes place gradually, from complex to simple, in order to identify the final causes which explain a certain state of things, a certain performance level or a certain evolution.

The economic analysis studies the economic activities from an economic point of view:

- * of resource utilization;
- * of achieved results.

The tight competition and the dynamics of markets cause the necessity of using accurate leading instruments.

Furthermore, the resources, the liquid assets of the company become more and more scarce, and this implies the necessity of greater attention in their management. The long-term existence of a company can be ensured only by realizing profit – this means that the more efficiently it administers its existing and future resources, the more viable the company is. It can be observed that unplanned, meaning random realization of profit can not ensure the future of the company, but that it is absolutely necessary to establish the factors which led to the realization of profit and their future control. This is why instruments allowing to the greatest extent possible the elimination of random phenomena, ensuring a quick reaction in case of negative

modifications but also a good operation in case of possible positive modifications (opportunities) are necessary. (Vâlceanu GH, Robu V, Georgescu N, 2004).

Thus, the components of profit are essential conditions for a company – this means that it is not important to realize immediate profit, but to ensure that potential able to generate medium and long-term profit.

A company must pursue its objectives, which comprise – in a most simple system:

- the material objective (in our case the production of foam)
- formal objectives (the ones which can be expressed numerically, such as profitability, liquidity, economic efficiency)

The objectives are interdependent and influence one another. Adverse effects on any objectives can be borne by the company only to a marginal extent.

Every company has a „financial image” which is rendered in form of financial indicators, such as: turnover, profitability, liquidity, debt-equity ratio etc. The „financial image” of the company is reflected differently in terms of form, structure and content, based on the centre of reference chosen for reference and analysis.

The financial indicators used to measure the company’s performance feature a great variety, whereby the largest classification is: classical and modern indicators (the most important role for our communication is played by the value-creating indicators).

Main categories of economic-financial indicators:

- resource indicators (human, material, financial, informational);
- resource utilization indicators (indicators of expenses);
- indicators of the financial potential (assets, net worth, working capital, liquidity, financial autonomy);
- performance and results indicators (turnover, added value, profit);
- efficiency indicators, calculated as „rates” by means of the ratio of two indicators expressed as absolute values, using one of the following variants:

E1 = Effect/Effort

E2 = Effort/ Effect

E3 = Effect/Effect

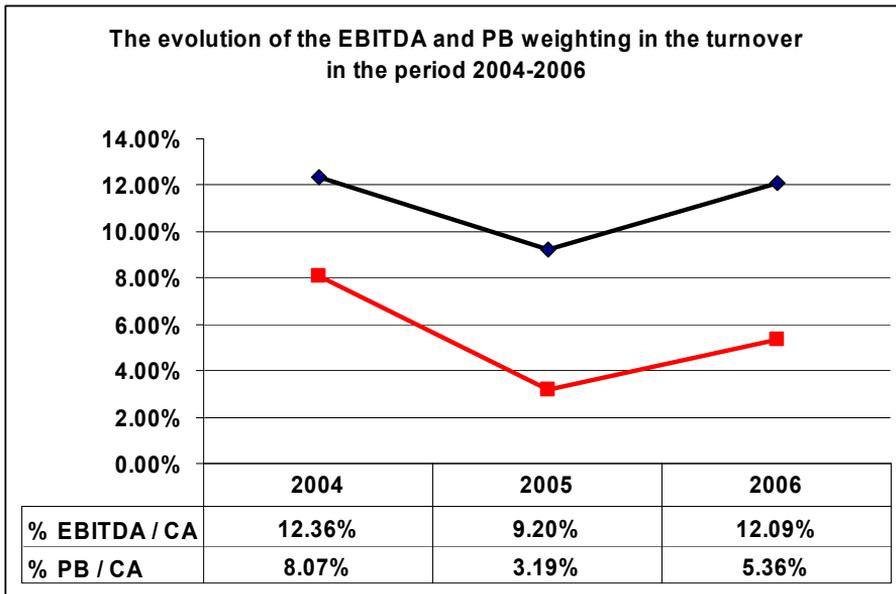
E4 = Effort/Effort

(Brezeanu P, 2003)

Example

FINANCIAL ANALYSIS of a Production Company

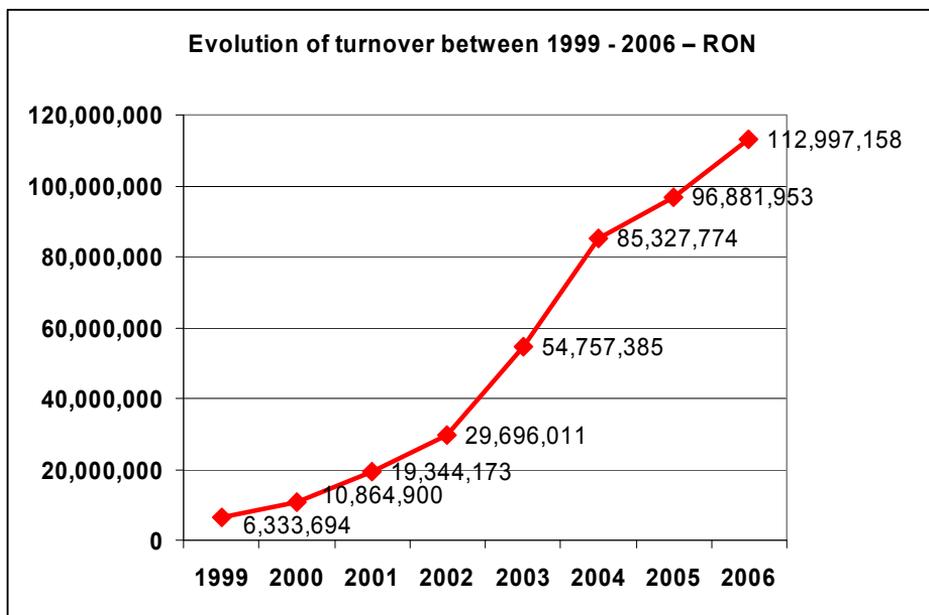
RON	2004	2005	2006
CA	85,327,774	96,881,953	112,997,158
EBITDA	10,549,357	8,911,300	13,665,900
% EBITDA / CA	12.36%	9.20%	12.09%
PB	6,887,359	3,090,024	6,051,795
% PB / CA	8.07%	3.19%	5.36%



1. Analysis of Profit and Loss Account

a) Turnover Analysis

The turnover of the company x increased within the entire period 1999-2006 from 6.333.694 RON to the amount of 112.997.158 RON as visible in the diagram below:



Evolution of turnover	2004	2005	2006	2005/2004	2006/2005
Turnover RON	85,327,774	96,881,953	112,997,158	13.54%	16.63%
Turnover EURO	21,051,952	26,737,857	32,060,478	27.01%	19.91%

The business growth rate was most pronounced in the period 2000-2004, when it registered a medium growth rate of 68,66%.

In case the evolution of the Turnover is the result of an increased utilization of the production capacity, then an investment in new production facilities in order to ensure a real increase of the Turnover (average increase greater than the inflation rate) would be opportune.

In case the evolution of this indicator is a consequence of the product maturity curve (even of the business), the company is in a situation in which the optimization of costs can confer products a competitive advantage.

The structure of the turnover discloses the way in which the company sells its products, whereby its evolution features an accentuation of the sale of semi-finished products to the detriment of finished products.

Weighting in Turnover:	2004	2005	2006
Revenues from the sale of finished products	59,71%	56,94%	48,68%
Revenues from the sale of semi-finished products	34,73%	38,10%	45,37%
Growth rate:			
Revenues from the sale of finished		108,28%	99,71%
Revenues from the sale of semifinished		124,56%	138,90%
Turnover		113,54%	116,63%

The decrease in the weighting of revenues from the sale of finished products in the structure of the turnover can have as a result the decrease of added value per unit of output.

Turnover Structure	2004			Weighting in Turnover		
	2004	2005	2006	2004	2005	2006
Revenues from the sale of finished products	50,945,879	55,162,911	55,003,436	59.71%	56.94%	48.68%
Revenues from the sale of semi-finished products	29,630,782	36,908,666	51,264,468	34.73%	38.10%	45.37%

Revenues from the sale of residual products	1,550,870	1,821,205	4,428,342	1.82%	1.88%	3.92%
Revenues from services rendered	201,678	174,369	149,872	0.24%	0.18%	0.13%
Rental and royalty income	-	7,557	13,214	0.00%	0.01%	0.01%
Revenues from sold goods	2,967,527	2,745,167	2,013,385	3.48%	2.83%	1.78%
Revenues from sundry activities	31,039	62,079	124,441	0.04%	0.06%	0.11%
TOTAL TURNOVER	85,327,774	96,881,954	112,997,157	100.00%	100.00%	100.00%

The greatest weighting in the structure of the turnover is represented by revenues from the sale of finished products. Approximately 96,% of the total turnover is realized from the sale of products resulted directly from the production process of the company (Revenues from the sale of finished products, Revenues from the sale of semi-finished products, Revenues from the sale of residual products).

The purely commercial activity of the company was limited during the analyzed period – the weighting in the turnover decreased from 3,48% in 2004 to 1,78% in 2006 whereas the sales volume decreased from 2,967,527 RON in 2004 to 2,013,385 RON in 2006 (Revenues from the sale of goods).

The other categories of revenues building up the Turnover totaled an average weighting of 0,26% during the analyzed period; these revenues occur sporadically and randomly in the operating activity (Revenues from services rendered, Rental and royalty income, Revenues from sundry activities).

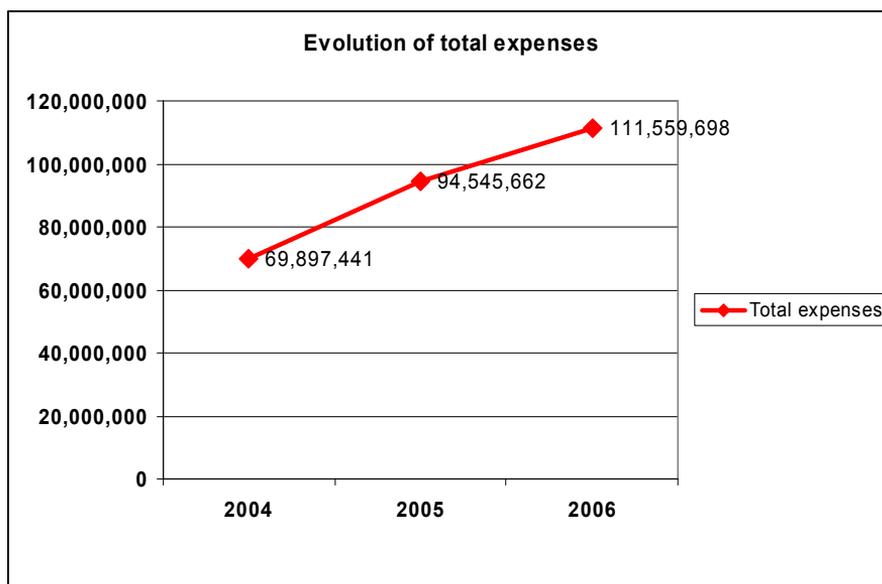
b) Analysis of expenses

The company operating expenses represent 95% of the total expenses covered by the turnover 126,96% in 2004 and 107,19% in the year 2006.

The reasons for this difference could be:

- very large previously stocked production
- loss of cost competitiveness because of increases in the prices for raw materials

Structure of expenses	2004	2005	2006	2005/2004	2006/2005
Operating expenses	67,206,919	87,689,430	105,420,064	30.48%	20.22%
Financial expenses	2,690,522	6,648,518	6,139,634	147.11%	-7.65%
Extraordinary expenses	-	207,714	-	-	-100.00%
TOTAL EXPENSES	69,897,441	94,545,662	111,559,698	35.26%	18.00%
TURNOVER	85,327,774	96,881,954	112,997,157	13.54%	16.63%
Weighting of operating expenses in the turnover	78.76%	90.51%	93.29%		
Coverage of operating expenses by the turnover	126,96%	110,48%	107,19%		



Structure of operating expenses				Weighting in the total of operating expenses			Average Weighting
	2004	2005	2006	2004	2005	2006	
Expenses related to raw materials and consumables	43.426.222	57.563.536	73.070.820	64,62%	65,64%	69,31%	66,52%
Other material expenses	570.334	790.842	357.738	0,85%	0,90%	0,34%	0,70%
Other external expenses (related to energy and water)	245.362	498.027	580.128	0,37%	0,57%	0,55%	0,49%
Expenses related to goods for resale	2.810.035	2.360.658	1.783.272	4,18%	2,69%	1,69%	2,85%
Expenses related to salaries	4.852.465	5.308.009	7.326.782	7,22%	6,05%	6,95%	6,74%
Depreciations and provisions related to the depreciation of tangible and intangible non-current assets	2.472.915	4.512.915	5.617.101	3,68%	5,15%	5,33%	4,72%
Adjusting the value of liquid assets	253.941	504.380	815.794	0,38%	0,58%	0,77%	0,58%
Expenses related to the purchase of external services	9.950.268	12.141.474	12.344.475	14,81%	13,85%	11,71%	13,45%
Expenses related to other taxes and similar liabilities	632.261	425.190	622.914	0,94%	0,48%	0,59%	0,67%
Expenses related to claims for compensations, donations and assets disposed	2.042.903	4.206.785	2.901.041	3,04%	4,80%	2,75%	3,53%
Adjustments regarding provisions for risks and expenses	-49.785	-622.388	0	-0,07%	-0,71%	0,00%	-0,26%

The expenses related to raw materials represent the most important type of expenses in the framework of the operating activity. Their timely-based modification determines the total value of the operating expenses, and thus has a great influence on the profitability of the business.

The table below presents the evolution of the operating expenses and of the expenses they are made of:

Relative modification	Expressed in percentages		Expressed in amounts (RON)	
	2005/2004	2006/2005	2005	2006
Categories of expenses				
Operating expenses	30,5%	20,2%	20.482.511	17.730.634
- Expenses related to raw materials and consumables	32,55%	26,94%	14.137.314	15.507.284
- Other material expenses	38,66%	-54,76%	220.508	-433.104
- Other external expenses (related to energy and water)	102,98%	16,49%	252.665	82.101
- Expenses related to goods for resale	-15,99%	-24,46%	-449.377	-577.386
- Expenses related to salaries	9,39%	38,03%	455.544	2.018.773
- Depreciations and provisions related to the depreciation of tangible and intangible non-current assets	82,49%	24,47%	2.040.000	1.104.186
- Adjusting the value of liquid assets	98,62%	61,74%	250.439	311.414
- Expenses related to the purchase of external services	22,02%	1,67%	2.191.206	203.001
- Expenses related to other taxes and similar liabilities	-32,75%	46,50%	-207.071	197.724
- Expenses related to claims for compensations, donations and assets disposed	105,92%	-31,04%	2.163.882	-1.305.744
Adjustments regarding provisions for risks and expenses	-1150,15%	100,00%	-572.603	622.388

Conclusion

The following results from synthesizing the data in the table:

- the growth of expenses for raw materials expressed as amounts is double in comparison to the growth of all other categories of expenses; their influence on the total modification of operating expenses is of 61,63% in 2005 compared to 2004, respectively 69,34% in 2006 compared to 2005

- expenses related to depreciation, expenses related to the purchase of external services and expenses related to claims for compensations, donations and assets disposed underwent important changes in value.

- as a result of the random fluctuations of the expenses Expenses related to claims for compensations, donations and assets disposed, Adjustments regarding provisions for risks and expenses and of the decrease of Expenses related to goods for resale, the operating expenses feature a rising trend dictated by the growth of expenses related to raw materials.

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MARKETING STUDY REGARDING THE ROMANIAN MOBILE TELECOMMUNICATIONS COMPANIES' OFFER

Meghișan Georgeta-Mădălina*

Abstract

The fight of the mobile telecommunication companies to attract clients trends to be much more powerful, because the numbers portability has become a reality. The very competitive market goes to the growth of the price importance in choosing an operator. The short term gain of the operators becomes a long term image risk. The choice of some mobile telephony services is sometimes difficult to be made because of the offer's complexity.

The young people represent an important segment in the current or potential mobile telecommunication companies' clients. This segment is a great consumer of mobile telecommunication services, being, at the same time, a segment that demands varied services at the smallest prices. The clients expect the service to function, to be simple and easy to use, benefit from rapid and efficient assistance if errors occur, and the operator to respect the contract's riders.

This paper will present an analysis of a study regarding the consumption behavior of the young people from the city of Craiova, users of mobile telephony services. The survey subjects are the youngsters (men and women) between 20 and 29 years old. The chosen method of sampling is the quotation method, using selection criteria such as the age and sex.

Keywords: mobile telecommunication, market, offer, consumers' behavior, price, marketing survey

JEL Classification: M20, M31, L82

Introduction

The paper concerns the mobile telecommunication services' consumption behavior of the youngsters aged between 20 and 29 years old from Craiova. The chosen sampling method is the quotation method, method which permits the construction of a sample with the same repartition as the studied population, following an already known criterion (such as sex, age, socio-professional category etc.), within which the characteristics of the individuals (geographic, socio-demographic, behavioral, economic) will be very close to those of the referred population (Balaur V., 2000). The sampling criteria (age and sex) are chosen regarding the research objectives and the sample length (200 persons) was determined depending on the organizational decisions that this research confronts to. The chosen sampling method was the quotation method, because it is the most used for the surveys within the commercial field (Catoiu I. coord., 1999).

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Methodology

From the Romania's statistics year book for the year 2006, data regarding the population structure was extracted (www.insee.ro):

Table 1 – The population structure – the sex

Sex	The whole researched collectivity (Craiova)	Percentage (%)	The number of persons included in the sample
Men	24 086	51,2	102
Women	22 959	48,8	98
Total	47 045	100	200

(www.insee.ro)

Table 2 – The population structure – the age

Age	The whole researched collectivity (Craiova)	Percentage (%)	The number of persons included in the sample
20-24 years old	22 275	47,3	94
25-29 years old	24 770	52,7	106
Total	47 045	100	200

(www.insee.ro)

Table 3 – The structure of the sample components

The sample components				
Age	Men	51,2%	Women	48,8%
20-24 years old	47,3%	48	46	94
25-29 years old	52,7%	54	52	106
TOTAL		102	98	200

The marketing study regarding the Romania's mobile telecommunication companies' offer was made from 1st April to 5th May 2009, by sending via e-mail a questionnaire of 17 questions².

The questionnaire, a tool for gathering information, was made following some stages:

- I. Documentation;
- II. Data analysis and the questionnaire creation;
- III. Questionnaire checking up.

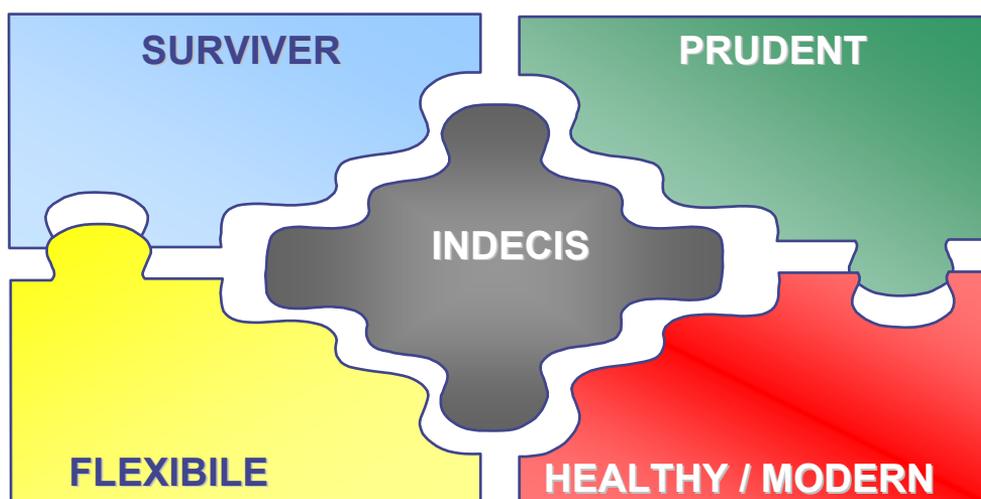
² The questionnaire was hosted by the site www.esurveyspro.com, having the following link: <http://www.esurveyspro.com/Survey.aspx?id=1fc1de53-fae1-4276-a1cd-2cb5d336ceda>

The profile of the mobile telecommunication user

This procedure of mobile telephony services user's profile determination is composed of 4 initial circles, each of them composed of a small number of subjects, in which, by spreading, new individuals can be included, arriving to a profile standardization.

Following this method, a group of subjects that is not characterized by any of the four profiles resulted, this being named **the group of undecided subjects**. They have characteristics that are common to the other profiles and that's why they can be characterized as undecided or uninvolved within the mobile telephony services' buying process.

Figure 1 - The mobile telephony services' user profile



Healthy / Modern

The users of mobile telecommunication services from this category have the following characteristics:

- They have at least two subscriptions at two different mobile telecommunication companies;
- They make use of their mobile phones for the following reasons: (a) to make calls; (b) to receive calls / SMS; (c) for data transmission; (d) to connect / navigate on the Internet directly on the mobile phone; (e) to send SMS / MMS; (f) to use the 3G technology – for instance for video calls;
- They have chosen the mobile telephony providers depending on the following criteria: (a) the quality of calls / sound; (b) the negotiable offer – they negotiated the contract; (c) the quality and availability of the customer relationship service; (d) the use of a last generation technology; (e) the company reputation; (f)

the diversity of the auxiliary / supplementary services; (g) the range and prices of the available mobile phones; (h) the costs they have to pay if they make a call within this network;

- When they last chose their mobile services provider, they took into consideration the following: (a) the tariffs for the fixed-mobile calls; (b) the tariffs in roaming; (c) the tariffs for MMS.

The Prudent

These mobile telephony users have the following characteristics:

- They have at least two prepaid cards at two different companies of mobile telecommunication services at least;

- They use their mobile phones for the following reasons: (a) to make calls; (b) to receive calls / SMS; (c) for data transmission; (d) to connect / navigate on the Internet directly from the mobile phone; (e) to send SMS / MMS; (f) to use the 3G technology – for instance for video calls;

- They have chosen the mobile telephony providers depending on: (a) the tariffs for calls; (b) the network coverage within the territory; (c) the friends that are subscribers of the same network; (d) the promotional offers – discounts, gifts etc;

- When they last chose the mobile telephony services provider, they took into consideration the following criteria: (a) the price of the prepaid cards; (b) the tariffs for calls within the same network; (c) the tariffs for mobile-mobile calls outside the network; (d) the tariffs for SMS.

The Flexible

The characteristics of this group of mobile telephony services users are:

- They have at least one prepaid card and a subscription at two different mobile telephony companies;

- They use mobile telephones for the following reasons: (a) to make calls; (b) to receive calls / SMS; (c) for data transmission; (d) to connect / navigate on the Internet directly from the mobile phone; (e) to send SMS / MMS; (f) to use the 3G technology – for instance, for video calls;

- They have chosen the mobile telephony providers depending on: (a) the tariffs for calls; (b) the network coverage within the territory; (c) the friends that are subscribers of the same network; (d) the promotional offers – discounts, gifts etc; (e) the quality of calls / sound; (f) the negotiable offer – they negotiated the contract; (g) the quality and availability of the clients relationship service; (h) the use of the latest generation technology; (i) the company reputation; (j) the variety of the auxiliary / supplementary services; (k) the range and prices for the available mobile telephones; (l) the costs that those who make calls within the same network have to pay for;

- When they last chose the mobile telephony provider, they took into consideration the following criteria: (a) the prepaid cards / subscriptions' price; (b) the tariffs for calls within the network; (c) the tariffs for mobile-mobile calls outside

the network; (d) the tariffs for SMS; (e) the tariffs for mobile-fixed calls; (f) the tariffs in roaming; (g) the tariffs for MMS.

The Survivor

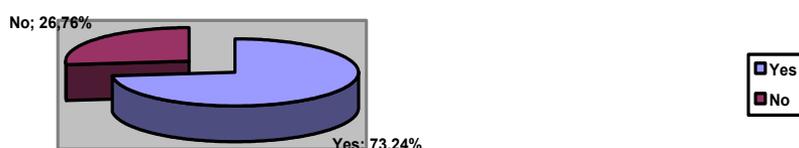
The users of mobile telephony services from this group have the following common characteristics:

- They have either a prepaid card or a subscription;
- They use their mobile phones for the following reasons: (a) to make calls; (b) to receive calls / SMS; (c) to send SMS / MMS;
- They have chosen the mobile telephony providers depending on the following criteria: (a) the tariffs for calls; (c) the friends that are subscribers within the same network; (d) the promotional offers – discounts, gifts etc;
- When they last chose the mobile telephony provider, they took into consideration the following things: (a) the prepaid cards / subscriptions' price; (b) the tariffs for calls within the same network; (c) the tariffs for mobile-mobile calls outside the network; (d) the tariffs for SMS.

Attitudes and preferences regarding the mobile telecommunication companies' offer

Taking into consideration the collected answers, every question from the questionnaire will be analyzed, putting accent on the elements that will serve to the determination of the attitudes and preferences of that category of persons for the mobile telecommunication companies' offer.

Figure 2 – The use of mobile telecommunication subscriptions



The youngsters aged between 20 and 29 years old, prefer the subscriptions in a percentage of 73,24%. There are situations when these persons have multiple subscriptions.

Table 4 – The purpose of the mobile telephony usage based on subscriptions

	I have a subscription at Orange	I have a subscription at Vodafone	I have a subscription at Zapp	I have a subscription at Cosmote	I have a subscription at RCS&RDS
1. to make calls	26%	26%	1%	18%	26%

2. to receive calls / sms without any type of traffic	24%	32%	1%	22%	18%
3. for data transmission	21%	26%	0%	21%	31%
4. to connect/ navigate on the Internet directly on the mobile phone	37%	43%	0%	12%	6%
5. to send sms / mms	31%	40%	0%	24%	4%
6. to make use of the 3G technology (i.g. for video calls)	50%	50%	0%		

Regarding the use of the mobile phones for every subscription provider, the Orange operator owns the supremacy in calls making, together with Vodafone and RCS&RDS, with the same percentage of 26%, followed by the Cosmote operator with 18%.

The Vodafone operator is preferred for the 3G technology usage – i.g. for video calls (50%), to connect / navigate on the Internet directly on the mobile phone (43%), to send SMS / MMS (40%), to receive calls / SMS (32%). The Orange operator is mainly preferred for the same type of services, but in different percentages: for the 3G technology usage – i.g. for video calls (50%), to connect / navigate to Internet directly from the mobile phone (37%), to send SMS / MMS (31%).

The Zapp operator suffers from a weak usage of its services, only 1% of the respondents use the services of this operator to make calls or receive calls / SMS without making any type of traffic. Unfortunately the number of this operator's clients is only 500 000, despite its numerous advertising campaigns.

The RCS&RDS and Cosmote operators had a rapid development. The respondents make use of the Cosmote operator's services: to send SMS / MMS (24%), to receive calls / SMS without making any type of traffic (22%), for data transmission (21%). The RCS&RDS provider's services are used mainly for data transmission (31%), to make calls (26%), to receive calls / SMS without any type of traffic (18%).

Figure 3 – The mobile telephony usage based on prepaid cards

The youngsters aged between 20 and 29 years old prefer prepaid cards in a percentage of 45,45%. There are situations when these persons have multiple prepaid cards from various mobile telephony operators.

Table 5 - The goal of prepaid cards' mobile telephones usage

	I have a prepaid card at Orange	I have a prepaid card at Vodafone	I have a prepaid card at Cosmote
1. to make calls	44%	8%	47%
2. to receive calls / sms without making any type of traffic	48%	7%	44%
3. for data transmission	75%	0%	25%
4. to connect / navigate on the internet directly from the mobile phone	33%	0%	66%
5. to send sms / mms	48%	3%	48%
6. to use the 3G technology (i.g. for video calls)	50%	0%	0%

We can observe the fact that those who own prepaid cards at the Orange operator, make use of a large range of services, among them there are: data transmission (75%), 3G technology usage (50%), receiving calls / SMS without making any type of traffic (48%), sending SMS / MMS (48%), making calls (44%), connecting / navigating on the Internet directly on the mobile telephone (33%).

For the Cosmote operator, the most used prepaid cards services are: the connection / navigation on the Internet directly from the mobile phone (66%), the 3G technology usage (50%), sending SMS / MMS (48%) and making calls (47%). In exchange, the services of the Vodafone operator are not very used with prepaid cards.

Table 6 - Characteristics of calls

1. Generally the fixed-fixed calls are cheaper than the fixed-mobile calls	21,69%
2. Generally, the mobile-mobile calls are cheaper than the mobile-fixed calls	21,69%

3. Regarding international calls, generally, it is cheaper to make mobile-mobile or fixed-fixed calls than mobile-fixed or fixed-mobile calls	12,45%
4. Generally, the mobile-mobile calls within the same network are cheaper than the local fixed-fixed calls	9,64%
5. Generally, the mobile-mobile calls within the same network are cheaper than interdepartmental fixed-fixed calls	10,44%
6. Generally, the mobile-mobile calls outside the network are more expensive than the local fixed-fixed calls	13,65%
7. Generally, the mobile-mobile calls outside the network are more expensive than the interdepartmental fixed-fixed calls	10,44%

Regarding this question, the respondents consider that it is cheaper to make fixed-fixed calls than fixed-mobile calls (21,69%), in the same percentage with the ones that consider mobile-mobile calls to be cheaper than mobile-fixed calls (21,69%). A percentage of 12,45% from the respondents consider that, regarding the international calls, generally it is cheaper to make mobile-mobile or fixed-fixed calls than mobile-fixed or fixed mobile calls.

10,44% of the respondents consider that, generally, the mobile-mobile calls within the same network are cheaper than the interdepartmental fixed-fixed calls and, the mobile-mobile calls outside the network are more expensive than the interdepartmental fixed-fixed calls. Only 9,64% from the respondents consider that, generally, the mobile-mobile calls within the same network are cheaper than the local fixed-fixed calls.

Table 7 – Criteria for the choice of the mobile telephony services provider

1. Tariffs (for calls / subscriptions / other services)	19,66%
2. The quality of calls / sound	4,75%
3. The network coverage within the territory	11,86%
4. The company image	7,12%
5. The negotiable offer – I negotiated the contract	1,69%
6. The variety of the auxiliary / supplementary services	2,71%
7. The quality and availability of the customer relationship service	5,76%
8. The range and prices of the available mobile telephones	9,83%
9. The costs that those who make calls within the same network have to pay	3,05%
10. Loyalty programs	4,75%
11. The use of the last generation technology	1,69%
12. The friends are subscribers of the same network	13,90%
13. Promotional offers (discounts, gifts etc.)	13,22%

We can observe that one of the most important criterion taken into consideration by the respondents when they chose their mobile telephony services provider is represented by the tariffs for calls/ subscriptions / other services (19,66 %). The next criterion taken into consideration by 13,90 % from the questioned persons is the circle of friends that has a subscription within the same network.

At a little difference, 13,22% from the respondents consider that the promotional offers represent the most important element in choosing the mobile telecommunication services provider. The chosen negotiated offer and the latest technology take the last place with a percentage of 1,69% for each criterion.

Table 8 – Categories of tariffs taken into consideration in choosing the mobile telephony services provider

1. The price of the subscription / prepaid cards	31,46%
2. Tariffs for the calls within the network	20,79%
3. Tariffs for mobile-mobile calls outside the network	18,54%
4. Tariffs for mobile-fixed calls	6,18%
5. Tariffs for international calls	6,74%
6. Tariffs in roaming	2,25%
7. Tariffs for SMS	13,48%
8. Tariffs for MMS	0,56%
9. Tariffs to listen to the Vocal Message Box	0,00%

To this question, 31,46% of the respondents consider that the price of the subscription / prepaid cards represents the main element taken into consideration when choosing the mobile telephony services provider. The second place is taken by the tariffs for the calls made within the network, considered important by 20,79% from the questioned persons, followed by the tariffs for mobile-mobile calls outside the network (18,54%).

The tariffs for roaming and SMS are not so important, only 2,25% and 0,56% from the respondents chose their provider taking into consideration these criteria. None of the respondents didn't choose the tariffs for listening to their Vocal Message Box.

Table 9 – The degree of satisfaction towards the mobile telephony services provider

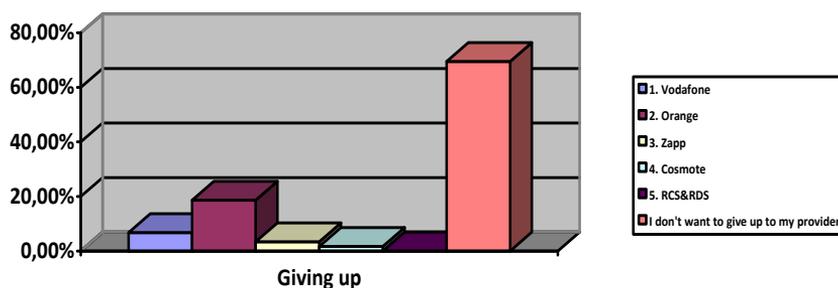
Provider	General satisfaction	Satisfaction towards the services' quality	Satisfaction towards tariffs
1. Vodafone	42%	32%	26%
2. Orange	40%	24%	36%
3. Zapp	33%	67%	0%
4. Cosmote	38%	10%	52%

5. RCS&RDS	22%	14%	64%
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Speaking about the degree of satisfaction of the respondents, we can observe that the Vodafone and Orange operators bring general satisfaction to a percentage of 42%, and 40% from the respondents. Regarding the Zapp operator we can see a high level of satisfaction towards the services' quality (67% from the respondents).

The Cosmote and RCS&RDS operators can be remarked by the general satisfaction towards the tariffs, 52%, respective, 64% from the respondents being satisfied by the low tariffs of these operators.

Figure 4 - The intention to give up to the current mobile telephony services provider



To the question regarding the provider intending to give up within the following 12 months, we can observe that a high percentage, almost 70% from the respondents don't intend to give up to their provider, being pleased by the services offered to them. A percentage of 18,64% from the respondents wants to give up to the services of the operator Orange. No respondent wants to give up to the services of the RCS&RDS operator.

Table 10 – Reasons to give up to the mobile telephony services provider

Reason	Vodafone	Orange	Zapp	Cosmote	RCS&RDS
1. Subscription / rechargeable cards too expensive	32%	46%	4%	13%	5%
2. Too expensive tariffs for the calls within the network	30%	60%	10%	0%	0%
3. Too expensive tariffs for the calls outside the network	19%	72%	0%	9%	0%
4. Too expensive tariffs for international calls	20%	80%	0%	0%	0%
5. Too expensive tariffs for the calls in roaming	20%	60%	20%	0%	0%

6. New providers with cheaper mobile telephony services packages and tariffs	14%	57%	7%	22%	0%
7. The weak quality of the calls / sound	25%	25%	50%	0%	0%
8. The weak quality of the technical support	20%	40%	20%	0%	20%
9. The unavailability / weak quality of the customer relationship service	16%	33%	16%	16%	16%
10. The wrong invoice	50%	0%	0%	50%	0%

To this question responded only those that intended to give up to their mobile telecommunication services provider. We can observe that 46% from the respondents want to give up to the Orange provider because of the expensive subscriptions and prepaid cards. Also regarding the expensive tariffs for the calls within the network and the calls outside the network, a high percentage of respondents confirmed that they will give up to the Orange provider (60%, respective 72%). Neither for the international calls offer nor for calls in roaming, the Orange operator doesn't occupy a better place, 80%, respective 60% from the respondents being unsatisfied with these aspects.

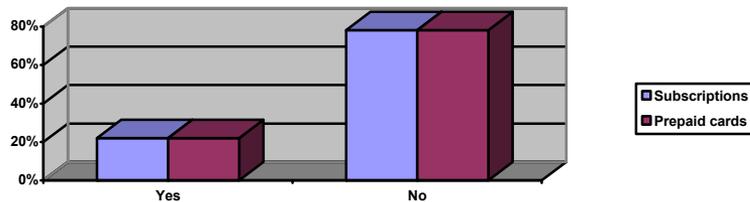
We can see that regarding the incorrect invoicing, 50% from the respondents are unsatisfied with the Vodafone and Cosmote operators.

Table 11 – The operator that will replace the provider it is intended to give up

	Vodafone	Orange	Zapp	Cosmote	RCS&RDS
1. I will pass to other mobile telephony provider with a subscription	13%	13%	6%	67%	0%
I will pass to other mobile telephony provider with a prepaid card	12%	12%	0%	76%	0%
3. I will give up to mobile telephony services and I will use in exchange fixed telephony services	0%	0%	0%	0%	0%

To this question, we can observe that 67% from those that will make a subscription to other mobile telephony operators will go to Cosmote. Also a percentage of 76% from the respondents will chose prepaid cards also from the Cosmote operator.

Figure 5 – The degree of giving up to subscriptions / prepaid cards within the last 12 months



We can observe that within the last 12 months, only 22% from the respondents gave up to subscriptions and prepaid cards.

Table 12 – The reasons for giving up to subscriptions or prepaid cards within the last 12 months

Reason	Vodafone	Orange	Zapp	Cosmote	RCS&RDS
1. Subscription / rechargeable cards too expensive	14%	72%	0%	14%	0%
2. Too expensive tariffs for the calls within the network	50%	50%	0%	0%	0%
3. Too expensive tariffs for the calls outside the network	23%	69%	0%	8%	0%
4. Too expensive tariffs for international calls	43%	43%	0%	14%	0%
5. Too expensive tariffs for the calls in roaming	43%	43%	0%	14%	0%
6. New providers with cheaper mobile telephony services packages and tariffs	38%	38%	0%	24%	0%
7. The weak quality of the calls / sound	33%	0%	33%	0%	34%
8. The weak quality of the technical support	50%	0%	50%	0%	0%

9. The unavailability / weak quality of the customer relationship service	33%	0%	33%	34%	0%
10. The wrong invoice	50%	0%	0%	50%	0%

We can observe that 72% of the respondents gave up to the Orange operator within the last 12 months, as a consequence of the too expensive subscriptions and prepaid cards, and 69% a consequence of the too expensive tariffs for the calls outside the network.

Regarding the expensive tariffs for the calls within the network, the respondents gave up in an equal proportion (50%) to the Vodafone and Orange operators. However, 43% of the questioned persons gave up to these operators as a result of the expensive tariffs for the international calls and calls made in roaming. The incorrect invoice was the reason for which 50% of the respondents gave up to Vodafone provider and, in the same percentage, to Cosmote.

Table 13 – The operator that replaced the provider which was given up to within the last 12 months

	Vodafone	Orange	Zapp	Cosmote	RCS&RDS
1. I will pass to other mobile telephony provider with a subscription	8%	8%	8%	58%	18%
2. I will pass to other mobile telephony provider with a prepaid card	16%	34%	0%	50%	0%
3. With fixed telephony services	0%	0%	0%	0%	100%

Those who passed to other mobile telephony provider with a subscription chose in a percentage of 58% Cosmote, and those who passed to other mobile telephony provider with a prepaid card also chose the Cosmote provider (50%).

Those who passed to fixed telephony to replace the operator they gave up to, chose the RCS&RDS operator within a percentage of 100%.

Conclusion

Concluding, we can say that the youngsters from Craiova, aged between 20 and 29 years old use mainly mobile telephony services based on subscriptions, from many operators, so as that the advantages and disadvantages to have an equilibrium.

The youngsters choose the subscriptions from the Orange, Vodafone and RCS&RDS operators, and less the subscriptions from the Zapp or Cosmote operators. The motivation is linked by the services' quality, Cosmote being chosen for the cheapest tariffs and the attractive offers for the prepaid cards. However, the RCS&RDS operator is preferred for the cheap tariffs and minutes included within the offer.

The youngster analyse the offers of the mobile telephony operators, for subscriptions and prepaid cards and choose several operators, covering the range of their communication needs. Few are those that have only a subscription or a prepaid card from a single mobile telephony operator.

The competition on the telecommunication market from Craiova, on the segment of 20 and 29 years old, is very intense, the youngsters choosing in a rational way the best offer taking into consideration the quality, but especially the cheap tariffs, fact justified by the quality of student or the modest incomes from this age.

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ECO-EFFICIENCY AND ITS OPPORTUNITY IN A WORLD IN CRISIS

Ramona Florina Popescu*

Abstract:

The paper argues for the necessity of maintaining the interest for the future of the planet in a context of crisis, when priorities tend to change. The main issue is eco-efficiency and its importance for the sustainable development of humanity. First, it is explained how ecology and economic efficiency can interfere and then the paper makes a literature review emphasizing the definition and the principles that the concept of eco-efficiency is based on. It also stresses some weak points of the concept, the importance of its integration into a larger sphere of interest and the fact that sustainable approach of the economy may prevent future crisis.

Keywords: crisis, ecology, economic efficiency, eco-efficiency

JEL Classification: Q01, Q51, Q57

Introduction

Environmental problems of our world are already old news. So old, that we succeed to live with it and take it as a fact.

Until late summer, the penchant to be green was everywhere. We saw it in the pronouncements of governments, in the investments of venture capitalists, in the product introductions of multinational companies, and especially in the media. [Lifset, R., (2009:1)] But the question is if this high level of attention can survive a global economic recession?

The truth is that although theoreticians and practitioners develop every day concepts and methods meant to reduce the environmental burden, the crisis that we face these days seems to have downturned everyone's interest towards financial issues. Our planet's air is still polluted, but we talk about real estates, the water becomes dirtier every day, but we are worried about the tax increase. It looks like present problems tend to prevail on the ones that affect the long-term evolution of humanity, but in fact, it is not clear at this moment that the enthusiasm for things green has completely disappeared.

In this context, it is high time to put the accent on concepts and principles which, put into practice, can assure our planets future. One of those concepts is eco – efficiency. The present article only tries to make a literature review regarding the concept of eco-efficiency and thus to become the basis for a deeper analysis of the concept.

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The present crisis should not hinder us from preventing deeper crisis that may occur in the future and that may endanger the very existence of human beings.

1. About ecology and economic efficiency

It is not the point here to define ecology and economic efficiency, but to show how the two are connected. However, the discussion starts from their definitions. Ecology, on one hand, can be defined as the interdisciplinary scientific study of the distribution and abundance of organisms and the interactions that determine distribution and abundance [Begon, M., et al., (2006: xi)]. On the other hand, talking about economic efficiency, we talk about using the resources in such a way as to maximize the production of goods and services.

Connecting one to another consists in showing how we can exploit the environment in order to fulfill our need without affecting its ability to reproduce and regenerate itself. Eco-efficiency is, along with other concepts³ a form of representing into practice this very idea. The main feature of the concept is that it links the business concept of creation value to the environmental concerns. The necessity of such a notion came from the present limits imposed to growth by resources, a truth that cannot be denied.

2. Eco-efficiency – the definition

The concept received several definitions, some more philosophical than others.

The most used definition is the one given by the World Business Council for Sustainable Development which states that eco-efficiency is the situation “achieved by the delivery of competitively-priced goods and services that satisfy human needs and bring quality of life, while progressively reducing ecological impacts and resource intensity throughout the life-cycle to a level at least in line with the earth’s estimated carrying capacity”. [Schmidheiny and WBCSD, (1992)]

In this view, eco-efficiency is the concept which can help companies, individuals, governments or other organizations become more sustainable. It brings together the essential ingredients – economic and ecological progress – which are necessary for economic prosperity to increase with more efficient use of resources and lower emissions of substances that can have adverse environmental consequences. [Verfaillie, H.A. et al., (2000:7)]

In fewer words than above, eco-efficiency can be defined as “creating more value with less impact” or “doing more with less” [WBCSD, (2000:9)]. An interpretation of this is the proof that eco-efficiency is a synthesis of both economic and environmental efficiency, and the prefix *eco* stands for both economy and ecology.

OECD also gave a definition of the concept in question and said that eco-efficiency is the “efficiency with which ecological resources are used to meet human needs” and it can be expressed as a “ratio of an output (the value of products and

³Such as cleaner production, industrial ecology or eco-industrial parks.

services produced by a firm, sector or economy as a whole) divided by the input (the sum of environmental pressures generated by the firm, the sector or the economy)” [WBCSD, (2000:9)].

The European Environment Agency sustains that eco-efficiency could come from decoupling resource use and pollutant release from economic development so that we could have “more welfare from less nature”, or “increasing the productivity of natural resources” so that “more services and well-being is produced using less raw materials and energy”. [<http://www.eco-efficient.net/teh.html>] The Agency sees this concept as a part of a broader concept called sustainable production and consumption. This concept involves changes in production and consumption patterns that lead to sustainable use of natural resources. Businesses play a key role, both as consumers of raw materials and as producers of goods and services.

Other definitions present this concept as an answer to the need of sustainable development to employ quantitative tools and related respective goals compliant with policies or as the primary way in which business can contribute to the concept of sustainable development [WBCSD, (1996:4)]. The core of this last statement is that eco-efficiency can appear under forms of development or progress that meet the needs of the present without compromising the ability of future generations to meet their own needs (as directly connected to the concept of sustainable development).

The complexity and the multidisciplinary approach of the concept made some specialists see eco-efficiency as a management philosophy [WBCSD, 1996:4] and others as a “tool, primarily developed for production processes and firms, where value-added and environmental impact are reported mostly at the corporate scale” [Bohne, R.A et al., (2008:53)].

3. Eco-efficiency – the principles

The question that can be asked after understanding the definition is how we can recognize an eco-efficient business or development. The WBCSD [WBCSD, (1996:6)] identified seven elements that indicate such a case:

- the reduction of material intensity of goods and services;
- the reduction of the energy intensity of goods and services;
- the reduction of toxic dispersion;
- the enhancement of material recyclability;
- the maximization of sustainable use of renewable resources;
- the extension of product durability;
- the increase of the service intensity of goods and services.

It is easy to notice that all of the above elements are qualitative (intensive) and conduct to the opinion that by promoting change towards *sustainable* growth, eco-efficiency enables a company’s business to grow in a qualitative way (by adding value), while reducing adverse environmental impact [WBCSD, (1996:5)].

The seven elements may be thought of as being concerned with three broad objectives [WBCSD, (2000:15)]:

- *Reducing the consumption of resources.* This includes minimizing the use of energy, materials, water and land, enhancing recyclability and product durability, and closing material loops.

- *Reducing the impact on nature.* This includes minimizing air emissions, water discharges, waste disposal and the dispersion of toxic substances, as well as fostering the sustainable use of renewable resources.

- *Increasing product or service value.* This means providing more benefits to customers through product functionality, flexibility and modularity, providing additional services (such as maintenance, upgrading and exchange services) and focusing on selling the functional needs that customers actually

A very good observation regarding the concept is that, however, eco-efficiency is not sufficient by itself because it integrates only two of sustainability's three elements, economy and ecology, while leaving the third, social progress, outside its embrace. On the other hand, the role of business is to satisfy human needs and simultaneously it expects to be rewarded with profits for doing so. But responsible businesses should also aim to improve quality of life and this is very much part of what it means to become more sustainable. The challenge is to do this without increasing the overall use of resources and having an adverse effect on the environment [WBCSD, (2000:13)].

One of the issues not yet entirely resolved is how to measure eco-efficiency. In general, efficiency expresses a relationship between positive and negative effects of a decision [Moller, A., Schaltegger, S., (2005:78)].

All specialists agree that the measuring principle is the ratio between the product or service value and the environmental influence of the product or service. To measure eco-efficiency, both product or service value and environmental influence must be quantified [Magerholm, A., Micleson, O., (2002:4)].

Product or service value can be measured in different terms: as quantity of produced goods, as a monetary value or as the fulfillment of a need or function. Verfaillie and Bidwell (2000) are recommending two indicators for product or service value that they claim to be applicable for all kinds of companies: *the quantity of goods or services produced or provided to customers* and *the net sales*.

Similar, they are recommending five generally applicable indicators for measuring environmental influence:

- energy consumption
- materials consumption
- water consumption
- greenhouse gas emissions
- ozone depleting substance emissions

These indicators must not be regarded as a complete list. Different companies must identify what environmental aspects that are most important for their activities and used this to develop environmental performance indicators through a bottom-up approach. In addition it is appropriate to make distinction between functional eco-

efficiency and technical eco-efficiency (in question). To make a parallel, while functional eco-efficiency gives a measure on how well a system performs in relation to a defined target, technical eco-efficiency on gives a measure on how well a specified system uses the resources put into the system.

4. Some weak points

The concept of eco-efficiency has not reached its limits. There are specialists not yet convinced about its necessity or opportunity. Some claim that a relative increase in company eco-efficiency is not enough. Instead they demand an absolute cutback in resource consumption. This misses a key point about eco-efficiency: it is not limited to achieving relative improvements in a company's use of resources and its prevention of pollution; it is much more about innovation and the need for change toward functional needs and service intensity, to contribute to de-coupling growth from resources. [WBCSD, (2000:12)]

On the other hand it is true that improving eco-efficiency does not, however, lead automatically to sustainability. Simply improving in relative terms (value per impact) may still mean an overall increase in an activity's impact and create unacceptable harm or irreversible damage.

Despite all the benefits of EE, it is now well recognized that economic efficiency improvements can result in price reductions that encourage increased consumption. In the context of environmental sustainability, the phenomenon of improved efficiency on an intensive (or per product) basis creating new demands for products that adversely impact the environment on an extensive basis [Korhonen, J., Seager, T.P., (2008: 411)]

There is still work to be done regarding the indicators that can be used in order to measure the eco-efficiency. The reason is simple: eco-efficiency information complements financial statements in order to enhance the quality of decision-making. The information is useful to a wide range of users in making economically and environmentally sound decisions and in evaluating the impact of their decisions. Such information is also necessary for the accountability of management for the use of natural resources entrusted to it. Eco-efficiency data can also be used to forecast the impact of current and upcoming environmental issues on future financial performance. Information about environmental performance versus financial performance is useful in determining the ability of an enterprise to adapt to changes in the environment in which it operates. [UNCTAD, (2004:8; 9)]

Conclusion

Maybe a more conclusive argument in behalf of eco-efficiency would be done if the concept is related to others, such as industrial ecology. As a fact, the aim of this article is to set a departure point for a theoretical integration of it into a larger sphere of interest and to clarify the extent and the main limits of eco-efficiency.

We are like blinded these days because we seem unable to see beyond the financial difficulties of the moment. We are likely to make huge mistakes, such as

redirecting investments funds from environment protection and clean technology development towards financial market difficulties or as reducing funds from research fields and using them for social protection. What better social protection can we conduct on long term than investing into a cleaner planet? Eco-efficiency, along with other concepts, should not be put aside but brought in front of politicians and economic decision makers. It is the only way to achieve the higher purpose: the long and prosperous existence of our planet.

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VARIANCE ANALYSIS APPLIED TO BALNEARY TOURISM ON ROMANIAN SEASIDE

Mirela Secară and
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Abstract:

By means of ANOVA variance analysis we have studied the size and frequency of deviation of the real values of statistic characteristic from the calculated theoretical values, as well as the level of dependence or independence of these variations of the group factor. Variance analysis applies especially when data are generated by selective research.

Statistic poll that I personally conducted on Romanian seaside balneary tourism has mainly investigated the attitude, opinions and motivations of balneary tourism demand on Romanian Black Sea coast. One of the objectives of this partial statistic research on seaside hydro tourism is represented by the duration of a balneary vacation that is influenced by the age of tourists as well.

In order to evince the relation between the two variables above we have processed the data of the sampling, we have sorted and grouped tourists by their age and duration of vacation and then we have applied the variance analysis to verify and demonstrate that balneary tourists' age induces the duration of a balneary vacation.

Keywords: variance analysis, statistic poll, balneary tourism, dispersion, coefficient of determination.

JEL Classification: C10, L80, L83

Introduction

To perform statistic characterization of the phenomena and mass social-economic processes to evince their specific governing laws, individual data obtained of methods of total or partial record are to be processed. Statistic polls are methods of partially recorded data. The domain of tourism has certain features whose measuring can only be achieved by means of selective research, or features that need the results of such research for a complete representation.

Opinion poll is the most used method of selective research performed on a group of people. In the field of tourism, this method can provide relevant data concerning particularities of the demand for tourism during a certain period when a poll is conducted. The essential feature of the opinion poll is the use of scientific

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method that is different from the journalistic approach, for instance, or other methods that do not consider statistic values or reality as a whole.

Opinion survey provides important information concerning particularities of the demand for balneary tourism on Romanian seaside. The date when the survey was conducted evinces its main advantage as well, that is the information was accurately obtained, in short time and with relatively low expense.

Theoretical background for variance analysis

The investigation used to complete the opinion poll within this area of balneary tourism was conducted on a representative part of statistic number of tourists and it focused on the characteristics of the demand for balneary tourism on Romanian seaside, on tourists' behavior, opinions and needs.

Coordination of an opinion survey requires a set of objectives and their concise presentation with relevance for the set target. The clear definition of the objectives is important not only to the next stages, but also to the other phases of research.

One of the objectives of the survey statistic research on seaside balneary tourism is the duration of vacation and the manner that tourists' age may influence the duration of vacation in seaside spas.

In order to evince the dependence between the two variables above-mentioned, we have processed the data of the survey, then grouped the tourists according to age and duration of vacation and applied variance analysis to verify if the age of the tourists that came on Romanian seaside for balneary tourism may influence the duration of their vacation.

By means of variance analysis also known within scientific studies as ANOVA, the size and frequency of deviation of statistic characteristics from calculated theoretical values are being studied, along with the level of dependence or independence of these variations from the group factor. [Elena Maria Biji et al.(2002)].

In this way, the characteristic whose variation is being studied is considered as resultant variable, marked with y , and the characteristics that lead to data group are considered as independent or factorial variables, marked with x_1, x_2, \dots, x_n . [Elena Maria Biji et al.(2002)].

In case of a single group factor, the issue is to establish how much of the total variation is generated by the group factor and to what extent it is generated by other unregistered factors, also known as residual factors, considered as having constant action within all studied cases. Thus, total variation can be divided in two parts. [Elena Maria Biji et al.(2002)]:

- variation generated under the influence of x factor;
- variation generated by unregistered factors, known as residual factors z .

Variance analysis is based on group method that divides the observed units into groups according to the variance of group characteristic that is considered a factor of influence and then, the dispersion of terms within each group is determined and also among the formed groups. [Elena Maria Biji(2002)].

In order to perform variance analysis the following indicators are being used as: deviation of terms from their average (Δ^2), the degree of factor determination (η^2), and ratio coefficient among dispersions (F). In case of two-entrance table, when data are grouped and combined according to both x and y characteristics, the calculation formulas of the indicators are such as:

- total deviation is calculated according to marginal distribution of y characteristic, by means of formula: $\Delta_y^2 = \sum_{j=1}^m (y_j - \bar{y}_0)^2 n_j$; (1)

- deviation generated by x factor is calculated according to distribution of conditioned elements of y characteristic, by means of formula:

$$\Delta_{y/x}^2 = \sum_{i=1}^r (\bar{y}_i - \bar{y}_0)^2 n_i; \quad (2)$$

- residual deviance, that is the deviance generated by unregistered factors that acts only inside the groups, is calculated according to conditioned distributions of y characteristic, summing the square deviations of all formed groups according to

group factor variation that is as: $\Delta_{y/z}^2 = \sum_{i=1}^r \sum_{j=1}^m (y_j - \bar{y}_i)^2 n_{ij}$. (3)

There is the same relationship, among the three deviations meaning:

$$\Delta_y^2 = \Delta_{y/x}^2 + \Delta_{y/z}^2. \quad (4)$$

Variance analysis applied within statistic research of seaside balneary tourism

As a result of procession and centralization of results of opinion poll conducted within the field of balneary tourism on Romanian seaside, tourists' distribution according to duration of vacation (question no. 4 of the questionnaire) and age is presented in Table no. 1:

Tourists' distribution according to duration of vacation and age Table no.1

Age group	Duration of vacation							Total
	18 days	15 days	12 days	10 days	8 days	7 days	6 days	
Up to 25	4	0	0	2	1	10	7	24
26-35	2	0	0	10	2	16	5	35
36-45	9	3	0	12	0	7	15	46
46-55	28	2	0	4	0	4	3	41
56-65	28	1	0	1	0	2	0	32
over 65	27	0	1	1	1	1	0	31
Total	98	6	1	30	4	40	30	209

Source: personally processed data

I shall verify by means of variance analysis if the age of the tourists that arrived on Romanian seaside for balneary tourism is a determinant factor for the duration of vacation. Data are presented in a table with two way entrance, being the result of combined grouping according to both characteristics (x and y), where frequencies are common and independent. Group factor – x variable – is represented by the age groups and the result variable y is the duration of vacation.

Null assumption indicates absence of influence of balneary tourists' age on the duration of vacation and alternative assumption indicates existence of connection between the two variables (dependence). Indicators that are necessary to the variance analysis are calculated according to data in Table no.2:

Tourists' distribution according to duration of vacation and age Table no.2

Tourist groups of x group characteristic and age	Duration of vacation (result variable y) – number of days								
	18	15	12	10	8	7	6	Partial frequencies	Partial averages of y variable
Up to 25	4	0	0	2	1	10	7	24	$\bar{y}_1 = 8,83$
26-35	2	0	0	10	2	16	5	35	$\bar{y}_2 = 8,4$
36-45	9	3	0	12	0	7	15	46	$\bar{y}_{13} = 10,13$
46-55	28	2	0	4	0	4	3	41	$\bar{y}_4 = 15,12$
56-65	28	1	0	1	0	2	0	32	$\bar{y}_5 = 16,97$
Over 65	27	0	1	1	1	1	0	31	$\bar{y}_6 = 16,87$
Frequencies of total y variable	98	6	1	30	4	40	30	209	$\bar{y}_0 = 12,72$

Source: personally processed data

Calculated indicators are as:

$$\text{-total deviation } \Delta_y^2 = \sum_{j=1}^m (y_j - \bar{y}_0)^2 n_j = 5738.34; \quad (5)$$

$$\text{-deviation generated by x factor } \Delta_{y/x}^2 = \sum_{i=1}^r (\bar{y}_i - \bar{y}_0)^2 n_i = 2672.25; \quad (6)$$

$$\text{-residual deviance } \Delta_{y/z}^2 = \sum_{i=1}^r \sum_{j=1}^m (y_j - \bar{y}_i)^2 n_{ij} = 3066.09. \quad (7)$$

As we pointed out in the above, there is the same relationship among the three deviances, that is:

$$\Delta_y^2 = \Delta_{y/x}^2 + \Delta_{y/z}^2 = 2672.25 + 3066.09 = 5738.34. \quad (8)$$

According to obtained results, the coefficient of determination is as:

$$\eta_x^2 = \frac{\Delta_{y/x}^2}{\Delta_y^2} \cdot 100 = \frac{2672,25}{5738,34} \cdot 100 = 46,57\% \cong 47\%. \quad (9)$$

Thus, we may say that, as for the studied sampling, almost half (47%) of total variation is generated by the variation of the group factor (tourists' age) and the rest of it is the relative influence of the other factors. In order to establish the significance of the group factor, we shall have the ratio between the two dispersions. The two adjusted dispersions are as:

$$s_{y/x}^2 = \frac{\Delta_{y/x}^2}{r-1} = \frac{2672,25}{6-1} = 534,45 \quad (10)$$

and

$$s_{y/z}^2 = \frac{\Delta_{y/z}^2}{N-r} = \frac{3066,09}{42-6} = 85,17. \quad (11)$$

The largest value dispersion is the one generated by the group factor. According to requirements of the law of normal distribution, data can be verified by means of Fisher criterion, taking into consideration the degree of freedom in calculation of adjusted dispersions:

$$F = \frac{s_{y/x}^2}{s_{y/z}^2} = \frac{534,45}{85,17} = 6,28. \quad (12)$$

Conclusion

The F calculated coefficient is compared with the table coefficient in order to verify the degree of significance of the group factor. If $F_{\text{calc}} > F_{\text{tab}}$, then the connection is significant and the characteristic of the grouping is determinant for the variation of the result characteristic.

For a probability of 0.99, there is reference in the F distribution table and for $n_1=5$ and $n_2=36$ is the proximate value of $F=3.70$. Thus $F_{\text{calc}} > F_{\text{tab}}$, $6.28 > 3.70$, so we may say the age of the tourists arrived on the seaside for balneary tourism is a factor that influences vacation duration.

We may also overrule the null assumption and accept the alternative theory that indicates the existence of connection between the two variables (dependence).

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ROMANIAN ECONOMY POSITION IN INTERNATIONAL RANKINGS

Hagiu Alina*

Abstract

The increasing of complexity and the increasing of the business environment variability in general and of the international business environment in particular, were key issues of awareness of strategic problematic of the international competitiveness of firms and of intensifying efforts to resolve the many and various aspects of it.

This paper is addressed to all those interested in interesting and important issues of competitiveness in general and international competitiveness in particular. This paper is added to the bibliography devoted to the field and aims to meet the information, assimilation and promotion requirements from the triad perspective: competition - competitiveness - competitive advantage and to undertake a systematic research and some pragmatic guidelines for addressing analysis of the competitive environment in which firms operates.

Keywords: competitiveness, competitive advantage, competition, ranking.

JEL Classification: F50, O50, O57

Introduction

Competitiveness can be quantified though there is no precise theory of rules for determining the economic performance of nations. Are growth rates of production, exports or employment appropriate to existing resources? In what measure local firms are innovative? Workers are sufficiently skilled? Is industrial infrastructure consistent with the needs of the new economy? In which measure the economy takes part to the know-how flows? These questions can be answered through a comparative analysis, in which the term of comparison is the best result achieved (best practice).

Romania's position in international rankings

There are a variety of indicators used by authorized institutions which have dedicated assessment of competitiveness, such as the International Institute for Management in Switzerland, World Bank, the World Economic Forum, etc. But these indicators differ from one institution to another, whereas many factors taken into account are subjective. However, if we are to compete in the global market, we must take account of these indicators and to take appropriate decisions.

Following we will present only a part of them.

The World Economic Forum in its report on global competitiveness (Global Competitiveness Report), using the index called the Global Competitiveness Index.

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Global competitiveness index is a composite of 12 sub-indicators. Some of them are obtained through survey among managers; some are produced by processing of statistical data.

Through this indicator, on international level, the most competitive economies in the world are USA, Switzerland and Denmark. The recent financial crisis in the U.S. and the Denmark entrance into recession raises major problems even for the most competitive economies in the world.

As regards Romania:

- According to the index of global competitiveness, Romania was ranked 68 of 131 countries in a slow growth from the site occupied by a 74 year ago. After the score obtained on a scale from 1 (worst) to 7 (best), Romania recorded 4.1 points, 4.0 points from last year. But Romania remains the EU country penultimate in terms of competitiveness, only outrunning Bulgaria (which was ranked 76).

- For the first time since Romania is in this report (from 2001), the biggest problem for business in Romania is policy instability. A year ago the instability of public of public policies was mentioned only 7 ranks among the obstacles to the business environment. In 2008, the barriers are: the level of taxation (12.8%), the complexity of tax regulations (11.2%), government bureaucracy (10.8%), and inadequate infrastructure (9.7%).

- Romania ranks 76 to macroeconomic stability - rising eight places outrunning Portugal. However, a number of indicators have deteriorated, such as savings rate - the 104 place, down three places, the budget deficit - the 98 place, down 16 places, the rate of inflation - instead of 89, falling 26 places.

- Romania ranks 105 to infrastructure - down five positions, being the last place among countries in the EU. To the chapter of quality of roads, Romania is ranked 126 of 131 countries. How is nevertheless difficult to argue that Romania is ranked after countries as Zimbabwe (88 place) and Burkina Faso (place 104), more relevant comparison is the comparison with other European countries. Germany and France are on the first two places, Hungary on 57, Bulgaria on 95, and Poland on 96.

- Romania is ranked 124 in the transparency of public policies, 113 in favoritism in government decisions, and 111 to waste of public money - which confirms that the way in which policies are made public is the biggest competitive disadvantage of Romania today.

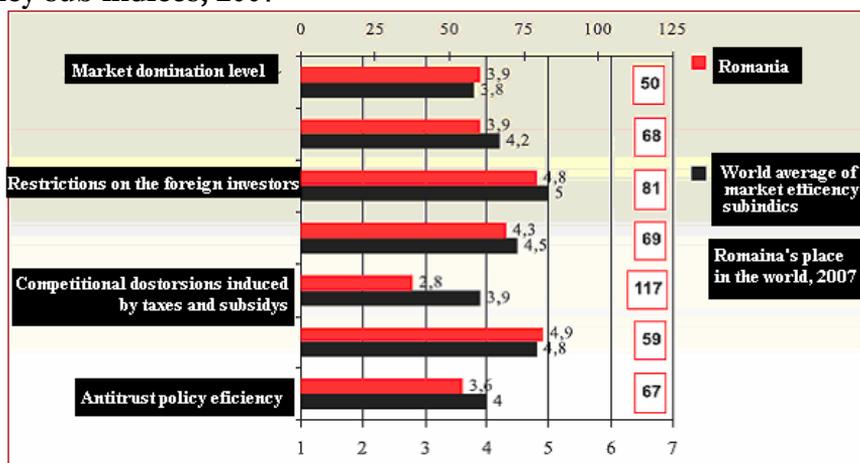
- Romania has made progress in technological indicators, particularly as the number of internet users (instead of 23, rising 28 places) and mobile (place 50), and some progress in private spending on research (instead of 74, up 15 places) and the intensity of local competition (instead of 82, up 4 places).

- Romania has made significant regression in the labor market indicators, especially with regard to wage flexibility policy (instead of 81, down 44 places), redundancy costs (instead of 14, falling 9 seats) and the link between wages and productivity (instead 72, down 13 places).

The level of economic development explains significant and positive the effectiveness of competition systems, but lost as its relevance as countries have

experienced greater competition law. In other words, the institutional learning curve supreme long before the GDP per capita. This may explain the ranking of Romanian competition effectiveness after many less developed countries, except Indonesia (first law of competition is in 1999), Jordan (2000), Morocco (2000) or Barbadosului (2003). Intuitively, it seems reasonable the conclusion that the perceived level of corruption is higher; the effectiveness of competition law implementation is lower. But some tests show otherwise. Interpretation of the two results becomes interesting. On the one hand, interest groups are those which can support the introduction of competition legislation. On the other hand, effective implementation can be realised by other interest groups. A possible explanation is, therefore, the idea that competition law is subordinate to the specific interests of some groups, politicians or firms, and operates as a mechanism to promote real competition in a market. The fact is that the competition is not a remedy against corruption, as sometimes suggested literature, but the legal reform and, in our case, the proper functioning of the National Integrity Agency. The main risk remains that the greatest competition law to be captured by certain interest groups, as opposed to the fundamental principle of defending competition and not competitors.

Figure no.1. Romanian relative positioning to the average of market efficiency sub indices, 2007



Source: realized using statistical dates of World Economic Forum: Global Competitiveness Report, 2007.

Heritage Foundation publishes annual report on economic freedom index (essentially, a comparative assessment of the degree of liberalization in all national economies) since 1995.

2009 edition of the publication Economic Freedom Index and evaluate savings from aggregate regional level, throughout the five geographical areas.

At European level, the regional index of economic freedom is 66.3% and Romania ranks 29 (31 in 2007) in all the 41 countries assessed.

Economic Freedom Index for Romania and Europe, 2005 - 2008 - % -

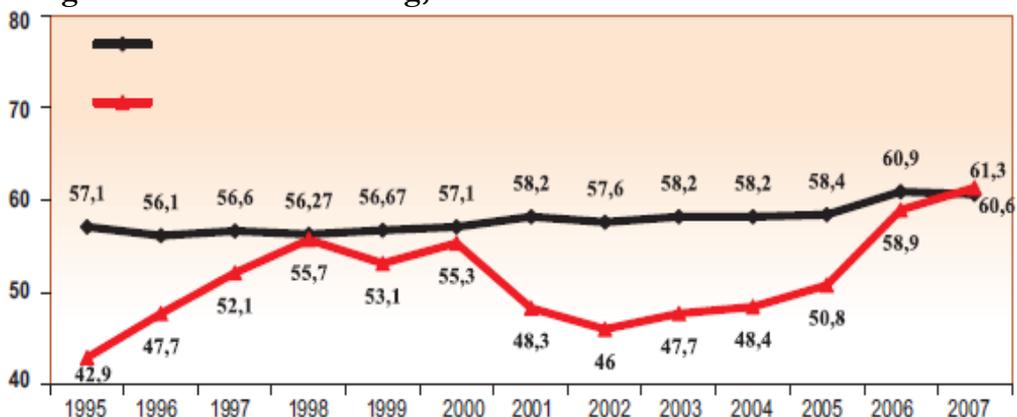
Area	Romania				Europe
	2005	2006	2007	2008	2008
Total medium index	50,8	58,9	61,3	63,2	66,3
Business environment	30,0	74,5	70,9	74,9	76,2
Trade regime	65,4	63,4	74,0	85,8	83,4
Tax policy	80,1	91,7	91,7	87,0	70,2
Budgetary expenses	74,8	74,2	74,9	70,0	47,1
Monetary policy	62,6	66,6	69,7	75,0	77,9
Investments	30,0	50,0	50,0	60,0	64,7
Financial-banking system	50,0	50,0	60,0	50,0	65,1
Property right	30,0	30,0	30,0	35,0	61,3
Corruption	28,0	29,0	30,0	37,0	56,6
Labor force	57,0	59,8	61,4	57,1	60,9

Source: *Economic Freedom Index, 2009.*

Thus, the overall freedom to lead a business (free business environment) is estimated at 74.9 points (above the world average 64.3 points) and is well protected by regulations in Romania.

Also, Romania's trade policies are similar to other EU Member States so that free trade of our country is estimated at 85.8 points (as the world average is 73.2 points) and the financial system is in accordance with international standards and has been reinforced by a recent reform and privatizations (assessment for fiscal freedom is 70.2 points, and financial freedom is 50 points, slightly above the world average of 49.1 points).

Figure no. 3 The evolution of Economic Freedom Index according to Heritage Foundation forecasting, 1995 - 2007



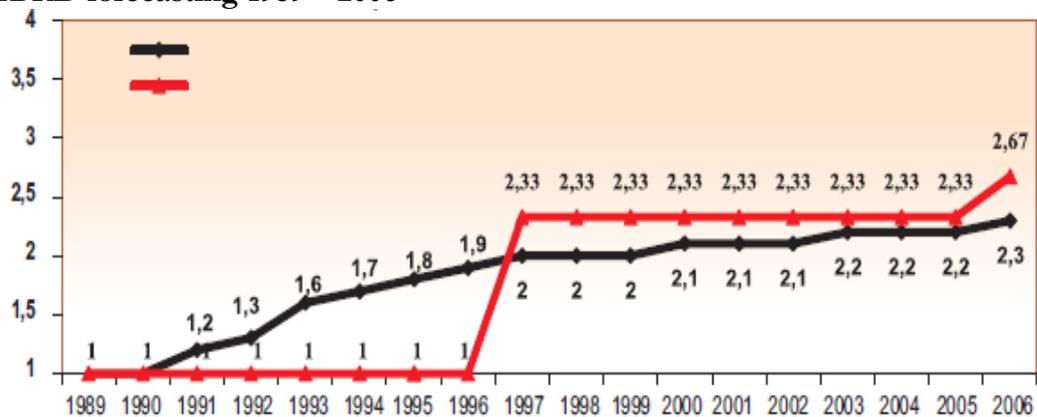
Source; realized using Heritage Foundations reports, Index of Economic Freedom, 1995 - 2007.

Heritage Foundation economic freedom distributed globally on a scale from 1 to 100, the following assessment groups:

- 0-49, 9: economic repression;
- 50-59, 9: economic environment largely restricted;
- 60 - 69.9: moderate economic freedom;
- 70 - 79.9: economic environment largely free;
- 80 - 100: free economic environment.

Comparability in the long term is so vitiated by the increase in the number of countries included in the sample and the inclusion since 2007 of the 10th sub indice work of freedom. During 1995 - 2006 were weighted only 9 subindices of economic freedom.

Figure no. 3 The evolution of competition policy index, according to EBRD forecasting 1989 – 2006



Source: realized using EBRD, Transition Reports, 1995 - 2007.

In terms of freedom of investment, Romania has a score of 60 points, above the world average of 48.8 points.

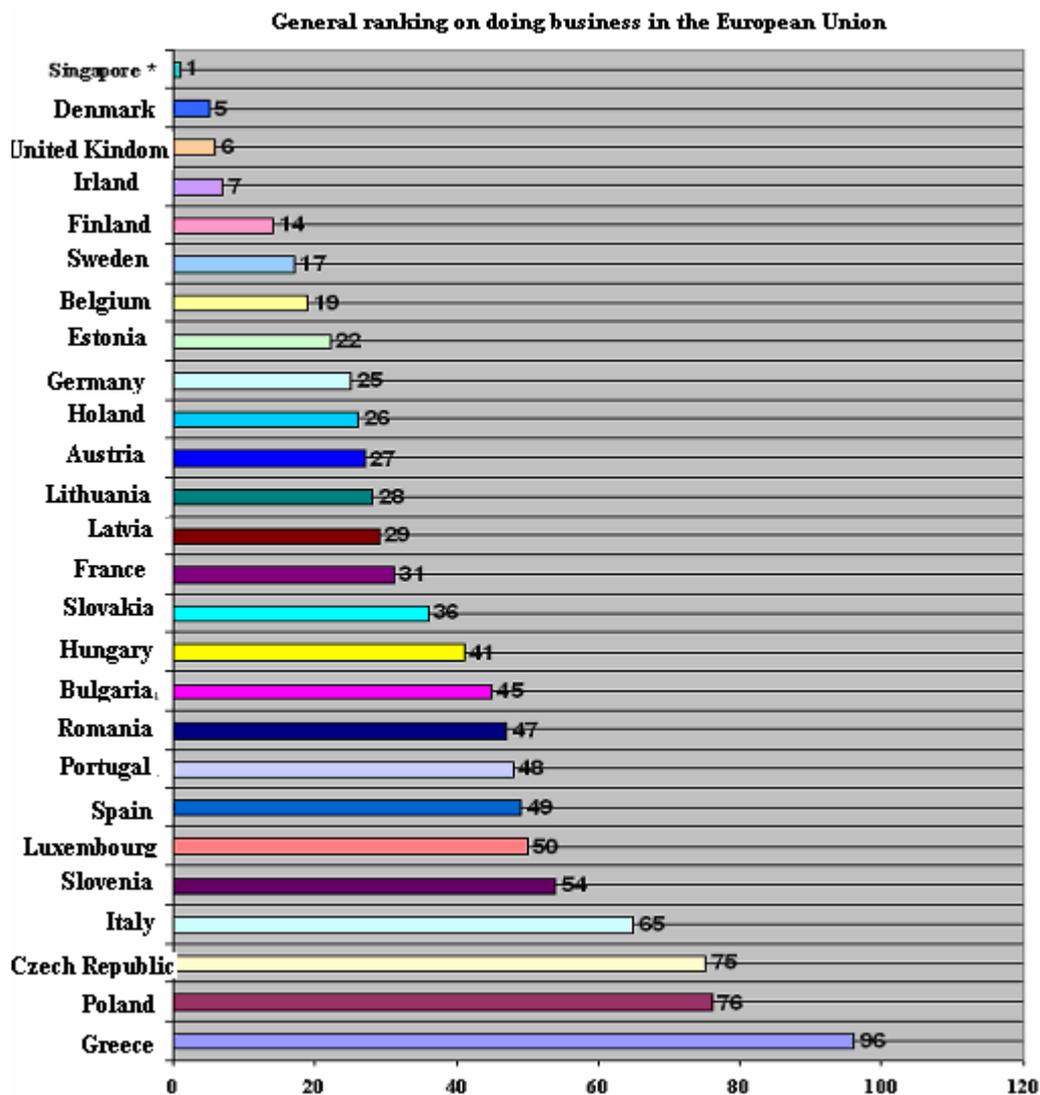
Romania stands but not too good with budgetary expenses (47.1 points) and especially to the three chapters on freedom of work (where Romania has a score of 57.1 points below the average of 61.3 points), the enforcement of property and corruption (it is mentioned in particular corruption in justice and administration).

Moreover, in conjunction with analysis of all these last chapters, Heritage Foundation experts stress that the judiciary in Romania remains vulnerable to corruption and inefficiency.

Romanian business environment ranks 47 in the world. Compared with last year, has not advanced any position, but has not decreased, shown in the Doing Business report in 2009, developed by the World Bank. This is not surprising if we consider that the reforms were a little off after EU accession.

World Bank analysts have identified that there were 239 worldwide reforms last year, which enabled business to be carried out easier.

Romania can brag with a single reform that has had positive influences on business: was simplified procedure for implementing judicial decisions, eliminating the need to issue an order to execute the decision. This shortened the waiting period from one month, from 120 days to 90 days.



Source: realized based on the dates from the Doing Business Report, 2009.

On top of the ranking at the global level during the past three years was, Singapore, thanks to “friendly” environment for business and labor law. There are small fees, this may be paid quickly, and generally, the technology is applied in any field. A new company can be launched in a few days due to improvements made to

the electronic service business in Singapore. The smallest country in Southeast Asia continues to have the best laws in the world to encourage investment and to protect borrowers.

At EU level, in the first place is Denmark, whose economy is the only in the world which allow total free start a business. However, contractors must demonstrate they have sufficient capital in the bank. Registration lasts six days and requires only four procedures.

With relatively strong laws for creditors and for those who take loans, with legislation that facilitates hiring and firing workers, Denmark is the second consecutive year among the most suitable countries for initiating a business.

Danish reforms of 2007 and 2008 included a reduction of corporation tax, which dropped from 28% to 25%. However, to register a property it lasts rather long, on average 42 days. The six procedures require 69 days to be processed.

EU countries that rank on leading places in this classification are: Denmark (5), Britain (6), Ireland (7), Finland (14), Sweden (17), Belgium (19), Estonia (22), Germany (25), Netherlands (26), Austria (27), Lithuania (28), Latvia (29), France (31), Slovakia (36), Hungary (41), Bulgaria (45), Romania (47), Portugal (48), Spain (49), Luxembourg (50). Rating indicators seeks time and cost to meet government conditions for the establishment, operation, trade, taxation and closure of companies. It is not like pointing the macroeconomic policy, quality of infrastructure, national currency instability, investor perceptions or crime rates.

Conclusions

At the current level of development of Romanian economy, the urgent need for urgent structural reforms tend to need to shadow subtle, but equally important to innovation. While the EU is concerned about social cohesion, for job creation and prioritization of research and development, these measures seem less applicable to Romania, where restructuring (including eliminating jobs), limiting salary expenditure, controlling inflation and improving primary business environment (including the aggregate of payments) are a priority. While integration in the single market without a functioning market economy is not possible, failure to focus sufficient preparation capacity to manage competitive pressures may harm the country's position. On long-term, decisive measures in research-development-innovation (RDI) may be the key to reconciling the two sets of objectives.

Competitiveness is in a large measure a matter of attitude, of mentality.

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THE STUDENTSHIPS LIKE DIMENSION OF SOCIAL ACCOUNTING

Iuliana Cenar*

Abstract

About the human resource and its role at the level of any entity it has been wrote (justified) very much. In the same time the idea of social accounting takes place more and more in the Romanian perception of accounting. Human and fascinating by its designation, the subjects of this form of “science accounts” should be near employees, students, scholars, unemployed, pensioners, the owners of social security, etc. The students are the starting point in this problem, because they support this idea, and they are one of that matrix strength of the changing in the system of education, but also of the entire society. They have the dynamism and the enthusiasm to make these changes in reality. One of the material forms to motivate the students performance is the studentship. This is an important element in students’ performance, but also a way of social protection for poor students. The study “The studentships like dimension of social accounting” justify the necessity in which the students are a segment of social accounting, presents the characteristics and the typology of studentships at the level of higher education establishments, founding sources, the accounting instrumentation accompanied by necessary technical support. A little step, but maybe important, in the shape size of human side in accounting, the social side.

Keywords: studentships, social accounting, resources, performance.

JEL Classification: M41, I22, I28

Introduction

The integrity of human being in the universe of economic values, and its reflection in accounting, raises many conceptual and methodological issues, but, in the same manner philosophical and moral. [Feleaga, Ionascu (1998)].

We consider that the accounting approach of relationships discount with the students of higher education establishments is an important aspect but also sensible, at least from the next points of view: this social category lies on a lower position like a common aspect, comparatively with that of employees; the references from the literature in the area of discounts with the students are very rare, among of those two partitions which I mentioned them (students and employees) we can find the pensioners, the unemployed, the sick people, the owners of social security etc. More the complete approach of discounts which is implied by the social accounting, assumes also the consideration of effects which the relations of discounting with the “human resource” generate them in the society. Also in which what concern the discounting with the students, we can mention much more generating elements: the

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studentships, school fees, the subsidies for hall and buttry, the rates cutting for conveyance and automobile between towns, scientific research, and the effectuation of students practice outside the university center at what they are etc. In this context, we consider, that it makes place in the area of social accounting also the component which refers at the studentships.

The legal general framework concerning the grand of studentships and their characteristics

The typology and the award criteria of studentships have like legal base the following acts:

- the Law of Education no. 84 from 24 July 1995, republished, with the following changes and additions;
- the Government decision no. 445 from 8 August 1997 concerning the establish of general criteria for granting the scholarships and for the other forms of material support for scholars, students and learners from public educations, day course;
- the Government decision no. 558 from 3 September 1998 to modify the annexes no.1 and 2 at Government decision no.445/1997 concerning the establish of general criteria for granting the scholarships and for the other forms of material support for scholars, students and learners from public educations, day course;
- the Government decision no.769 from 14 July 2005, concerning the granting of some scholarships for some students who live in rural area;
- the Law no. 376 from 28 September 2004 concerning the private scholarships;
- the rules of granting the studentships approved by the Academic Senates, in the base of the principle university autonomy.

The scholarship is the monetary allowance given by the state, by institutions to a scholar or student, to cover their outgoings in the time of studying (we underline the fact that the scholarship is not defined by any of the acts which constitute the lawful. Obviously a part of the legal support, which must be revised). [DEX, (1998)].

Under typological aspect at the level of higher education establishments it accords the following types of studentships: performance studentships, worth studentships, study studentships, social studentships, excellence studentships, study studentships for the students who live in rural area, private studentships.

The performance studentship is granted to students, appropriate to university rules, for special results in professional activities, for scientific research, cultural, organizational and sportive. Between the criteria which takes in account for landing this studentship we can find: the participation at professional courses and the obtaining of rewards, published works, sustained works and rewarded at national sessions, the participation at international communication sessions, the contributes at the writing of didactic materials.

The amount of the performance studentship is bigger than the minimum studentship established at the university level, generally is twice bigger than the minimum study studentship and bigger than the worth studentship. The sizing under

quantitative aspect is made by the Academic Senates, at the beginning of academic year, and the period in which the students take it is for 12 months, consecutive, beginning with the second year including the holiday.

In the category of performance studentship we include also the studentship “Olympic grant”. This is granted to the students which have received awards at the international scholar Olympics, in that academic year, including the holiday.

The worth and study studentships are granted to the students from university, day courses, depending on their study results.

Between the criteria of granting, from the rules of granting the studentships we can underline: their limiting at a certain number or percentage from the total number of granting scholarships, the establishing of a financial resources sum for this purpose, the existence of a general average to granting the studentship.

Every year and every specialization from a faculty must to grant at least one worth studentship from budgetary allowance, excepting the cases in which the biggest average from specialization and year it's less than the minimum average for worth studentships, established by the Teacher's Council.

The study studentships are granted depending on their results on learning. Like conditions we mention: the existence of a minimum average which is different on every domain of study, the repartition of a sum of study studentships of the faculties on sections and years of study proportional with the number of students at the budget from the respective specialization and year. In the case of an insufficient number of students to consume all the allocated funds, the studentships which are available will be redistributed to those years of study from the same specialization, which include the students who fulfill the conditions for studentships, but they remained outside the number of studentships initially established.

Can receive studentships, only the students which effectuated integral their activities at university in accordance with the plans of learning.

Social studentships are granted on request, concerning the material situation of the student's family.

Social studentship can have a permanent or a casually character.

In the first case, the scholarship is granted to the following class of students:

- at the students which didn't obtain on the last three months a medium monthly income per family member, bigger than the minimum basic salary on the economy;

- at the students with no backlog which attest their quality or of their parents of “Fighter for the victory of the Romanian Revolution from December 1989” or of “Martyr Hero” with the one of the mention: hurt, captive, captive and hurt, noted by particular facts;

- at the orphaned students by both parents, at those who are from homes for children or family placement which don't realize incomes;

- at the students which have bad diseases (mentioned at the point 8, c letter from the Annex number 2, H.G. 558/1998).

The social studentship can be granted also occasionally in amount of a social studentship, in the limit of the distributed funds for studentship thus:

a). the occasional social studentship for clothes it can be offered to orphan students by both parents, at the social disadvantaged students, at the students from homes for children or familial placement, which realize incomes per family member to 75% from the minimum basic salary on country, established at the beginning of the month in which the student requests the studentship. The occasional social studentship can be offered twice on an academic year, at the request of the student, indifferent if this has another kind of studentship;

b). the occasional social studentship for maternity it offers to the (girl) student or (boy) student who's wife doesn't has any incomes, a studentship for birth and confinement and another one to buy underwear for the newborn;

c). the social studentship in case of decease can be offered in case that a member of student's family die and doesn't has any incomes. The amount that will be offered is established by the University Senate Office.

We underline that the occasional social studentship is granted only in amounts at least equal with the minimum studentship, established by the Academic Senate, indifferent is the student has another kind of studentship.

The excellence studentships are granted in limited number established by Academic Senates. Generally the criteria which are followed are: the entire professional activity, for scientific research, organizational, cultural and sportive, special performances in organizational and cultural activity, for sportive activities, for the research activity. To benefit for these studentships the students must be without backlogs, to have the average of all years of study under the minimum established, to have the criteria of performance established at university level. They will receive this studentship for 12 months and exclude the grant of the other kind of studentship.

The worth, study and social studentships are granted at the students for a semester, with the exception of holiday. The holiday are consider periods in which the studentships are granted for students that are orphans by both parents, which are from the homes for children or familial placement, or with bad diseases ant they are in the evidence of the medical dispensaries.

In the case that the students follow in the same time two specializations in different university establishments, they can granted only a studentship from only one institution, with the condition that the number of years in which he grants the studentship not to overcomes the number of the study years like length of schooling at the specialization in which he grants the studentship.

We must have in mind this condition in the case of the graduates with license diploma, students which follow the second specialization, but also in the case of the second matriculate at the same specialization in the same institution.

The Office of Education Research and Innovation grants annual, under contract, a number of studentships of the students which live in the rural and follow the accredited day courses of higher university establishments. These courses force the students to practice their jobs in the rural, in the specialty they finished, like keeper or tutor, a period at least equal of that in which the student grants the

studentship. This studentship can be offered with other kind of studentship offered at the level of university establishment.

To grant these study studentships, the students from the accredited higher education establishments, must fulfill the following conditions:

- to live in rural;
- not to have backlogs in the period in which they receive the study studentship and to not repeat any academic year.

In the case that, when the student who grants the studentship graduates and refuses to work in the rural schools like the contract says, the student will return integral the money granted from the studentship, indexed with the inflation index.

The private studentship is the support offered for studying, in the base of a contract, by a legal entity with private right or by a normal person, to a beneficiary who can be: scholar, student, post-graduate or to somebody who follows a program of training postgraduate in an accredited higher education establishment, from the country or from outside.

The amount of the studentship is established when the contract is signed and can be modified only by an additional act at the contract. The contract from what the studentship is offered includes clauses concerning the mood in which the owner must to keep his obligations of study, like the others conditions of this studentship. It can be offered by the all length of study or by a short period of time, established by the contract. This studentship can't be offered to relatives or affinities, until the fourth grade, inclusive.

The resources of funding the studentship

The importance of education is unanimous recognized in all the areas. The education is the act of conscience, the quality of which depends, mostly, not only the future welfare of respective nation, but, in the same time, her power, her influence and even her existence like distinct entity in regional and international configuration.

The sources of founding the education can be grouped in two big categories: public sources and private sources. Public sources are from the central, regional and local authorities, while the private sources are from the students, households and nongovernmental structures.

In what concerns the public category, there are different forms of funding: of base (through what it assures the ongoing in normal conditions of the process of studying) and complementary (subsidies for accommodation and catering; funds granted for facilities, other investment outgoings and capital repairs; for the academic scientific research; for the institutional development). [Cenar, (2007)].

The framework law says that the funding of state studying, including the studentship from public funds, has in mind the following requirements:

- the consideration at development of education like national priority to prepare the human resources at the level of international standards;
- the professionalizing of human resources in accordance with labor market diversification;

- the development of higher education and of the academic science research to integrate at the top in the world scientific life.

The funding of institutions realizes on the basis of institutional contract signed by every institution, for the base funding, and additional contract, for each complementary funding awarded.

The funds for the granting of worth studentships, of study studentships and for the social studentship from the state budget are distributed to the higher education establishments, by the Office of Education Research and Innovation, proportional with the number of the students which are attending the day course from that institution. With the studentships fund and social protection of the students in institutional contract, it is signed for the base funding, for the institutional development fund, like for the financing investment objectives.

The higher education establishments have the possibility to complete the studentships fund from the state budget which is from their own investments.

For the fulfillment of operational objectives and of research it is necessary the material stimulation of the students (and not only this). Between the leverages which can be used in this case we mention: increase the absolute level of funding; diversifying the sources of incomes from academies; increasing efficiency of used resources; providing additional sources for funding to excellence research and professional training; the granting of aids for students, like allowances, grants and credits.

Pragmatic issues by financial-accounting nature concerning the studentships

The accounting is a delicate problem of social area, motivated by human interests. The accounting legitimizes a particular kind of objective knowledge of reality, demonstrable with justification of mathematical calculation, which can be verified by keeping the unit of measure and the existence of supporting documentary evidence.

The social accounting is the structure who organizes all the flows of an economic system, value expressed, in a coherent mood and in an accounting perspective. It reflects facts and social activities, and the information which provides, influences individuals behavior and determines social changes.

It knows the fact that, inexplicit, the accounting fulfils also a social function which creates trust between the producers and the users of information, it assures the necessary dates of national accounting, it realizes the mediation in social relationships etc. The accounting measures the training and distribution mood of value between the state, authorities and entrepreneurs, between the producers and users, being an “interest social game” between the actors who participate at economic environment. Between the interests for development, the payment of unproductive services etc, also are those of development of public services, including the education.

The concrete mood of accounting uses of discount relationships with the students who have studentships, has like starting point the receiving of allowances from the principal authorizing officer, the evidence of pay obligation to students with studentships.

The successive stages for the payment of the studentships are summarized in the diagram below:

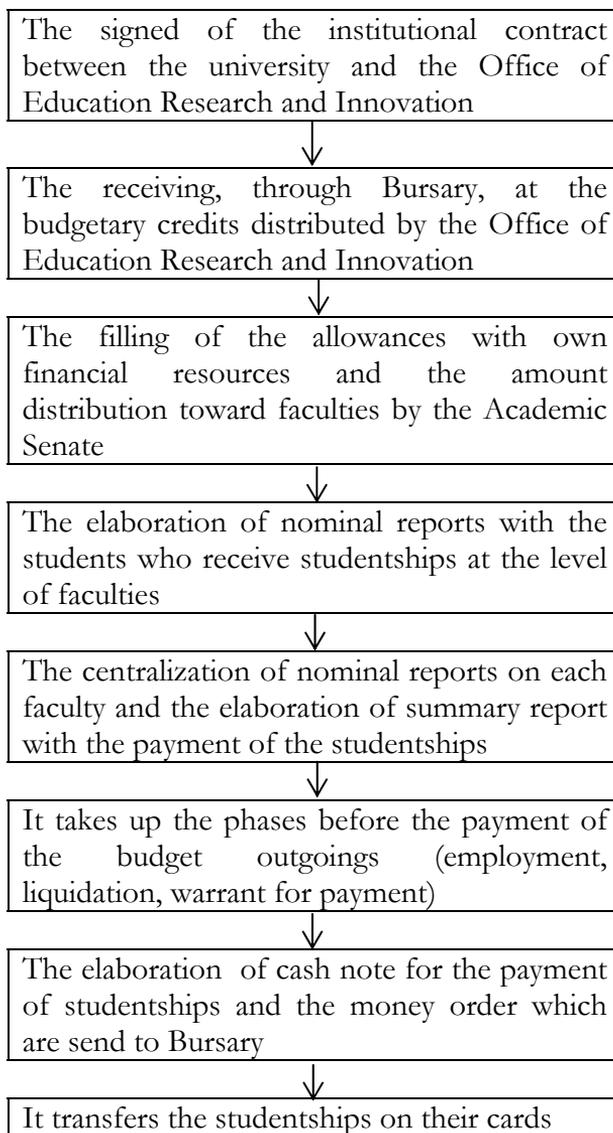


Diagram no. 1. The stages to follow for the payment of the studentships

- On the strength of the Institutional Contract, the Office of Education Research and Innovation gives to the University allowances from the state budget to studentships. These funds for complementary funding are in amount of 137.008,00 RON and they are send by Bursary.

551.04.59.01	=	773.04.43.10.09	137.008
„Available from budget allowances with special destination”		„Incomes from budget allowances with special destination”	

The account 551.04.59.01 is formed thereby: 551 – the symbol of the account with the same name from the chart of accounts; 04 – studentships; 59 – the title of outgoings entitled Other outgoings; 59.01 – item of outgoings Studentships.

The critical structure of the account 773.04.43.10.09 explains thereby: 773 – the symbol of the account from the chart accounts; 04 – Studentships; 43.10 – the code for the chapter of incomes Subsidies from other administrations; 43.10.09 – the budgetary subchapter Subsidies for public institutions.

- On the strength of amounts allocated on the strength of the Institutional Contract it will be effectuated the distribution of amounts on faculties proportional with the number of the students from the regular courses (license and postgraduate studies), students in the budgetary system.

At the level of faculties will be decided the number of the students with studentships and it takes up the rated reports with those students. These reports are like follows:

Rated reports with studentships

Table no. 1

No.	Cognomen, first name	Average/Income	CNP
1.	Popescu Iustina	10	2880511XXXXXXXX
2.	Antonescu Daniel	10	1870612XXXXXXXX
...

- The rated reports are created on faculties, and on their strength is write the *Summary report with the studentships payment*, presented in below table:

Summary report with the studentships payments effectuated in the month L, year N at the Bank ...

Table no. 2

Entity	Worth studentship		Study studentship		Social studentship		Total	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount
Faculty A	13	10.075,00	18	11.952,00	10	5.540,00	41	27.567,00
Faculty B	2	1.550,00	12	7.968,00	2	1.108,00	16	10.626,00
Faculty C	21	16.275,00	61	40.504,00	9	4.986,00	91	61.765,00
Faculty D	2	1.550,00	6	3.984,00	1	554,00	9	6.088,00
SUM	38	29.450,00	97	64.408,00	22	12.188,00	157	106.046,00

• In the next step are the stages situated in front of the payment of public outgoings, including those of studentships, respectively the employment, the liquidation and the warrant for payment.

The instruments from where an obligation is resulted on account of funds (beginning with la State Law), are leading to the writing of the document “Proposal to employment the outgoings”, and the dates concerning the budgetary accounts for outgoings with the studentships, which are contained by this Proposal, are presented in the table below:

The dates concerning the budgetary accounts with the studentships from the Proposal to employment of one outgoing

Table no. 3

The subdivision of the approved budget	Budgetary approved accounts (ct. 8060)	Budgetary employed accounts (ct. 8066)	Available accounts which can be employed	The amount proposed				Available accounts for employment
				currency		Exchange rate	RON	
				kind	amount			
0	1	2	3 = col. 1-2	4	5	5	7	8 = col. 3-7
6501.06011204.59.5901	1.860.065,00	465.892,00	1.394.173,00	-	-	-	106.046,00	1.288.127,00

The code 6501.06011204.59.5901 was formed like follows: 6501 the budgetary chapter Education, 6501.06 the budgetary chapter Higher Education, 65010601 the article Academic Education, 12 specific code of Higher Education Establishments, entitled Outgoings from allowances from the budget of the state with special destination, 12.06 Outgoings for studentships.

The public funds for studentships are affected by authorizing officers from academic education (the chancellors) in the limit of the budgetary accounts approved on strength of the Institutional Contract.

In this sense is writing the Individual budgetary commitment (in the case of the studentships) which includes the budgetary registration (6510.06011204.59.5901) and its related amount (106.046,00 lei), like results from the table below:

Specific dates concerning the studentships in the individual budgetary commitment

Table no. 4

The budget registration	Amount
6501.06011204.59.5901	106.046,00
.....
Sum	106.046,00
Type of commitment: individual, global	individual

The liquidation, respectively the verification of the amount due under the aspect of reality and under the conditions of chargeability, is realized by the specialized compartment (Social Office).

The confirmation of certainty of payment obligation, of chargeability and its quantum it realizes in the stage of warrant of payment and it is materialized in „Warrant of payment”. In this case, near the mention of outgoings for studentships by the budgetary classification are also the funds availabilities used for the payment of the studentships:

The informational support concerning the funds availabilities used for the payment of the studentships

Table no. 5

The subdivision of budgetary classification Chapter, Subchapter Title, Aligned	Available before the payment (ct. 8066/ct. 8060)	Amount of payment	Available after the payment
0	1	2	3 = col. 1-2
6510.06011204.59.5901	329.298,00 890.853,00	106.046,00	223.252,00 784.807,00

• The previous informational supports make possible the registration in accounting of payment obligation for studentships:

679.05.59.01	= 429.05	106.046
„Other outgoings”	„Students with studentships and postgraduate students “	

It is writing the „Justificative note concerning the payment of the studentships”, which is presented thereby:

Justificative note concerning the payment of the studentships

Table no. 6

No.	Number of students	The type of the studentship	Amount
1	38	Worth	29.450
2	97	Study	64.408
3	22	Social	12.188
SUM	157		106.046

The justificative note is „accompanied at Bursary” by the money order. On the base of the money order it highlights in accounting the payment of the studentship, thereby:

429.05	=	551.04.59.01	106.046
„Students with studentships and postgraduate students”		„Available from budgetary allowances with special destination”	

The code 05 is attributed to the complementary activity of funding.

The registration in accounting of performance studentships funding by own incomes, involves the substitution of code 05 with the code 01 which is funding from own incomes. The payment effectuates from the available account of funded institution from own incomes and subsidies.

The stages presented reveal the consistency of documentary support, to realize a public outgoing, substitute at outgoing objective more much efficient to spend the public money. This has the following content: rated reports with studentships, summary report with the studentships payments, proposal to employment of one outgoing, individual/global budgetary commitment, warrant of payment, justificative note concerning the payment of the studentships, money order.

The management of settlements with the students concerning the studentships must have in mind not only the outgoings but also to exploit the opportunity to create a community of interests at the level of higher education establishments.

Conclusions

The education is considered to be the biggest economic area which has a double role: first the increasing training of population having like consequence the increasing of work productivity, and second the transmission from generation to generation of accumulated experience through conservation and the maintenance of knowledge's

stock. In the explosion age of informational society, we reaffirm the idea that the science becomes the power of production only in the measure in which forms competitive inventive and smart people. [Horomnea, (2008)].

The accounting is a science and an important area of social practice. The accounting faces with economic area which transforms rapidly and in which the social rapports are moving. In the period in which the accounting is looking itself by reporting to future, between empiricism and rational, between techniques and conceptualizations, between the need of universal and singularity, between pecuniary and social we consider timely „the infiltration” of the section „Discounts with the students” in the concerns area of accounting, respectively of social accounting. [Matiş, (2005)].

The studentship represents a form of social support offered from an institution at the students from the higher education, day courses. We consider that this mood of studentships perception is incomplete because doesn't includes the acceptance concerning the private studentships, including only the public studentships. The aspect which must be repaired are the financiers, near the public institution in the financiers category must be included legal entities with private right, respectively natural person.

Under structural aspect there are the following types of studentships: performance studentships, worth studentships, study studentships and social studentships. Only the students without backlogs can participate at the „competition for studentships”. At the establishment of what students will get the studentship, we are having in view the performances obtained in exams session before the semester in which the student wants a studentship, respectively their family situation and their social condition concerning the social studentships.

From the point of view of funding we can say that in one measure the students fund the students, in the sense that a certain part from the scholar taxes is in the amount of the studentships funding by own incomes.

An important role, in the fulfillment of accounting studentships conversion, has the budgetary classification, which makes possible the unitary encoding and under legal used of the budgetary incomes and outgoings, like the correlation between the financial sources and their utilization.

The students are the main human resource through which can exist any of the higher education establishments. This reality sustains the existence of an explicative note at the financial situations that refer only to the students, respectively at the aspects like: numerical scale, on levels concerning the professional performance, in the research activity, social condition, the study conditions from the university etc.

The theoretical debates concerning the accounting of human's money don't arrive yet at none point of view accepted by all. Here stay in discussion the problems concerning the way of stretch of accounting in the observation of human being, the definition of social responsibilities providing information concerning the social costs and benefits.

In our opinion, the discount relationships with the students which lie in their centre their studentships, are a part of the social accounting at least from the following reasons: the students bring their support at the production of accounting information, they are a category which use this information, from their knowledge's they contribute at the development of social jobs, of economy in general etc.

In the Romanian society is necessary the cultivation of the values correlated with a certain degree of stability, and the accounting represents a multiplier conception for the social good and progress [Horomnea, (2008)].

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The rules of granting the studentships.

THE PERCEPTION AND ROLE OF CORPORATE SOCIAL RESPONSIBILITY IN CENTRAL AND EASTERN EUROPE

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Abstract:

The article is focused on the analyses of the issues that the global society faces – hunger, unemployment, ethnic minority inclusion, improvement of labor conditions, the need for highly skilled labor force, illiteracy, drugs and alcohol abuse, crime or poverty, etc. – and which require considerable attention, responsible actions and more concern and involvement from the main economic players on international, regional and national levels. That means the business sector might be the missing link in this challenging puzzle. A series of concepts such as: corporate governance, corporate social responsibility, corporate citizenship, corporate community involvement, promotes and stimulates the contribution of the business sector at the community level in order to solve problems and improve the life of the community. Corporate social responsibility is to be seen as an important feature of the new economy and needs a special attention in order to be efficiently developed and applied in Central and Eastern Europe by private companies, often multinationals that are expanding their operations in order to be consistent with their own best strategic interests.

Keywords: corporate social responsibility, Central and Eastern Europe, social issues

JEL Classification: D210, M14, M16

Introduction

Nowadays the global society faces so many social issues – hunger, unemployment, ethnic minority inclusion, improvement of labor conditions, the need for highly skilled labor force, illiteracy, drugs and alcohol abuse, AIDS, crime or poverty – which require considerable attention, responsible actions and more concern and involvement from international and national levels to the level of the companies as main economic players. That means the business sector might be considered as one of the principal missing links in this challenging puzzle. Corporate involvement culture began to be developed in communities, entangling a wide range of specific actions, from philanthropy to volunteerism and cause related marketing. A series of concepts such as: corporate governance, corporate social responsibility, corporate citizenship, corporate community involvement, promotes and stimulates the contribution of the business sector at the community level in order to solve problems and improve the life of the community.

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Corporate social responsibility as a concept

Corporate social responsibility can be viewed as “a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis” (European Union, 2002). The voluntary commitment goes beyond the compliance with legal, regulatory and contractual obligations. The corporate social responsibility business practices contribute to the achievement of social, economic, and environmental goals. The promotion of those goals should not be a pretext for shifting public responsibilities from governments to the companies.

The corporate sector has made constant efforts in order to convince the customers and suppliers to put into practice a responsible business behavior in Central and Eastern Europe, a geographic area which is going through a dynamic process of social and economic change, mainly due to European integration process.

With a population of nearly half a billion, the enlarged European Union of 27 countries has become a major sociological and economic superpower, representing a frontier-free single market stretching over some 5 million square kilometers. Businesses located in Central and Eastern Europe started to have access to the European Union market, at far less than average European Union costs.

Multinational companies face a number of risks and opportunities altogether. Their challenge is becoming the corporate social responsibility agenda, as their efforts have been directed at the provision of social, economic and environmental equity above what the governments offer. During the Communist era, businesses were expected to serve the needs of society. State owned companies in most of Central and Eastern Europe implemented large-scale and costly social programs, often referred to as the company’s “sphere of obligations.” The Milton Friedman ideology of business having no responsibility other than to make a profit for its shareholders did not apply in such a context. With the move to a free market system, companies had to operate competitively, thus moving towards creating a corporate social responsibility agenda.

Corporate social responsibility is the voluntary commitment by company managers to integrate social and environmental considerations in their business operations. This commitment goes beyond normal compliance with the legal, regulatory, and contractual obligations, which companies are expected to meet. Corporate social responsibility business practices complement rather than substitute for state actions that promote social and environmental development.

Corporate social responsibility in Central and Eastern Europe is expected in some sectors of business. Even if the standard terminology and language is not universally understood, concepts such as fair pricing, health and safety, good working conditions, community involvement and environmental protection are on the list of concerns for the population. Central and Eastern Europe people have no objections to foreign, profit-making businesses operating in their countries. They are all aware that the foreign direct investments are bringing about the rapid economic growth. In this respect they are not willing to accept growth at any expense or to see the present

inequity growing further. Many businesses operating in Central and Eastern Europe are taking seriously their responsibilities, but there are others taking the easy way, thus using PR to alter public perception. This kind of cause related marketing causes sometimes more harm as several research studies reveal that Central and Eastern Europe people would be more interested in a formal report or awareness event than an advertisement. Multinationals started to promote and pursue global projects and programs.

Innovative approach to corporate social responsibility

Businesses looking to operate in a Central and Eastern Europe country will need to have a modern and innovative approach to corporate social responsibility; they will also have to examine and adapt their strategy in the context of the region and its historical evolution.

Companies in Central and Eastern Europe face a changing business environment that must meet the challenges of European integration, globalization, and liberalized internal markets. The change has been generated as the Central and Eastern European countries start adopting corporate social responsibility practices as part of the negotiations over European Union enlargement. The strategic goal of all members was “to become the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion.” (strategic goal adopted by EU countries in Lisbon, 2001). Companies, particularly large, multinational leaders, are becoming increasingly aware that adopting socially and environmentally responsible practices can be of direct economic value. The main goal of business is to generate profits, but corporations can also contribute to social and environmental goals by applying corporate social responsibility as a strategic line.

The first steps in developing corporate social responsibility practices have been taken by large multinational investors who brought with them a tradition of community engagement, environment-friendly technologies, a new management culture, and a practiced eye for how business might help solve social and environmental challenges [Simpson, (2002)]. By applying their knowledge they set the standards for business partners, offering a business model. Local companies started to adopt corporate social responsibility as the process of building new businesses has advanced.

There are several important factors critical for the success of the corporate social responsibility promotion such as: corporate governance, environmental protection and enhancement, SMS enterprises, social inclusion, strategic partnering and cooperation, anticorruption measures. All of this above mentioned factors have a particular role in the whole process of applying the corporate social responsibility strategy.

The first of the critical factors of the success of promoting the corporate social responsibility is corporate governance. In the traditional model of governance management is seen as the only one accountable to investors (shareholder).

Stakeholders (others than the shareholders) have interest in the behavior of the business and the corporation should be accountable to them as well. In this respect, companies have expanded the traditional governance arrangements to include the accountability to the full range of stakeholders. As a result, the company creates a values system transposed in the culture of the business, which usually triggers a corporate social responsibility policy.

A significant number of companies in the region are already practicing corporate governance. Their involvement in corporate social responsibility comes with the critical awareness that sustainable development is needed to make businesses and economies work. Governments face the challenge of promoting such good governance as part of their strategy.

Another worth mentioning factor is the environmental protection and enhancement. Environmental protection has been among the most important political and economic issues in the region. Governments and businesses have not yet resolved how to share the cost of identifying and then mitigating the negative environmental impacts of business and restructuring technological processes to make them more environment-friendly.

Companies that have good environmental standards are more competitive in the international market on the medium and long term, as they promote innovations and modernization of processes and products, leading to cleaner and environment-friendly technologies.

Companies adopt environmental policies that extend through their supply chains, in the form of requirements that suppliers adhere to sustainability certifications such as ISO 14001, SA 8000, and FSC. The countries of the region inherited a legacy of pollution and neglect of environmental infrastructure, facing a lot of environmental issues such as: dumping of waste, outdated technologies in the energy sector.

Small- and Medium-Size Enterprises face the same important issue of developing a sense of social responsibility. Large and multinational companies were much more involved than smaller firms. Small- and medium-size enterprises are dynamic and longstanding players in the local community of Central and Eastern Europe. A key opportunity for business of all sizes to work together and spread best practices along the entire supply chain is created by involving them in social responsibility. The main driver behind the corporate social responsibility actions of these firms is the ethical perspective of the owner, although a significant number of small- and medium-size enterprises also recognize business benefits, such as improved relations with costumers and the local community. Lack of awareness seems to be the most significant obstacle to deeper social and environmental engagement, especially among the smallest firms, followed by resource constraints on new investment and environmentally safer technologies [Garyson and Bhatt, (2003)].

Social Inclusion is another factor that influences the applicability of corporate social responsibility. Expanding corporate social responsibility offers an option by which business can support the process of promoting social inclusion. Opportunities

for people who have been marginalized through the transition process can be developed by the involvement of businesses in social initiatives. New policies have been designed to promote the hiring of ethnic minorities and there are a number of community based activities that help the disadvantaged young people (Simpson 2002). Such policies have been developed by experienced large companies, while the new managers and entrepreneurs are just at the beginning of defining their role in the process. The government has the possibility to provide incentives, technical assistance, and information for enhancing social inclusion.

In Central and Eastern Europe the strategic partnerships and cooperation can be viewed as a determining factor for the success of corporate social responsibility programs. By working together, business partners establish common objectives and develop the means of reaching them together. They share risks, resources and skills, delivering mutual benefits to each party. A good and successful partnership needs a common vision and a clear division of responsibilities. Governments in Central and Eastern Europe are exploring several opportunities to involve private providers more extensively in the provision of public services, particularly in areas where services are investment intensive, such as infrastructure provision. Experience from various Central and Eastern Europe countries shows that although companies and their stakeholders are attracted to the concept of corporate social responsibility, they are often uncertain as to what steps may create an adequate environment for putting the concept into operation. Government strategy could include promoting information exchange, confidence building, and other partnership- enhancing actions.

Another factor that determines the success of corporate social responsibility applicability is the anticorruption measures, as economies in transition face the acute problem with governance and corruption. The liberalization of markets in the region has revealed the problems of legislative and institutional frameworks, which encouraged corrupt practices. Corruption slows economic development, disables social services, slows down the establishment of civil society, and reduces business competitiveness. Corruption imposes a particularly heavy burden on small- and medium-size enterprises, which often lack the resources to deal effectively and persistently with corrupt officials. Companies in Central and Eastern Europe, following the example of multinational and leader companies, have established codes of conduct and anticorruption and bribery programs due to new laws, major external events or incidents. The goal of such programs is to reduce vulnerability to fines and criminal sanctions. There are additional benefits such as preventing damage to their reputation, protecting and increasing access to capital, preserving share value, developing new markets, preventing internal corrupt practices. A government corporate social responsibility strategy could include validation and support for companies that establish codes of conduct.

The perception of corporate social responsibility

The perception of corporate social responsibility in Central and Eastern Europe countries (Romania and Bulgaria) is further on analyzed in the paper by referring to

the behavior of companies. These companies participated to various surveys conducted to reveal how corporate managers perceive corporate social responsibility and how they define the role of the company. The survey tackles upon areas such as: stakeholders, transparency, people management, social practices, and environmental issues.

Companies revealed a diverse and limited view of what constituted responsible corporate behavior, and identified some components of socially responsible activities such as: ethical conduct in operations, transparency in operations, establishment of stakeholder partnerships and compliance with existing laws. All business leaders view their social role as complying with corporate and product protection laws and protecting worker welfare and identified providing job security and earning profits as part of their societal obligations. A smaller number identify creating jobs, paying taxes, and contributing to charities as part of their role. There is room for improvement in the perception of corporate social responsibility area, but good social and environmental practices are in place and they constitute the basis for further development of corporate social responsibility practices.

In terms of stakeholders most of the respondents indicate that the stakeholders are their shareholders and employees. The other stakeholders with less importance to the companies are government, local communities and civil society organizations. These results differ slightly from those of top global companies whose CEOs identify customers, board members, and shareholders as the main stakeholders. These results suggest that companies in Central and Eastern Europe are focused on the internal aspects of their operations, linked with employee welfare; external stakeholders are far less important to these companies. The explanation could be that the civil society organizations are weak and have limited impact on private sector operations.

The countries' enabling environments for promoting corporate social responsibility are perceived as weak: according to respondents, governments have a limited understanding of and willingness to stimulate corporate social responsibility. Most respondents disagree that the government helps implement socially responsible activities and that current government policies encourage companies to make investments in corporate social responsibility.

Most companies and leaders in corporate social responsibility use internal codes of conduct to implement their corporate social responsibility policies. Compared to the top global companies, which include ethics, values and codes of conduct in their day-to-day management practices, only a small percent of the companies in Central and Eastern Europe have written codes. The reasons for introducing these codes of conducts would be gaining a competitive advantage, aligning with business trends, improving the management of risks, and complying with regulations. In developed countries, companies issue social and environmental reports in order to inform the public about their performance over a period of time. This trend can be observed among leading companies in Central and Eastern Europe, as they publish anticorruption policies, annual financial environmental performance reports, and

social performance reports. Companies and their stakeholders need to devote much attention to enforcing and further developing anticorruption practices. Legislation needs to be established or enforced on corporate contributions to political parties and candidates and disclosure of business payments to government officials.

Most companies report are engaging in good labor and staff development practice, by including antidiscriminatory practices in their recruitment policies, having training programs for employees, offering good health protection to their employees.

Most companies invest in social programs, related to the improvement of the well-being of their employees and developing the communities in which the companies operate. The programs refer to health, education, technical training, and community development. The main beneficiaries of these projects are youth, the local community at large, indigenous people, and ethnic minorities. In implementing social initiatives, companies often cooperate with municipal institutions, government agencies, and other companies. The challenge is also to establish a mechanism that will encourage companies to address specific issues, such as HIV/AIDS. There is also a need to introduce frameworks for assessing the social impact of companies' operations.

The survey reveals that companies in Central and Eastern Europe are behind the ones in developed countries in terms of environmental practices. A small number of companies participate in external programs related to environmental protection, have recycling programs or implemented the ISO norms. As these countries adopt environmental regulations that meet EU requirements, the main challenge will be to develop effective enforcement, partnership mechanisms. Awareness needs to be developed of the importance of incorporating certification for production and products to international market access.

Expanding the corporate social responsibility could increase their costs, reduce their profitability, and increase regulatory interference. A large number of respondents perceive no risk in broadening the adoption of corporate social responsibility practices—under the right circumstances. The barriers identified to expanding corporate social responsibility practices are the lack of regulatory frameworks setting rules of the game for businesses and the cost of making changes in plant, personnel, and practices in order to internalize corporate social responsibility. The main reasons for undertaking corporate social responsibility are the desire to improve corporate image and reputation, to increase company longevity, to gain competitive advantage and increased productivity. Activities that raise awareness for all stakeholders and programs promoting certain behaviors could be supportive for the further development of corporate social responsibility in Central and Eastern Europe countries.

The survey reveals that the concept of corporate social responsibility is known and interpreted by many to mean more than simply “abiding by the rules.” Companies do not yet view government, communities, and other civil society

organizations as stakeholders. Indeed, the idea of working with partners rather than owners is not a well-accepted view among company managers. Company managers view their social responsibility as meeting the needs of their employees. They have a less-well developed view of their responsibilities for the environment, beyond some relatively low-technology approaches, such as waste reduction and recycling. Few have adopted more sophisticated measures, such as the full ISO14000 agenda. Most firms would be willing to do more, but they perceive that there may be hidden costs and are concerned about the lack of guiding frameworks or policies. Financial incentives are seen as the most effective way of encouraging firms to act.

Conclusion

In conclusion, corporate social responsibility is to be seen as an important feature of the new economy and needs a special attention in order to be efficiently developed and applied in Central and Eastern Europe by private companies, often multinationals that are expanding their operations consistent with their own best strategic interests.

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COMPETITION POLICY IN EU AND ROMANIA DURING THE ECONOMIC CRISIS

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Abstract:

The article focuses on the most important aspects of Competition Policy as a guarantor of an undistorted Single Market and on the harmonization of Romania's legislation regarding Competition to the European corresponding acquis. Furthermore, for a better understanding of the mechanisms involved in Competition Policy, a study case is brought to attention, concerning one of the most recent decisions of the Competition Council on issues related to an economic concentration on the market of financial leasing.

Keywords: Competition Policy, European Integration, Competition Law, Economic crisis

JEL Classification: A11, F59, K29

Introduction

One of the main objectives for European Union is to create an undistorted Single Market within an open market economy. Effective competition is crucial to an open market economy. It cuts prices, raises quality and expands customer choice. Competition allows technological innovation to flourish. The Treaty of Rome recognized that a common competition policy was essential if the consumer was to enjoy the benefits of European Economic Integration. In fact, this is the real aim of EU Competition Policy: to guarantee an undistorted Single Market.

The rules apply to all companies operating in the Single Market, irrespective of their ownership. While Member States have their own bodies to enforce national competition laws, the European Commission investigates breaches of the competition rules. The Commission has significant powers including imposing fines, forcing changes in merger agreements and blocking state aid. Decisions can always be challenged in the European Court of Justice. The question rising is how, if is the case, do these powers work during economic crisis.

Comprehension of Competition policy

The main issues covered by EU competition policy are: abuse of a dominant position, anti-competitive agreements between companies, mergers and takeovers, state aids [Baldwin R., Wyposz C,(2006)].

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Abuse of a dominant position [art. 82 of EU treaty] appears whenever enjoying a large share of the market, brings an economic operator into conflict with competition rules. There are many examples of ways in which companies abuse a dominant position. These include making customers pay unfairly high prices or squeezing out smaller competitors through predatory pricing. Equally, dominant positions can be abused through distribution arrangements such as exclusive dealerships or imposed customer “loyalty” contracts.

Anti-competitive agreements between companies [art. 81 of the Treaty] means that companies in a given sector may choose to co-operate rather than compete with their rivals. They may collude in cartels to try to fix prices or carve up markets. Selective distribution systems are also potentially anti-competitive - although agreements between manufacturers and dealers can be justified in the interests of efficiency or through the provision of high quality after-sales service. They should not prevent consumers in one EU Member State buying a product in another where the price is cheaper.

Mergers and takeovers are dealt by the Commission entrusted with the role of controlling mergers and takeovers which could restrict competition in the Single Market. This is limited to companies over a certain turnover size – though this is irrespective of ownership, and can even cover mergers between two non-EU companies. The Commission has the power to block mergers, or to impose conditions such as the sale of assets to prevent creation of a dominant position [Gavrilă I., Gavrilă T. (2008)].

State aids also known as decisions of Member States' Governments can also restrict or distort competition in several ways. Member States may be tempted to subsidize national firms to help them face competition from other parts of the Single Market, or, in particular, to subsidize state own companies that compete with private sector rivals. In most cases, state aid is deemed justifiable. This includes promoting the economic development of disadvantaged areas, culture and heritage conservation and projects of common European interest . Here is where the Commission role comes especially in a time of crisis: it has the power to block, or to enforce the repayment of aid.

Legal framework of Competition Policy and European Integration

One of the most important tasks for Romania's accession to the European Union regarded “Competition Policy” (Chapter 6 in negotiations).

The legal framework for Competition Policy is Competition Law No. 21/1996, amended and completed by the Government Emergency Ordinance no. 121/2003, approved by the Law no. 184/17.05.2004. The adoption of this law, which came into effect on 01.02.1997, represented an important step to normalize the behaviors in the economy by defining the rules of acting and establishing the methods of defense. The obligations of the Association Agreement between Romania and European Union regarding the policy in the field of competition were fulfilled through Law no. 21/1996 and the secondary legislation issued in its application. Thus is ensured a

high degree of compatibility that refers to the way of approaching and regulating the agreements, concerted practices, abuse of dominant position and the control of the economic concentrations [Popescu-Cruceru A. (2004)].

The legislation on competition policy followed in general the provisions of the Community legislation. The provisions of the art. 81 and 82 of the Amsterdam Treaty [Regulation no.1/2003] have been taken over by the articles 5 and 6 of the Competition Law No. 21/1996. The provisions of the Regulation no. 4064/1989 and no.3384/1994 of the European Communities' Council regarding the control of the economic concentrations were taken over by the Regulation regarding the authorization of the economic concentrations, Regulations and Guidelines. This Law is aimed at protecting, maintaining and stimulating competition to the benefit of consumers, and at creating the conditions to assess the behavior of economic agents based on uniform principles. It must be specified the fact that this Law ensures the protection of competition, not of the competitors. The incidence of the regulations is general and non-discriminatory [Popescu-Cruceru, (2004)]. The Law is applicable to undertakings defined, broadly, as “individuals or legal entities - Romanian or foreign - irrespective of nationality or citizenship”, irrespective of their organization form or the nature of their social capital. As well, the Law applies to the central and local public administration bodies to the extent in which they intervene on the market, influencing directly or indirectly the competition.

The Law prohibits the anticompetitive practices that include the monopolist behaviors, “economic concentrations which, having the effect of creating or consolidating a dominant position, lead to or are likely to lead to a significant restriction, prevention or distortion of competition on the Romanian market or on a part of it”[Berinde M.,(2003)].

Starting with the principle of the general economic interest, which prevails, the Law grants exemptions on criteria that compare the anticompetitive effects with those in the benefit of consumer and the national economy, as regards both the accords and agreements and the economic concentrations. It must be specified that not all agreements or concerted practices are, by themselves, illegal or generators of prejudices, some of them could benefit of exemptions from the prohibition provided as general rule, because they could contribute at the improvement of the production or distribution, at the promotion of technical progress, at the improvement of the products quality and the competitiveness degree of those on the internal and external market, at the strengthening of the competitive positions of SMEs.

The authorities involved in the well-function of Competition Policy are the Competition Council and Competition Office.

The Competition Council is a nongovernmental structure aimed at protecting and stimulating the competition, in order to ensure a normal competitive environment and to promote customers' interests. The role of the Competition Council as an autonomous administrative authority has two aspects: one aspect is corrective relating to its interventions to restore and maintain normal, competitive

environments, and a second, preventive aspect, related to its interventions that significantly prevent unfair competition on the market.

The Competition Office is a governmental structure having responsibilities concerning prices and state aids and it applies legal measures regarding competition in general, including Competition Council's measures.

As we mentioned before, not all agreements or concerted practices are illegal or generate prejudices and it is the Competition Council's main duty to identify which ones can benefit of the exemptions of the law. Following, we will analyze one of the most recent decisions of the Competition Council concerning economic concentration.

Study case: Economic concentration realized by Raiffeisen Landesbank Oberösterreich

AG through achieving the sole control over Impuls Leasing International AG, Impuls-Leasing Romania IFN SA and Impuls-Leasing Services SRL. This case is based on the acquisition by Raiffeisen Landesbank Oberösterreich AG of sole control directly over Impuls Leasing International AG (hereinafter referred to as „ILI AG”), and indirectly over IMPULS-LEASING ROMANIA IFN SA and IMPULS-LEASING Services SRL, on the ground of a convention (hereinafter referred to as “The Convention”) concluded on 31.10.2008.

Raiffeisen Landesbank Oberösterreich AG (hereinafter referred to as ROÖ) is an Austrian legal person, which is active in banking sector. In Romania ROÖ develops, especially lending operations, refinancing lease and interbanking deposits, on short term. ROÖ does not provide services for Romanian customers, but only for Austrian and German people who develop economic activities in Romania, activities strongly deteriorated by the economic crisis.

Impuls Leasing International AG, the acquired company is a Swiss legal person, which does not develop commercial activities, being a holding company.

Impuls-Leasing Romania IFN SA (hereinafter referred to as “IL RO”) is a Romanian legal person, controlled in proportion of 90% by ILI AG in Romania. IL RO is a financial institution and its main activity refers to financial leasing.

Impuls-Leasing Services SRL (hereinafter referred to as „IL RO Services”), a Romanian legal person, is a company owned 100% by IL RO, founded in 2008 and intended to become operational in December 2008, having as the main business, activities of rental cars and road vehicles and also operational leasing, so this company has not obtained turnover until now.

The facts are that on 31.10.2008 was concluded a shares sale-purchase contract (hereinafter referred to as “The Contract”) between Raiffeisen Impuls Holding GmbH (hereinafter referred to as „RIH”), an Austrian company, as buyer and BGLM AG, a Swiss company, as seller, through The Contract were sold shares representing 85% of ILI AG's share capital. RIH belong to RBG Holding GmbH's group. RIH is 100% a holding company with no commercial activity. The Convention concluded on 31.10.2008 between ROÖ, BGLM AG, holding 85% of ILI AG's share capital

and Raiffeisen-Impuls-Holding GmbH. Pursuant the provisions of The Convention, ROÖ acquires the right to appoint more than half of the members of the board of ILI AG, including the right to appoint the chairman of the board of directors. Consequently, after the economic concentration is realized, although ILI AG would be owned in proportion of 85% by RIH, it will be controlled directly by ROÖ, on the basis of the right to appoint more than half of the members of the board of ILI AG, including the right to appoint the chairman of the board of directors.

The notified operation through which ROÖ would acquire the sole control directly over Impuls Leasing International AG and indirectly over Impuls Leasing Romania IFN SA and IMPULS-LEASING Services SRL, on the basis of The Convention is an economic concentration. Furthermore, the economic concentration meets cumulatively the threshold conditions laid down in art. 14 of the Law, respectively the aggregate turnover of the involved undertakings exceeds the equivalent in lei of 10.000.000 Euro and there are at least two undertakings involved in the operation who achieve, each in part, on the Romanian territory a turnover that exceeds the equivalent in lei of 4.000.000 Euro. According to the art. 1 from the Regulation (EC) no. 139/2004 from 20 January 2004 regarding the control of economic concentration between undertakings, this economic concentration doesn't have community dimension, unfulfilling the threshold conditions in order to be notified at the European Commission [Conventionally, is considered a community dimension concentration whenever worldwide turnover of the involved firms is at least 5 billion Euro, and at least 2 of the involved firms has a turnover of more than 250 million Euro in EU; or the turnover is at least 2.5 billion Euro, and the involved firms have a turnover of more than 100 million Euro in each of the European Union states. These concentration must be notified to the European Commission].

The relevant market of product/service for the notified economic concentration is the market on which the acquired undertaking (Impuls Leasing International AG) and the undertaking that are controlled by (IMPULS-LEASING ROMANIA IFN SA and IMPULS-LEASING Services SRL 2), respectively market of financial leasing.

According to the information received from the acquirer the market share of Impuls-Leasing Romania IFN SA is insignificant, and the acquirer group does not activate on the relevant market. In addition, there is no overlap between the acquirer and the acquired, the economic concentration, therefore there is no issue of significant impact on competition on the relevant market.

Through the operation of economic concentration under discussion, it is not created or consolidated a dominant position on the relevant market.

Considering all the above mentioned aspects the Competition Council issued an authorization Decision regarding the economic concentration realized by Raiffeisen Landesbank Oberösterreich AG through acquiring the sole control over Impuls Leasing International AG, Impuls Leasing Romania IFN SA and Impuls-Leasing 2. IMPULS-LEASING Services SRL did not develop any activity until now. The market share of ROÖ on the Romanian market is not justifying the allegations.

In conclusion, the Council established that although the notified economic concentration operation falls within the scope of the Law, there are no serious doubts as regards the compatibility with normal competitive environment. Nevertheless, pursuant the provisions of the Art.32 par.(1) of the Law, Raiffeisen Landesbank Oberösterreich AG. must pay the authorization fee of the notified economic concentration. The amount of the fee is based on the turnover and is to be paid, within a term of maximum 30 days from the communication of the Decision, to the State budget, through a treasury payment order, with the mention: “for the authorization of the economic concentration”. If this decision would be questioned in a normal economic environment, in a time of crisis is easy to understand why the Council didn’t apply a greater penalty.

Conclusion

In conclusion the compatibility of a economic concentration and a normal competitive environment is analyzed by criteria similar to the EU ones, as a normal consequence of Romania’s integration to EU. During the economic crisis the competitive environment is no longer normal and, for this reason authorities must be very careful when making a decision, not to disturb more the economic equilibrium and, in the same time to respect all the legal and economic principles. As well as in any other EU state, in normal as well as in crisis times, a economic concentration is authorized if three cumulative conditions are complied. Synthesizing, the conditions can be easily understood from the study case presented above and refer to: a greater economic efficiency, a better distribution or technical development; positive effects of concentration outnumbering the negative effects; the consumers benefiting from the advantages, especially from the lower real prices. As it can be seen al these conditions are in fact economic means for recovery during and after an economic crisis.

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INTERACTIONAL JUSTICE: THE LINK BETWEEN EMPLOYEE RETENTION AND EMPLOYMENT LAWSUITS

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Abstract

Organizational justice is one of the least understood and underutilized tools to create a better and more effective workplace. In this article, we'll focus on interactional justice, look at its impact, and offer strategies for creating a climate that will help employers reap the rewards and reduce their risks of their human capital. There are three forms of organizational justice known as distributive, procedural, and interactional justice. Distributive justice refers to the "bottom line" of justice, i.e., was the outcome of a decision fair? This assessment of fairness generally involves a comparison between what an employee is experiencing to what is happening to others in the organization.

Interactional justice is up close and personal. It pertains to the behavior of the organization's leaders in carrying out their decisions, i.e., how they treat those who are subject to their authority, decisions, and actions. Interactional justice is a key to employee motivation, retention and organizational commitment. Organizations that create a sense of organizational justice will reap the human capital rewards in improved motivation, retention and fewer employment lawsuits. Unfortunately, companies who don't may find themselves limping while their competition sprints ahead.

Keywords: organizational justice, interactional justice, employer, employee, leadership, lawsuit

JEL Classification: A12, J53, K41

Introduction

Interactional Justice is a concept that was treated and has been tried to be explained for both sociologists as for psychologists starting with the 19th century. The first who attempted to study human behavior at work using a systematic approach was Frederick Winslow Taylor (1856-1915). Taylor studied human characteristics, social environment, task, physical environment, capacity, speed, durability, cost and their interaction with each other. His overall objective was to reduce and/or remove human variability. Taylor worked to achieve his goal of making work behaviors stable and predictable so that maximum output could be achieved. He relied strongly upon monetary incentive systems, believing that humans are primarily motivated by money. He faced some strong criticism, including being accused of telling managers to treat workers as machines without minds, but his work was very productive and

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laid many foundation principles for modern management study. Others, like: Elton Mayo, Mary Parker Follett, Douglas McGregor tried to explain the „something” that had going some of the bussinesses, but we believe that the best definition for the Interactional Justice is given by sociologist *John R. Schermerhorn* as the “...degree to which the people affected by decision are treated by dignity and respect”. (John R. Schermerhorn, et al., 8th ed., 2003, *Organizational behavior*). *The theory focuses on the interpersonal treatment people receive when procedures are implemented.*

For some strange reason, organizational justice is one of the least understood and underutilized tools to create a better and more effective workplace. Of course, organizational justice in general – and interactional justice in particular – are complex concepts that require some serious work. Yet, without a sense of perceived fairness, employees judge financial rewards less positively, and multiply the negative impact of challenging events (layoffs, difficult project deadlines, organizational chaos).

In this article, we’ll focus on interactional justice, look at its impact, and offer strategies for creating a climate that will help employers reap the rewards

The Facets of Organizational Justice

On the surface, organizational justice seems to be a pretty simple concept; was a company or management decision fair? However, it’s not just the outcome of a decision that matters; it’s also how the decision was made and communicated.

The three forms of organizational justice are known as distributive, procedural, and interactional justice.

Distributive justice refers to the “bottom line” of justice, i.e., was the outcome of a decision fair? This assessment of fairness generally involves a comparison between what an employee is experiencing to what is happening to others in the organization.

Procedural justice focuses on how the decision is made, i.e., were the procedures used to set goals, make decisions, or investigate a grievance fair? Determinants of procedural justice include consistency of application, unbiased decision-makers, information accuracy, avenues for appeal, input from affected parties, and prevailing moral standards.

Interactional justice is up close and personal. It pertains to the behavior of the organization's leaders in carrying out their decisions, i.e., how they treat those who are subject to their authority, decisions, and actions. Research shows that the effects of interactional justice are independent of individuals' evaluations of fairness regarding the outcomes they receive (i.e., distributive justice) or the procedures used in allocating those outcomes (i.e., procedural justice) and, in some contexts, may be more important.

Interactional justice, on the other hand, has come to be seen as consisting of two specific types of interpersonal treatment. The first labeled interpersonal justice reflects the degree to which people are treated with politeness, dignity, and respect by authorities or third parties involved in executing procedures or determining outcomes. The second, labeled informational justice, focuses on the explanations provided to people that convey information about why procedures were used in a

certain way or why outcomes were distributed in a certain fashion. Where more adequacy of explanation is prevalent, the perceived level of informational justice is higher.

It is important that a high degree of interactional justice exists in a subordinate/supervisor relationship in order to reduce the likelihood of counterproductive work behavior. If a subordinate perceives that interactional injustice exists, then the subordinate will hold feelings of resentment toward either the supervisor or institution and will therefore seek to “even the score.” A victim of interactional injustice will have increased expressions of hostility toward the offender which can manifest in actions of counterproductive work behavior and reduce the effectiveness of organizational communication.

The importance of reactions to perceptions of unfair treatment in the workplace cannot be understated. As predicted by Adams (1963, 1965) in his equity theory, which has increased in importance over the last two decades (Miner, 2003), employees often respond to inequities in wage and other resource distributions by lowering performance or by increasing absenteeism, theft, and other retaliatory behaviors that are generally detrimental to organizational functioning (Greenberg, 1987, 1990, 1993b). In addition to Adam's work with *distributive justice*, attention has been directed towards the more subtle and long-range effects of *procedural justice*. Fair procedures, defined as those that are unbiased, based on accurate information, applied consistently, representative of all parties, correctable, and based on ethical standards (Leventhal, 1980) are associated with such positive organizational outcomes as organizational commitment and trust in supervision (Folger and Konovsky, 1989) and organizational citizenship behavior (Moorman et al., 1993).

The third aspect of organizational justice, *interactional justice*, or the perceived fairness of interpersonal treatment (Bies, 1987), appears to have a considerable but inadequately specified influence on perceptions of overall fairness. For example, the quality of interpersonal treatment is associated with acceptance of, and affect towards, authorities (Tyler, 1989), and appears to serve a heuristic value in determining the fairness of organizational procedures and the trustworthiness of decision makers (Lind, 2001). Although most researchers agree that interactional justice can have an impact on organizationally-relevant outcomes, there is considerable controversy regarding its position in the pantheon of organizational justice. While interactional justice is often considered a facet of procedural justice (Brockner and Wiesenfeld, 1996; Lind and Tyler, 1988), or a substitute for procedural justice (Skarlicki and Folger, 1997), Greenberg notes that “... attempts to fold interactional justice into procedural justice may be seen as a premature move toward parsimony” (1993b: 99). Manipulations of procedural justice that involve variations in interactional justice may be confounded, and “... some of the strongest effects attributed to procedural justice may have emerged when interactional justice rather than formal procedures were manipulated” (Barling and Phillips, 1993: 650).

Practical aspects – possible solutions

Getting back to the practical aspects, interactional justice seems to be the key to employee motivation, retention and organizational commitment. In a survey of 225 employees at two large U.S. paint manufacturing companies, for instance, researchers found justice trumped job satisfaction in motivating employees. However, it wasn't interactional justice in general that was the key; it was the employee's faith in their supervisor and the fairness implicit in day-to-day transactions. Employees, it seems, view the organization through their supervisor.

It is the supervisor who most often explains the organization to the employee and explains the employee to the organization. It is the personal assessment of a supervisor's honesty, impartiality and integrity that causes employees to go the extra mile past where they had to go to get their jobs done. In its simplest terms it is the answer to the question: Can I count on this person's integrity?

Supervisors with transformational leadership style are better able to influence employees to perform extra duties by creating more procedural justice and trust. Researchers think this is because transformational leaders are able to inspire and appeal to their employee's sense of fairness and trust, which compels employees to work harder and more conscientiously, make suggestions, perform extra duties, and help others.

Such *leadership styles* are characterized by:

Clarification of responsibilities and expectations

Explanation of tasks that must be performed and benefits to self-interest

A contingent reward system

Followers have a positively reinforcing relationship with the leader

The leader only intervenes when things go wrong

A lack of personalization of the working relationship

In addition to a transactional leadership style, *employees* judge their manager's sense of fairness on the following interpersonal skills:

Consistency – the extent to which a subject treats staff consistently and does not play favorites

Decision-making – the extent to which a subject is unbiased and impartial in making decisions

Empathy – the extent to which a subject can see things from the perspective of his or her staff

Equality – the extent to which a manager treats employees like equals rather than as inferiors

Relative fairness – how fair the manager is relative to other managers within his or her organization;

Supportiveness – the extent to which a manager provides substantive, symbolic and emotional support to employees

Transactional fairness – the extent to which a manager is fair and non-exploitative in resource exchanges with employees

Treatment – the extent to which a manager is respectful and sensitive in interactions with staff

Voice – the extent to which a manager is open to the advice and feedback of staff.

Organizations who hire or promote managers and supervisors strictly for their technical skills, or who fail to provide an interpersonally oriented management development program as part of the promotion process, are missing a critical opportunity to simultaneously increase employee retention, improve management effectiveness, and *reduce the risk of employment lawsuits*.

In a work environment, revenge occurs in response to violations of trust, i.e., when expectations concerned another person's behavior are not met, or when that person does not act consistent with one's values. Violations of interpersonal justice tend to evoke the strongest emotional responses, ranging from anger to moral outrage. There is evidence, for example, that dismissals or terminations do not provoke violence in and of themselves. Rather, vengeful attitudes and behaviors result from the humiliation that occurs when terminations are conducted in an abusive and insensitive manner. In fact, numerous studies have found a relationship between distributive justice (being terminated, for example) and retaliation only when there was low interactional and procedural justice.

In addition, various conditions in the workplace play a role in heating up tempers at work. Downsizing, layoffs, cutbacks in wages and benefits, and outsourcing all increase pressure at work; however, layoffs, disciplinary actions, or dismissals do not provoke violence by themselves; it is the wounded pride and loss of face that occurs when actions are conducted in a demeaning manner. It's the interaction between distributive, procedural and interactional justice that leads to retaliation; unfair or unjust treatment during the termination interview may be the "last straw" or the final "push" that moves the terminated employee from retaliatory thoughts to actual retaliation.

Retaliation at work doesn't just occur in response to interpersonal abuse or humiliation; it can also result from the perceived violation of a psychological contract, i.e., beliefs in paid-for-promises or reciprocal obligations. For example, unrealistic sales projections to a candidate during a hiring interview, for instance, can lead to a sense of betrayal and injustice. Violation of the psychological contract is a process that contains elements of unfulfilled promises that deprive employees of desired outcomes (distributive justice) and elements that affect the quality of treatment employee's experience (procedural justice).

Unfortunately, this happens all too often. In a study of 128 USA MBA students, who had already accepted an offer of employment, 54.8% of the subjects reported that their employer had violated their psychological contract. This violation was significantly related to low scores on a measure of the employee's trust in his or her employer and to low scores on a measure of employee satisfaction. The results also suggested that employees who left the company reported a greater degree of contract violation than those who had not left their employer.

Apparently, these violations spanned all areas of employment (e.g., training, compensation, promotion, nature of job, job security, feedback, management of change, responsibility).

Any organization that wishes to excel under these harsh circumstances of crisis must make sure that the employee-employer relationship is cast outside the economic relationship into the emotional arena. Human resources department can play a vital role in organizational justice by:

- Checking all policies and work rules to assure that there are procedures that create fairness. The important ones center on pay, diversity, etc. Look at decisions made in implementing these rules and general working practices to assure that fairness and equality is explicit in all supervisory and management decisions about employees and their work.

- Including leadership and interpersonal skills in your management development program, including 360-degree evaluations by subordinates, coworkers and management.

- Guard against unintentional psychological contract violations; making sure all candidates are provided with “realistic job previews” (i.e., providing an accurate description of the job, organization and opportunities, including both positive and negative features). The degree of honesty shown for employees during the selection process will shape perceptions of support and justice among those who are ultimately hired.

Because employees are most likely to engage in revenge either to restore equity or express feelings of outrage, a competitive company should provide multiple avenues for employees to deal with grievances (and the feelings associated with them). For example, in addition to formal grievance procedures, engage your HR team to give informal talks during corporate transitions and offer outplacement services during layoffs.

Conclusions

As a practical matter it is important that the assumption that employee/employer relationships are primarily economic in nature be de-bunked. Good management, that promotes cooperative and constructive behaviors over withdrawal and retaliatory ones, requires that managers recognize that the quality of interpersonal treatment in social exchange with employees, or interactional justice, matters. While the relationship between outcomes of each type of exchange remains unspecified, common sense, as well as empirical results, would indicate that both economic and social outcomes of exchange must be perceived as sufficient and fair to promote attitudes and behaviors that contribute to organizational functioning.

Columbian author Gabriel Garcia Marquez once said, “Justice limps along . . . but it gets there all the same.” Organizations that create a sense of organizational justice will reap the human capital rewards in improved motivation, retention and

fewer employment lawsuits. Unfortunately, companies who don't may find themselves limping while their competition sprints ahead.

According to Andrew Sawers, in "Financial Director", 2008, companies find themselves in great difficulty not only in retaining employee, but also in recruiting them. Difficulties in *retaining high quality staff* are the biggest concern companies face through globalization an global economic crisis, according to a study by the Economist Intelligence Unit on behalf of business advisory firm EquaTerra. North American executives were found to be 12% more likely than European ones to cite globalization as a challenge to retaining skilled staff. Western European executives found their primary challenge was funding expansion into new markets.

Litigation risk. The increasing complexities of legislation make 39% of respondents to a report compiled in 2008 by Lloyds, the insurance underwriter, Directors in the Dock agree that companies expect the growing risk of litigation to increase costs of their products and services over the next three years. More than 50% also said that inadequate technology security created the highest risk of liability for the company, but 29% had not given it consideration at board level.

The solution lay in the complex relationship employer-employee and the degree of trust they give to each other. Interactional justice within an organisation can make the *real* difference. The ones that want to survive in actual crisis and globalizattion context has to take whatever measure necessary for thei business to "breath".

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ECONOMETRIC MODELLING FOR SIMULATING THE ECONOMIC IMPACT OF STRUCTURAL REFORMS IN ROMANIA: A PILOT PROJECT

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Abstract:

The aim of this research is to set up a system which helps to estimate the impact of public funding from projects. The impact depends on all factors affecting demand for the good or service provided under the structural intervention at stake. Thus, the present research provides a pilot econometric model for simulating the main mechanisms that lead to public investment impact from the perspective of 42 counties for the year 2006. The importance of this time span is due to the fact that it represents the end of the second programming period for European Union funds and it reveals the impact of economic structural measures at microeconomic level. Data observed to estimate the linear regression model contain at least 50 observations and the t test, the F test and the coefficients of determination are used to analyse the worthiness of the model after prior estimation of the parameters. Findings showed that the independent element of the model is unbiased, whilst the regression coefficient is biased.

Keywords: econometric modeling, public spending, evaluation, monitoring, pilot project, microeconomics

JEL Classification: C40, D61, D63, D7, E20

I. Introduction

Budgetary policy modelling is a must in the current state of affairs of the member states in the Community. The present paper provides a pilot econometric model as a specific instrument for replicating and simulating the main mechanisms of a the regional and national Romanian economic system from the perspective of 42 counties for the year 2006. The importance of this timespan is due to the fact that it represents the end of the second programming period for European Union funds of 2000-2006 and results reveal important benchmarks for evaluating the impact of structural interventions made by the Union in Romania on welfare distribution, having in mind the overall expenditures and revenues of the population in that specific year. Data observed to estimate the linear regression model contain at least 50 observations and the t test, the F test and the coefficients of determination are used to analyse the worthiness of the model after prior estimation of the parameters.

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1.1 Characteristics of OLS estimators

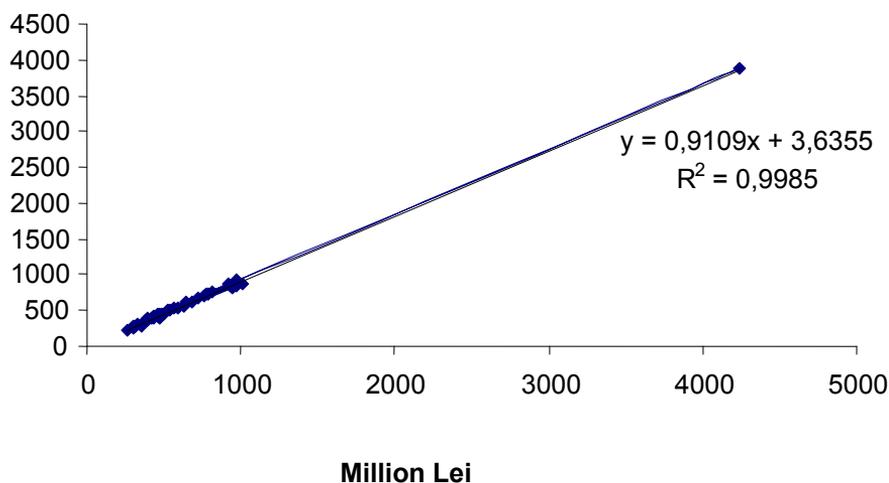
Relevant data of the total revenues and expenditures in the 42 Romanian counties in 2006 are as follows:

Counties	Total revenue (million lei)	Total expenditures (million lei)
Alba	457,4	422,6
Arad	626,8	548,7
Arges	785,4	739,2
Bacau	781,5	733,8
Bihor	938,9	804,6
Bistrita-Nasaud	382,9	354,3
Botosani	476,2	456,2
Braila	388,4	357,9
Brasov	811,5	756,1
Bucuresti	4238,7	3870,1
Buzau	521,8	494,7
Calarasi	301,1	282,2
Caras-Severin	389,1	385,9
Cluj	965,8	848
Constanta	1016,7	866,9
Covasna	258	235,3
Dambovita	536,7	507,6
Dolj	765,5	709,7
Galati	718,3	667,3
Giurgiu	306,3	288,8
Gorj	456	422,3
Harghita	399,5	355,4
Hunedoara	626,4	574,9
Ialomita	296,4	256,4
Iasi	928,9	835,6
Ilfov	478,3	398,3
Maramures	590,9	543,5
Mehedinti	322,5	303,7
Mures	678,7	621,4
Neamt	568,1	523,5
Olt	462	436
Prahova	913	864,1
Salaj	312,1	272,2
Satu Mare	426,7	409,5
Sibiu	648,2	607,9

Suceava	768,6	734,9
Teleorman	429,1	392,3
Timis	974,3	920,1
Tulcea	351,6	290,5
Valcea	484,3	444,8
Vaslui	500,2	461,6
Vrancea	425,8	394
TOTAL	27708,6	25392,8

The data were sampled from the National Statistics Institute (www.insse.ro) from the TEMPO-Online database which contains time series data.

Dependency between the total revenues and expenditures



The least square method was applied using the using the Excel for all 42 Romanian counties which form the overall population in order to detect the dependency of the total expenditures from the total revenues. Exstimations issued through this model are presumed to be the real values of the parameters associated to the population.

The results of the OLS are presented in the table below:

SUMMARY OUTPUT

<i>Regression Statistics</i>	
Multiple R	0,999255
R Square	0,99851

Adjusted R Square	0,998473
Standard Error	21,58427
Observations	42

ANOVA

	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	1	12486222,28	12486222,28	26801,31677	3,66124E-58
Residual	40	18635,23704	465,8809261		
Total	41	12504857,52			

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>
Intercept	3,635508	4,956548249	0,733475808	0,467545619	-6,382049356	13,65307
Venit total	0,910912	0,005564147	163,7110771	3,66124E-58	0,899666888	0,922158

RESIDUAL OUTPUT

<i>Observation</i>	<i>Predicted Total Expenditures</i>	<i>Residuals</i>
1	437,412	18,78798407
2	238,6509	-3,350919792
3	358,0715	27,82845829
4	277,9112	4,288753703
5	835,2986	28,80142682
6	459,2739	2,326085322
7	574,5954	-25,89543058
8	3864,72	5,379898782
9	883,3948	-35,39475043
10	391,502	2,497971447
11	929,7602	-62,86019403
12	478,9496	15,75037645
13	521,1249	2,375130109
14	492,5222	15,07778097
15	394,508	-2,208039631
16	439,3249	-41,02493207
17	700,939	8,76101289
18	323,9123	-33,41232492
19	367,545	-12,14503117
20	282,648	6,152008974
21	419,0116	3,28841552
22	420,2869	2,313138093
23	357,4339	0,466097
24	849,7821	-14,1820811
25	273,63	-17,22995779

26	703,7628	31,1371843
27	657,9439	9,356080431
28	719,0661	20,13385518
29	287,9313	-15,73128322
30	891,1375	28,96249376
31	444,7904	0,009593244
32	297,4048	6,295227317
33	392,3218	17,17815024
34	742,841	13,25904029
35	858,8912	-54,29120558
36	715,5136	18,28641372
37	574,2311	0,668934395
38	424,4771	11,52294083
39	352,4239	1,876115463
40	594,089	13,81104303
41	541,8937	1,606326296
42	621,8718	-0,471786631

1.2 Summary output Table

Analysis of the results showed that from the SUMMARY OUTPUT table offering information on the worthiness of the model, $R = 0,99925$ reveals that there is a strong connection between the model parameters. Moreover, $R^2 = 0,998509$ shows that 99,85 % of the variation of total expenditures is determined by the total revenue level, so that it represents a determinative factor of the model. Due to the fact that the average square deviation of errors is $S_u = 21,584274$, the correlation report and the determination coefficient are close to 1 so that the simple linear regression model can be considered valid.

1.3 Anova table

The ANNOVA Table reveals that $F = 26.801,32$ which is a big value and Significance $F = 3,66E-58$, by consequence a very small value, concluding that the model adjusts well the sample data.

1.4 Residual output table

Intercept is the independent element, thus coefficient \hat{a} is 3,6355. The independent element is the point where the exogenous variable equals 0. In conclusion, the total expenditures level is 3,6355, if the total revenue is 0. Because $t_{a_0} = 0,7334$ and the significance threshold P-value is $0,4675 > 0,05$, the coefficient is not significant. The Confidence Interval for this parameter is $-6,38205 \leq \alpha \leq 13,65307$.

Coefficient \hat{b} is 0,91 which means that the revenue increase by 1% determines an increase in the total revenues by 1%, therefore, the total expenditures level will increase by 0,91. Due to the fact that $t_{a1} = 163,711$ and the significance threshold P-value is $3,66E-58 < 0,05$ means that this a significant coefficient. The Confidence Interval for this parameter is $0,899667 \leq \beta \leq 0,922158$.

For the independent element of the model (Intercept), P-value = 0,4675, concluding that rejecting the hypothesis that the Intercept equals 0, there will be a 46% error. In conclusion, the independent element is no significantly different from 0.

Regarding the Confidence Intervals, for the theoretical independent element, the interval is (-6,38205, 13,65307). In addition, for the slope of the regression equation we have the Confidence Interval (0,899667, 0,92215801). It is very important that none of these Confidence Intervals contain 0 in order to make the assumption that the model is valid.

II. Conclusion

In order to finalise the research, the model was checked for any behaviour distortions of the estimation by extracting 30 samples out of 10 counties. For each sample we applied the method of least squares in view of estimating the parameters of the regression models. Results are aggregated in the tale below:

Estimations of the linear regression model for various samples

	Parameter b	Parameter a
SAMPLE I	0,913735952	-6,776491812
SAMPLEII	0,896178877	7,34152897
SAMPLEIII	0,922172001	-0,505534353
SAMPLEIV	0,859074039	25,80192753
SAMPLEV	0,802227534	52,61527764
SAMPLEVI	0,854058987	31,82990717
SAMPLEVII	0,913685202	3,106485105
SAMPLEVIII	0,94603653	-17,97586774
SAMPLEIX	0,911004828	11,18535746
SAMPLEX	0,863267446	21,85895454
SAMPLEXI	0,91507055	12,72408929
SAMPLEXII	0,941591495	-4,847258257
SAMPLEXIII	0,980589735	-33,94349337
SAMPLEXIV	0,957452179	-20,42890225
SAMPLEXV	0,913516245	-5,840508736
SAMPLEXVI	0,911856849	-0,990140053

SAMPLEXVII	0,911141139	11,76752161
SAMPLEXVIII	0,930952531	-3,950102424
SAMPLEXIX	0,897929762	14,54030544
SAMPLEXX	0,897929762	14,54030544
SAMPLEXXI	0,86139412	27,7376706
SAMPLEXXII	0,91243849	-2,434070771
SAMPLEXXIII	0,857465912	36,20548307
SAMPLEXXIV	0,928416446	-12,92086762
SAMPLEXXV	0,902045928	12,10271017
SAMPLEXXVI	0,912488083	4,421866955
SAMPLEXXVII	0,840212401	34,58592647
SAMPLEXXVIII	0,839713064	32,53746602
SAMPLEXXIX	0,909279674	13,14017589
SAMPLEXXX	0,879661975	14,55266864
Estimators average	0,89942	9,06608

Values presumed as valid at population level are:

$$y = a + bx + \varepsilon$$

$$a=3,635508(\text{p-value}=0,467545619)$$

$$b=0,910912(\text{p-value}=3,66124\text{E-}58)$$

Following the analysis of the probability p-value for both parameters one can say that, because p-value for the independent element is a is 0, 467545619 > 5%, parameter a is not significantly different from 0. Nevertheless, for the regression coefficient, p-value is < 5%, so we can assume that b is significantly different from 0.

After analysing the unbiased property for the independent element a:

$$M(\hat{a}) = a$$

$M(\hat{a}) = 9,06608 \neq a (= 3,635508)$ it is not an unbiased estimator and its bias equals the difference $M(\hat{a}) - a = 5,430571$.

After analysing the unbiased property for the regression coefficient:

$$M(\hat{b}) = b$$

$$M(\hat{b}) = 0,89942 \cong b(0,910912) \text{ it is not an unbiased estimator.}$$

In conclusion, the linear regression model regarding the dependency of total expenditures of total revenues is that the independent element of the model is validated as unbiased, whilst the the biased assumption is validated in the case of the regression coefficient.

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THE RELEVANCE OF PSYCHOLOGY THEORIES TO FINANCIAL ACCOUNTING

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Abstract

Starting from the interest that we have found in psychology sciences in order to understand better the way managers, analysts and last but not least investors behave in the decision making process our study focuses on the link between financial reporting, disclosure policies and investors judgment under uncertainty. The theoretical background describes the rational judgment of investors found in economic utility theories but also looks upon the main cognitive and social psychology for irrational behavior in the decision making process. Our research mainly focuses on measuring the influence of five psychological factors on the irrational behavior of potential investor. We showed that overconfidence occurs when investors overestimate the precision of their private signals and their knowledge about the value of a financial transaction and always remember the successfully times and easily forget the failures. Also, we have pointed out that limited attention is frequently associated with changing in disclosure policies and self-control is negatively related to irrational behavior of investor.

Keywords: psychology theories, financial reporting, disclosure, investor, judgment, decision making process, psychology variables

JEL Classification: M41, A30, B3, C12

Introduction

Economic theories often predict that individuals will act rationally in accordance with normative models such as expected utility theory. But, sometimes psychology theories lead to different predictions than those from economics and may help explain anomalous market responses to financial accounting information. Psychology and social theories are often providing surprising explanations regarding how managers, investors or analysts respond to particular financial accounting issues or disclosure policies.

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Several studies on the topic have based their hypotheses development and theoretical or empirical research on Kahneman and Tversky's (1979) work concerning prospect theory an analysis of decision under risk and on the contribution of Thaler (1999) regarding the development of behavioral finance. Our goal is to demonstrate how psychology theories can be useful to financial accounting researchers to understand and predict investor's decision in terms of changing disclosure policies and increasing the voluntary offer of financial and non-financial information. To accomplish this, we first identify and briefly review theories from both economic and psychology areas that we consider as particularly relevant to financial reporting and disclosure policies. Then we turn our attention on prospect theory looking for a thorough analysis of judgment under uncertainty in the case of investor's decision making process.

We have outlined circumstances where psychology based theories can add some new point of view to understand financial reporting and disclosure issues above that provided by economic theories. It is important to mention that in our measure we are not pretending that psychology theories should or could replace economic-based theories. On the other hand, searching for a correlation between financial reporting and disclosure policies and psychology theories, we are concerned to describe the link between signaling theory and prospect theory.

In the last section of our paper we attempt to provide an empirical support for the assumption that there are some significant connections between psychology theories and financial reporting and between psychology variables and disclosure policies. In order to the test our hypotheses assumed to be related to the irrational behavior of potential investor we have developed a survey by questionnaires. The questionnaire consisted in a number of 17 questions concerning aspects of judgment of decision making in certain situations of financial reporting data, moods and emotions of potential investor and other questions related to psychology facts. Reliability analysis was conducted, in order to study the properties of our measurement scale and the items that composed it. We used the Alpha (Cronbach) model, a model of internal consistency, based on the average inter-item correlation. Last but not least we have tried to test how several psychology variables can influence the irrational behavior of a potential investor in the judgment of decision making.

Kahneman and Tversky's prospect theory

In 1980s many empirical researches' findings (Shiller, 1984; Thaler *et al.*, 1985) did not support efficient market hypothesis. Also, certain market anomalies were consistently linked to the presence of irrational trades by investors as Bernatzi and Thaler (1995) pointed out in their study. An innovative psychology theory was promoted in 1979 by Kahneman and Tversky proposing prospect theory as an alternative to expected utility in describing investor behavior. Kahneman and Tversky first of all expand the experiments of the psychology on decision theory to more real world situations.

Experimental work in the decades after Von Neumann and Morgestern expected utility research, unfortunately showed that people systematically violate

expected utility theory when choosing among risky gambles. In response to this situation in the years that came we could identify an explosion of work on so-called non-expected utility theories, all of them trying to do a better job in order to match with the experimental evidence. Some of the better known models include weighted-utility theory, regret theory, disappointment aversion, rank-dependent utility theories, contingency theory and prospect theory. Of all the non-expected utility theories, prospect theory may be considered the most relevant for financial and accounting applications. We will describe below this theory and try to argue its relevance in financial accounting.

As many researchers observed, expected utility theory is unable to explain why people are often simultaneously attracted to both insurance and gambling. Kahneman and Tversky found empirically that people underweigh outcomes that are merely probable in comparison with outcomes that are obtained with certainty; also people generally discard components that are shared by all prospects under consideration. Under prospect theory, value is assigned to gains and losses than to final assets. Also, probabilities are replaced by decision weights. The value function is defined on deviations from a reference point and is normally concave for gains, implying risk aversion, commonly convex for losses (risk seeking) and is generally steeper for losses than for gains (loss aversion) as we can see in figure 1.

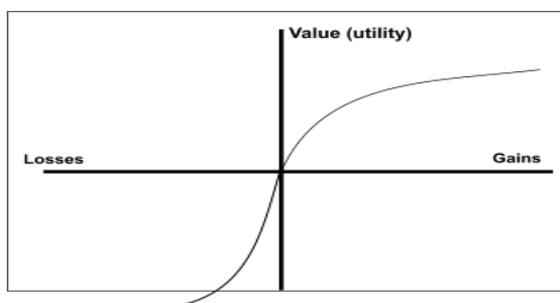


Figure 1

Source: Kahneman and Tversky (1979)

Decision weights are generally lower than the corresponding probabilities, except in the range of low probabilities as figure number 2 reveals.

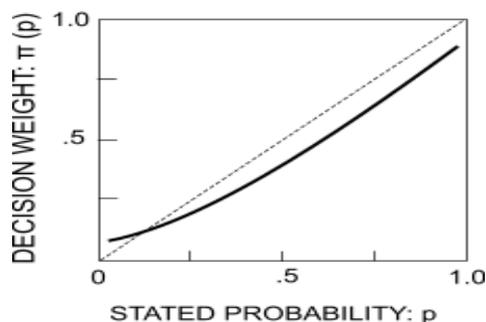


Figure 2

Source: Kahneman and Tversky (1979)

Montier (2002) noticed that prospect theory has probably brought psychology into the heart of economic analysis more than any other approach. Unlike psychology, prospect theory has a solid mathematical basis, making it comfortable for economists to play with. However, in contrast with expected utility theory which deals with the way decisions under uncertainty should be made (a prescriptive approach), prospect theory concerns itself with how decisions are actually made (a descriptive approach). Prospect theory assumes that investors' utility functions depend on changes in their portfolios rather than the value of the portfolio. Put another way, utility comes from returns, not from the value of assets. First, it replaces the notion of "utility" with "value". Whereas utility is usually defined only in terms of net wealth, value is defined in terms of gain and losses as we can observe in the figure above. Because the value function for losses is steeper than that for gains, losses seem larger than gains. For instance, a loss of 1.000 euro is felt more than a gain of 1.000 euro.

Kahneman and Tversky (1979) lay out the original version of prospect theory, designed for gambles with at most two non-zero outcomes. When offered a gamble they proposed:

$$(x, p; y, q),$$

To read as "get outcome x with probability p , outcome y with probability q ", where $x \leq 0 \leq y$ or $y \leq 0 \leq x$, people assign it a value of:

$$\pi(p) v(x) + \pi(q) v(y)$$

where v and π are shown in figure 2. When choosing between different gambles, they pick the one with the highest value.

Bloomfield (2006) argues that prospect theory emphasizes three features of the value function: the hedonic value of an outcome is determined by whether the outcome is a gain or loss relative to the agent's reference points; the negative hedonic value of a loss more than offsets the positive hedonic value of a gain of the same size; and the marginal effect of increasing a gain (or loss) is decreasing in the size of the gain (or loss). It is worth mentioning that an important implication of prospect theory is the "disposition effect" – traders will close out profitable investments quickly, to lock in gains, while holding on to their losing investments or perhaps even invest more in them, hoping that the investment will turn around. So, let's consider for instance that a trader bought a stock at 60 euro, and it is now priced at 90 euro. Using the 60 euro purchase price as a reference point, the trader has a 30 euro gain and because of the marginal effect of increasing a gain is decreasing in the size of the gain, the agent is risk-averse, and will want to close the position quickly to avoid risk. If the price fell to 30 euro, however, the trader has a 30 euro loss and because the marginal effect of increasing a loss is decreasing in the size of the loss, the agent is risk-averse and will want to keep the position open to take on more risk.

Turning back to our major research question: *how could psychology theories influence financial accounting issues*, in the work of Koonce and Mercer (2005) we have found that cognitive and psychology theories lead to different predictions in matters like: earnings management, investor's reaction to disclosure format or how financial analysts' incentives influence their research reports. It is well known that a large body of accounting research examines how and why companies manage their financial results, predictions from these are usually based on economic theories arguments, where earnings management results from managers' rational choices for a given set of constraints. But a well-developed JDM theory about decision making under uncertainty, suggests several explanations for earnings management that would not usually be taken into account by accounting researchers. Namely, prospect theory provides a descriptive theory of decision making under uncertainty. The shape of this value function implies that firms will manage earnings to avoid small earnings losses. This feature implies that the pain associated with a loss is greater than the pleasure associated with an equal-sized gain. As we have seen above, the concavity of the value function in the gain domain implies that investors will experience diminishing marginal utility from additional reported gains and also that investors will prefer to invest in companies that report a series of small gains rather than companies that include some large gains and some small losses. Prospect theory also makes predictions about how firms will manage earnings in especially profitable times. The concavity of the value function for gains implies that investors will prefer to see gains broken out and reported in separate periods rather than reported all at once in a single period. Finally, the same psychology theory predicts that investors will evaluate a company's reported results relative to some reference points, like: including earnings in a prior year, the consensus analysts forecast number and zero (DeGeorge et al., 1999).

Archival research in financial accounting has shown that the format of an accounting disclosure can influence whether and how investors use the information contained in it. Thus, Cotter and Zimmer (2003) show that investors are more likely to positively value information about a company's asset revaluations if the information is recognized in the financial statements rather than disclosed in the footnotes. An explanation of such phenomenon is given by signaling theory. According to this signaling explanation, variations in the placement or description of information may provide signals to decision makers about the meaning of this information. As Hodge et al. (2003) point out in an example, information contained in the footnotes is often less reliable than information recognized in the financial statements. Consequently, managers may attempt to signal that information is unreliable by choosing footnote disclosure rather than financial statement recognition. Put in other words, investors may react differently to disclosures of different formats because there is information content in the format itself. Following the idea of Cotter and Zimmer (2003), they argue that the reason investors put a higher price on upward asset revaluations when they are recognized in the balance sheet rather than disclosed in the footnotes is that they rationally infer that recognized revaluations are more reliably measured than those merely disclosed.

Unlike this rational argument offered by signaling theory, psychology suggests that format effects may arise even when a disclosure's format does not provide relevant information. Thus, in opinion of Koonce and Mercer (2005), psychology offers two additional explanations for format effects:

- format may influence investors' decisions due to differences in the relative ease of processing different formats; and
- certain formats may lead to systematic biases in investors' cognitive processing of the information disclosed.

These psychological explanations allow for new predictions about when and how format influences investor's reactions to the disclosure policies.

In order to understand when and how analysts' incentives influence their research reports, much of the existing literature on analyst expertise assumes that analysts have accuracy as their goal. As Jensen and Meckling (1976) showed, economic theories recognize the important role that incentives play in behavior. For instance, if analysts have incentives to maintain access to management, economic theories predict that awareness of these incentives will drive analysts to engage in management pleasing behaviors. One phenomenon that can create biased analysts' judgments is subconscious biases in analysts' information search. Thus, social psychologists have shown that when people search for new information, they seek one that confirms their pre-existing beliefs. The literature on the topic (Arkes, 1991) suggests that analysts' incentives to please management will lead to biases in their search for new information about the firm. Moreover, these effects will not be eliminated by penalizing analysts' for biased reporting, because analysts probably are not aware of the extent the management's preferences are influencing their information search. Another phenomenon that can create biases in analysts' judgments is biased information processing. Related to this, social psychologists have shown that people are more critical of information that disconfirms a favored hypothesis than information that confirms the hypothesis (Edwards and Smith, 1996).

Up here, we may conclude that psychology and social theories are often providing surprising explanations regarding how managers, investors or analysts respond to particular financial accounting issues or disclosure policies. Specifically, prospect theory suggests that investor's preferences for particular patterns of earnings will encourage firms to: avoid reporting small losses; take the occasional "big bath"; create "cookie jar reserves" during very strong years, and finally, attempt to influence the reference points that investors and analysts use to assess reported earnings. This paper is focusing more on investor's behavior in a certain financial reporting environment and in terms of changes in disclosure policies. Thus, we will turn our attention in the next section on psychology issues and attitudes that could explain investor's reaction to changing in financial reporting and information disclosure. After that, we are going to build our research hypothesis.

Methodology and hypothesis development

Irrational behavior of a potential investor can be explained as an opposite attitude to rational behavior of investor based on traditional finance theory like efficient market hypothesis. This irrationality can be explained by psychological and social theories as we have seen in the previous sections of our paper. We are specifically interested in several psychological factors suggested by different authors, and the way they could influence the irrational behavior of a potential investor. Out of the factors recognized (identified) by the literature we have selected five, related to behavior of potential investor in certain conditions of financial reporting and disclosure policies. These are: overconfidence, loss aversion, limited attention, self-control and pattern recognition.

The question of our research is whether these four factors really affect irrational behavior of investors and the main objective of this study is to examine the influence of these variables on the irrational behavior.

Lichtenstein, Fischhoff and Philips (1982) proposed that people often do the wrong judgments of the event happening probability, and comparing to the real happening times it appears to be overestimate this situation. Odean (1998) pointed out that overconfidence may result from investor's overestimate of the precision of their private signals, and their knowledge about the value of a financial security. Overconfident investors who buy and sell aggressively in response to valid private information signals may exploit liquidity traders more profitably than rational investors. Overconfident individuals are also likely to overinvest in acquiring private information, at the expense of leisure. Overconfidence is sometimes reversed for very easy items. Also it implies overoptimism about the individual's ability to succeed in his endeavors. Such optimism has been found in a number of different settings. Men tend to be more overconfident than women, though the size of the difference depends on whether the task is perceived to be masculine or feminine. And since people fail more often than they expect to, rational learning over time would tend to eliminate overconfidence. People tend to attribute good outcomes to their own abilities, and bad outcomes to external circumstances.

Hence, overconfidence provides a further reason for imperfect adjustment. An overconfident individual may wrongly think that he has already taken into account all the important consideration. Such an individual may not perceive the urgency of working hard to adjust for biases. We therefore assume that an individual who neglects some aspect of the economic environment does not update his beliefs in complete deference to the market price as determined by others who are more attentive. He may inattentively fail to reason sufficiently about why the market price differs from his own valuation.

Taking into account all of these psychological aspects, our study proposes the following research hypothesis:

H1: *Overconfidence influences the irrational behavior of potential investor*

Several psychology studies have showed that loss aversion is the phenomenon according to which people tend to be averse even to very small risks relative to a reference point, suggesting a kink in the utility function. These studies have pointed out that risk aversion, regret aversion, and loss aversion may reflect a calculated avoidance of unpleasant future feelings. However, mood and emotions felt today also affect risk taking. More generally, people who are in good moods are more optimistic in their choices and judgments than those in bad moods. These are associated with more detailed and critical strategies of evaluating information. For instance, people feel happier on sunny days than on rainy days, but priming them when asking whether the weather affects their judgment of how happy they are.

H2: *Loss aversion influences the irrational behavior of potential investor*

A fundamental tenet of cognitive science is that people have limited cognitive resources, implying that their attention to financial information and investment opportunities may be determined by economically irrelevant factors such as the way information is presented or how often it is talked about by others. Experiments have found that even experienced analysts draw conclusions that are colored by seemingly irrelevant aspects regarding the form in which financial information is presented. Limited attention may also explain the tendency of companies to attract attention when their earnings are growing rapidly, but be ignored when they perform poorly for long periods. Several theoretical papers imply that individuals who irrationally underestimate risk or trade too aggressively can, on average, earn higher expected profits and/or higher expected utility than fully rational traders. Also, overconfidence may often be a source of limited attention. Investors who overestimate their understanding of the economic environment may tend to neglect details and engage in shoddy analysis. Fischer and Verrecchia (1999), and Verrecchia (2001) find that in imperfectly competitive securities markets, irrationally aggressive trading by informed traders can intimidate rational informed traders, thereby allowing overconfident or aggressive-heuristic traders to earn higher expected utility and profits. However, Verrecchia (2001) find that when survival depends on the level of achieved expected utility, in an imperfectly competitive securities market, on average, the heuristic traders must earn lower expected utility than rational traders.

H3: *Limited attention influences the irrational behavior of potential investor*

Self-control means to dominate one's emotion. Investor with high self-control will avoid reluctant attitude in order to realize loss and realize gains. But they will also realize loss to avoid larger losses. The conventional representation of decisions over time has an additively separable utility function with exogenous, declining exponential weights. However, evidence from psychology suggests that discount rates change with circumstances. Deferring consumption involves self-control, and is therefore related to moods and feelings. There is evidence that discount rates are sometimes remarkably high, that gains are discounted more heavily than losses, that

small magnitudes are discounted more heavily than large ones, that the framing of a choice as a delay versus an advance has a large effect on decisions. Thus, considering the above mentioned psychological issues our next research supposition is:

H4: *Self-control influences the irrational behavior of potential investor*

The human mind has a gift for finding order in chaos, even when objective analysis shows no order to be found. In such cases, people show remarkable consistency in the order they perceive. People fall prey to the gambler's fallacy when they expect that a coin that has come up "heads" many times in a row is then more likely to come up "tails," because such streaks are typically short-lived. The tendency to see patterns in random sequences is likely to be particularly important in financial markets, where competitive pressures force market prices to follow a random walk. Despite the randomness in stock movements, many investors subscribe to "technical analysis" trading strategies, based on elaborate patterns, even though systematic research has found little evidence that such patterns can predict future stock movements. Following the idea of discovering patterns in random sequences and applying a judgment of decision making we may formulate our last research hypothesis:

H5: *Pattern recognition influences the irrational behavior of potential investor*

Measurement, data collection and analysis

In regard to test our hypotheses concerning the irrational behavior of potential investor we have developed a survey by questionnaires. Each question has a five-point scale answer anchored from strong disapproval to strong approval. The choice of scale answers was determined by the fact that this type of questionnaires can be easily processed. Data was collected from University of Oradea, Faculty of Economics by convenient sampling. The sample consisted of master students in Finance and Accounting, with bachelor degree, starting from the assumption that they could be anytime potential investors that have a medium to high level of knowledge regarding financial reporting and investment behavior issues. We have applied 100 questionnaires, only 96 were usable. Fifty two percent of our subjects were male, forty-eight - female. The questionnaire consisted in a number of 17 questions concerning aspects of judgment of decision making in certain situations of financial reporting data, moods and emotions of potential investor and other questions related to psychology facts.

Reliability analysis was conducted, in order to study the properties of our measurement scale and the items that composed it. We used the Alpha (Cronbach) model, a model of internal consistency, based on the average inter-item correlation. The Cronbach's alpha for each latent variable were: overconfidence – 0.758, loss aversion – 0.712, limited attention – 0.832, self-control – 0.859 and pattern recognition – 0.816. All these values are over the threshold value of 0.7, so no item had to be excluded from the scale. In order to uncover the possible underlying structures of our data, exploratory factor analysis was first conducted. Out of the 17 items, 5 optimum factors were extracted, using Varimax with Kaiser normalization

method. All loadings were over 0.5, so each item in our questionnaire is significant. Additionally, a sufficient percentage of 72.44 of the total variance is explained by these factors.

The 17 items were assigned to the following latent factors: overconfidence, loss aversion, limited attention, self-control and pattern recognition. Confirmatory factor analysis was then used in order to determine if the number of factors and the loadings of measured indicators on them conform to our hypothesis. The research framework is presented in Figure 3.

Interpretation of results

The results of our confirmatory analysis are presented in Table 1 as well as in Table 2. The loadings of each factor confirm our hypothesis – we can notice that each observed variable explain in a significant proportion the latent construct.

Table 1.

Construct	Observed variable	Std. beta coeff.	Construct	Observed variable	Std. beta coeff.	Construct	Observed variable	Std. beta coeff.
Limited attention LA	La1	0.838	Over confidence OC	Oc1	0.779	Self control SC	Sc1	0.741
	La2	0.775		Oc2	0.625		Sc2	0.840
	La3	0.779		Oc3	0.696		Sc3	0.847
	La4	0.699	Loss aversion LAV	Lav1	0.952	Pattern recognition PR	Pr1	0.880
	La5	0.673		Lav2	0.881		Pr2	0.875
	0.568	Lav3	0.956	Pr3	0.865			
GFI=0.915 AGFI = 0.897 TLI= 0.953 CFI = 0.934 RMSEA = 0.051 < 0.08								

Table 2.

Path	Hypothesis	Hypothesis direction	Std. Beta coeff.	T value
LA → IB	H1	+	0.189	2.536
OC → IB	H2	+	0.235	3.532
LAV → IB	H3	+	0.256	2.685
SC → IB	H4	-	-0.205	-3.562
PR → IB	H5	+	0.156	3.056

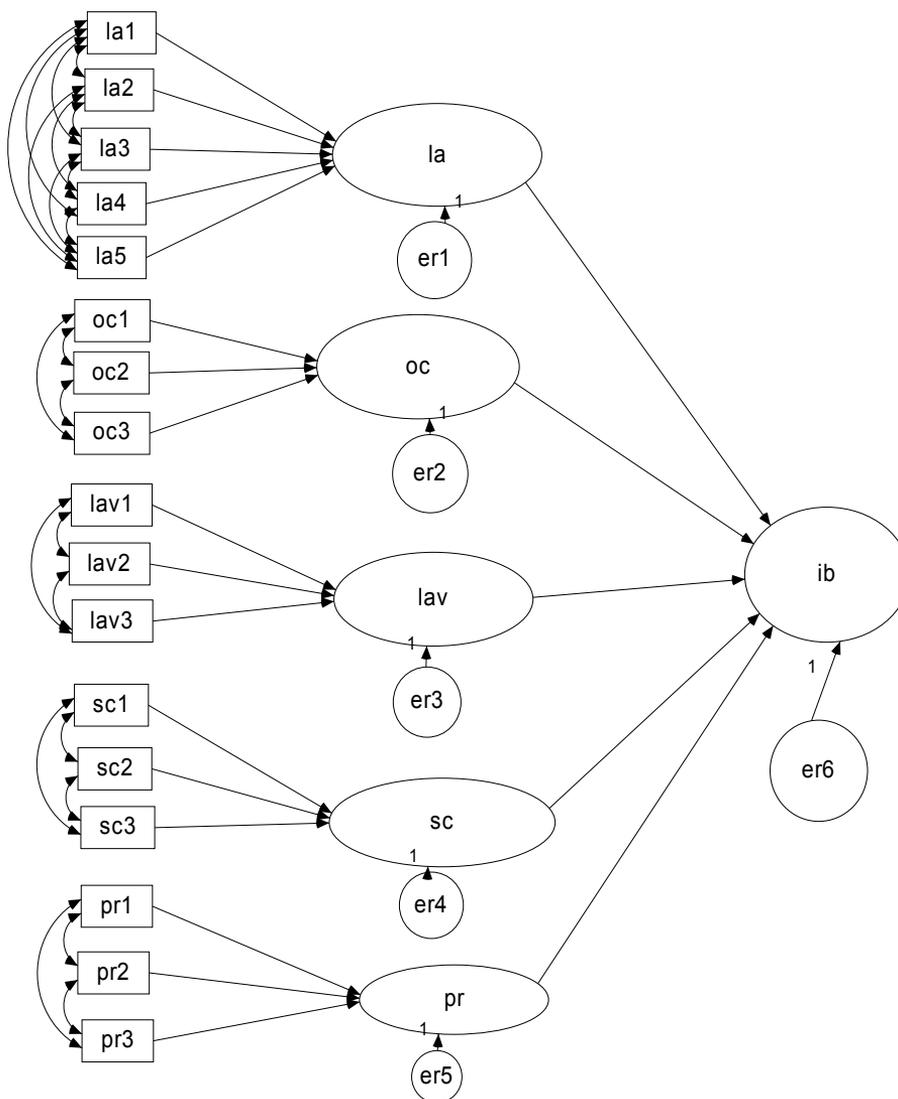


Figure 3

The adequacy of the model is confirmed by the goodness-of fit statistics, which are acceptable. The Tucker Lewis Index (TLI) as well as the Comparative Fit Index (CFI) was used to confirm that, out of several potential factor analysis models, the chosen one has the best properties. The value of the Root Means Square Error of Approximation (RMSEA), smaller than 0.08, confirms the adequacy of the model. The developed structural equation model confirmed each hypothesis. The signs of all the coefficients are consistent with the expected ones. As we can find from the table no. 2 presented above, limited attention, overconfidence, loss aversion and pattern recognition are positively and significantly related to the irrational behavior of

potential investor, while self control is negatively related to it. These results validate all of our research hypotheses.

Concluding remarks and discussion

This study focused on the link between psychology theories and investors behavior in terms of changing in financial reporting and disclosure policies (?). We have found that cognitive and psychology theories lead to different predictions in matters like: earnings management, investor's reaction to disclosure format or how financial analysts' incentives influence their research reports.

Thus, in opinion of Koonce and Mercer (2005), psychology offers two explanations for financial reporting format effects:

- format may influence investors' decisions due to differences in the relative ease of processing different formats;
- certain formats may lead to systematic biases in investors' cognitive processing of the information disclosed.

These psychological explanations allow for new predictions about when and how format influences investor reactions to the disclosure policies.

On the other hand our research focused on measuring the influence of five psychological factors on the irrational behavior of potential investor. We showed that overconfidence occurs when investors overestimate the precision of their private signals and their knowledge about the value of a financial transaction and always remember the successfully times and easily forget the failures. Also, we have pointed out that limited attention is frequently associated with changing in disclosure policies and self-control is negatively related to irrational behavior of investor. Hence, the higher the self-control is the less the irrational behavior exists.

Certainly our research has some limitations. These can be found in the sample size, measurement scale and the link between psychological factors and voluntary disclosure choices. Future research will be oriented towards finding other psychology factors related to irrational behavior of investor, the development of measurement scale, test the psychology variables from managers' perspective and analyze the interactions between psychological variables in order to clarify the correlation among various psychological factors, irrational behavior and financial reporting and disclosure policies.

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MODERN QUANTITATIVE TECHNIQUES USED IN THE MANAGEMENT OF PUBLIC HEALTH POLICY

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Monica Caterina Laslău,
Alexandru Constăngioară**

Abstract

The objective of this paper is rather positive than normative. We employ modern managerial techniques in order to support the development of public policy aimed at promoting healthy nutritional and physical activity practices in adolescent population. In particular this paper uses econometric analysis to model the determinants of overweight and obesity. Understanding the determinants of overweight and obesity is paramount to an effective national public health policy and fortunately modern managerial techniques provide the appropriate scientific framework to address this problem.

Keywords: public health management, quantitative analysis, logit estimation, obesity risk

JEL Classification: C02, I12, I18

Introduction

Public Health focuses on protecting and improving the health of communities through education, promotion of healthy lifestyles and research for disease and injury prevention. Its problematic is broad, covering policy issues from identifying the environmental risks to our health and our surrounding promoting healthy eating and regular exercise among population. Public health management combines politics, business and science in managing specific public resources in order to deliver effective public health services. Diet, nutrition and physical activity are important factors in the promotion and maintenance of good health throughout the entire life course. One of the most harmful consequences of the obesity epidemic is the damage it does to economy. Medical costs associated with overweight and obesity may involve direct and indirect costs (Wolf and Colditz, 1998). National public policies should act in order to curb the epidemic, encouraging and providing opportunities for healthy nutrition and greater physical activity. This paper focuses on identifying the determinants of the risk of obesity and overweight. Rather than embracing the traditional approach based on an analysis of correlations we have

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employed modern econometrical analysis those results successfully identify the partial effect of determinants on the investigated risk.

Nutrition and physical activity as key issues in public health policy

The topics of nutrition and physical activities are highly important in public policy management. Prevalence of malnutrition induced diseases is well documented. Obesity and diabetes are also showing worrying trends. Since 1980, the percentage of children who are overweight has more than doubled, while rates among adolescents have more than tripled. Data from NHANES surveys (1976–1980 and 2003–2006) show that the prevalence of obesity has increased: for children aged 2–5 years, prevalence increased from 5.0% to 12.4%; for those aged 6–11 years, prevalence increased from 6.5% to 17.0%; and for those aged 12–19 years, prevalence increased from 5.0% to 17.6% (Ogden, 2008).

According to WHO obesity is one of the greatest public health challenges of the 21st century. One of the most harmful consequences of the obesity epidemic is the damage it does to economy. Medical costs associated with overweight and obesity may involve direct and indirect costs (Wolf and Colditz, 1998; Wolf, 1998). Direct medical costs may include preventive, diagnostic, and treatment services related to obesity. Indirect costs relate to morbidity and mortality costs. Morbidity costs are defined as the value of income lost from decreased productivity, restricted activity, absenteeism, and bed days. Mortality costs are the value of future income lost by premature death. In 2000, the total cost of obesity (including medical costs and the value of wages lost by employees unable to work because of illness, disability, or premature death) in the United States was approximately \$117 billion. With the Centers for Disease Control and Prevention (CDC) estimating that more than one in three children born in 2000 will eventually suffer from diabetes, the future costs of weight-related health care could be staggering.

Promoting healthy eating and physical activity behavior and curbing the risks of obesity is also a priority of the Second Program of Community Action in the Field of Health for period 2008-2013. The program is intended to complement, support and add value to the policies of the Member States and contribute to increased solidarity and prosperity in the European Union by protecting and promoting human health and safety and by improving public health.

We appreciate that academic environment should bring its contribution to better understanding of determinants of obesity as part of the general effort to deal its implications, including but not limiting to its economic costs.

Data and methodology

Our study of factors associated with the risk of overweight and obesity covers the period between 2007 and 2008. The sample consists of 1311 middle and high school adolescents, of ages between 10 and 19. Our study covers only adolescents in Bihor County. We have chosen to focus our research on adolescents due to their documented increased exposure to health problems induced by unhealthy nutrition

and lack of physical activity. Data was collected using a questionnaire inspired by traditional questionnaires for investigating youth risky behaviors (YRBSS 2005, CORT 2004).

We have conducted an econometric analysis of the partial impact of eating and physical activity behaviour on the risk of overweight and obesity. Adolescents were classified in weight status categories. 76,7% of adolescents were healthy weight students, 13,6% were overweight, 5,6% were obese and 4% were underweight. A binary variable corresponding to the investigated risk was constructed. Data collected using the questionnaire was subsequently refined, eliminating outliers and defining appropriate working variables. Initial analysis conducted a regression of the investigated risk on each independent variable. This type of analysis is performed for the initial selection of the variables in the model based on their R-squared. A high value of the R-square is evidence of the intensity of the association respective variable with the risk of overweight and obesity.

Initial selection of variables was followed by econometric analysis of the determinants of the investigated risk. A LOGIT model was employed in this respect. LOGIT is the most prevalent forecasting instruments in business and even in academic research. It is a parametric model which assumes a functional relationship between target variable and independent variables. For example a standard logistic regression model assumes the logit (p) is a linear combination of the inputs.

$$\log \frac{p}{1-p} = \beta_0 + \beta x' + \varepsilon$$

This is a non-linear model. Non-linearity concerns coefficients not variables, as basic econometrics textbooks say (Wooldridge, 1999). Consequently it might include squared or interaction terms as is often the case. One can see that in this case the probability of the event of interest is given by:

$$p = \frac{e^{\beta_0 + \beta x' + \varepsilon}}{1 + e^{\beta_0 + \beta x' + \varepsilon}}$$

Introductory economics warn about the potentially erroneous interpretation of correlations and pair-wise differences between classes of variable based on χ^2 test, which are the basic instruments of the standard statistical analysis performed in the field of public health policy. Basically traditional research can supply potentially misleading results in that they do not have ceteris paribus interpretation. On the contrary, an econometric analysis does have a causality interpretation by definition. The estimated coefficients are successful in isolating the impact of independent variables – in this case the determinants of the risk of obesity and overweight.

Our datasets included 226 variable grouped in several broad categories. First category covers two demographic variables, sex and age. Second category includes variables concerning body and health perception among adolescents. The third category is comprised of variables controlling for dietary habits and physical efforts among adolescents.

Main results

Preliminary analysis has selected variables with an R-square higher than a threshold value of 0.005. Variables with an R-squared lower than 0.005 were eliminated from the analysis due to their weak association with the risk of obesity and overweight. Preliminary analysis has selected 28 out of the 226 variables for subsequent modelling. Among them only 9 variable have an R-square higher than 0.05. On overall the 26 variables are responsible for 25% of the variation of the investigated risk. Put differently, a multiple regression of the investigated risk on the 26 variables results in an R-squared of 25%. The independent variables correspond to the factors having a high impact on the risk of obesity and overweight.

As noted previously, results of econometric analysis have *ceteris paribus* interpretation. To the contrary, correlation analysis is misleading since it fails to control for separate the influence of different factors on the investigated risk. A high correlation coefficient could in fact be the consequence of the impact on our dependent variable of factors we can't control for. However linear regression employed so far has its disadvantages. Non-linear models such as LOGIT estimations are considered a more appropriate statistical tool for estimating probabilities than linear probability model. As Schreiner (2003) shows, empirical results tend to agree with theoretical predictions. Consequently we have chosen to employ a LOGIT estimation of the risk of obesity and overweight as a function of the 26 variables identified previously. Nevertheless we have to mention that if a large proportion of the observations have estimated risk between 0.2 and 0.8 (it's not the case in the present analysis) the logistic curve is well approximated by a straight line and Linear Probability Model can give similar results (Hand and Henley, 1997).

Logistic analysis has refined previously findings. Not all the previously selected variables are statistically significant. Variables APPETTITE PROBLEMS, HEATH PERCEPTION, PREFERENCE FOR FRUITS, FREQUENCY OF FRUIT CONSUMPTION and variables controlling for the knowledge related to healthy dietary habits have been rejected because of low statistical significance. Remaining variables are statistically significant at $p < 0.05$. Most of them are highly significant ($p < 0.001$) and in several are significant at $p < 0.1$. For later cases it is usually the case that some of their classes are highly significant whereas some others fail the significance criterion. Of course where results are not statistically significant we can't make any generalization based on the results.

We have to mention that the estimated coefficients do not have direct interpretation. Nevertheless, the size of the estimated coefficient is a measure of the intensity of the reported relationship. Empirical studies focus on the sign of the coefficient which offers valuable information about the direction of the relationship. Table 1 shows the results for demographic variables (sex and age) and for selected variable that controls for weight perception.

Table 1 Intensity and statistical significance of the determinants of obesity and overweight risk (I)

Variable (Label)	Code	Coefficient	p value
sex	0	-1.97	0.00
age		-0.80	0.00
Weight perception	0	-2.87	0.00
Weight perception	1	-0.81	0.01
Weight perception	2	-1.28	0.00

Table 1 shows that girls have a lower estimated risk of overweight and obesity ($\beta=-1.92$). The estimated risk decreases with age ($\beta=-0.80$). Finally, for the weight perception three coefficients are reported, corresponding to three classes of that variable (very underweight, slightly underweight and about the right weight). All the coefficients are negative which means that the three classes are negatively associated with the risk of obesity and overweight. All the coefficients are statistically significant at high confidence values.

Table 2 presents the results for the variables corresponding to controlled dietary habits.

Table 2 Intensity and statistical significance of the determinants of obesity and overweight risk (II)

Variable (Label)	Code	Coefficient	p value
Breakfast omitted	0	1.14	0.04
Morning snacks	0	0.72	0.00
Morning snacks	1	0.01	0.07
Morning snacks	2	0.87	0.02
Evening snacks	0	0.09	0.00
Evening snacks	1	0.60	0.03
Evening snacks	2	0.86	0.00
Frequency of milk intake	0	1.41	0.00
Frequency of milk intake	1	-0.69	0.13
Frequency of milk intake	2	0.71	0.19
Frequency of milk intake	3	-0.00	0,98
Frequency of white meat consumption	0	13.77	0.00
Frequency of white meat consumption	1	12.48	0.00
Frequency of white meat consumption	2	10.72	0.00
Frequency of white meat consumption	3	5.78	0.00
Frequency of eggs consumption	0	7.36	0.00
Frequency of eggs consumption	1	4.71	0.00
Frequency of eggs consumption	2	5.16	0.00
Frequency of eggs consumption	3	3.95	0.00

As table 2 shows, omitting breakfast increases the investigated risk ($\beta=1.14$) which accords with previous empirical findings. Variables that control for the frequency of snacks have four classes on a scale from 0 (for always) to 3 (never). We see that the frequency of snacks is positively related to the obesity and overweight risk – as the frequency increases so does the reported risk. Afternoon snacks were eliminated from the analysis because they are not statistically significant. For the variable controlling for milk intakes, only the class with zero milk intakes in the month preceding the survey has a statistically significant coefficient. We see that excluding milk from diet increases the risk of obesity and overweight. We also see that a low consumption frequency of white meat and eggs is also associated with an increased risk of the investigated risk.

Table 3 presents the impact of variables controlling for physical effort on the obesity and overweight risk.

Table 3 Intensity and statistical significance of the determinants of obesity and overweight risk (III)

Variable (Label)	Code	Coefficient	p value
Moderately intensive physical activity	0	3.84	0.00
Moderately intensive physical activity	1	3.14	0.00
Moderately intensive physical activity	2	4.46	0.00
Moderately intensive physical activity	3	2.62	0.00
Moderately intensive physical activity	4	3.03	0.00
Sport classes efficiency	0	8.00	0.00
Sport classes efficiency	1	6.76	0.00
Sport classes efficiency	2	7.49	0.00
Sport classes efficiency	3	7.46	0.00

Behavior related to physical activities also plays an important role in determining the risks of obesity and overweight. Lower levels of moderately intensive physical activity (under five days per week) determine a higher obesity and overweight risk. The efficiency of sport classes is also impacts on the investigated risk: lower levels of efficiency (under 30 minute of sport per class) are associated with an increased obesity and overweight risk.

Conclusion

Diet, nutrition and physical activity are important factors in the promotion and maintenance of good health throughout the entire life course. The burden of chronic diseases associated with diet, nutrition and physical activity is rapidly increasing worldwide. Economic costs associated with obesity are surging. Only in US in 2000 the total cost of obesity was approximately \$117 billion.

In order to identify the determinants of obesity and overweight we have conducted an econometric analysis based on data collected in 2007-2008 period. From a total of 226 constructed variables only 26 are selected by preliminary linear regression analysis. Logit analysis shows that all three classes of variables are associated with the risk of overweight and obesity although it further refines the selection of input variables. Demographic variables (sex and age) are strongly associated with the investigated risk and so it is the weight perception. Nevertheless, for policy purposes more relevant is the impact of dietary habits and physical activity among adolescents. Our study bring supporting evidence of the impact of healthy eating and physical activity behavior on the risk of obesity and overweight. Identifying the determinants of obesity and overweight reduces the risk associated with them providing that competent authorities are successful in developing and implementing appropriate public health strategies. Introducing nutritional programs in schools, involvement of families, social care services and local communities and national informational campaigns aimed at promoting healthy lifestyles can increase the awareness of targeted public and contribute to the efficiency of public health policy.

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**ORGANIC PRODUCTS - A CHANCE TO MAKE
THE AGRICULTURE OF ROMANIA
IN THE EUROPEAN UNION AND A SOLUTION
TO ECONOMIC CRISIS**

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Geanina Tudose,
Camelia Vechiu **

Abstract:

Sustainable development is development that combines the present requirements without compromising the ability of future generations to meet their own needs. Sustainability is therefore characterized by three main aspects often in conflict: the economic aspect (effectiveness), the social (equity) and environmental (pollution, degradation).

In the agricultural sector link between efficiency, equity and environment is very necessary. Economic performance in agriculture depends primarily on availability and quality of natural resources. Environmental damage may adversely affect agricultural productivity and income, which in turn may be pressure on economic and social structure in rural communities.

Thus, in the current economic crisis, the experts recommended as solutions three main directions of interest: tourism, investments in renewable energy and organic farming.

Keywords: organic agriculture, comparative advantages, economic performances

JEL Classification: Q10, Q18, Q57

Introduction

Sustainable development is development that combines the present requirements without compromising the ability of future generations to meet their own needs. Sustainability is therefore characterized by three main aspects often in conflict: the economic aspect (effectiveness), the social (equity) and environmental (pollution, degradation).

In the agricultural sector link between efficiency, equity and environment is very necessary. Economic performance in agriculture depends primarily on availability and quality of natural resources. Environmental damage may adversely affect agricultural

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productivity and income, which in turn may be pressure on economic and social structure in rural communities.

At EU level, the market for organic products reached in 2005 an estimated 23 billion euro. This includes virtually all primary and processed agricultural products (bread, wine, meat, milk, oil, fish etc.). Organic products are, in general, with 25-30 percent more expensive than conventional products, but, depending on the game market may reach 400 percent of the price of conventional product.

As regards the countries of Eastern Europe, they will need a period of 10-15 years after their accession to the European Union in order to develop and structure its domestic market. For some EU countries, this period was insufficient, an evidence is Spain, which 17 years after accession, began an internal market structure. During this period, Spain has exported almost all organic products on the northern European markets.

In the current economic crisis, the experts recommended as solutions three main directions of interest: tourism, investments in renewable energy and organic farming.

In the future, Romania will have to focus more agriculture to organic production, to deficiency product in the European Union, from the considerations that we expose below.

Sustainable development is development that combines the present without compromising the ability of future generations to meet their own needs. Sustainability is therefore characterized by three main aspects often in conflict: the economic aspect (effectiveness), the social (equity) and environmental (pollution, degradation). In the agricultural sector link between efficiency, equity and environment is very necessary. Economic performance in agriculture depends primarily on availability and quality of natural resources. Environmental damage may adversely affect agricultural productivity and income, which in turn may be pressure on economic and social structure in rural communities.

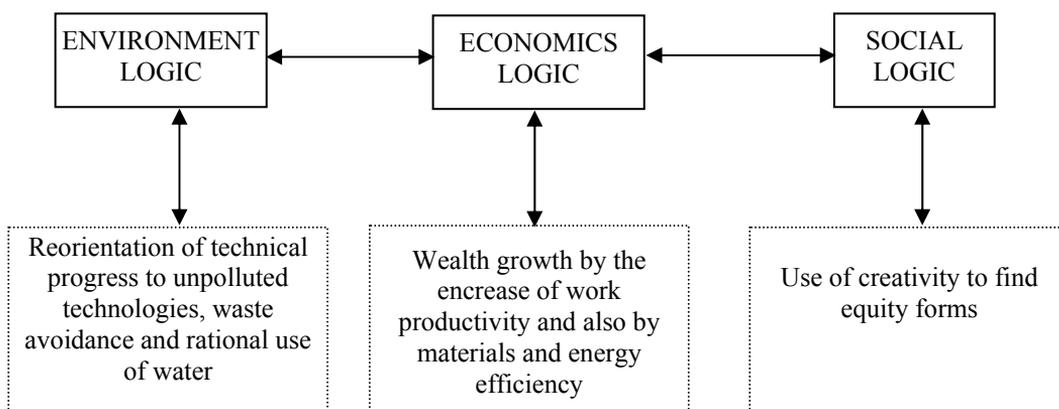
During the most important period of growth that a world has seen in spite of technological innovations unprecedented, mess has expanded dramatically. In addition to the expansion of unemployment and deteriorating social situation of the population, we witness the destabilization of life (the waters are poisoned, soils are degraded, the air is dangerous for breathing). The response to these imbalances is economic development - an alternative, healthy, sustainable in order to obtain economic and financial results without prejudicing the environment, while contributing to solving social problems, such as reducing unemployment.

Food businesses must be profitable as businesses trivalent "environmental management systems, to gain performance by economy, environmental values (to avoid waste and pollution) and social ones. They must work to harmonize the potential of human resources, with state of the environment (output's business will be best if at equality between net marginal benefit and marginal external cost - the

value of marginal damages plus penalties in case of pollution) and the particularities of human resources based on a degree of fairness, cooperation, complementarity.

Theoretically, business today must be based on a long-term, logic triad, which we know as the (logical) trivalent, whose fate is to eliminate the application of the exclusive economic logic.

Figure 1



Gradually, companies today must transform into profitable trivalent agricultural enterprises, starting from the following:

1. use of clean technologies, leading to reduce waste;
2. processing of “green” raw materials;
3. procurement and marketing of “green” products;
4. use “right place” man.

All these aspects determine the increased efforts of enterprises to have: Expenditure of large research and development expenses related to the significant acquisition of patents, licenses, trade marks, brand; Investment amount above which the “exhausted” enterprises can not cover self and entail recourse to external financing. In our country, it still remains onerous (average annual interest rate on bank loans in lei is 26-30%); Operating expenses will increase dramatically as the costs for raw materials, organic, organic auxiliary materials, continuing with the values recorded for depreciation costs and, not least the costs of staff; Expenditure to promote “green” products and their role for food security will increase on the background of increasing prices for such products; Agricultural enterprises, and agriculture throughout Romania should be in line of a transformation process in which exploitation of resources, investment direction, techniques guidance and institutional changes take place in harmoniously, in a process of sustainable development - trivalent as one considered by the World Commission of Environment and Development. Ecology is and will be at least 20 years from now the number one concern worldwide.

A timely business during the current economic situation is the application of modern technologies in processing natural food products. Today, Romania has no processors, but has much raw material, which it sends to the West. For example, the cost for organic agricultural industry in our country would be like the raspberry (strawberry), the processing to obtain products that could worth 100 euros kilogram, rather than sell fresh raspberry in Germany with only 3 euro kilogram, what happens now.

Also, a direction for opening new businesses in agriculture, would be, services more specifically, agricultural research services.

Planted areas

Organic farming worldwide increasingly gaining ground. Total areas occupied by the total organic crops in 2007, according to SOEL-FiBL was over 30 million hectares, the most extensive being grown in Australia (11.8 million hectares), Argentina (3.1 million hectares), China (2.3 million hectares), Italy (1.2 million hectares), etc.. Developing countries from Africa, Asia or Latin America paid close attention to areas cultivated with organic growth, but are also the target of debates as to whether using waste water for irrigation of organic crops.

In Europe there is land over five million hectares for organic crops, which corresponds to 2% of total agricultural land. These lands are located in EU countries, including Romania and Bulgaria, EFTA countries (Iceland, Liechtenstein, Norway, Switzerland) and in Turkey, Bosnia-Herzegovina and Croatia.

In terms of area under organic cultivation in the European Union in the first place is Austria with 11.30% of the area, followed by Switzerland - 9.70% Italy - 7.94%, Denmark - 6.51 %, Sweden - 6.30%, Czech Republic - 5.06% France - 1.40%. Areas less than 1% are grown in Ireland, Slovenia, Greece, Poland, Slovenia.

Large areas in Eastern European countries, which lack financial means have not received high chemical inputs in recent years have the opportunity today to transform the “Cinderella” to “ER” in the context of the European ecological deficit. Thus, the agriculture of these countries could enter one of the few colors that, technically and economically there are no genuine European competitors.

Sales

Globally, the volume of sales of organic products reached 46 billion dollars in 2008 and it is estimated that, with an annual growth rate of 10% by 2010 will reach 60 billion dollars. Market in North America has increased the pace of the alert, the United States in 2006 becoming the biggest market for organic products in the world. The European market has a volume of sales of 15 billion euros, of which one third are performed in Germany, occupying the first country in Europe. Germany is followed by Britain, Italy and France. In Europe, per capita consumption exceeds 100 euros only in Switzerland (102 euros per person). Representative in other countries, this indicator reached 64 euros in Austria, 56 Euros in Germany, 47 euros in the United Kingdom, 42 euro in Sweden, 32 euros in Italy, 28 euros in the Netherlands and 27 euros in France.

Products and production

The market for organic products in the European Union includes virtually all primary and processed agricultural products: bread, wine, meat, milk, oil, fish etc..

Eastern - Europe will have to focus organic production, produced by deficiency in the European Union namely: vegetable protein and red fruit. The reason is that western countries have begun to significantly reduce production in sectors which requires much labor such as those mentioned above, which becomes an advantage for others.

In some European countries, as mention of Greece, Portugal, France, Italy have been significant increases in organic production represented especially in fruits and vegetables. Organic farming has developed, also in Hungary, Poland or Romania, but the achievements are far from the desired and expected, if judged after the demand rate, which outrun the supply. Germany, for example, is by far the main consumer of organic products and although it is the third producer, and share, at EU level does not meet the demand for organic products to their consumers. In addition, Germany has known problems of planned supply of grain and barley for beer factories, and eggs, dairy and pork, this state of affairs is emphasized in the years of crisis caused by “mad cow disease”. France, who was leader of the 80 organic production makes now larger effort to convert, being obliged to resort to imports to meet consumer demands.

In Romania

Among the organic products are made notable notes oil and protein plants, grains, technical plants, herbs, berries, sunflower oil and soy products, processed milk (telemea sheep, cheese, Feta-type cheese) and honey. Furthermore, Romania is a source of feed for organic livestock.

Areas planted in environmental system have increased in several years of almost tenfold, from 17.438 ha in 2000 to 190.129 ha in 2007, representing less than 1% of the agricultural area of the country. It is expected to increase in area cultivated ecologically to 400,000 ha in 2010.

Tabel no. 1

Land and Livestock Development of organic agriculture in Romania

SPECIFICATION	UM	<i>accomplished</i>							
		2000	2001	2002	2003	2004	2005	2006	2007
1. Total surface	ha	17.438	28.800	43.850	57.200	73.800	110.400	143194	190129
Grains	ha	4.000	8.000	12.000	16.000	20.500	22.100	16310	32222
Grasslands and fodder plants	ha	9.300	14.000	20.000	24.000	31.300	42.300	51200	57600
Oil and protein plants	ha	4.000	6.300	10.000	15.600	20.100	22.614	23872	26491
Vegetables	ha	38	100	700	200	300	440	720	310
Fruits (morello cherries, cherries and apples)	ha	-	-	50	100	200	432	292	650

Gathering spontaneous flora	ha	50	100	300	400	500	17.630	38700	58728
Other crops	ha	50	300	800	900	900	4.884	12100	14128
2. Animals:	x	x	x	x	x	x	x	x	
Milk Cows	heads	2.100	5.300	6.500	7.200	7.200	8.100	9.900	6265
Sheeps and caprinae	heads	1700	3700	3.000	3.200	3.200	40.500	86180	78076
Hens	heads	-	-	-	2.000	2.700	7.000	4300	4720

Source: www.madr.ro, Communications inspection bodies and certification

Tabel no. 2

Production development of organic agriculture in Romania

SPECIFICATION	ACCOMPLISHED								
	U.M	2000	2001	2002	2003	2004	2005	2006	2007
1. Vegetal quantities:	to	13.502	24.400	32.300	30.400	87.200	131.898	166573	169312
Grains:	to	7.200	12.500	16.000	14.400	41.000	55.000	48441	65127
Oil and protein plants	to	5.500	7.200	11.000	12.480	37.000	45.600	73082	52982
Vegetables	to	600	4.000	4.000	2000	3.000	7.200	8707	3410
Fruits (morello cherries, cherries)	to	-	-	200	300	500	1.000	340	1255
Gathering spontaneous flora	to	200	400	300	320	4.500	16.748.	24962	35236
Other crops	to	2	300	800	900	1200	6350	11041	11302
2. Animal production	x	x	x	x	x	X	x		
Cow Milk	hl	58.367	63.885	92.747	92.485	92.868	100.000	122000	85031
Sheep and goat milk	hl	701	1.740	1.360	1.470	1.800	13.500	15500	13273
Eggs	thousands	-	-	-	500	650	1.820	1075	1321
3. Produse procesate	x	x	x	x	x	X	x		
Sheep cheese	to	18	46	36	45	48	480	520	510
Schweitzer	to	23	23	100	110	116	268	576	580
Cheese	to	-	121	250	220	253	330	642	640
Canned vegetables and fruits	to	-	-	-	-	35	50	42	40
Honey	to	10	20	80	110	320	610	1242	1950

Source: www.madr.ro, Communications inspection bodies and certification

Production yields of organic farming are considered lower by 20% compared to those in conventional agriculture. The situation varies from one culture to another and from one year to another. It is important the presence of subsidies, funds and programs for agriculture and rural development and other supportive factors. By accessing an agroambiental program on medium term, a Romanian farmer could receive direct payments from the European Union of approximately 700 euros per hectare per year.

As in the European Union, demand for organic products is increasing. Consumption of organic products on the Romanian market was valued at 2% of the total consumption of food from the market in 2008. Work to promote these products should be supported, but without affecting the prices to increase, so that these products are more expensive by 20% than the conventional ones and the consumer does not appreciate this as one justified price.

Producers are interested in accessing European funds for developing the processing, given that currently much of the production sector is represented by organic material. Moreover, in 2009 came into effect a new regulation that allows parallel processing of conventional and organic products, which will lead to development of the sector.

With increasing land under organic cultivation has occurred a request for export products. Thus, in 2007 were exported about 100.000 tons, i.e. over 38% of organic products of plant origin, 10% of processed milk products, 65% of the production of honey, etc. Their value was about 80 million euro. In 2008 it exported 130,000 t, representing 48% of organic products of plant origin, 6% of processed milk products, 68% of honey, etc., with a value of 100 million euro. Imports of organic products are insignificant, they total less than 7 million euro. They summarize the brown sugar from sugar cane, coffee, chocolate, beverages made from soy or fruit juices.

Number of operators in the sector of organic farming in 2008 was 4190 compared to 3835 in 2007. Increases in this index is around 10% annually. Issues of organic farming is an area of concern to researchers in the field, which demonstrates that it can be profitable. For example, we further present a summary of research that demonstrates that in organic vegetable cultivation it is possible a profitable farming if several criteria are met related to crop rotation technology, planting scheme, organic fertilization, soil treatments made at time of seedling stage and during the growing season, vegetation control factors (temperature, humidity), application through drip watering. The calculation of efficiency indicators in early cucumbers crops, tomatoes and cauliflowers made since 2005 are as follows:

Tabel no. 3

Production yields of organic vegetables at the end of 2005

RON

Culture	Turnover	Costs	Profit	Commercial rate of return	Rate of return of resources consumed
Early Cucumbers	1.350	957,5	392,5	29,07	40,99
Autumn cauliflower	750	539,5	210,5	28,06	39,01
Tomatoes	1400	655,5	744,5	53,17	113,57

Source: www.fermierul.ro Adrian Nițu George Ionita, Nastasa Belcea, Enuța Iorga Nedița Gabriela, Claudia Mosoiu, John Martinof, cultivating organic vegetables - a profitable business

As a conclusion we can say that organic production, which is still at an early stage of development, can be a profitable opportunity for Romanian agriculture, while a solution to exit from the crisis of the Romanian farms as it represents comparative and competitive advantages in the following:

- Soils are fertile and productive;
- Chemisation and technologisation have not yet reached the levels of highly industrialized countries;
- Traditional agriculture is based on the use of clean technologies;
- Can become a field of employment in rural areas and increase the interest to live in this environment;
- National and global demand for organic products is increasing;
- Biodiversity;
- Methods of farming provides living conditions and natural development;
- Good Prices.

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HOW DOES THE DEMOCRACY AFFECTS THE MULTINATIONAL CORPORATIONS PRESENCE? THE CASE OF FDI IN ROMANIA

Laura Brancu*

Abstract:

The foreign direct investment (FDI) towards the Central and Eastern European Countries (CEECs) opens us, in the current context of the globalization, a particularly rich field of research. Closed before 1990 for the foreign capital entries, the CEECs now attracts important volumes of FDI. Many governments from these countries offer important incentives to attract more FDI, motivated by the positive effects expected to rise on the local economy.

This paper will concentrate on the Romanian case. There is large body of the literature who emphasize that institutional factors, like democracy, the political stability, the rule of law and the lack of corruption are important elements for foreign investors. By exploiting the results of our survey on the French firms installed in Romania, this paper try to analyze the role of these institutional factors for attracting the foreign firms in Romania.

Keywords: foreign direct investment, Central and Eastern European Countries, Romania, institutional environment, democracy.

JEL Classification: C31, C33, F21, F23.

Introduction

After the fall of the Berlin's wall, the entries of foreign direct investments (FDI) to CEECs knew an important growth. The inward FDI flows received by this group of countries had pass from 2.5 billions dollars at the beginning of their transition to 66.5 billions in 2007 (according to the statistics of UNCTAD, WIR 2008). This tendency represents the logical result of liberalization in these countries, liberalization which is one of the most important reforms realized in the context of the their systemic transformation after 1990. By following the liberalization way, the governments of CEECs encouraged the FDI entries for taking advantage of the global and national benefits that they can bring. Effectively, in the current context of the globalization, the FDI is generally seen as the most dynamic international flow of resources towards developing countries (UNCTAD, WIR, 1999) susceptible to contribute to the process of their convergence.

In this paper we are going to concentrate on the Romanian case. Because the statistical data on FDI indicate the marginal position of Romania compared to the other CEECs, we are going to search whether democracy affects FDI in Romania;

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whether the slowness in the progress registered by Romania on its way towards democracy influenced the entries of the foreign firms.

The point of departure of our study was the classification realized by Freedom House (*Nations in Transit*) who classifies Romania in last position comparative to the other CEECs as regards its progress towards democracy. So, according to Nation in Transit Report (NIT 2006 Romania : 1) Romania is described as the country of the region who live the most difficult political transition and the most expensive economic transition and who (according to the methodology of Freedom House) is still classified in the category of “semi consolidated democracies”. Whereas the other countries of the region are integrated in the “consolidated democracies” category⁴. In spite of all the critics which we can do concerning this type of country-rating based on composite index (critics which will be developed later in this paper), the Freedom House report give us a useful point of departure as far as it compares the progress realized in the change towards democracy by the country of the region. So, according to the quoted source, in 1999, from the time of the Commission invitation to join European Union, Romania still had important structural reforms to carry out, comparative to the other CEECs which already implanted them at the beginning of 1990s.

In these conditions, we are going to study in which measure the delays registered by Romania in its road towards a stable and fair institutional environment, towards the democratic change, can explain its marginal position in term of attractiveness for the FDI.

This paper will be organized as following: a review of the literature (1) on the role of the institutional stability in general and of the democracy in particular, as factors of attractiveness for the FDI, will be followed by a presentation of our survey on the French firms implanted in Romania (2). The results of our survey (3) and the conclusions will finish this paper.

1. Review of the literature on the role of the institutional stability as factor of attractiveness for the FDI

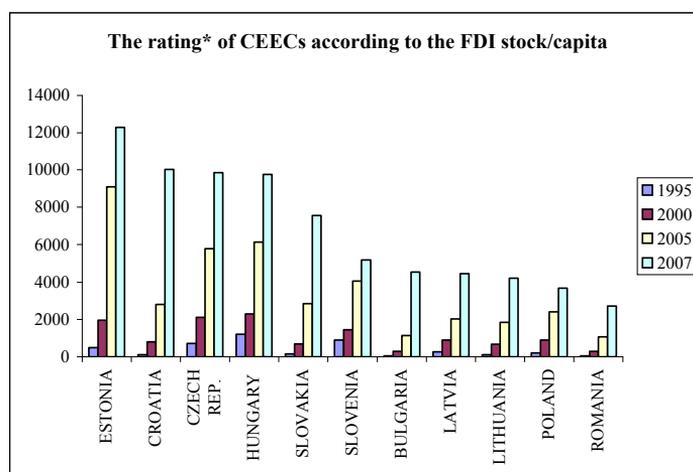
The opening of the CEECs towards the foreign investments joins the new paradigm of the globalization, that of the attraction and the promotion of the FDI, who gradually started in the 1980s (Michalet 1999). If until the seventies, in the context of internationalization process, the multinational enterprises (MNEs) was struggled to invest in certain territories and so the excess of the offer of FDI determined the MNEs to tried to take advantage of the opportunities offered by the new developing countries, in the 1980s, with the globalization, the MNEs are the one who put in competition the national territories. In front of a increased demand for the FDI, the MNEs becomes more and more selective in their choice of localization. As their capacity of evaluation and selection strengthened, the consequence is the classification of territories according to their attractiveness for the FDI. So we find

⁴ with the exception of Bulgaria, classified in the same category as Romania, but with a final score for the democracy better than Romania.

on one side the most attractive countries, who receive the most of the FDI, and the other side the so called “ peripheral countries “ who attract a number limited of foreign firms, on the ground of the ownership of an abundant factor (natural resources, not qualified work, etc.). From this point of view, the CEECs offers an original field of investigation to study the phenomenon of the FDI, even if their homogeneity due to their historic common inheritance tends to become blurred in time, under the influence of the strategies adopted in the transition to the market economy.

Indeed, in spite of the fast growth of the FDI inflows in these countries, important is to notice that the 575 billion dollars received in the form of FDI between 1991 and 2007 know an uneven distribution between the countries of the zone, which were nevertheless in similar conditions at first. The observation of the more complex indicators (see exhibit 1), who take into account the economic weight of the host country, like the FDI stock per capita testifies that next to countries as Estonia, Croatia, Hungary, Czech Republic, which knew how to attract important amounts of FDI, appear other countries like Romania or Bulgaria, marked by relatively weak performances⁵.

Exhibit 1.



*the rating is based on 2007 FDI stock/capita (en dollars)

Source : our calculations based on WIR statistics.

Because the statistical data on FDI indicate the marginal position of Romania compared to the other CEECs, we are going to search whether democracy affects FDI in Romania; whether the slowness in the progress registered by Romania on its way towards democracy influenced the entries of the foreign firms.

Both economic performances of an economy along time, and the choices of foreign investors, are strongly influenced by its political, social and institutional environment. A fair, stable, transparent and efficient law system, which defends and

⁵ For a more detailed presentation, see Brancu (2008).

respect private property and individual rights; also honest public institutions and governmental policies favorable for market economy, represent conditions that support foreign capital inputs (Andreff and Andreff 2002; Gastanga et al.1998; Globerman and Shapiro 2002; Michalet 1999; Baniak et al. 2002; Wheeler and Mody 1992). These elements play a highly important part in the implantation decision because they influences the quality of the business environment and acts as a necessary condition preceding any input of foreign capital. Sethi et al. (2002:692) named them “basket of pre-requisites” which guarantees for the health of the business and investment environment; Globerman and Shapiro (2002:19) use the term “governance infrastructure”

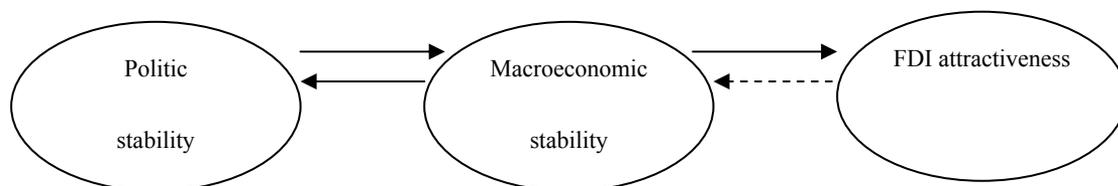
The stability of institutional environment is often considered by economic studies as a stimulating factor for FDI. We can say that stability, which reduces incertitude over economy evolution in the host country, is a primary determinant for investments generally and specially for long term foreign investors (in contrast with short term speculative capital movements). In this paper, this stability will be appreciated through the politic stability, the Rule of law, corruption and the democracy.

Political stability

Political stability is an important factor in the foreign implantation decision, especially in the case of developing or transition economies. On this ground, this variable is sooner found in studies focused on analyses of these economies rather than those on developed countries. Although most of the analyses results confirm the presence of negative correlation between political risk and FDI inputs (Sun, 2002 ; Bandlej, 2002 ; Pan, 2003 ; Zhao, 2003 ; Habib and Zurawicki, 2001 ; Globerman and Shapiro, 2002 ; Shingh and Jun, 1995), the relation between these two variables is not totally understood: some of the studies emphasize either the absence of the relation (Akinkugbe, 2003 ; Asiedu, 2002 ; Chakrabarti 2001 ; Lemi, 2003) or the change in the correlation in time (Loree and Guisinger, 1995) (see Table 1.).

The difference between studies results are largely connected with the diversity of the sources and variables used for the politic instability measurement. In this way, most authors use either a limited number of variables or the composite index. Besides, authors often complain about the lack of available data, especially for developing countries, which makes them to use the index published by international organizations or consulting offices. Interpretation of studies results is more delicate as the direction of the casualty between politic stability and entrances of FDI is not univocal (exhibit 2).

Exhibit 2. A possible relations between politic stability and FDI attractiveness



So, we find that politic instability appears to be a very complex phenomenon and that the large number of variables used for measuring can only present some of the aspects that characterize it, without describing it totally.

Rule of law

One of the most important aspects used in explaining the economic performances of a country is the quality of its institutions. Especially for developing countries, institutional background is extremely important, because the presence of the rule of law is a key element of a functional market economy. The absence of arbitration, the existence and respect the law, the equality before the law, give to citizens, but also to foreign investors the guarantee of their property and their income, and allow them to make long term plans. In case of developing countries, these variables influence growth potential (Barro 2000:18). Respect for the rule of law becomes a determinant of FDI attractiveness, not only because it stimulates growth, but also because no investor would be determined to involve himself in FDI if he is not sure he can benefit of the fruits of his capital.

The small number of empirical studies which analyses the relation between the rule of law and FDI is explained essentially by the difficulties in measuring. As in the case of political stability, the empirical works use some compromise solutions: (1) integration of “rule of law” variable in the evaluation of country risk; (2) use of index made by specialists, international organizations or consulting offices. Despite both solution’s limits (the difficulty to isolate the impact exerted only by “rule of law” variable in the first case, and the subjectivity of the classification performed on the basis of composite index in the second case), the studies results show a positive correlation between law respect and FDI inputs (according to Table 1.).

So we see that empirical verifications identified in economic literature (Globerman and Shapiro, 2002; Gastanaga et al., 1998; Smarzinska, 2000) conclude unanimously on the existence of a positive correlation between respect for the rule of law and FDI inputs. The biographic analysis allowed us to observe that in numerous studies, rule of law is analyzed trough variables like corruption, we will study next.

Corruption

There is a wide consensus that the corruption represents an obstacle to the economic, social and political development of a country. Corruption prevents the

good functioning of the market, affects the foreseeable of the economic and financial policies of the government and affects the quality of public services. The corruption dissuades the foreign investments and allocates the loans and the grants to projects little useful for those who are supposed to be beneficiary, but extremely profitable for the corrupt decision-makers. Corruption increases the transaction costs because is an element of unforeseen and arbitrary power, which raises problems to the investors (Habib and Zurawicki, 2001).

Although the integration of the corruption in the analysis turns out to be essential to understand the FDI flows, in particular towards the developing and transition country like CEECs, its evaluation is however difficult. The empirical works uses again the composite index. Taken as explanatory variable much more often for the FDI towards the developing countries than towards the developed countries, the results of the studies on the correlation between the corruption and FDI are not always unanimous (according to table 1.). Some works who studied the impact of the corruption on the attractiveness of the developed countries finds either the absence of the correlation, either a positive link, contrary to what is predicted. Nevertheless, the studies limited to the developing countries or only to the CEECs had more homogeneous conclusions which indicate that the corruption affects negatively the perception of the country-risk, which in his turn, affects the FDI (Gastanga et al., 1998 ; Bevan et Estrin, 2000).

Democracy

The democracy is considered by numerous specialists as an important determinant for the FDI. A democratic regime which allows to strengthen the rule of law and to facilitate the growth by the stimulation of the private initiative is perceived as a factor who attract FDI. However, the MNEs are criticized, especially in the 1970s, to damage the economic sovereignty of developing countries and to collaborate with repressive regimes (Busse, 2003). Non-governmental organizations often accuse the MNEs for locate in countries who present a weak rule of law, a not independent justice and a large scale of corruption, just to be able to impose hard working conditions and small salaries. We so observe that the link between the character more or less democratic of a developing country and the flows of FDI which it receives generate diverse and often contradictory interpretations.

The ambiguities linked to the correlation between the more or less democratic character of developing countries and FDI which they receive appear in the interpretation of the empirical results. The empirical studies that analyze the correlation between democracy and FDI are quite scarce, and focus only on the developing countries case. The exclusion of developed countries is obvious, because they are also strong democracies as well (Alesina and Perotti, 1994). The result of these studies show a positive connection between democracy and FDI (according to table 1.).

Table 1.

Studies results regarding the impact of institutional stability on FDI inputs

Variable	Number of studies	Correlation		
		Yes		No
		Positive	negative	
Political stability	7 on developing countries (*from which 1 on CEECs)	-	5 (1)	2 -
	5 mixed (developed and developing countries)	-	3	2
Rule of law	2 on developing countries (*from which 1 on CEECs)	2 (1)	- -	- -
	1 mixed (developed and developing countries)	1	-	-
Corruption	3 on developing countries (*from which 1 on CEECs)	-	3 (1)	- -
	3 mixed (developed and developing countries)	1	2	-
Democracy	2 on developing countries (*from which 1 on CEECs)	2 (1)	- -	- -

Source: our bibliographic research.

Besides the fact that it favors the existence of a rule of law, democracy is analyzed by the economic studies because of his positive impact assumed to have on growth. However, the specialist opinions are not unanimous on the role of democracy on growth. On one side, we have the opinions that consider that political freedom favors economic rights and so stimulates growth. On the other side, the is the opinion that democracy slows down growth, because it allows the redistribution of income from the rich to the poor – in „majority of voters” systems. On the other hand, it’s not always the non-democratic regimes that stop economic freedom (for example the authoritarian regimes in Chile and Peru). Empirical research seems to acknowledge the first hypothesis. So, if Barro (2000) indicates the presence of a weak and non-linear relationship (U- turned), between democracy and growth, De Melo and others (1996), on the other hand, obtain a positive relationship between democracy and growth in 26 countries that are in a transition process. The result is partially sustained by the Freedom House Report (1999), *Nations in Transit*, that divides transitioning countries in three categories, varying by their development rates (information updated in 1997):

- Consolidated democracies : Czech Republic, Latvia, Lithuania, Poland, Slovenia, with a growth rate of 4.7%

- Societies in transition: Albania, Armenia, Azerbaijan, Bosnia- Herzegovina, Bulgaria, Croatia, Georgia, Kazakhstan, Macedonia, Moldavia, Mongolia, Romania, Russia, Slovakia, Ukraine, with an average growth rates of 1.4%

- Consolidated autocracies: Belarus, Tajikistan, Turkmenistan, Uzbekistan, with an economic downfall of 2.8%

All these observations that have a tendency to confirm a nonlinear relationship, guide us to believe that the stability of a political regime is the one that determines growth.

A long term analysis of the democracy- FDI relationship also confirms a non-linear correlation, despite the fact that some studies show that FDI are attracted to countries where democracy is respected (Rodrik, 1996; Harms and Ursprung 2002, quoted by Busse, 2003). Busse (2003) which study a long period of time (1972-1998) offers an original illustration of the impact of the strategic orientations on the link between democracy and FDI. Busse's study shows a strong correlation between *Freedom House* index (public rights index and civil rights index) and the FDI/capita inputs between 1980 and 1998. His results for period after 1980 indicate that (*ceteris paribus*) the more democratic countries receive more FDI. But for period 1972-1980, the correlation is not significant. The explanation consists in saying that during this period, the MNEs principal objective was the search for natural resources and to have access to these it was obliged to cooperate with the oppressive regimes. This interpretation is verified by the introduction of a dummy variable for the impoverishment of mining resources. The correlation is significant for period 1972-1980. The result goes in the direction of the critics against the MNEs, formulated by certain non-governmental organizations (we can find here the accusations brought to MNEs, presented at the beginning of the paragraph). But other authors question these results ; according to Harms and Ursprung, the foreign investors are not attracted by non democratic countries but by those where political and civil freedom is respected.

The variety of the conclusions may be bond (except for the differences referring to the mentioned recorded period) to the difficulties encountered in the process of measuring democracy. From the methodological point of view, these studies show the same weaknesses like the ones shown in the case of political stability and rule of law. Truly, measuring democracy is not an easy task. As the *Dictionnaire d'économie et de sciences sociales*⁶ defines, *democracy is „a political system in which power comes from the people and belongs to the people”*⁷. In this case, democracy includes (1) public freedom (the right to participate in politics, the plurality of political parties, universal vote, regular elections, and the separation of state powers) and (2) civil freedoms (freedom of speech, freedom of association, right to autonomy, etc.)

This definition is difficult to use in empirical studies. The studied phenomenon is so complex that a selection of the variables that define it is needed, according to their quantifying or non-quantifying character. Given this restriction, the empirical studies have two solutions: (1) either they only mention the importance of certain institutional variables, without taking account of them during the analysis, (2) either

⁶ J.-Y. Capul, O. Garnier (1993), *Dictionnaire d'économie et de sciences sociales*, Hatier, Paris, p. 114

⁷ In french « *un système politique dans lequel le pouvoir émane du peuple et appartient au peuple dans son ensemble* ».

they use the composite indexes made by consulting companies or non-governmental organizations (*Heritage Foundation, Economist Intelligence Unit, Economic Freedom*). But given the fact that these indexes are build differently, covering more aspects of the studied phenomenon, for a larger number of countries and for longer periods of time, generalizing the results is extremely difficult.

Otherwise, Bollen and Paxton (2000), while analyzing the indexes for the appraisal of democracy and political freedom, draw our attention to the errors that might appear while building the composite index based on the opinions of certain specialists. Firstly because their can be errors in collecting the information, because the specialists are using data from Anglo-Saxon publications. Secondly because the specialists usually confuse the criteria in which the variable is defined, with explanatory variables⁸. Finally, because the importance given to different criteria are often influenced by personal judgment. Given these reasons, empirical result do not succeed in being convincing and cannot clearly explain if certain criteria are or are not significant in explaining FDI. On the same pattern, Debonneuil and Fontagne (2003) draw the attention to the weakness of the theoretical bases and the statistical methods of the competitiveness indexes, that, when used for world classifications may lead analysts to contradictory results. The authors quote the example of France, that following the competitiveness report made by *World Economic Forum* and *International Institute for Management Development*, is situated on a relatively bad position (between 12th and 20th place, in 2001), when the FDI inputs in France had risen significantly in that period, whereas other countries that took the first places had received far fewer FDI in the same period.

2. Conceiving the questionnaire and collecting the results

To exceed these limits but also to better understand the specific of the Romanian case, we proceeded to a survey. This approach will help us to isolate with more precision the role of democracy, but also of other institutional factors like the rule of law, the corruption and the political stability, in the decision of foreign investment. Our survey was led on 62 French companies settled in Romania. Due to the fact that we did not have a proper sampling frame, because of the impossibility to identify all the French firms in Romania, the sampling was performed according to the non-probabilistic method. Under these circumstances we are aware of the fact that the sample does not compile with the statistical representatively condition. However, the usage and quality of the survey is justified through some arguments. First of all, the big French groups are part of the sampling. So, form the top 50 largest French groups in industry and services, 8 are part of our sample: Carrefour (2nd in top), Renault (9th), Véolia Environnement (11th), Alcatel (25th), Lafarge (27th), Groupe Danone (30th), Valeo (41st) and Schneider Electric (42nd). In addition to these comes BRD-Société Générale in the bank-insurance domain.

⁸ If we test, for example the relation between religion and democracy, if there find that is a positive correlation this not means that religion is a defining criteria of democracy.

Second of all, 8 of the top 10 French investors in Romania have answered our enquiry. Considering the large share of these in the total French investment in Romania, we consider that the performed enquiry gives us a very close image of the reality of the French investments in Romania.

3. Survey results

As we have already seen, there are numerous econometrical studies that analyze the relationship between the institutional stability and FDI inputs. However, the conclusions we get from them are often contradictorily, because these studies are based either on quantity variables (the number of assassinations and revolutions, number of lost working days due to civil manifestations for estimating the political risk, for example), or on subjectively composites indexes. For these reasons, the correlation between the institutional stability and the FDI inputs is ambiguous. In order to overcome these methodological obstacles and to better understand the characteristics of the Romanian institutional environment, we have included in the survey some questions linked to this issue. We have therefore tried to find out which of the Romanian institutional characteristics are considered to be favorable by the French investors, and which of them are seen as obstacles. Using the enquiry as a work method has given us more precise responses to each of them.

We group the results in two categories of factors for FDI inputs: attractive (Table 2) and repulsive (Table 3).

Table 2.

Survey results regarding the importance of political stability as an attractive factor for FDI inputs in Romania (%)

	Not important (1)	Little importance (2)	Medium importance (3)	Important (4)	Very important (5)	Not or little important (1+2)	Important (3+4+5)
Political stability	17,7	6,5	29	41,9	4,8	24,2	75,7

Source: our survey.

We observe in the Table 2. that the French investors involved in the enquiry consider the political stability as an important variable for 75,7% of cases. The obtained result confirms the fact that French investors appreciate stability as an important factor for uncertainty reduction.

At the same time, the institutional instability perceived by the French investors comes as an important obstacle in the Romanian business environment (see Table 3).

Table 3.

Survey results regarding the importance of institutional instability as a repulsive factor for FDI inputs in Romania (%)

	Not important (1)	Little importance (2)	Medium importance (3)	Important (4)	Very important (5)	Not or little important (1+2)	Important (3+4+5)
Legal instability	6,5	-	25,8	24,2	43,5	6,5	93,5
Bureaucracy	3,2	8,1	12,9	38,7	37,1	11,3	88,7
Corruption	3,2	11,3	9,7	16,1	59,7	14,5	85,5
Private property respect	25,8	21	12,9	9,7	30,6	46,8	53,2

Source: our survey.

Out of the variables of this table, the legal instability is seen as the most important repulsive factor for developing a business in Romania (93,5% of the answers), followed closely by the bureaucracy (88,7%) the corruption (85,5%) and the private property respect (53,2%).

The legal instability is a specific factor of transition economies. It expresses the delays in the reform process, offering to the institutional environment an arbitrary character which accentuates the investors' insecurity feeling. Indeed, the managers we have come in contact to consider that the most disturbing problem of the institutional environment in Romania is linked to the state's weakness, accompanied by a „*climate of uncertainty in the legal, commercial and financial field*”⁹. This insecurity has its source mainly in the judicial system, the creator of a „*imprecise, volatile legal framework, that favors interpretations and arbitrary administrative procedures*”¹⁰. French managers of the sampling have accused, first of all, the difference between the formal judicial frame and its actual appliance. Furthermore, they have criticized the large number of laws and emergency orderlies adopted without consideration of the necessities of the business environment and accompanied by ambiguous, often contradictory, appliance instructions, emended through „*imprecise and even contradictory emergency order*”¹¹. The fiscal code, for example, which became effective on January 1st 2004, after a long elaboration period, was emended through an emergency orderly only few months later, the same year.

These malfunctions of the institutional environment create conditions for the development of bureaucracy and corruption, other factors considered to be

⁹ Information obtained during the research.

¹⁰ Information obtained during the research.

¹¹ Information obtained during the research.

important by the French firms of the sampling. We observe that the factor „corruption” is by far the highest percentage determinant in a list of repulsive factors (for 59% of the firms it is the most important obstacle (column 5)). Indeed, the managers we have contacted consider that, in spite of the intents of the liberal administration after December 2004, the fight against corruption has not come to represent a great success.

The administration is seen as a discontentment source for the French managers that we have come across. These consider that the administration is neither „*efficient, nor competent, nor neutral*”¹². Most often, the financial administration is criticized, seen as a repressive bureaucracy, preoccupied only with performing surprise inspections and interpreting the laws to the detriment of the tax payer. Therefore, some managers have doubts concerning the fairness of the inspections performed by „*underpaid fiscal inspectors, motivated mainly by the number of inspections carried out*”¹³.

After this presentation of the results of the enquiry regarding the stability of the institutional environment, we can observe that the variables it consists in are mainly perceived as determinant factors of the investment in Romania. However, not all act as attractive factors. The most of them, especially corruption, legal instability and bureaucracy, are seen as main obstacles.

Conclusion

The impact of stability seems far from being obvious. In some cases, an economical crisis can even favor the appearance of some investment opportunities, under the condition that it is accompanied by institutional stability, which offers guarantees regarding long term perspectives. From this point of view, the existence of a rule of law has proven to be primordial. This offers guarantees concerning the protection of intellectual property, which is an important point in the eyes of investors. For the same reason, investors prefer less corrupted countries. Corruption influences not only FDI flows but also the contents of the technology transfers; because investors are reticent in transferring advanced technologies when they associate with local partners, and, as, on the other hand, corruption incites them to associate in order to reduce transaction costs; we come to the conclusion that corruption reduces advanced technology transfers. Democracy, however, even if presented as a logical consequence of a rule of law may have a variable effect on FDI flows, according to the strategic orientation of the investors; if its role is important

¹² Information obtained during the research.

¹³ Information obtained during the research.

and positive in the case of market oriented FDI's, it proves to be less important for FDI's in search of resources.

In this paper we analyzed the role of institutional stability as implantation factor for the French firms in Romania. The results of the survey show as that the variables who describe the institutional stability are mainly perceived as determinant factors of FDI inputs in Romania. However, not all act as attractive factors. Some of them, especially corruption, legal instability and bureaucracy, are seen as main obstacles. On one hand, we can consider that their action has discouraged potential investors. On the other hand, how do we explain the fact that other investors invested in Romania, despite these obstacles?

A first answer would consist in saying that their appreciation of the Romanian context evolved with their installation in the country. In other words, their answers translate a disappointment with regard to what they waited before their installation in the country. In that case, the absence of any progress risks to be translated by their retirement, in time, of Romania. The second answer would consist in saying that they knew the Romanian context such as it is, before their implantation decision, and their presence in Romania is explained by the fact that the weight which they give to the attractive factors (political stability) is more important than that give to the repulsive factors (legal instability, corruption, bureaucracy, etc.).

It is also possible to consider from this results that the purpose of a country analysis, made previous to an investment and who takes these factors into consideration, is not to stop the implantation, but foremost to foresee the situations that might appear, as well as the potential costs of transaction, in order to estimate more precisely the rate of expected returns.

Finally, we consider that the present analyze is an useful exercise, because the results indicate us not only which are the institutional factors who attract foreign investors in Romania bat also which are the principal obstacles in the Romanian environment. In this way, our study tries to fill a gap in the literature on FDI in Romania and offers us some indications for the sense of reforms to do in the future.

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IMPACT OF LUMP-SUM TAX IN ROMANIA

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Abstract

Any enterprise is willing to get a higher profit and when taxation is low and when this is higher. As a manager, you do not justify your presence in the top, if you do not want to maximize your business opportunities, and get as much as possible. Therefore, the new lump-sum tax introduced by means of the Government Emergency Ordinance no. 34/2009, from our point of view, it directly acts over the firms' financing.

The Government Emergency Ordinance no.34/ 2009 concerning the introduction of the lump-sum tax in Romania, the measures that restrict and remove costs that can be deductible in a firm's accounting, as well as those related to the rise of the tax to be paid by microenterprises caused strong debates in the business environment, especially within small businessmen.

Financiers could not mention how long the firms would pay the lump-sum tax, because according to economic forecasts, many of them will not succeed to outrun the crisis and forecast a gloomy period for Romania, especially when, according to deadlines in the ordinance, many measures will be maintained up to the end of the next year, that obviously indicates the date when the state authorities expect a modification of the situation.

Keywords: business environment, SME, income, tax, profit, turnover

JEL Classification: H21, H25

1. Some advantages of presumptive taxation

Legal presumptive taxation, id est that case when occurrence of at least a legal condition (practically) of the requirement as regards this system of taxation, may have some important and relevant positive effects. Some of the most important ones are shown as follows:

a. restriction, reduction and, avoidance of tax evasion, at the limit. It relates to the situation wherein eligibility of deductible costs is imitated (there is illegally, for instance, the costs that are not or cannot be functionally related to income), or the situation wherein some income is not registered, in both situations reducing the taxation basis (taxation profit);

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b. reduction of tax management costs, as a result of reducing the necessary „amount” of tax control. It relates to the fact that lump-sum taxed economic activity should not be transparent for the governmental inspector;

c. stimulation of development concerning economic activity. It relates to the requirement of tax payers that are subject to presumptive taxation to ensure economic substance in order to pay the lump-sum tax (getting a net profit at least at the level of lump-sum tax), that has a positive impact over other indirect “conventional” taxes;

d. rising of security of coincidence between the encashed public income and scheduled public income. This drives the rise of macroeconomic financial constancy;

e. economic selection of viable companies. Companies that do not get, continuously, a minimum economic profit (id est equal with the monetary value of the lump-sum tax) will have to leave the market, that is an extremely useful and effective economic drainage system; as regards the requirements of the present paper, by means of economic profit we understand that accounting profit associated with available assets related to the treasury of the company concerned, id est that accounting profit associated with the company’s capability to effectively pay the related budget liability.

2. Some disadvantages of presumptive taxation

As regards the tax philosophy, the blind system of taxation cannot be the system of taxation prevailing in a national economy. The reasons of this statement are the following:

a) theoretical reasons

- quasi-generality of presumptive taxation would have the significance of taking over the economic calculation from the „charge” of the free market to that of governmental bureaucracy, that is impossible (possibility of centralized economic calculation has been infirmed both in theory and social practice);

b) empirical reasons

- inflexibility of tax taking by presumptive taxation drives permanent losses of tax income, though these are not scheduled in the public budget. We relate to the fact that rising of the taxation base has no positive effect on the fiscal income, as the level of income is set independently by the variation of the taxation basis;

- there is an important adverse effect for tax payers that are ranged, for instance with the presumptive taxation criterium –, turnover –, below the breakeven that would allow their continuity on the market, leading to the quick and possibly, final removal of sources of taking the lump-sum tax itself.

Introduction of legal presumptive taxation, i.e. the case when at least one of the legal requirements occurs (again, here, practically) concerning the requirement of this system of taxation, however, may create, some vulnerabilities in the economic system concerned. The main vulnerabilities can be:

1. impairment of early economic activities concerning firms that do not register economic profit; it is about firms whose economic activities are, in the main,

efficient, but that are at the beginning of entering the market (i.d. under the impact of economic barriers at entrance). These firms activity will be discouraged and, according to the place occupied horizontally and vertically in the national economic activity, their discouragement will be able to generate negative chain effects, with a negative end on the total tax income of the public budget;

2. passing over the cost of trade arrears between firms to the firms that are not able to refinance their trade debts or cannot generate monetary surrogates for the debts held. It is about firms that are viable, they register accounting profit but cannot get the cash flow related to this accounting profit due to the phenomenon of trade arrears between firms. This time, the activity of firms that are in economic cruise (have exceeded the economic barriers at entering, are installed on the market and are efficiently involved in the national economic system);

3. creation of an asymmetry in economic competition, by means of normative rise as regards the firm cost of the firms subject to presumptive taxation. Indeed, if we shall consider the budget liability as a sui-generis cost (though, in the right sense of the cost term, the budget liability is not framed in the production cost), i.e. if we shall consider it as a firm's operation cost in general, then competitiveness of firms subject to presumptive tax but that do not succeed to produce the money required to pay the budget liability concerned, is negatively affected, because the eventual external financing of the payment related to the budget liability will enter the next production cost. A vicious circle occurs that, will finally earmark the firms concerned in relation to their competitors.

3. Introduction of presumptive taxation in Romania

The Ministry of Public Finance has set seven collection tranches, that will be carried out quarterly by absolutely all firms, though they are established during this year.

This ordinance wherein introduction of the lump-sum tax is predicted has a sensitive point from the very beginning, because it does not mention the term of tax payer explicitly, that could suggest that money is to be collected from all those that issue invoices.

The second paragraph in article 18 in the law no. 571/ 2003 concerning the Fiscal Code has been changed by means of the Government Emergency Ordinance no. 34/2009: "Tax payers, except those mentioned at paragraph (1), article 13, letter c)-e), art. 15 and 38, in case when the profit tax is lower than the sum of minimum tax for the tranche of total suitable income, provided at paragraph (3), must pay the tax for this sum".

Excepted from paying the lump-sum tax are:

- night bars, night clubs, discotheques, casinos or sport bets, including legal entities that obtain this income based on a contract of association;

- foreign legal entities and non-resident individuals that work in Romania within an association without legal status;
- resident individuals associated with Romanian legal entities;
- foreign legal entities that generate income from/or in association with real estates located in Romania or from sale/cession of titles of participation held at a Romanian legal entity;
- Treasury and state institutions;
- Trust companies;
- Religions;
- Approved private education institutions;
- Owner associations;
- NGOs, trade unions;
- Patronizing federations etc.

The remaining firms should pay, mentioning that firms that register a profit will still pay a tax of 16%, but not less than the minimum limit related to the range of income it is framed in.

Lump-sum tax tranches

Total yearly income/ yearly minimum tax

Lei 0 – 52.000	= Lei 2,200 (yearly minimum tax – approximately Eur 500)
Lei 52.001 – 215.000	= Lei 4,300 (around Eur 1,000)
Lei 215.001 – 430.000	= Lei 6,500 (around Eur 1,500)
430.001 – 4.3 million Lei	= Lei 8.600 (around Eur 2,000)
4.3 million – 21,5 million Lei	= Lei 11,000 (Eur 2,500)
21.5 million – 129 million Lei	= Lei 22,000 (Eur 5,000)
Over Lei 129 million	= Lei 43,000 (Eur 10,000).

To calculate the minimum tax, total income will be taken into consideration. The total income is obtained from any source, registered on 31st of December of the previous year, of which the following is subtracted:

- a) Income from stock fluctuation;
- b) Income from production of tangible and intangible assets;
- c) Operating income, representing the quota of governmental grants and other resources to finance investments;
- d) Income from reduction or avoidance of provisions for which deduction has not been provided, according to legal regulations;
- e) Income resulted from abatement of debts and increases due to state budget, that were not deductible costs at the calculation of taxable profit, according to legal regulations;

- f) Income made from damages from insurance companies;
- g) Non-taxable income expressly mentioned in agreements and memoranda approved by means of laws.

At the calculation of yearly minimum tax for the second quarter, the profit tax due at the end of the quarter is compared with the yearly minimum tax, recalculated accordingly for 1 May 2008 – 30 June 2009, dividing the tax by 12 months and multiplying with the number of months related to the period concerned.

4. Reasons to introduce lump-sum tax

From analyses carried out by the Ministry of Public Finance it results that, in 2007, from the 617,525 tax payers (legal entities), 2,000 provides more than 85% of public income. Representatives of the Ministry of Finance showed that across the country, the number of companies that stated losses in 2007 was 242,106 (39.2% from the total number of registered companies), as the turnover of these enterprises amounts to Lei 134 billion.

According to officials of the Ministry of Public Finance, almost 70% of the 242,106 firms that reported losses in 2007 is ranked in the first two categories of yearly minimum tax. It has also been showed that the total number of firms that recorded losses 109,617, 46% respectively, had income up to 100 million old lei (10,000 new lei), while approximately 75,000 firms registered income ranged between 100 and 500 million old lei (Lei 50,000).

The patronizing federations put forth that over 40,000 small firms will be affected. However, many companies criticised the measure of the Ministry of Public Finance and showed that it would dynamyte economy, following to have domino effects, because it will result in reduction of activity or even the closure of some firms, lay offs, unemployment and, implicitly, minimum budget collections. Furthermore, according to data sent to the Romanian Patronizing Federation, it is said that introduction of the lump-sum tax will affect over 40,000 existing small firms in Romania and a lot of family businesses, with 3-10 employees, these firms running in tourism, supply of services, trade or belonging to small handicraftsmen.

According to small entrepreneurs, but also to those that has established a business this year, the measure will result in either closing the firm, or finding other solutions to state an as low as possible income. They mentioned that is is impossible for a firm with a “0” turnover should pay Eur 500 to the state.

The ordinance has also modified the taxation quote on microenterprises' income, this being set to 3% in 2009, compared to 2.5% - last year. Also, the law states that “in case when the tax due to microenterprises is lower than the yearly minimum tax, they must pay the tax at the level of this sum”.

The representatives of the Ministry of Public Finance mentioned that for the year 2009 the following rules will be taken into consideration in order to apply the provisions:

- For the second quarter, the microenterprises' income tax due at the end of the quarter is compared with the yearly minimum tax, recalculated accordingly for 1 May – 30 June 2009, by dividing the yearly minimum tax to 12 months and multiplication with the number of months related to the period concerned.

- For the third and the fourth quarters, the microenterprises' income tax due at the end of each quarter is compared with the yearly minimum tax, recalculated accordingly.

In case of downturn, the European Commission recommends the adoption of measures in order to help small enterprises, that create most jobs in the European Union. As you can see, they are sustained to liquidate in Romania.

According to the situation specific to each state, the following types of measures can be taken into consideration: deduction of taxes and social contributions: lower social contributions paid by employers can have a positive impact over the maintenance and creation of jobs while the lower taxation of income can sustain the buying power, especially for those with a low income; temporary reductions of the standard VAT quote: they can be introduced rapidly and can generate a fiscal stimulation to sustain consumption.

Thus, the Government Emergency Ordinance no. 34/2009 comes in conflict with the recommendations of the European Community and the International Monetary Fund:

- it breaches the Article 3 in the Fiscal Code related to the principles of taxation “efficiency of taxing by securing long term constancy of provisions within the Fiscal Code, so as these provisions not lead to unfavourable retroactive effects”;

- it breaches Article 4 in the Fiscal Code “Any modification or completion to the present code becomes effective starting from the first day of the next year to that wherein it has been adopted by law “;

- it breaches the Treaty of the European Community that provides removal of discriminations in approaching the suppliers of services, or implementation of a similar approach to tax payers that are in different situations (a tax payer having a loss and another one obtaining profit can pay the same lump-sum tax) is discriminatory;

- such kind of antiabuse measures restrict the basic liberties and are forbidden by the Treaty of the European Union;

- the International Monetary Fund's specialists were against application of a minimum profit tax, calculated at the level of the gross income, as it is unfair and skews the economic activity.

We, do not cling to the rise of short term taxation and perceived reluctantly this lump-sum tax. We understood the extraordinary need of the government to get additional resources, as long as most effort to keep under control the budgetary deficit comes to cutting of costs that diminished considerably.

We still believe it will be very difficult for the government to stay close to the deficit scheduled for this year. It remains to be seen if the impact will be that predicted. In reality, it is possible that estimated income not to be seen.

It is an additional burden for small firms, that should finance by own sources, in order to pay their lump-sum tax. Those firms that do not get anything are threatened by extinction. The Government bet is related not to those firms that do not want to set up a business and see hampered any possibility to try running, the government bet seems to be related to those that have not paid anything to the tax authorities for years.

Moreover, in a period of downturn that is increasing, the fight is for survival. If the firms would be let more, instead of 16% you would take them 10%, it does not mean that collections to the state budget would rise. At present, the firms are trying to survive. Perhaps in some enterprises, some people have brilliant ideas and are trying to capitalize the crisis period, but most enterprises is obsessed to survive.

From our point of view, by implementing the lump-sum tax abnormal situations can occur for some tax payers, wherein the lump-sum tax can exceed the value of total income. It will have negative effects over economy and the level of budget collections: increase of underground economy, the firms will prefer making collections without invoice in order to reduce their turnover, and as a result, the budget income will drop; many firms will collapse, that will result in multistage effects (rise of number of unemployed people, rise of budget expenses with unemployment aids, reduction of budget collections from taxes and wage taxes: social security contributions, the unemployed, health, wage tax etc.); reduction of VAT collections; reduction of budget collections from profit tax, coworkers' income tax; a smaller part of firms will change into Individual or Family Business in order to get rid of lump-sum tax payment.

5. Conclusion

Writing this paper, in the margin of presumptive taxation, it occurred the freak idea that presumptive taxation would tax the loss. Certainly, within the aforementioned issues, when we approached possible vulnerabilities that presumptive taxation can create, we also referred to the risk that some firms could be affected both in their activity sustainability and in their competitiveness.

Actually, the idea that presumptive taxation taxes loss seems to us excessive and, in fact, not sustainable (if it were so, then any internalization of negative externalities should be disapproved). We shall reason our position starting from the general understanding of taxation (id est of compulsory taking, from associations that form the state, of some legal contributions to sustain the public sector). Under the circumstances, we consider there are four separate reasons to justify (rationalization) the tax (any tax):

1. The philosophy reason (contract cost reason): based on the social contract, the state should secure public goods (public goods are goods exclusively created by the state, are distributed outside the market, id est non-competitively, free of charge, and their consumption is public – regardless how much the public goods are

consumed, the available amount of those public goods does not reduce, for instance, national defense); by definition public goods are available to all the members of society, therefore, all members of society should contribute to their production (this is made by means of tax payment);

2. Economic reason (economic cost reason): those getting economic excesses from profitable activities (profitable activities are those activities that bring profit, id est surplus of income compared to costs or, more exactly, surplus of collections compared to payments) of any kind, they succeed getting these surplus amounts both as a result of own merits (investments in money, work, risk, imagination etc.) and as a result of economic, social, institutional conditions etc. already existing; these conditions have been created by the state, based on taxes paid by the previous generations (or by the next generations, if these conditions have been created by public indebtedness); generically, it can be said the state has “shares” in any private enterprise – thus, due taxes represent only „dividends” payable to the public shareholder for the entire general infrastructure secured to the economic environment.

3. Social reason (social cost reason): economic activities generate both individual costs (recovered by their introduction in the individual price, by the economic subject concerned) and social costs (so-called negative externalities, for instance pollution, unemployment, criminality). Neutralization of negative externalities is carried out by the state (also based on the social contract). Financing this neutralization is carried out by tax payment by companies that, by means of things, creates negative externalities (either explicit, or implicit);

4. Moral reason (moral cost reason): human nature encourages the free rider behaviour (free rider behaviour is that behaviour aiming to get the benefit without accessing the payment of that benefit price (it is also called the paradigm of train jumper); the free rider behaviour creates informal social injustice; avoidance of this behaviour can be only made by norming the constraint to pay the value of advantages that every company has, as a result of its membership to the society (to the state, widely).

We consider the economic and moral grounds for taxation can be totally and righteously applied to presumptive taxation. The other reasons should be approached under the circumstances wherein the issue of vulnerabilities generated by this system of taxation has been discussed.

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THE FUTURE OF HOSPITALITY AND TOURISM IN ROMANIA DEPENDS ON THE HUMAN RESOURCES

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Abstract:

Hospitality and tourism represent a profession, and to understand hospitality and tourism means to have certain skills, requiring training and experience in the field. However, many people are involved in it directly or indirectly and must know the basic principles.

Local planning authorities, regional and national planning authorities of almost all ministries and departments are in some way directly or indirectly involved in the organization and development of tourism. Some decisions of planning are in opposition with the objectives of tourism development; some development strategies affect the sustainable development of tourism.

Tourism development is something very sensitive, because tourism is one of the most competitive business activities in the world. Tourism development is not automatic, because it is linked to the image and reputation. The sustainable and successful tourism requires cooperation between all the factors of responsibility and requires the formation of partnerships between the public sector, which should support tourism, and the private sector, which should provide facilities and services for different markets and market segments

Without understanding the mutual objectives and issues, tourism will not develop satisfactorily and will not be beneficial.

Keywords: tourism, hospitality, tourist industry, human resources, sustainable

JEL Classification: L83, Q13, Q27, Q34, Q56

Introduction

Tourism Awareness represents the understanding of the basic principles of hospitality and tourism, the benefits and consequences of tourism development and tourism to the country, a basic understanding of visitor satisfaction and concern towards the client and the preconditions of tourism and sustainable access. The general level of awareness in the public sector of hospitality and tourism is low. Also, the degree of understanding of the conditions and of the needs to develop safe and sustainable internal and international tourism is low.

Most officials and the public sector at national, regional or local levels do not have a clear understanding of the basic principles of visitor satisfaction, of the

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marketing approach, of the behaviour of visitors and the objectives of the trade with tourism products.

Tourism development is something very sensitive, because tourism is one of the most competitive business activities in the world. Tourism development is not automatic, because it is linked to the image and reputation. The sustainable and successful tourism requires cooperation between all the factors of responsibility and requires the formation of partnerships between the public sector, which should support tourism, and the private sector, which should provide facilities and services for different markets and market segments. Without understanding the mutual objectives and issues, tourism will not develop satisfactorily and will not be beneficial.

The main objective for the hospitality industry for a tourist destination is to generate the satisfaction of tourists who have enjoyed a positive experience and are willing to return and tell others.

They leave the country for the following reasons:

- Many young people do not feel respected by the older generations and the current legal system, laws and complicated regulations.
- The educational system is quite outdated, focused more on teaching and obtaining diplomas than on learning and competence, more theory than practice.
- Extremely low wages, particularly in the hospitality and tourism sectors.
- Lack of practice training at the work place to improve operational performance and skills.
- The image of a bad job in the service sector is still weak.
- The development of tourism in Romania is still weak.

And yet, the future of hospitality and tourism in Romania depends largely on the young generation.

Another imperious aspect of the presence of waste in the country, especially trash in rural areas, in addition to the tourist attraction areas and access roads to tourist areas. The amount of garbage (especially plastic drums and also bottles, metal cans, etc.) that pollute rivers, brooks, roads and paths is enormous.

Around rural settlements there are masses of rubbish which have been simply thrown into ditches and forests. Generally, this creates a strong negative impression on tourists. It is an important part of the public awareness of tourism and tourism awareness of the local authorities.

The waste does not represent only the negative aspect in relation with tourism, but it is also related to health and public safety, as well as the environment in general.

1.2. The necessary educational future

It is very difficult to quantitatively identify future needs for skilled workforce necessary for the hospitality and tourism in Romania. Currently a large number of people, who have completed a training program or university, go to find a job abroad. Also, a large number of people who have begun their career in one of the

major international chains, after graduating from school, leave Romania after a few months of practical experience.

It is estimated that less than 20% of graduates of high schools or universities specialized in tourism with tourist projects end up working in the hospitality and tourism sector in Romania.

The main reasons for this percentage are:

➤ The current skills acquired is low, because the quality of the course curricula and of the courses is poor, teachers do not have the necessary qualifications and also as a consequence of the fact that most courses are not practical but mostly theoretical.

➤ The value of the diploma has dropped considerably

➤ Relatively low wages in the hospitality sector.

➤ Lack of career opportunities due to lack of preparation and practice in the workplace

➤ The incorrect perception of university graduates in tourism that must also begin their career as managers.

Romanian staff is very popular in many countries in Europe and abroad. They learn quickly and are willing to make a lot of effort at the work place. Salaries in the hospitality and tourism sector are usually much higher than in Romania, where average net monthly wage for a waiter, receptionist or a maid is almost 140 Euro.

The figures referring to the number of staff departing overseas and to their level of training do not exist. Also, there are no figures referring to the average duration of their stay. Also, there are no figures on the average duration of their absence. A rough estimation of the number would be between 10 and 20% of those with basic education in tourism and a diploma offered by one of the existing high schools that provide training programs in tourism.

What the hospitality sector needs in particular is trained personnel and not graduates with university theoretical training.

1.2.1 The institutionalised professional training needs of the workforce in the hospitality sector

In 2007 the number of staff employed in the hospitality sector was estimated at approximately 88,000 employees, of which 67,000 in hotels, 16,000 in recorded hostels and 5000 in other types of accommodation units.

There are approximately 6,000 management positions, including the owners of hostels , 9000 positions of supervisors, 20,000 positions of skills (cooks) and approximately 17,000 positions of skilled execution that require a form of qualification in the hospitality sector and around 33,000 positions of unqualified workers who do not require any form of institutionalised training.

Currently there are several new hotels in Bucharest and other cities and towns across the country under construction, and a number of other places are planned. All these new hotels and hostels require qualified personnel.

Given the number of hotel units newly constructed and rapidly increasing number of hostels in rural areas, it is estimated that if we include the substitute personnel, the future needs for annual training in the hospitality sector will be approximately 12-15%.

Management positions	800-1000
Supervisors	1000-1400
Specialists	3000-4000 (for kitchens)
Qualified workers	2000-2500 (cleaning, reception and restaurant services)

They cover approximately 55% of the annual additional staff in the hospitality sector. Approximately 45% of necessary manpower is not qualified by an institution and may be trained at the work place, especially cleaning staff, the staff serving meals, reception staff and support staff. Most specialized staff does not need institutionalized training.

It is clear that these percentages differ for hotels which comply with international standards and pensions in the rural areas. In principle, the need for training is much greater, since the available data on the number of units of accommodation does not cover unregistered hostels and many hotels and hostels built in 2007 and subsequent years. Also, the large number of independent restaurants is not known, and their staff certainly needs institutionalised training safety.

It is also implied that an increasing number of young people are ready to leave Romania to work abroad in the hospitality sector, as long the image of working in the hospitality services and salary are still weak.

A restructuring of the training situation in the hospitality sector at the institutional level is required not only based on the need for training, but must also be based on available resources and realistic possibilities.

1.2.2 The future needs of institutionalised training in tourism

Pre-qualified number of staff in tourism and travels depends largely on the tourism development and on the increased tourist travel sector, the tourism operators of incoming and outgoing, the travel agents and additional tourist guides.

The main requirements refer to the capacities of the specialised personnel of the tour operators and tourist guides, and improve curriculum of study in accordance with relevant standards in force. Also, regarding the tourist institutionalized training; the courses should be more focused on preparation and practice adapted to the needs of the travel and tourism sector.

In principle, institutionalized training in travel and tourism sector should be accomplished through multi-professional training programs to offer the graduates a wider perspective to find a work place. Thus the following should be required:

* The qualification of the tourist guides

The main activity of a tourist guide is accompanying groups of foreign or internal visitors, in the visits to the domestic sightseeing objectives, museums and monuments in the region or city in question, and to interpret inspirationally and interactively in the native language of the visitor / visitors, the cultural and natural elements of the heritage and the environment.

In terms of visitors, the tourist guide is a person employed directly or through an operator, a private tourism organization or state travel agency, to inform, advise and provide instructions to the tourists before and during their journey.

The tourist guide also has an important role for the presentation and should help his interlocutors to understand and appreciate the country. All the aspects must be presented in a lively manner by the tour guide. He or she should present the realities of the country in the best manner possible.

The tour guide's task is not just that of repeating a series of facts providing information as audio tape, but to create an image of the country for visitors in a properly and attractively manner.

The tour guide should have a range of qualifications, especially language skills and general knowledge of history, geography, art and architecture, political economy, sociology and religion of the country and / or his or her region.

The tour guide is much more than a person who informs, presents, and provides instructions during visits. For most foreign visitors, the tour guide is the person with the nationality of that country and with whom they spend most of the time.

The tour guide is also an organizer and a manager for managing and organizing a tour or for a group or for individual tourists. Those organizational skills and skills for the organization of tours are less important for guides specialized in specific tourist attractions, museums, monuments, etc.

These tasks require skills and expertise acquired through practice and theoretical training.

* Skills for the employees of the tourist information centres

The proper information of tourists is one of the most important aspects of successful development of a strong tourism. The persons, who are in a different and unfamiliar environment, whether abroad or in their own country, always need information. Visitors need information about a number of topics, where to go, where to stay, where to eat, what to do, what to buy etc.

More information is provided in advance by internet or in travel guides, but visitors to a place, to a region or country often seek Tourist Information Centres. Particularly in a country like Romania, where most foreign visitors do not know the language and can not read all signs, the assistance and information provided in English (and German) are critically important.

Also, tourists in Romania need information when they visit other places in the country.

The offer of travel information is a key service to all visitors. The offer of adequate information is a key factor in the overall tourism experience and also for the satisfaction of visitors.

The offer of appropriate travel information represents a specialized attitude. The production, the presentation, the handling, the distribution, the communication and the management of various types of travel information represent specialized skills that require training.

In principle, the offer of tourist information is a service, but it should not always be a free service as well. More and more tourist information centres in Europe are forced to operate on a commercial basis, selling products and services for a nominal price.

Also, the information should not necessarily be presented in the form of promotional brochures and expensive and colourful maps of the city, but these can as well be simple informational leaflets, yet effective, or black and white maps, printed upon request.

This means that the representatives of the Tourist Information Centres of tomorrow must also be familiar with sales techniques and business thinking. The audience starts to get used to the fact that the information they need has a price. Few visitors nowadays are expected to receive thick expensive coloured brochures for free when visiting a tourist information centre. They expect to receive simple informational material, direct and precise, which may be printed upon request.

The urgent need to train representatives of the tourist centres in communication techniques and as well as to acquire specific skills in tourist information is more and more present and felt.

The special training programs for the tourist information staff do not exist in Romania, either the ones in the institutionalised tourist training area or the ones in the education sphere.

Conclusion

The permanent training at the work place for maintaining and improving staff skills and the performance of the existing personnel from the hospitality sector represent an urgent requirement. If operational skills are not well supervised and guided, and if skills are not developed through continuous training and upgrading, performance will decrease, affecting the quality of services.

First of all, the general level of supervision and management (middle) should be developed, both in terms of their professional and practice skills to train, lead and motivate the staff to achieve better results.

This will solve the big part of the shortage of staff problem and also will improve the overall quality of the hospitality services sector in the following years. Improving middle management of independent hotels and restaurants must go hand

in hand with further professional and behaviour training of the existing operational staff.

This will be a huge challenge because many people are involved, but it represents a big step forward to a competitive position of Romania as a sustainable tourist destination on the internal and international markets.

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**PRESENT TENDENCIES IN ENTERPRISE'S PERFORMANCE
APPRECIATION
“SUSTAINABILITY PERFORMANCE “**

*Daniela Cristina Solomon**

Abstract

Social and economic postponements at the global level, financial and political instability, big corporatist scandals, global warming imposed changes without precedent in economy, facilitating the passing from the performance concept to the one of “sustainability performance”. The new approach, also known under the name of “triple bottom line” attracted the public’s attention during the latest years determining a big part of the companies to change their attitude, values, orientation in favor of forming responsible visions concerning reporting that should integrate three aspects – economic performance, social performance, and environmental performance. Such “sustainability” reporting is possible through application of guiding lines offered by Global Reporting Initiative (GRI) that reached the third generation called GRI G3 Guidelines in October 2006, that proves to be the best “compatibility standard”, general accepted as sustainability reporting standards.

Keywords: sustainability performance, sustainability reporting

JEL Classification: L25, Q56

Introduction

The main objective for every enterprise is represented by assuring firm’s viability under internal and international competition conditions, respecting the restrictions imposed by sustainable development. The key issue of sustainable development is constituted by reconciliation between the two human aspirations: the necessity of continuation of economic and social development as well as environment’s protection and improvement (*as the only way to welfare of both present and future generations*).

The sustainability challenges of today are unprecedented, and people want to know how well-placed a company is to evolve to meet the sustainability challenge. Accountability for organisational economic, environmental, and social performance, also known as “sustainability performance” or the “triple bottom line”, has captured the attention of the public in recent years as part of the growing effort to define the sustainability agenda.

Reporting sustainability performance brings several benefits among which we can remind: improvement of operational efficiency, increase of the social and environmental

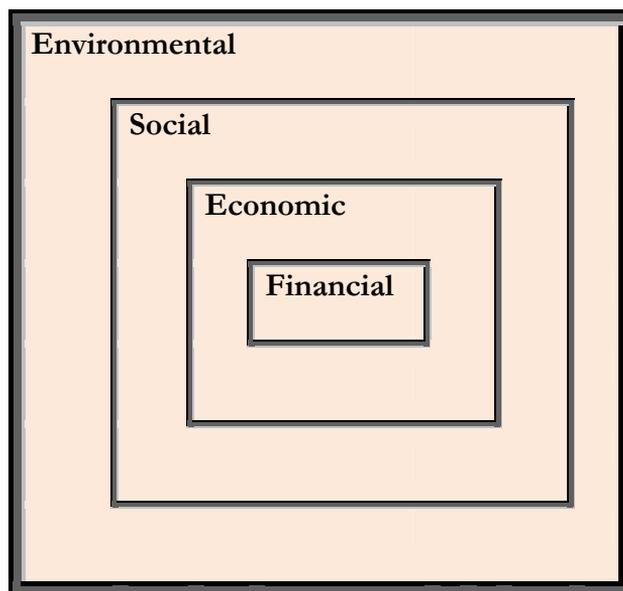
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responsibility, the ability of approaching the business partners on a similar level, intra-governmental cooperation increase, public image improvement.

1. The sustainability performance concept

The economic dimension is imminent connected to the two pillars of *sustainable development* – social and environmental performance. These aspects are suggestively represented by Tuppen and Zadek (2000) (see figure 1). The actions developed in the economic – financial sphere of a firm have impact upon social environment, but mostly upon the environment, the main concern being the one of taking action in such manner of letting the future generations a world that would offer better conditions.

Financial dimension is very good represented in reporting enterprises performance, it is shown in a global study initiated by Deloitte Touche Tohmatsu in December 2006 to which 175 Directors and members of Directing Boards participated.

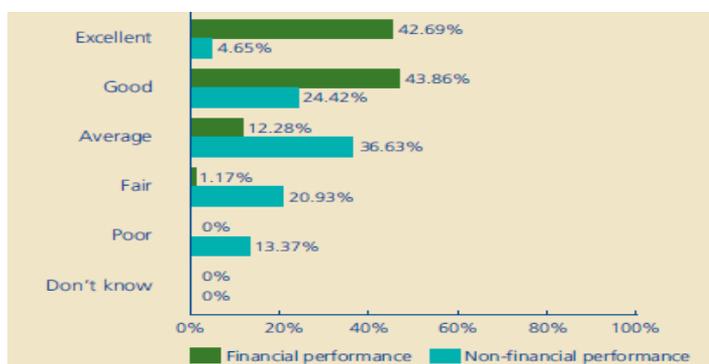


Source: Tuppen and Zadek (2000) cited by Slater Alyson in *GRI's Economic Performance Indicators: Measuring Impacts One Stakeholder at a Time*

Figure 1: *Subsets of Sustainability*

Current reports often do not provide a complete picture of public agency performance, particularly in the area of *environmental and social impacts*. Regarding *financial performance*, most companies surveyed gave themselves high marks, with 87 percent describing their record as either excellent (42.69 percent) or good (44.86 percent). But in stark contrast, regarding the measuring and monitoring of *non-financial performance*, only 29 percent describe their record as either excellent (4.65 percent) or good (24.42

percent). Furthermore, 34 percent describe their records as merely fair (20.93 percent) or poor (13.37 percent) (see figure 2) [Deloitte, (2007)].



Source: Deloitte. 2007. *In the dark II: What many boards and executives STILL don't know about the health of their businesses*

Figure 2 Financial and non-financial aspects of performance

In the trial of expansion the applicability sphere for nonfinancial performance parameters, companies deal with different *obstacles* [Deloitte, (2007)]:

- *undeveloped tools* - fifty-five percent of respondents say that the tools for analyzing non-financial measures at their companies are not as developed as their financial counterparts;

- *skepticism* - forty-eight percent of respondents say that people in their companies are skeptical that non-financial metrics directly affect the health of their companies;

- *accountability* - forty-four percent of executives in the survey say that establishing clear accountability for non-financial performance metrics is difficult;

- *lack of familiarity* - forty-one percent say management is too unfamiliar with non-financial measures; and an equal percentage of respondents say the same of board members;

- *lack of benchmarking data* - twenty-one percent say their use of nonfinancial performance metrics is inhibited by a lack of comparable data from competitors;

- *time constraints* - nineteen percent of executives say that senior management and the board lack the time needed to feel comfortable using a new set of metrics;

- *competitive concerns* - six percent of respondents say that they worry that competitors might gain valuable intelligence from non-financial performance metrics.

Although, numerous companies will improve, in time, business performance and financial results, through a “*balanced combination of financial and nonfinancial objectives, and the correct identification of aspects such as work engagements, innovation, clients’ satisfaction is considered mainly an art than science*”.

The microeconomic dimension of the microeconomic sustainable development concept is represented by *Corporate Social Responsibility* (CSR) that supposes “*the firm’s*

orientation and attitude for integration in their correct strategy and activity, voluntary, of concerns (projects and actions) with social character, for a more friendly and clean environment, under the conditions of insuring the business economic success that is realized" [Ciuca and Draga , (2007)].

2. Reporting sustainability performance

Sustainability reporting became a formal part of the global agenda when governments from around the world committed at the 2002 United Nations World Summit on Sustainable Development (WSSD) "to encourage industry to improve social and environmental performance through voluntary initiatives including...public reporting on environmental and social performance" [United Nations, (2002)].

United Nations proved permanent preoccupation for social, environmental issues, asking firms to respect the 10 principles defined in 2008 through Global Compact (see table 1). Companies should adopt, sustain and promote fundamental values from human rights domain, of work standards, environment and fight against corruption.

Table 1 The Ten Principles developed by the United Nations Global Compact

Human Rights
<i>Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and</i>
<i>Principle 2: make sure that they are not complicit in human rights abuses.</i>
Labour Standards
<i>Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;</i>
<i>Principle 4: the elimination of all forms of forced and compulsory labour;</i>
<i>Principle 5: the effective abolition of child labour; and</i>
<i>Principle 6: the elimination of discrimination in respect of employment and occupation.</i>
Environment
<i>Principle 7: Businesses should support a precautionary approach to environmental challenges;</i>
<i>Principle 8: undertake initiatives to promote greater environmental responsibility; and</i>
<i>Principle 9: encourage the development and diffusion of environmentally friendly technologies.</i>
Anti-Corruption
<i>Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.</i>

Source: United Nations Global Compact, The Ten Principles, 2002

International Organisms elaborated standards required by the market and that are relevant on global level helping therefore to the creation of a "sustainable" world, among which we can remind:

- ISO 14001 environmental management standard (the most used standard by corporations) and ISO 26000 *Guidance Standard on Social Responsibility*, the application

of the latter being possible since 2010: standards elaborated by The International Organization for Standardization (ISO);

- *SA 8000 - Social Accountability 8000*: elaborated by Social Accountability International (SAI), known until recently as the Council on Economic Priorities Accreditation Agency;

- *ISAE 3000, Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*: elaborated by International Federation of Accountants – IFAC through International Auditing and Assurance Standards Board IAASB;

- *AA1000 - Accountability 1000, Assurance Standard*: elaborated by ISEA - the Institute for Social and Ethical Accountability (ISEA also known as Accountability);

- *GRI G3 Guidelines*: 3rd version elaborated in 2006 by Global Reporting Initiative (GRI), that proves to be *the best “compatibility standard”*.

Global Reporting Initiative(GRI) being constituted in 1997, at the initiative of CERES (Coalition for Environmentally Responsible Economies) in partnership with the United Nations Environment Program, is a non-profit international organization that elaborates and publishes the guidelines for reporting economic, environmental and social performance reporting – also called “sustainability performance”.

The guidelines are developed through a unique consulting process with multi-stakeholder that involves representatives from reporting organizations and informs users all over the world. The first G1 Guidelines was published in 2000 and then revised in 2002, the guidelines entering from October 2006 in their *third generation* being also called the *GRI G3 Guidelines*.

For a correct performance reporting, the understanding of *principles, performance indicators* and *reporting process* is necessary.

In addition to the new structure, format, and applicability, the *principles* have been grouped in two categories [GRI, (2006)]:

a) those that help define report content:

- **Materiality**: The report covers the issues that are most relevant and important to the company/organization.

- **Stakeholder inclusiveness**: The report is focused on the most important stakeholders and addresses their concerns.

- **Sustainability context**: The degree to which the report explains the company/organization’s own performance in relation to data about broader sustainability trends.

- **Completeness**: The scope of the report and how well it enables readers to assess the organization’s performance, and

b) those that help ensure quality of reported information:

- **Balance** The report should reflect positive and negative aspects of the organization’s performance to enable a reasoned assessment of overall performance.

- **Comparability** Issues and information should be selected, compiled, and reported consistently. Reported information should be presented in a manner that

enables stakeholders to analyze changes in the organization's performance over time, and could support analysis relative to other organizations.

- **Context Accuracy** The reported information should be sufficiently accurate and detailed for stakeholders to assess the reporting organization's performance.

- **Timeliness** Reporting occurs on a regular schedule and information is available in time for stakeholders to make informed decisions.

- **Clarity** Information should be made available in a manner that is understandable and accessible to stakeholders using the report.

- **Reliability** Information and processes used in the preparation of a report should be gathered, recorded, compiled, analyzed, and disclosed in a way that could be subject to examination and that establishes the quality and materiality of the information.

Performance indicators are structured on three directions, as follows:

a) *economic dimension (9 performance indicators);*

b) *environmental dimension (30 performance indicators);*

c) *social dimension (40 performance indicators).*

The economic dimension of sustainability concerns the organization's impacts on the economic conditions of its stakeholders and on economic systems at local, national, and global levels. The economic indicators illustrate:

- *flow of capital among different stakeholders; and*

- *main economic impacts of the organization throughout society.*

The environmental dimension of sustainability concerns an organization's impacts on living and non-living natural systems, including ecosystems, land, air, and water. Environmental Indicators cover performance related to inputs (e.g., material, energy, water) and outputs (e.g., emissions, effluents, waste). In addition, they cover performance related to biodiversity, environmental compliance, and other relevant information such as environmental expenditure and the impacts of products and services.

The social dimension of sustainability concerns the impacts an organization has on the social systems within which it operates.

GRI G3 Guidelines is used by more than 1000 firms all over the world in the process of performance reporting, becoming the first recognized standard, general accepted as *sustainability reporting standard*.

Yearly, CERES and the Association of Chartered Certified Accountants – the biggest international organism for accountants with headquarters in London grants prizes for Best *Sustainability Report*. After the competition from January 2009 General Electric Company was classed on the first position with the report: GE Resetting Responsibilities 2008 - Citizenship Report written for years 2007-2008. It is important to mention that the report was written in concordance with GRI G3 Guidelines, Level A.

The G3 reflects two things [GRI, (2007)]:

- 1) the closest the world community could come to consensus on what sustainability reporting framework should look like; and
- 2) the best cumulative, *global knowledge* and *experience* on reporting on certain issues.

Conclusions

The new approach on the performance was the consequence of multiple *factors*, among which we remind:

- *globalization phenomenon* that has as consequence *the limitation of state's purpose*, the multinational companies development, the expansion of cross-border trade with major consequences upon the financial, humane, material and informational resources;

- *implementation of new informational technologies* that allows the obtaining, processing and transmitting (dissemination) of information in useful time; universal XBRL language, the internet makes possible the implementation of G3 guideline for any interested organization (all information is transmitted electronically and not on paper, an economy of resources being realized);

- *managers increasing interest* for knowing all firms dimensions concerning performance, especially of the aspect connected to nonfinancial performance;

- *the investors and suppliers interest* more and more preoccupied by moral firms guidance;

- *diversification of consumers' needs* facilitated the apparition of new, ecologic products;

- *employees concerns* with regard to work conditions, work place stability; the incentives offered by other companies oblige the company to attract offers under the condition of concurrence and not at last to maintain a permanent dialog

The implementation of sustainability reporting until the level of small and medium firms will allow careful monitoring of *sustainability performance*, will reestablish trust, will insure transparency and liquidity necessary to financial markets, in such way that they will be able to insure their critical function of circulating system of modern economy. From all the above mentioned issues, it is imposed that the application of social responsibility will not remain at the optional phase, but will be an obligation for any organization.

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