

UNIVERSITATEA DIN PITEȘTI
Facultatea de Științe Economice

BULETIN ȘTIINȚIFIC

SERIA ȘTIINȚE ECONOMICE
(SCIENTIFIC BULLETIN – ECONOMIC SCIENCES)

Lucrările Conferinței Internaționale:
Sistemul economic în condiții de criză

Proceedings of the International Conference
The Economic System During the Crisis

Nr. 9 (15)
PITEȘTI - 2010

ISSN: 1583 – 1809

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ENCOURAGING EMPLOYEE PARTICIPATION: THE FINAL, FRIGHTENING FRONTIER FOR EASTERN EUROPE'S MANAGERS

Professor Woodrow SEARS, EdD

College of Social Science Vilnius, Lithuania
woodysears@gmail.com

***Abstract:** The evidence is incontrovertible – empowered workers are more productive, reduce costs to lower limits, make more profit for their employers, and are more likely to stay with the company when other offers come. It is also beyond doubt that the empowered workforce cannot develop without the encouragement and active support of management. But management practice in this part of the world is rooted in traditions of authority, of social distance between bosses and workers, and in which workers are not encouraged to make suggestions about improving work practices. Until managers permit and encourage participation thoughtful contributions by workers, economic results will always be marginal and prohibit regional industries from competing effectively in global markets.*

***Keywords:** manager education, learning, workforce, employers*

1. INTRODUCTION

Toward the end of my presentation to this Conference last year, I commented that "...managers are invested in authority, in personal power, and in the social distance that must be maintained between managers and the peons. These attitudes are destructive to organizational effectiveness, but they are so pervasive, people hardly notice them. They just respond – by withholding their gifts of extra effort and care, and their insights into how to get work done better, faster, and cheaper." ¹ Of course, that will impact the ability of organizations in Romania and elsewhere across the post-Soviet bloc to compete effectively.

This point has been made countless numbers of times by writers, lecturers, consultants, but none to my knowledge have ever attributed this phenomenon to the fact that managers are fearful of changing their behavior, of managing in a style different than the one that has produced success. Managers are the critical variable in so many production and profit equations, but it appears that no one has looked past the obvious point that participative management is a positive and profit-producing strategy to wonder why managers do not immediately respond, "Wow! Yes! Let's do that!"

There must be a reason. I suggest that managers, like all other corporate employees, live in fear of losing their jobs, of seeing their companies' crash, along with individual retirement plans and benefits. That means that now – like at all points in the past – is a bad time to try-on new behaviors, new ways of ensuring that work gets done on time and budget, and that the numbers look good! Airy-fairy, touchy-feely, rapport-building is no substitute for control through close supervision and putting the fear of God into those who are not performing. "Kick ass and take names" is alive and well at managers' meetings and in luncheon conversations.

One of my most valuable discoveries has been the idea that "There are only two great lessons in life – love and fear – and guess which one predominates?" That came from Gerald Jampolsky², a California psychiatrist who worked with dying children, who observed the courage of children in the face of death – until some trusted adult filled them with fear.

How do institutions govern, from kindergartens to international corporations? Fear is always present, like the thumping bass in the background of most recorded music. Management gurus encourage us to think “outside the box,” but few of us who receive salaries believe that would be pay-off behavior. We know the norms, the written and unwritten rules of our employers, and we have seen what happens to those who violate the rules. Conversely, we meet every day the faces of the go-along-and-get-along gang of survivors, and their compliance becomes the model for our own behavior. Even, and maybe most particularly, in universities.

Perhaps it is apocryphal, but rumor has it that the American who invented the Japanese management system, W. Edwards Deming³, would not conduct a corporate seminar unless the company’s president attended. He knew that changes in strategies, styles, and the adoption of new ideas had to be initiated and reinforced from the top, and that his time would be wasted if the top man chose not to participate. How many times in the West, and in the clumsy attempts to clone Western values in the institutions of Eastern Europe, has Deming’s rule been violated? Rectors and pro-Rectors and Managing Directors have succeeded. They have no need of further training, nor do they need to consider their down-line messages about pay-off behavior. And so,,, nothing changes!

2. THE SEDUCTIVE SIMPLICITY OF AUTHORITY

My Irish Catholic mother was schooled by nuns, and she learned their punishing ways. She beat me with sticks until my legs bled, and once when I was about seven, my father slapped me so hard his hand-print glowed on my face for the entire day (my mother did not allow me to go to Sunday School that morning). Later, I chose the Marine Corps for my obligatory military service and learned more about harsh discipline and punishment (though I was more often an observer than a recipient).

Respect the rules. Know them and play by them. Stay within the box. Take no risks -- the possibility of a reward is too small, and the certainty of punishment is too large. By these and other means, the lessons of fear are imposed on us. No wonder one of Deming’s 14 prescriptions⁴ for organizational success was to eliminate fear.

Easier said than done. Fear is in the air, in the culture, and it is the common denominator of human experience. You think high-level executives are immune? Think again! Almost 20 years ago Peter Drucker⁵, America’s #1 management guru, said that every executive in America had his current CV in his desk drawer, so mistrustful were they all of the slash-and-burn mentality of corporate raiders and their consolidating, downsizing, rightsizing, and asset-plundering. Drucker might have said, “Well, so much for corporate trust and loyalty!”

Now, in the midst of a pervasive economic crisis, how free do you imagine the typical middle manager is to play around with soft concepts like participative management? And what messages do these managers pass along to the foremen and supervisors below them? And how deeply do they bow to the senior managers above them?

In truth, manager education is largely a matter of “monkey see-monkey do” mimicking of the behavior of those senior persons, down to the clothes and shoes they wear. In the olden days at IBM, everyone wore dark suits, starched white shirts, and conservative ties. Once, an IBMer wore a yellow shirt to a meeting, and it was reported in the *New York Times!* And some years later, I attended a meeting at the headquarters of CLOROX, wearing an expensive blazer, dark slacks, shirt and tie and I was under-dressed. Everyone else was wearing dark suits and black wing-tip shoes. This is almost comical in the context of today’s casual dress codes, but in every organization, there are some rules that apply. However whimsical they may seem, they are accepted as serious commitments by the organization’s upwardly-mobile managers and

professional employees. They understand, even if outsiders do not, the signal significance of shirts, ties, and suits – the uniform of that private army.

In preparing to write this paper, it occurred to me that I might never have come upon this idea – that most managers are afraid to risk exchanging authoritarian management for participative management – were I still in the cultural comfort of California. Living for a decade in Eastern Europe has been enormously instructive about my own cultural blindness and insensitivity. What follows is a brief recounting of some of the high points of my personal transformation from an almost-reactionary conservative to a progressive, almost-libertarian senior citizen. (As a friend noted, that is unusual in that people tend to become more conservative, rather than less, as they age.)

I was an officer in the U.S. Marines, comfortable in the “my country, right or wrong” mindset. I thought the Beatles were probably subversive hippies who needed haircuts and a bath. I heard their music – it was unavoidable – but not their lyrics. But now, listening to the lyrics, I am aware of the incredible messages they offered, and how closed minds -- like my own – couldn't accept the messages. So how is it that I am here, leaning to the left instead of rigidly right, and speaking in defense of fearful managers?

My best guess is that the transformation of my outlook, attitude, and philosophy went through five phases: First, the loss to cancer of a much-loved wife. Second, the gentle lessons of a homosexual priest. Third, the startling comment of a horse trainer. Fourth, the move to Eastern Europe and the discovery that, compared to most of the people I met here, I was really quite a liberal thinker. And Fifth, the discovery that so many of the values I held were of questionable value in this part of the world. Here, so often, convenience is of greater value than ethics; and corruption, major and minor, benefits the affluent while it cripples entire societies and puts the most vulnerable among us (including abused women and dependent children) at risk of losing entire lifetimes of productive, constructive contributions.

How do these five episodes connect? Actually, it's a linear path of connections, an emotional flowchart of discovery, of dissonance discarded, and of re-discovering the power of confrontation (you have to admit a problem before you can solve it!) as a personal and emotional style. That is, in matters of conscience, go for the jugular, cut to the chase, to the bottom line, and remember that our brains will ask more questions than they can answer in our sub-conscious effort to avoid confrontations with truth. Here, in summary form, is how these episodes connected.

Long-term illness and death are tough teachers, and bring unwanted but necessary lessons. In America, where “conservative” politics collude with medical associations and pharmaceutical companies so openly, the economic calamity I faced was nearly as devastating as the other losses – the wife, her fearful, pain-avoiding children, the home we had sacrificed to acquire, and all the equity in it. In a word, I lost everything and found myself camped out with friends, thinking, “Something is wrong with this picture!” A God-believing, church-serving, hard-working, dutiful husband and step-father should not end up in these circumstances. Or so I thought.

Of course, that wasn't the end. Along the way, a gay priest was a rock on whom I came to depend. I tried to think his being gay didn't matter, but of course it did – until one night at dinner in his home. His partner of 20 years was there, along with about 20 other guests, all guys, and all having been together in pairs for one or two decades, and most were professionals (bankers, lawyers, doctors, etc.). Again, something was wrong with the picture – or maybe what was wrong was the picture in my head! As I met and chatted with other guests, and seeing my wife celebrated as the only biological female there, and of course winning the door prize (a thoughtful and generous gift), I realized it was time to do some re-thinking, some re-valuing. It wasn't easy, because I had to give up a lot of old messages firmly rooted in my head, planted by parents and

priests and a homophobic society. But as I began to win the battle with my bias, I also became aware of the unhappiness of some of those around me about my evolving acceptance of the unacceptable. I heard them say things I used to say, and found them sounding ignorant and stuck in the culture of our childhoods during which we were taught that there is one way to Heaven, where neither deviations nor deviants were tolerated.

And so it was sad to find myself drifting away from people of the heart, family and friends for years, but among whom I had become a misfit. But being among them made me more unhappy than losing them, so I sort of drifted away.

About that time, the horse trainer⁶ entered my life. I was at a conference, and all of us were taken to a farm to meet the horse trainer who had become a TV celebrity, having been invited by the Queen of England to train her horse handlers. I stood at the rail of the circular corral, watching as a horse only recently broken to a bridle and never ridden, trotted nervously around the circle, attached to the trainer by a long, loosely held lead. The trainer wore a microphone, and told us in a quiet voice what was happening, what the horse was thinking, and what the horse would do. It was uncanny. It was beautiful. And only moments after the trainer predicted it, the horse came hesitantly to the trainer's back and rested its muzzle on the trainer's shoulder. That was the signal that the horse was ready to "join up" with the trainer. As they say, I lost it. I wept openly and without shame, tears coursing down my cheeks as they hadn't since the early days of my wife's disease. Later, chatting with the trainer, I mentioned the tears. He said, before turning away to speak with someone else, "You must have had a brutal father."

How had he come to such a conclusion? How had my tears, in response to a demonstration of cross-species gentleness, led to the prompt and unconditional conclusion that I had been the victim of a brutal father? It was a question that I worked on for months, for years really, before the answer presented itself clearly and unambiguously: I wept for what I had never known and for what was my deepest hunger.

I wanted, like that horse, to join up with someone. Maybe my dead wife and I would have made it, but I had failed twice before and once since, and with lots of intermediate episodes. I had to recognize that the fault was not only in the persons chosen, but in the process of choosing. That is, I was bringing old, proven-to-fail rules to new games. About the time I came to this recognition, I remembered a book I had read some years before. I will name the author for a second time in this paper, because I want you to find and read this book: Gerold Jampolsky, MD, *Teach Only Love*.⁷ He was a psychiatrist who worked with dying children, and he wrote of their incredible courage and what he learned -- that there are only two messages in life: love and fear. In everything we say, everything we think, we are projecting love or fear. All the messages tucked away in our heads, from parents, priests, teachers, spouses, friends fall into two categories -- love or fear.

When we learn to be fearful, which can be predicted by the preponderance of fear messages in most of our heads, we learn the lesson of rules and obedience. The more certain we are that punishment follows even minor disobedience, the more rigid we become in our thinking, in our perceived choices, and in our sense of right and wrong, good and bad, the worthiest and the worthless. Somehow, among the righteous, those who are on the economic bottom are there because they are bad people or people whose parents made bad choices. Helping them is wasting money. Even the Bible promises that "The poor ye shall always have with you," and conservative politicians tend to shape legislation that ensures that promise will be fulfilled.

This brings me to the Eastern European connection in the flow of my evolution. I might say more accurately, to the post-Soviet world in which I and many other Westerners found people bound up in fears we outsiders found irrational. We found locals unnecessarily rigid, inflexible in their routines, and terrified of making mistakes or being criticized. These people manifested

the clinical descriptions of adults who had been abused as children, who were reared in a fear-based environment. As I interacted with them, I was caused to wonder about the similarities in our behaviors, theirs and mine, and maybe in the causes of that behavior.

Instead of the Soviet mindset, enforced by the constant threat of the KGB and the reality that someone in most families had been victimized for minor misdeeds, I found that I had been reared in a household governed by the unpredictable rages of an alcoholic who felt himself socially-superior to his wife. He resented his son, who was the result of the pregnancy that trapped him.

- Harsh physical punishment? Sometimes.
- Cutting, demeaning, dismissive comments? Frequently.
- Continuing reminders of being less-than-expected? Always.

After visiting my family for the first time, my second wife commented, “My God! How did you escape?” But of course, I didn’t escape – not really. There I was at 35, 50, 60 still dragging around the success-inhibiting sense of not being okay, of not being enough, and all the while trying desperately to over-compensate, to get rid of the burden of fear and guilt for things I didn’t do. Wow! No wonder I felt at home immediately, here in Eastern Europe. I was among kindred spirits!

That brings me to the fifth link in my transformation, the confrontation with corruption, that pervasive disease that eats away economic opportunity for the entire country and visits most intimately the most vulnerable among us. As with all of us who live here, we are aware of some kind of shuck-and-jive is going on at the edge of our lives – working off-the-meter, avoiding taxes, petty dishonesties, avoiding parental responsibilities (as do so many former husbands who are not made to pay child support), and paying officials for courtesies -- like the mother who was going to pay the equivalent of 3,000 Euros to get her daughter an entry-level government job. In August, 2009.

Three times, corrupt people in Lithuania have caused me to lose jobs and money. I won’t mention them all, but the one that rankles most is having to leave a university because I refused to change grades for lying students. Those lies were confirmed to the administration by other students, and my position was confirmed by the investigation of a third-country ambassador. My conversion experience was nearly complete when, after 75 minutes of repeated reasons why I had to admit my error and affirm the integrity of the lying students, I told the university rector, “Enough. I’m losing respect for you. I will resign.”

But to add insult to injury, when I was recommended to another university by the son of its rector, I was told by the number-two guy in the business school, “I don’t think our graduate students are smart enough to understand what you want to teach.” I knew I was dead as an aspiring instructor, but was it because their graduate students were so intellectually limited? Or because I had proved myself unreliable by having relied on values that cannot be counted on to work here?

Wasting me and my potential contributions was of no real consequence to those Lithuanians involved, and it was not the first time, here and in the U.S., when telling the truth and keeping my job were values in opposition. A former wife once said, “The next time you feel compelled to be so G-----d honest, why don’t you remember we have a mortgage to pay!”

An American psychologist⁸ came up with an interesting observation – that behavior change comes when people are caused to have a “significant emotional experience.” The reason I have shared my five significant emotional experiences is to remind you of how difficult it is to change hard heads and hard hearts; how tough it is to move other-directed people to make socially-

sensitive choices. How tough it is to move insecure and really frightened managers to work *with* employees instead of imposing on them.

Remember, we conservatives take our marching orders from God, who is the original strict and punishing father, and who is the author of all that is Good, and who is opposed by the dark energies whose defeat deposits them at the bottom of the heap. Being at the low end of the socio-economic continuum, held down by the weight of all that Goodness above them, is proof that the economic and social bottom have violated God's laws. Conservatives believe this is so, and you will have to shame them into changing their positions. Shame and blame and criticism are what they fear most.

Living out the Ladies Bountiful myth – sharing your resources with those less fortunate – is not going to convince or convert a single conservative. So the question comes down to this: Do you have the stomach to fight back, to bring light into the dark corners of rooms no one wants to see? That's where your leverage is. Have you got the courage to use it?

But rather than getting into a shame-based contest, why not use common sense? If you have the good fortune to work with an organization in transition to participative management, remind the managing director that he or she must be visible and persistent in legitimizing the new behaviors to be required of managers. Get the MD set up managers' meetings to discuss their successes and frustrations with involving workers in planning and controlling work. Be lavish in praise of those whose employees are becoming involved, and generous in support of managers who are having trouble with the program. And continue to do this as long as necessary. Really, there is an almost-immediate pay-off.

The man who may have been America's ultimate motivational guru, Frederick Herzberg⁹, proved repeatedly and internationally two powerful facts about people at work. The first is that the number-one thing that satisfies people at work is the work itself. That is, if they feel good about the work they are doing and the way they are treated by their managers, they will feel good about themselves and their jobs and their bosses and their companies. The second thing Herzberg's real-world research promises is almost magical. I had the privilege of being on a program with him, many years ago in Oakland, California and he was talking about how people are used and how they are treated by their managers. Here is what he promised: "If you treat people with respect – that is, if you don't piss them off – they will give you ten or fifteen percent more output for nothing!"

Imagine! Ten or fifteen percent extra output for no additional cost! That is a message that should capture the attention of managing directors everywhere – and now it is your message to deliver. Surely, such a result would justify the careful reorienting of managers so they will, in turn, encourage participation and involvement by employees in planning and executing the work they do. What Herzberg's methodology boils down to is treating employees as fellow adults, as people who want to succeed at work and to be part of successful work groups. Allow them to take pride in what they do and to feel good about themselves, and wonderful things can happen.

Before I experienced the series of transitions mentioned above, I was hired by a major American corporation to assist in breaking a union-organizing effort. I asked why I had been chosen, and the client's representative spoke bluntly. "You have the reputation of being the meanest sonofabitch in the consulting business!" I had not known that, and I guess I was proud of it. Probably, the hard edge I was able to bring to my work contributed to success on that assignment. The union did not form. The employees did not vote for the union - because the managers changed their behavior, their ways of dealing with employees and each other.

Few groups of managers ever have revised their management styles so quickly, but those eleven men knew that they would be fired if the union-organizing campaign among their employees

succeeded. They were highly motivated to do whatever they must to gain the trust of their employees. So, what did I teach them in four days? Not that much, actually. I just pointed out some choices: To be friendly instead of distant; to treat employees as colleagues instead of enemies; to involve them in making work decisions instead of treating them as though they were ignorant and without ideas for better, faster, cheaper ways to do their work; and most of all, to listen when employees wanted to offer information or ideas. Listening is maybe the most difficult skill to master.

In my book on communications¹⁰, I quoted a university administrator who said that listening was her most difficult management task. "You have to love your people enough to really listen to them," she said. Perhaps male managers also could have identified listening as their most difficult task, but how many men would have spoken of "loving" their employees? Not too many, in my experience. But if you don't love the people who work for you, how do you teach love? And if you cannot teach love, does it follow that you are teaching fear?

People who teach fear are not necessarily bad people. Maybe they are just doing what they know, what they have seen, what they have been rewarded for doing. And until something or someone intervenes, breaks into their habituated behavior to create a significant emotional experience, how are they supposed to see a different, more effective way of managing?

3. CONCLUSIONS

In closing, let me say that I hope I would no longer be identified as a harsh and hard-headed person. I think I have evolved into a different kind of consultant and helper, using my native and learned competencies more effectively because life has ground-down some of the rough edges I used to have. I laugh more than I used to, and I have more patience and more fun. I hope this sharing of some of my transitions will encourage you to help the managers you may encounter to overcome their fears of vulnerability in building new relationships with their employees. It will be useful work for you to do, and important. I wish you every possible success!

Dr. Woody Sears has been training managers and leaders since 1967. Tested in more than 200 organizations and presented in more than 100 public seminars, his techniques for resolving organizational conflicts have helped thousands of managers just like you to solve problems, develop employees, and enhance their personal effectiveness. Early in his career, Woody was lucky to have been accepted as a resource person by Leadership Resources, Inc., one of the early behaviorally-oriented consulting firms. That provided opportunities to work with and learn from many of the scholars and consultants who were developing the framework for what subsequently became Human Resource Development. Chief among those mentors was Leonard Nadler, Woody's major professor in the doctoral program at The George Washington University. Professor Nadler coined the term HRD and is the creator of that academic and professional discipline. Those experiences followed a Master's program in change management at North Carolina State, and a tour as a U.S. Marine officer. Beyond consulting and presenting public seminars (mostly on project management), Woody has designed customized project management systems for a number of companies and government agencies. Throughout his career, he has worked to simplify essential management information so it's accessible to everyone. During 2007 and 2008, 6 of his books for managers were published by HRD Press in Massachusetts, USA. Contact Information: Email: woodysears@gmail.com.

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Deming’s 14 Principles are presented in full on Google. See [www. Quality register.co.uk/14 principles.html](http://www.Qualityregister.co.uk/14principles.html).
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PITESTI AS A POSSIBLE CREATIVE CITY FOR ROMANIA. THE IMPORTANCE OF THE CREATIVE COMMUNITIES IN THE CONTEXT OF THE GLOBAL CRISIS

Professor Ph.D. Marta Christina SUCIU
The Bucharest Academy of Economic Studies
suciuchistina@yahoo.com

***Abstract:** It is obviously that all over the world, mostly after 2000, a new approach for urban development and for regional development emerges. I choose Romania taking into account also the idea that it has old tradition in cooperation mostly within the areas near the borders where diversity and multicultural environment can allow more space for diversity management and for tolerance. One of the main challenges for the creative communities and for the creative industry sector and for those who engage within is how to encourage longer-term growth of these small lifestyle businesses. It seems that there is quite difficult to identifying creative workers due to their diversity (understood in a complex sense, in terms of cultural diversity that is more relevant for creative communities than ethnic, religion or other way to look traditionally for diversity).*

***Keywords:** urban development, regional economics, creative cities, creative communities, creative economy.*

1. INTRODUCTION – THE NECESSITY TO PROMOTE, IMPLEMENT AND DEVELOP THE CREATIVE ECONOMY DURING CRISIS TIME. BRIEF LITERATURE REVIEW

The global crisis that has made its presence felt since 2008, has already affected to a large extent all sectors of activity, regardless of country, region or continent. It has not avoided the creative sector or creative domains. Despite the potential of the creative economy to generate wealth and create jobs and growth, the creative economies must face the same threats that all economies face. The question is to what extent it affected the creative sector and what are its prospects for development in today's context.

As the global crisis affected without exception all areas and industries of the economy, the creative economy could had not avoid this major global change. The current social and economic landscape could be described broadly by the disappearance of a large number of jobs and the remaining being at risk, businesses which go bankrupt, owners that move etc. All these phenomena occur simultaneously worldwide in all industries.

Moody's (Economy.com) published a report on the recent economic activity in the United States of America. The report investigated 381 metropolitan regions, out of which 302 were already in strong recession and 64 were at risk of recession. When the research was conducted, only 15 of those 381 regions were still experiencing economic growth. The regions which were the least affected, according to the survey, were those regions rich in oil and other natural resources (e.g. Texas and Oklahoma), who were *saved* by declining energy prices.

As well, the Washington DC region still provides and creates new jobs in law and administration, due to nationalization of financial companies and fiscal expansion (Florida, 2009). At the opposite pole are the regions less associated with massive funding, which are most affected by the crisis.

In this context, sooner or later, all world regions will be affected by the recession, to some extent and for a certain period. As the crisis deepens, some regions will be more affected than

others. Moreover, it is likely that certain regions or cities will have fully recover, reaching back their past performance, and others not to come back ever again. One thing is certain, however, that the world economy is deteriorating, and the response of different regions to these new conditions is various.

Similarly, *The Big Economic Crisis* or the *Great Depression* of 1929 began as a banking crisis caused by insolvent mortgages and complex financial instruments. Soon, however, the effects of this crisis widened and affected even the real economy, giving rise to a very high rate of unemployment (e.g. unemployment rate in New York was 25% and in some countries exceeded 30%). At that time, the oil industry, building railways and the steel industry were well developed. This is the context in which appeared *the dawn* of a new period of innovation and industrial growth. A similar opportunity may be identified today for the creative economy, since it can play a key role in the current crisis, its ability to revitalize, which was already proven during the periods of growth and expansion.

One of the root causes of the crisis is the increasing difficulty of the West to offset internal exhaust by attracting resources from other parties. Exhausted, the West founded the globalization of markets (especially financial markets) to attract resources from elsewhere, enabling it to maintain the same standard of living, but created a financial bubble at world scale. Everybody was interested in the fictitious and uncontrolled growth that was going: on the one hand, Western economies could maintain their growth, governments assured full employment today with the money of the tomorrow taxpayers, companies provided the required products without increasing the wages, employees were finding jobs, shareholders were getting significant value gains, the poorest had access to housing, banks gained enormous profits, United States effortlessly maintained their supremacy, the southern countries were involved in the growth with the help of U.S. imports and the world financial system stored much of the world added value.

The creative economy combines creativity with the commercial sense and research. The development of creative businesses is directly linked to the dynamics of the *new economy*, which becomes informational, global or networked. The new economy is based on knowledge – intellectual property – and contributes to the welfare of a nation. If the cultural industries were not substantial sources of revenues and economic growth before, during the past few decades they led to the revival of many European regions where the traditional industries had disappeared and left behind a desert landscape and a decaying society. It is the case of *Newcastle-Gateshead* urban conglomerate in Great Britain, former mining region; at present, this region is flourishing due to the development of the creative industries, and examples can be offered from many other geographic regions in this respect.

It was thus proved that the creative economy has a major role in any society through social inclusion, urban regeneration and personal motivation they generate. Hundreds of years before art and culture did not represent productive activities, even though they used to have intrinsic value. Gateshead and Glasgow placed the creative industries and the cultural activities at the centre of their development strategies.

2. CREATIVE CITIES, CREATIVE COMMUNITIES AND CREATIVE REGIONS – PEOPLE AND PLACES THAT FIRE THE ENGINE OF THE ENTIRE ECONOMY – REVITALIZATION POWER

While the concept 'creative' is ubiquitous in everyday life, the concept of a creative city reflects a variety of examples with special applications of creativity to urban economic progress. For purposes of this writing, the creative city will be viewed as engine for creative regions and as a general movement that uses the application of this concept primarily in the

revitalization of cities and whole regions in terms of strengthening the competitiveness of cities that are based on creative community potentials.

The city in the 21st century takes precedence in terms of the number of residents who live in it. Certain sociologists who deal with the phenomenon of the city go so far as to claim that the global society in the 21st century is going through great paradigmatic change, because it is making a transition from a society of the national state to a society of the city.

Cities have always been and still are the focus of modern society and they are socially, culturally and economically dynamic entities and they are the engines of regions where they are placed.

One of the ideological mantras of globalization is that it does not matter where you are. The technology is "*aligning*" the playground-market and the world has become flat global village. Some authors as Pine and Gilmore (1999) argue that increasing competition in the market means that 'goods and services are no longer enough' and that producers must differentiate their products by transforming them into 'experiences' which engage the consumer. Today's global economy has its "*peaks*" of experience. Moreover, the highest "*peaks*" of experiences are cities and regions that are drivers of world economy, those that attract talented, educated people from all over the world, generate knowledge and largely contribute to global innovation, and each are very closely related activities of a group of people by Richard Florida, urban theorist, called "*creative class*." The main sources of the creative potentials in cities and regions are their people. What makes the creative city? It is people - people interacting with people (Hawkins, 2002).

'Today, we need creativity to be able to connect, collect and measure the impact of different spheres of life for a holistic understanding of the city i.e. how it materially affects our perceptions, in order to grasp the delicate ecological system of our lives and make it sustainable. We need, in other words, the skills of a broker, a person who thinks through several disciplines, which is in a network and connects - we need '*softer*' *skills*' (Landry, Bianchini, 1995).

Contemporary cities see their development through different models: intercultural city, environmental city, green city, slow city, cool city, etc. All these models are linked to changes with the economic and social aspects of the city starts from creative individuals and independent organizations to different administrative and policy systems.

Creativity is available to each city through their creative individuals and if the city promotes creativity and enables those individuals to show in public their creativity the city space would be enriched and more creative. Creativity is not a concept that can easily be caught. According to this in some cities and countries that are still going through transition and that are struggling with basic problems as it is lack of infrastructure and lack of sources for serious social problems, creativity is hardly acceptable. Although creative solutions usually cost very little they have big effect that shows example from the world such as Montpellier (Landry, 2000).

3. THE STAKES OF THE CREATIVE ECONOMY IN THE EMERGING COUNTRIES OF SOUTHERN AND EASTERN EUROPE. THE CASE OF ROMANIA

In Romania, the concept of creative economy, as well as the one of creative industries and cities, is still at the beginning of its research; there are no broad researches or specifically focused works on this topic, as it is the case in those countries that initiated and promoted this concept.

The existing statistics at national level in Romania do not allow a fine and precise classification that outlines the creative industries exclusively as it is the case in Great Britain and Australia. Rather, activities in Romania are divided according to a broader classification.

Thus, several blooming creative activities in Romania cannot be separately interpreted due to the classification procedure and statistical reporting. The general conclusion regarding the

creative economy and industries in Romania is that the structure of classification of the economic activities in Romania does not particularly focus on them.

Actions aimed at developing Romanian creative economy and creative cities must take place in a wider context, an *international* one, in the South-eastern Europe space or even in the European Union. Nordic countries are the most eloquent example of such cooperation among nations, which can only lead to the development of the creative economy and cities.

One Romanian town – *Iasi* – was *elected the creative town in Romania*. This project was part of a larger *Central and Eastern European programme*, conducted by *the British Council*. The purpose was actually to map the creative industries in this creative town in order to create awareness about these companies and bind them all in a network. I hope soon other cities will be considered as creative cities and creative communities. Why not Pitesti to be considered in the near future as *a creative city*? (see box 1)

Box 1. Pitesti as a possible creative city

Pitesti is the capital and the largest city of [Argeş County](#). It is an important commercial and industrial center, as well as the home of two universities. Pitesti is located on the [Argeş River](#).

Inhabited since [prehistoric times](#) but first mentioned in the 14th century, Pitesti developed as a trading town in northern [Wallachia](#). Piteşti was first mentioned on May 20, 1386, when [Wallachian Prince Mircea I](#) granted a [gristmill](#) in the area to [Cozia Monastery](#). Due to its positioning on the junction of major European routes (and its proximity to the [Saxon](#) markets in [Hermannstadt, Transylvania](#)), the city originally developed as an important commercial center (Otetea, 1970, p. 446). The city is surrounded by hills, being the center of an area rich in wineries and plum orchards. The latter give one of the finest Romanian [țuicas](#): [țuica de Pitești](#). The [Ștefănești](#) winery, situated on the opposite bank of the Argeş River, is one of the best known in Romania.

Pitești is situated on the [A1 freeway](#) connecting it directly to the national capital [Bucharest](#), being an important railway junction. The city houses [the Arpechim oil refinery](#), and is a marketing center for the [automotive industry](#), in particular [Automobile Dacia](#).

Each year during springtime, Pitești is host to a festival and fair known as “[Simfonia lalelelor](#)” (the “[Tulip Symphony](#)”). Tulips were introduced locally in 1972-1973, when around 3,000 bulbs brought from [Arad](#) and [Oradea](#) were planted in its central area, along with other flowers. Pitești consequently acquired a reputation as a tulip-growing area, and the flower-themed festival was first organized by the local authorities in 1978. The [Tulip Symphony](#) is a hallmark event of Pitesti, to take place traditionally in April. The central event of the [Tulip Symphony](#) is the flower and plant exhibition held at “[Casa Cartii](#)” and on the Vasile Milea Square in Pitesti. Each year the [Tulip Symphony](#) starts with a “[Flower Parade](#)”. Concerts, street shows and sports competitions accompany usually the exhibition. The last day of the event is usually marked by a display of fireworks. Many exhibitors, several official delegations from twinned cities and diplomatic officials take part to each year’s edition of the [Tulip Symphony](#).

I consider that Pitesti has a great potential to be taken into account as a possible creative city in the near future.

Source: www.simfonialalelelor-pitesti.ro

The measures taken in Romania in support of the creative industries are not part of a national strategy or policy. However, there have been several incentives for the software industry for some years whereby the profit was not taxed on such activities. Moreover, the crafts are supported by a national programme whereby craftsmen can benefit by financing provided the activity remains basically and mostly manual and it preserves the traditions.

In Romania the concepts of the creative economy and creative cities are still at early stage even though there is a time of discussing the creative economy on a highest level in the country. Exploitation of knowledge and creative skills is one of the most lucrative industries in the world; the only problem is that in Romania it is not easily converted into capital. Lack of awareness of the importance of creativity in companies on the one hand, and outdated education system that does not encourage the development of creativity, on the other hand, are the main problems of the creative industries in these countries, participants emphasized the forums.

CONCLUSIONS AND RECOMMENDATIONS

In the content of the new urban development perspective creative cities, creative communities and creative regions are place where we can hope to find a reliable and sustainable source for long-run sustainable competitive development even during crisis time. Like Phoenix bird recovering from its ashes, creative communities have a real potential in order to identify the real source for regional sustainable development among the creative corridors and creative cities. According to the sustainability of interventions and involvement of the population, creative cities can act properly like fire engines for the long-run sustainable development of the whole region to which they belong.

In Romania, the concepts of creative economy and cities are still in early developing stage and they are still based on enthusiasm of creative organization and individuals. The awareness of companies and individuals in majority is not high enough and creativity is seen as waste of money and time.

I am optimistic and I hope for the best perspective for Romania and its regions and cities like Pitesti that could become creative city. That is why as a professor and researcher I had done my best in order to promote this new approach within our country and I am very happy that we obtain on competition bases some research funds for a national research project (IDEI 1224) specially dedicated to the topic of "*The creative economy & knowledge-based society. Challenges & opportunities for Romania*". This project started in 2007 and is running also in 2010. As a teacher I also promote this topic among my students on all the Bologna Process levels (undergraduates, Master and PhD Programmes).

I am convinced that by promoting creative economy new approaches among students when these students will graduate they will do their best in order to promote this approach in Romania. Or at least they will not block other's people initiatives that will support creative economy promotion both at the national and regional level. The regional and territory dimensions have a special meaning for the cotemporary development. And the creative & innovative communities can make the difference also for Romanian regions on their way towards a creative & innovative economy.

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INVESTMENT IN EDUCATION, THE WAY FOR ROMANIA TO SUCCEED

Professor Ph.D. Emilia UNGUREANU, Master Student Felix-Constantin BURCEA

University of Pitesti, Faculty of Economic Sciences
emiliaungureanu@yahoo.com, felixburcea@yahoo.com

***Abstract:** The new economical approach highlights more and more the importance of human capital. Presented as giving a big contribution to the social wealth, the accent is putted over the fact that the investment in this direction is one of the most important. Under these circumstances we are analyzing the particular case of Romania as a developing country, the investment made in education and the effects of the global crisis in this field.*

***Keywords:** education, human capital, investment, global crisis*

In the second half of the twentieth century, humanity has experienced unprecedented economic growth, especially due to technological progress increasingly faster and greater international competition.

This progress was possible because of the ability of humanity to control and manage their environment according to their requirements, by reference to science and education, the main drivers of economic progress. Education is no longer defined only in terms of impact on economic growth, but also by the larger perspective of human development, placing it in interdisciplinary concerns foreground of government agencies and national and international NGOs.

After a long time when education and instruction were left to pedagogy and teachers, in the past half century specialists in various fields - economists, sociologists, psychologists, technocrats and politicians - have made a multi and transdisciplinary approach, including in the equations of national, regional and global development strategies, education and training of workers. Besides pedagogical and content components of learning - its mechanisms and dynamics addressed adequately extraordinary progress of scientific knowledge and practical action - the length, structure, financing and management of education fell under the economic approach, being evaluated by economic criteria including cost and results.

New economic approaches of education¹ focused on education for economic demand - reviewed and evaluated by human capital theory - emphasizing the importance of international comparisons of human resources for increased productivity. Connection between the rate of technological progress and quality of human intervention has become increasingly evident, like the preparation of those who play an active role in the economic environment, to use in creative mode and innovative purpose new technologies; in consequence, the second research topic of economic perspective approach to education was to correlate between education and adapt employment and economic growth.

¹ Smith, Adam - *Avuția națiunilor*, Editura Bucovina, 1937, p.243

The rapid rhythm of change has convinced both the business community and nations that labor flexibility is needed. Every sector, including agriculture, needs a constant update of qualification, combined with the accumulation of knowledge and skills to action.

"This irreversible trend represent a proof of growing importance of" intangible " points in investments field, such as education - as the effects of" intelligence revolution "are felt. " In this case, investment in education becomes a strategic investment.

Therefore, as Jacques Delors said," educational systems must educate in innovative spirit, promote the ability of evolution, adapting to a world rapidly changing, that each individual be able to assimilate. "

The study of these issues has grown considerably in the 60s, reaching a peak in the '70s. Subsequently, interests in economic approaches to education and training have diminished, making only subject to strict professional studies. Deep economic crisis caused the first oil price shock (1973), embodied in numerous and serious imbalances including chronic unemployment, has produced a certain disillusionment about the capacity of education itself and training of human resources to generate economic growth and sustainable employment of labor.

In this context, the core economy of education - human capital theory - has been subject to criticism and dispute both ideas and extensions of the scope and content approaches.

In addressing this issue, essential in terms of economy and sociology of education, the exploitation of human resources potential, we start from the concept - with a wide used today – the human capital.

Thus, Adam Smith - in his famous book "Wealth of Nations" noted that human capital is not only a form of capital, but the most important of them, embody skills acquired from useful members of society, capacities that can be found, both, in each individual property, and also in the "heritage" or the wealth of the society which he belongs. "Perfected skill of a worker may be regarded as a tool to improve work and that, although costs, require a certain expense, however repays after this expense as an income for himself and for the community to which it belongs.

Almost a century later, national and international economic environment challenges caused by highly dynamic technological developments, often less visible, have triggered a wide debate among the scientific community with practical purpose, perhaps insufficiently valued at first, but very dynamic. Emergence and consolidation of its various versions of "human capital school", launched practically following the appearance on the "market science" of the first edition of the work of Gary S Becker, spurred further development - the formal multilateral plans - the human capital school. There are now, beyond some doctrinal differences, and/or methodological consensus on the importance, roles and functions of human capital in sustainable development and, not least in terms of enhancing its role in the new economy, the informational economy.

Human capital is defined, usually as an integrated whole theoretical system of general and specialized knowledge, skills and abilities learned in the process of education and training (formal and informal) or from the work experience, by economic and social behavior that the individual implement in the process of creating goods and services, generation of an income adequate / remunerated for their owner and also to the community where is falling or for the society (see also The Oxford Dictionary for the Business World, 1993).

In connection to this, two remarks appear necessary which have their signification to decipher the investment in human capital. Human capital as stock and flow is multidimensional and multifactorial determined.² More specifically, it includes a package of components that belong to different spheres of social activities but that in their interaction / connection leads to what we routinely call "quality of the human factor."

² Ciobanu, O., *Educația economică în România Prezent și perspectivă*, Editura ASE, București, 2003, p. 58

Why multidimensional?³ Because here enter such items as: theoretical knowledge, skills, work habits, character and personality traits, health status, level and structure of consumption, etc... In a sense, each of the elements mentioned - and the list could be bigger, taken separately is the form / aspect of human capital.

Why multifactorial? First, because it has special relevance for macro-and microeconomic decisions regarding the option of saving and investment, the opportunity cost areas, investment allocation based on priority programs and, not ultimately, relations between public policy and action in the field of active market. Even more as market signals act most often delayed compared with future skills needs and therefore may be distorted and / or introduced distortions which become visible, disturbing after few years (first supply and demand qualifications in certain professional market segments are balanced and on the other imbalances occur, sometimes major, in other segments).

Secondly, in terms of training effects, potentiation and autopotentiation. Prestigious research developed especially after 1950, in each of the areas mentioned, but especially in the "economy education" has highlighted the many interdependencies between stock and dynamics of human capital and a series of demo-economic variables, socio-cultural, etc...such as:

- growth rate and quality of economic growth;
- sustainable human development;
- the rate of creation / innovation, development and technology transfer;
- Productivity - competitiveness - employment;
- population demographic behavior;
- size and income distribution;
- Social security systems;
- transfers and intergenerational solidarity, etc..

Thirdly, from the perspective of those who participate/cooperate in training and developing human capital (individuals, families, local communities, undertakings, public power, civil society, external partners).

Since the '60s, a number of theorists have highlighted the significance of human capital for the economical development of a country. Thereby has emerged theories regarding human resources and human capital.

Frederick Harbison has shown that "not the capital, income or material resources but human resources constitute the ultimate foundation of wealth nations. Human beings are active agents that accumulate capital, exploit natural resources and promote national development; ..." ⁴ a country that is unable to develop the skills and knowledge of their people and use them effectively in the national economy will not be able to develop anything. From his point of view, material and capital resources are passive factors of production that can be activated only through human resources, properly trained (through education and training) and used, gave strength and durability to the national economy.

Regarding human capital, economic analysis distinguished between:

- Human capital acquired⁵ through formal education, in which both general cultural elements are present and professional cultural elements (specialized).
- Operator-specific human capital, measured, usually by an indicator that reveals the number of years worked in the same company;

⁴ Harbison, F.H.- Resursele umane ca avutie a natiunilor (trad.), Oxford University Press, N.Y., 1973, p.3

⁵ Suciu, Marta Christina - Investiția în educație, Ed.Economică, București, 2000, p.45

- Occupational-specific human capital, measured, mostly by the number of years assigned to the same occupations.

Old or recent surveys of famous authors have attempted to quantify the contribution of human capital to ensure social welfare, as well as an assessment of training (externalities) of investment in human capital.

In the field of human resources it has made numerous researches on many aspects: economic, sociological, cultural, educational, etc., including attempts compensating their contribution to economic development. Economic output of a nation depends - besides the processes of absorption or consumption - also of the the degree / level of qualification of its people, achieved both through professional education, and through adequate and sustained economic education.

Investment in human resource - embodied in stock, size and quality of human capital flows, and often expressed through concepts of stock and flows of education and / or knowledge – is acting, in fact on the entire life of individuals and on societal scale over a long period, cause and effect of economic development - social, it prevails, anticipating on various channels and in multiple forms the future development. In an extended approach, investing in human resources should not be reduced only to the acquisition of knowledge and skills, but must include also the population health status and nutritional needs because a decent living lead to a general and individual increase of productivity and in the same time, make investment in human resources more sustainable and profitable.

In a very broad support, according to the concept of human capital, investment in human resources could be defined as all expenditures and activities designed to ensure, to provide the enlargement, the (re) renewal, restructuring and transformation in conditions of transparency of the competencies package (knowledge, skills, abilities, behaviors) that gives the human factor qualities / creative abilities, imaginative, productive and participatory communication, etc.. Defined thus, the investment in human resource covers an extensive area of needs, aspirations and interests consistent with the individual personality.⁶

Th. Schultz, Nobel laureate for economics in 1979 - devoted to human capital term, stressed that human being is a form of capital that can be developed. He also demonstrated that to the growth of a nation contribute not only the amount of land and labor used, but also knowledge and skills that people posses, multiplication of these acquisitions being even one of the most significant features of the economical system. In "Investing in human capital, Th. Schultz started to declare that "the level of some developed countries (eg USA) have a much higher growth rate than the capital would allow conventional (non-human) used for the production of this income (labor, land and capital). He called this discrepancy "resource productivity" and after further research concludes that increasing income from work is due to a remarkable growth rate of human capital. Th. Schultz calculated the contribution of education to growth based on modern theory of rent.

And economist Edward Denison was concerned by the discovery of that unknown factor - other than work or land - that participate in the increase of production obtained per expended unit of labor. Denison resorting to identify the "residual" factor, by introducing into account the aggregate production function that expresses the total production in the three traditional factors of production, considered to be constant. In "Sources of growth in the United States"⁷, Denison seeks to measure the effects of human capital on economic growth, analyzing a period from 1929

⁶ Marinescu, C., *Educația- perspectivă economică*, Editura Economică, București, 2001

⁷ Denison, E. - In *American Economic Review* no.52, mai/1962, p.67

- 1957 and considering that growth rate is $x\%$ per year for land, $y\%$ for qualitative changes and $z\%$ for labor and capital changes. To his surprise, found that when multiplied three traditional factors of production with corresponding growth rates, obtained an annual growth average of national income by 2.93% compared with the total increase in expenditures for land, labor and capital of 2.0%. So there was an increase of 0.93% of national income per year that could not be justified by the increase registered by traditional factors of production. Subsequently extended the analysis until 1969, using as a tool to measure the contribution of the unknown factor, is analyzed the residual approach. Denison shows, finally, that education and training determine national income growth, including calculating the percentage can be attributed to education. We suppose Denison included in its calculations also elements of economic education, which supports professional training.

Both theorists - T. Schultz, E. Denison - concluded that investment in human capital has the running costs for education made by a person, family, organization or society as a whole, taking into account the possibility of success not only in performance professional, skills and understanding, but also in the event of obtaining additional income in a relative future.

Addressing to human capital in its complexity, Gary Becker, another great theorist of human capital, calculated the effects of human capital investments for both individual and society. Becker and theory developed from a model whose essential assumption is that education increases the productivity of those who possess, even if it involves costs, investment in human capital produces earnings.⁸ Human capital theory, productivity is an attribute of the worker, depending on his physical and intellectual capacities, and level of training achieved. After G. Becker, "future productivity can be improved only at a cost, because otherwise there would be an unlimited demand for training. Otherwise expressed, resource allocation for education (teaching) should follow the principles of the neoclassical model of resource use in a market economy. The decision to invest in human capital is influenced by many factors, one of them being the social group which highlights the existence of social barriers and restrictions for certain categories, which led the discussion of social discrimination.

Becker, in his work "Human Capital" (Nobel Prize for economics in 1992) warns that economic agents not only pursue profit maximization, but are interested in maximizing satisfaction and utility. This does not exclude, however, that in the short term, some individuals or groups can not achieve this goal, walking, usually in unwanted frequencies, which deepens social polarization. New optical belonging Gary Becker, has caused heated discussions and controversy, especially with Marxists economists. Traditional dichotomy between labor and capital - factors distinct and even opposed ideological theories and ideological - is replaced by a new paradigm based on unskilled labor trilogy - human capital - physical capital (material). Becker considered, like other advocates of human capital theory, the fixed costs of education and individual earnings expected that there is a close relationship addiction.

Human capital, as stock of knowledge, skills and abilities used in the production purpose, plays a major role in growing modern economies. If we bring the discussion in the particular case of Romania, a country that wants to learn in an intense catching-up process of development from western countries, the normative level we could say that we need massive investment in education and training.⁹ However, a realistic approach to what exists in fact, the discussion may get only a disturbing twist. We make in first instance a call to the numbers and, according to official statistics (INSS, 2005), we found that only 53.2% of students that enroll in primary and

⁸ Becker, Gary S. - *Capitalul uman*, Ed. ALL, București, 1997, p.156

⁹ Cămășoiu, O., *Formarea profesională*, Editura Economică, București, 1994, P. 53-56

secondary cycles will come also to a higher level of training. If we look at how many young people below the age of 22 years graduated from high school, we find an average of 66.5%, less than 11 percent against the European average (77.3%). In 2006, reported to a school population (enrolled population) of 4.34 million, there were only 185,255 high school graduates, plus 150,187 graduates of vocational schools, which means a rate of 77.1%, well below the European average exceeding 10%. Neither as regards the preparation still can not say that exists comparison with what we want to be, just 1.6% of Romanian adults following professional training courses, while the EU target is 12.5% (INSS, 2005). If you try to place Romania in the global context as a complex state, such as the combined rate of school enrollment in the year 2007 we are found on the positions 68 in the neighborhood of countries like South Africa or Egypt. In the same time, after human development index, Romania ranked 62 in 2008. However must be said that although the positions are still far from agreed objectives, every year there has been progress that can be justified by increasing the amounts allocated to education, health and social protection.

These are the general conditions under which, in a previous analysis, based on Lucas conclusions (1988) that the gap between growth rates for various states are given the differences in human capital accumulation and, therefore, tends towards a level of convergence, less developed states have to increase rates of accumulation of human capital both by improving the educational process and by promoting technical progress, we appreciate that Romania needs to invest in the next period in education, prerequisite for long-term sustainability of economic growth process. A low stock of human capital to young people today, combined with one of the lowest rates in lifelong learning training in Europe (1.6%) could foreshadow a situation of continued degradation of the Romanian economy for the future.

Only a change of vision from government and a strong funding of education sector can cause a reversal of situation. Therefore, if the context of the stock of human capital is a damaged one by the precarious state of education system and the leakage to the outside through the migration process extremely powerful, it is necessary that at the macroeconomic level, to pay attention to the educational system, and then, under appropriate funding, to be amplified until a trainer level the quality of education issue.

Modern theories of growth come with optimistic assumption of the technological convergence [Solow 1956], implying that, because of the volatile technological advantage, countries within technological frontier can catch up countries that are on the border opportunities. However, countries or industries from the second division have different capacity to absorb technology (Abramovitz, 1986).

They differ according to national policies on education and research (Romer, 1990). Technology can not be acquired without any education and practical skills necessary to understand and use it. Those skills are gained as a result of complex processes, requiring long and significant investment.¹⁰ Reality shows that there is a convergence in the countries which develop in parallel and human capital stock in a greater degree than developed countries. If this not happens, the technological gap often increases because, even at the same rates of educational and professional growth stock, their application to a different basis will generate quite different results (Mankiw, Romer, Weil, 1992).

¹⁰ Mankiw N.G., Romer D., Weil D.N., "A Contribution to the Empirics of Economic Growth", Quarterly Journal of Economics, 107, pp 407+437, 1992

For example, a greater number of years of schooling from 6.5 to 6.7 in the case of developing countries will not be similar, as effect on economic growth, with an increase of 10 to 10, 2 years in a developed country. If the former increased the number of years training at secondary level in the latter case it is an increase especially at tertiary level. It is known that there are major differences in capacity for innovation in the level of training. If individuals with secondary education are more likely to technological imitation, those with tertiary education are more able to innovate.

Therefore, an increase of 1% of primary school enrollment rate will result in an increase of 2% of GNP and the same 1% increase in secondary school enrollment rate will produce an increase of 2.5 or even 3% (for developing countries) (Sianesi Van Reenen, 2000).

In other words, for example, although the growth rate of years of schooling is very low in Western countries precisely because of the high level reached so high base reporting a minor increase produces more individuals, are able to innovate, while developing countries will occur more individuals are able to imitate technology. Therefore, that the convergence process exist, it is imperative that the growth of education level to be significantly higher in developing countries. This, however, requires clear policies, targeted toward achieving specific objectives aimed at a level of education specific to the development course cycle.

Referring again to the situation in Romania, we can say that the state of convergence with the EU countries can not occur under current conditions. Strongest argument is related, as I said above, the insufficient level of human capital and less encouraging prospects for subsequent periods of development, arising from poor school figures (Table 1) and quality of Romanian education.

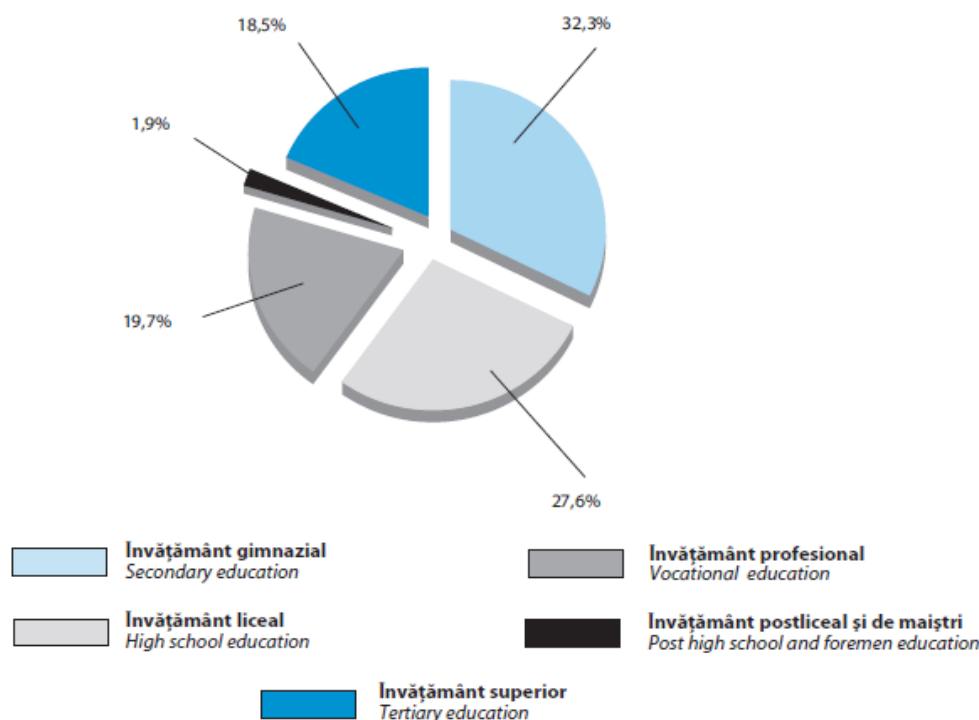
Table 1. Gross rate of registration in urban education levels / areas (2006)

School level	Total	Urban	Rural
Preschool	71,8	76,9	67,9
Primary	108,2	108,5	107,9
Secondary	92,2	96	88
Total basic education	99,2	101,1	97,3
Lyceum	54,6	89,8	8,6
Superior	29,9	-	-

Source: Romanian Statistical Yearbook 2007

According to OECD statistics, Romania is behind all its neighbors to assess the level of literacy among young people by 15 years (score 428 out of an average of 500) and the second smallest to assess eighth graders in science and mathematics (score 470 out of an average of 500). It was therefore necessary that in the next period, Romania must accelerate the investment in education in order to recover the disability created by neglecting this issue in the past 20 years. Although 2007 and 2008 gave positive signals, when the education funding significantly increased due to budgetary effort and enlargement of GDP, the process improvement was suddenly interrupted by the emergence of international financial crisis which affected in amplified mode the Romanian economy.

Figure 1. Graduates by level of education in 2006/2007 school (academic) year



Source: Romanian Statistical Yearbook 2008, chapter 8-Education

The gloomy predictions on general economic developments in 2009 led to a rethinking of budget strategies in the context of significantly reducing the spending and investment. One of the sectors in which, contrary to the signals drawn by the World Bank and IMF, the reforms were interrupted, by a significant reduction of funding is the education one. Thus, correction of the budget in April 2009 brought a minus of 811 million, money that can not meet any minimum wage increases promised to teachers and some of the investments started in schools. The decision interrupts, in a certain way, the positive trend of stock accumulation process of education, so necessary in the context of comparison described above.

If would be a temporary interruption, the inducing imbalance would not be a major one because of the system inertia. Both positive and negative effects have a certain elasticity in propagation. Lack of adequate funding this year could be offset by a rebound in the next period, if will exist a long term strategic development plan, as there are in many developed countries like USA, Japan, Germany, France.

Fortunately, there is a positive part in the crisis that caused the reduction of investment in education: the recovery of a part from the lost of human capital stock in previous years by emigration.¹¹ Because of extensive global crisis, the labor market in developed countries has narrowed substantially, making it a good part of those who have a good time working abroad to return. They came not only with an additional amount of money but also with a stock of knowledge, skills and abilities extremely valuable both for themselves and for the national economy. Although the amount of money in the form of remittances is substantial, only in 2008 exceeded 8 billion, is not the main advantage of temporary migration, but the specialization of labor and human capital accumulation.

¹¹ Rodriguez-Pose, A., Vilalta-Bufi, M., "Education, Migration and Job Satisfaction: the Regional Returns of Human Capital in the EU", BEER paper no. 1, 2004.

There is a lot of discussion about the so-called "circular migration" or "temporary migration. The fact is that migrants from developing countries bring, when they return to their home country, an additional stock of human capital resulting either from technical knowledge gained in the pursuit of new activities or the additional skills gained in the context of the productive act that entails, often in starting new businesses in their home country or between home and host country.

There is also the benefits of additional social capital gained, generated by social contagion effect when a minority get in touch with a dominant majority. It produces a transfer of social norms and customs that, in the context discussed by us, it can be only favorable. Individuals who take contact with the detailed regulations specific of developed countries adapt their behavior, initially consciously and imposed and then subconsciously and unconditionally, becoming after that people with superior automatism behavior, characteristic of social, political and economic culture of host countries.

Although to some extent, cultural identity of origin is maintained, it was observed that when the migrants return home, they will want and even be motivated by the possibility to be informal leaders, to spread and apply patterns acquired during migration. This is observed in Romania, especially in rural areas, where people who "go out" is a distinct community, more emancipated, respected and emulated.

CONCLUSIONS

Currently, human capital accumulation process in Romania is subject to divergent trends, being quite difficult to say whether the outcome will be positive or contrary: we can talk, first, of reducing the budget for education and research, due to the actual situation and, secondly, we talk about a reversal of the migration process, a significant part of people come back due to adverse international situation.

If in the first case it will be a loss of educational stock, which could be recovered if in the near future the upward trend of investments in education will resume, in the second case will be noticed, on medium and long term, a significant contribution of human and social capital, especially in rural communities where immigration has significantly affected the demographic composition in the previous years.

Romania needs in the next period to increase their support for the education sector in the context in which the state wishes to achieve convergence with the EU average. Although the moment of crisis seems to be unfavorable, we must say that the future belongs only to countries that create favorable environment for innovation, environment that will appear only in the presence of a high human capital stock. Help in this regard may come from attracting and retaining in the country those who have accumulated human capital through temporary migration in the developed economies of the world in prior periods.

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MACROECONOMIC EVOLUTION IN ROMANIA'S DEVELOPMENT REGIONS WITHIN THE CURRENT ECONOMIC- FINANACIAL CRISIS

Ph.D. Senior researcher Mariana BĂLAN¹, Ph.D. Candidate, Assistant Alina SOLOMON²

¹ Institute for Economic Forecasting-NIER,
Romanian Academy, mariana_proгноza@yahoo.com

² "Dimitrie Cantemir" Christian University of Bucharest,
Faculty of Finances, Banks and Accountancy, alinagsolomon@yahoo.com

***Abstract:** Development disparities between regions and within Romania have existed both in the period before Romania joined the European Union and after January 1, 2007. This phenomenon has gained momentum because of the impact of economic restructuring, particularly in mono-industrial areas, whose population has been affected by unemployment due to closure of unprofitable state enterprises. Financial crisis and economic impact of accession on growth in the eight development regions of Romania in 2007 produced no changes in their rankings as the index of regional disparity, even though for some, its value has increased from 2006. This paper presents a comparative analysis of developments in macroeconomic indicators in developing regions of Romania.*

***Keywords:** development regions, administrative-territorial structures, regional disparities, aging, educational level.*

1. INTRODUCTION

In the last decade there have been major changes in global economic system mainly due to the economic development of Central and Eastern European countries, and also to employment in the accelerated economic development of countries with large populations (China and India - 1/3 of world population). In this context, the balance of energy markets, raw materials, capital, labor and the global ecological balance has been and will be affected.

Housing crisis in various developed countries, oil and gas price fluctuations, inflation, the crisis in the agrifood sector, the crisis in financial markets, reduction of the pace of economic development in some countries are aspects of adjustment/self-regulation of "a worldwide phenomena".

According to IMF estimates, global economic growth is slowing rapidly, this being a trend driven by extraordinary shocks that have affected financial markets and high prices of fuel and consumer goods, and many advanced economies are moving towards recession. If countries of Eastern Europe, whose economies have recorded growth rates higher than those in Western Europe will not get over the effects of slowing world economy, then the demand for exports coming from the East European region will decline. In Romania, the first economic sectors affected are those related to exports, especially exports to the EU where 70% of total exports go. Although currently the statistics do not reflect the decline in industrial output and exports, the effects of turbulence on international financial markets in September will be felt in Romania in the period ahead.

Generally, tightening credit conditions and increased costs, the lack of liquidity are already affecting operators in different economic sectors in Romania.

However, in all economic activity there are manifestations of restraint in expanding business and investment and some units have reduced production rate amid lower orders, especially for export.

2. SHORT OVERVIEW OF EVOLUTION OF MACROECONOMIC INDICATORS IN THE MAJOR REGIONS OF ROMANIA

Administrative-territorial structure of Romania is made up of 320 towns (103 of which are municipalities) and 2856 small towns.

In 1998, there passes Law no. 151 on regional development, a regulatory document setting out the institutional framework, objectives, competences and specific instruments for regional development policy in Romania. To achieve the basic objectives of regional development policy, Law no.151/1998 allowed the establishment of the 8 development regions - appropriate to statistic level NUTSII, through voluntary association of counties.

There are differences between regions in terms of population density. Without taking into account the Bucharest-Ilfov Region which has 1222.4 inhabitants per km² –due to the presence of Urban Capital congestion- the highest population density recorded is in North-East (101.1 inhabitants per km²), the region with the largest demographic dynamism in the country, and the lowest density is in the West Region, Romania (60.1 inhabitants per km²) - the region with the largest decrease in population and mostly mountainous. The degree of urbanization in these regions is also different. Except for the Region Bucharest-Ilfov, the most urbanized regions of Romania are the West and the Center regions, which have more than 60% of urban population.

By contrast, in the east of the country (Northeast Region) and throughout the South (South Muntenia and South-West Oltenia regions) the rural population is predominant due to plain areas where agricultural activities prevail.

After decades when the number of people in cities has risen significantly in the period 1990-2007, the urban population has decreased continuously in all developing regions.

The main cause of decreasing urban population was represented by migration to both rural areas and abroad. This was prompted by economic decline, followed by the residents who have left the cities due to unemployment. In parallel, to the decrease of urban population there has contributed there demographic phenomena as well (for example: negative natural increase), but their magnitude was much smaller. Following these developments, the network structure of cities has changed: the number of small towns has increased and the number of cities has decreased. Distribution in territory of the cities is relatively balanced and has remained a distinctive feature of Romanian town network.

The statistics show that Romania entered the transition process with a relatively low level of regional disparities, compared with other Member States or candidate countries. They have grown rapidly and particularly between Bucharest and the rest of the country. Disparities between developing regions and within them have gained momentum mainly because of the impact of economic restructuring in mono-industrial areas, whose population has been affected by unemployment due to closure of unprofitable state enterprises. Among these there may be mentioned border regions with Moldova and Ukraine and less developed regions along the Danube. Based on data provided by the National Institute of Statistics there was calculated the index of Regional Disparity for the period 2000-2007 (Table nr.1), using the following relation:

$$\frac{PIB_{reg}/loc.}{PIB_{na}/loc.} \cdot 100 \quad (1)$$

Table nr.1 Regional Disparity Indicators

	2002	2003	2004	2005	2006	2007
Region						
North-West	0,959	0,951	0,955	0,938	0,936	0,931
Centre	1,051	1,038	1,004	0,980	0,997	1,006
North-East	0,725	0,718	0,690	0,667	0,645	0,631
South-East	0,902	0,883	0,917	0,864	0,850	0,840
Bucharest-Ilfov	2,029	2,012	2,007	2,213	2,193	2,222
South-Muntenia	0,805	0,803	0,824	0,828	0,838	0,839
South-West Oltenia	0,776	0,831	0,821	0,776	0,781	0,782
West	1,094	1,121	1,141	1,127	1,163	1,153

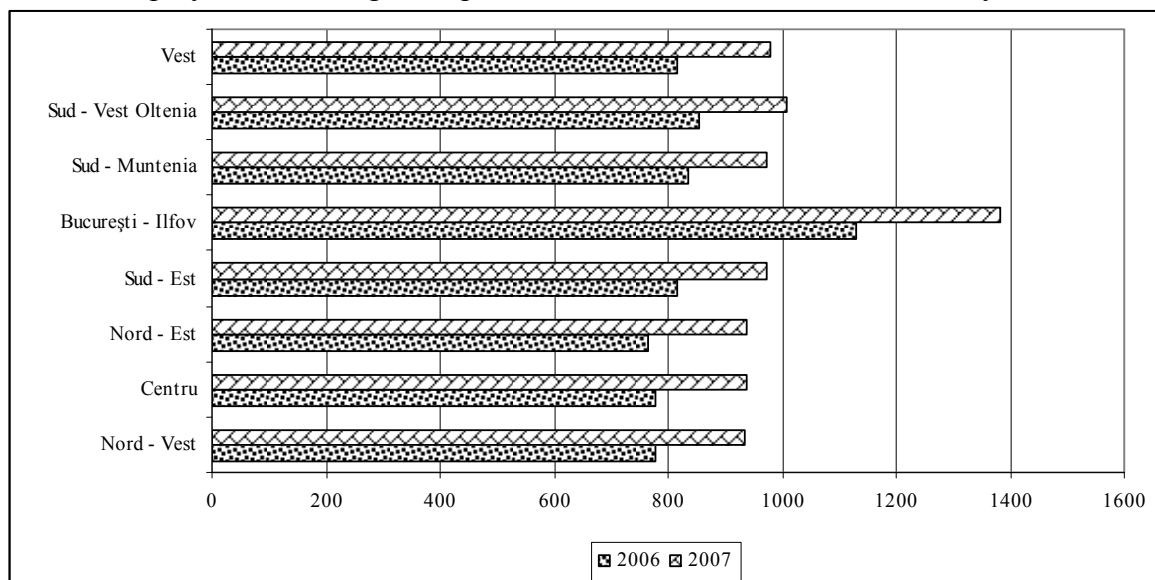
Data source: Romanian Statistical Yearbook 2000-2008, authors' calculations

Analysis of data from Table 1 highlights decreases recorded by North – East regions (from 0.725 in 2002 to 0.631 in 2007) and Center (from 1051 in 2002 to 0.980 in 2004), increasing since 2006 and the leap of the Bucharest-Ilfov region (from 2.029 in 2002 to 2.222 in 2007).

Financial crisis and economic impact of accession on growth in the eight development regions of Romania in 2007 produced no changes in their rankings in the index of regional disparity, even though for some, its value has increased from 2006.

In terms of net *average earning*, discrepancies between regions have started to decrease since 2004. If in 2003, the net average earning in the most developed region (South-West) was 1.17 over the region with the minimum (Northeast region), in 2006 the gap reached 1.09.

Year 2007 meant an increase in net monthly earnings at CANE in each region (Figure 2); however, regional disparities in income are complemented by the maintenance discrepancies in terms of unemployment, although this phenomenon knew a reduction in recent years.

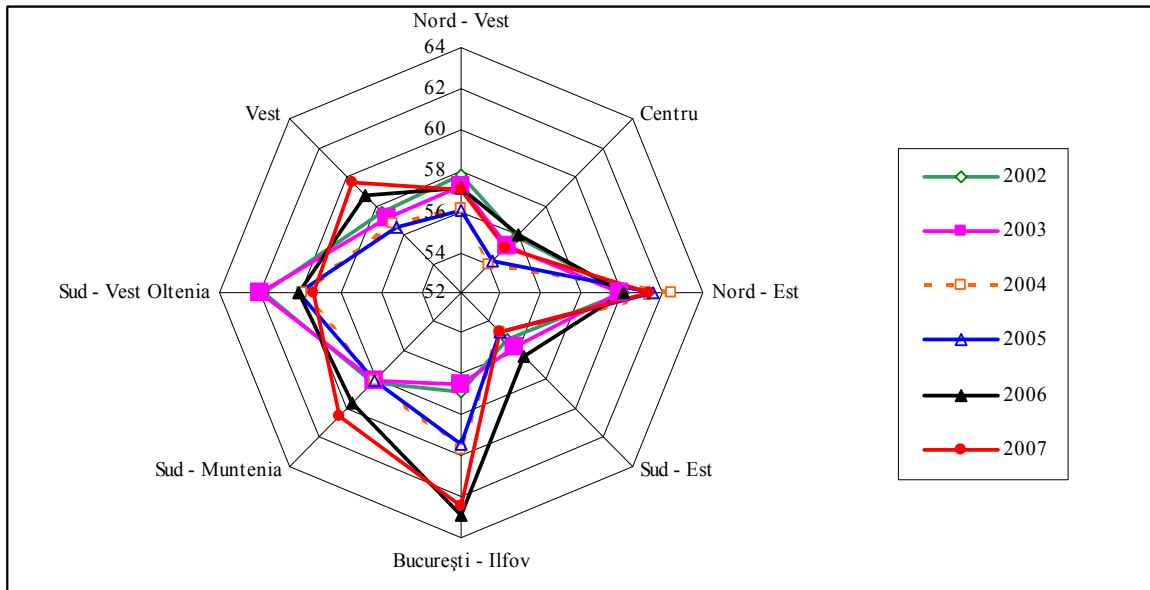


Source: Romanian Statistical Yearbook 2000-2008, authors' calculations.

Figure 2 Evolution of monthly earnings at CANE

Also, *employment* has improved in less developed regions where the employment rate is higher than in the other regions (Figure 3). Thus, year 2007 by comparison to year 2003, in the

North – East region employment rose by 2.3 percentage points while in the South - West Oltenia it fell by 4.35 percentages. Compared to 2006, only South-Muntenia regions, West and Northeast are highlighting employment rate increases.



Source: Romanian Statistical Yearbook 2000-2008, authors' calculations.

Figure 3 Employment paths on major development regions of Romania during 2002-2007

During 1992 - 2007 Romania's population decreased by 6%, while EU-15 population increased by 1.02%. *Decreased population of Romania* is due to strong decrease in fertility, increased mortality and emigration (especially during 1991-1992). South Muntenia and South-West - Oltenia regions have the largest share of population of 65 years old and older than 65 in total population (16.6% and 16.3% on July 1, 2007). The highest share of young population is registered by the North-East region, in which on July 1, 2007, there were 17.9% of the population aged 0-14 years old, a negative record is held by the Bucharest-Ilfov region with a share of population couples to only 11.9%.

If the country recorded a surplus of young to the elderly population, there are regions where this proportion is reversed: the Bucharest-Ilfov, South-Muntenia, Southwest and West Oltenia regions. However, the demographic dependency ratio records the highest values in North-East region, because of the high level of young people aged 0-14 "pressure" on adults over 26%, while the highest pressure exerted by the elderly is recorded in the South-West Oltenia and South Muntenia, ie 24 to 100 elderly adults. Bucharest-Ilfov Region, while noting the large number and share of elderly, in terms of demographic dependency, presents a good situation, whereas the proportion of adults, 73.7% of the total in 2007 was highest in the whole country. Capital has always been a strong magnet in internal migration because of economic and social development level of the area.

Regionally, in 2007, *average life expectancy* will be 71.7 years in North West region and about 74.1 years in Bucharest-Ilfov Region, distinguishing sharply in terms of area of residence and sex.

Largest gender gap was about 8 years, for women in Bucharest-Ilfov Region, while on average the strongest differentiation is record in the Bucharest-Ilfov Region (3.2 years for urban population). There is very small difference (0.6 years) between average life expectancy on average in West Region Romania, which shows almost similar living conditions on the two types of habitats.

In the regional profile, the *level of education* with the biggest increase in terms of school population is comprised of higher education, particularly since 2000, after the emergence of private education and dissemination of public education by opening private universities or their subsidiaries in cities. Thus, compared to the 1990-1991 school year, 2007-2008 school year shows a 3-fold increase in the share of public tertiary education in total school population in Bucharest-Ilfov, North East, West, the 4 times in South-West Oltenia and North-West, 8 times in South-East, 6 times in center Muntenia and South. Most developed regions (with the highest level of GDP per inhabitant) are also the most important universities - the largest share of public tertiary education contained within the total school population in 2007-2008 is in Bucharest-Ilfov (56% here and the school population has increased compared with the level in the 2000/2001 school year 30%) and West (22%). These two regions are centers of immigration to other regions in terms of higher education. In Bucharest, school population share that follows higher education is much greater than for other types of education, much of the school population included in this type of education is mainly from southern and eastern regions, regions with lower share of the school population that entered higher education (compared with regions of west and center).

After 2000, there is a return of vocational education, given the fact that the population share in this type of education in 2004-2005 increased slightly in all regions except the region of Bucharest-Ilfov. In the North-East and South East regions, the importance of vocational education is the largest in the country (5.7% school population recorded in 2007/2008) increased this year compared with the 1990-1991 school year, although it has continued to reduce since 2000. It also notes a similar trend of importance of secondary education. The largest share in this type of education was met in 2007-2008 in the regions: Centre (region with the largest share of this type of education after 1990), 1.44%, Bucharest-Ilfov 1.43% and South-West Oltenia, 1.29%. High school recorded in 2004-2005 school population shares between 17% and 18.5%, excluding the least developed regions - North East - where the school population ratio was 15.33%. Perhaps the early school after graduating from the 8th grade is higher than the rest of the country, school population enrolled in vocational secondary education alternative, being much higher in comparison with other regions. In school year 2007/2008, there was a slight improvement in the situation of the school population included secondary education, 17% of school population in North-East region was included in this type of education, however there is an almost 3-point reduction percentage (compared to the year 2000/2001) of students registered in secondary schools in the region Bucharest - Ilfov (from 16.87% to 13.3%).

Working abroad is an important source of income for a large proportion of the population. Currently, one in ten Romanian households receives income from international migration. Migrant households have more long-term assets than households that have the same socio-economic profile, but without migration experience. Nationally, about 10% of each type of investment in the past five years is carried out with international migration income. Regarding the type of expenditure - the most important are investments in housing (expansion/modernization, but also construction or purchase), followed by the purchase of household goods, cars and other long-term assets. Productive activities financed with money from migration are different depending on the residential environment - rural money is invested mainly in agricultural type activities, while urban money is invested in other types of businesses.

The phenomenon has intensified especially after 2002, with free circulation within the Schengen area for Romanian. Currently, the phenomenon of temporary departure to work abroad is approximately three times higher than in 2002. Moldova, Muntenia and Oltenia are historical regions in which temporary migration for work precede tourism- temporary visiting, more frequently in Banat, Transylvania and Bucharest, Dobrogea

At this time, Italy and Spain are the main destinations for Romanians working abroad. In the past five years, 50% of the people working abroad were in Italy and 25% in Spain.

Migration flows have a more balanced territorial distribution compared to immigration, the main sources of emigration in 2005-2007 were the Centre region, north-east and the Bucharest-Ilfov region. Modest levels of emigration were recorded in this period in the South and Southwest.

Although it makes sense that areas with higher unemployment rates than average have an increased potential for labour migration, however, the Bucharest-Ilfov region is characterized by a small number of unemployed and at the same time significant emigration source, but it differs from other parts of the country.

Bucharest-Ilfov is a region where a high proportion of migrants in a number of people have a higher professional qualification. People who decide to leave the country are more likely motivated by the assertion training and high earning compared to those from Romania. Young people are also attracted by prospects of further education or specialization in better conditions.

There are several arguments for further reducing of future permanent emigration, temporary migration for employment and return of some Romanians who left to work abroad:

- economic downturn that is emerging more clearly in Europe, growth forecasts are becoming more pessimistic in countries that most Romanian immigrants live. Building sites, which have attracted far many Romanian migrant workers, are among the first industries affected by reduced economic activity, with negative consequences on employment of immigrants already felt. Italy and Spain, two of the priority destinations for Romanian migrants, are not currently attractive. The economic downturn begins to make its presence felt in Spain, where construction, engine of the Spanish economy went into decline, resulting in a significant increase in the number of unemployed, including many Romanians. In addition, there was the opening campaign in Italy against immigrants, which led many Romanians to reconsider the decision to migrate / stay in Italy.

- labour shortages in the country, particularly in construction and continued growth of salaries, related largely to the shortage. Sustained economic growth in recent years and the emigration of a large part of the workforce have created a labor shortage in many sectors of Romania (construction, textiles and footwear, food, trade, health, etc.).

Maintaining economic growth forecast for the coming years (although recently revised lower growth rates) raises the question of compensation for the deficit in the labor market in Romania with qualified personnel from other countries (migrant workers) to support further economic development; decreasing and aging population, combined with massive emigration of Romanians in the future will favor immigration for employment, while raising issues of managing a relatively new phenomenon for Romania.

Thus, the negative impact it has on the size and quality of labor employed in Romania is manifested in several ways: going abroad for a significant proportion of highly skilled labor (brain drain), brain-loss ratio - Brain-win is disadvantageous for Romania as part of quality, given that the skill levels of people coming to Romania is lower than those leaving the country, the processes of brain circulation and brain regain, aging workforce in some sectors activity (e.g. Research & Development), which is partly influenced by migration, etc.

In Romania, unemployment rate in late December 2008, at the national level was 4.4%, 0.3 pp higher than in December 2007 and than November 2008. Unemployment was lower compared to employment, and the ratio of unemployed who became employed in 2008 was of 2.3 to 1. This report is explained by the fact that the national economy has increased opportunities for the employed who became employed. At the territorial level, in 2008 the number of unemployed increased in 38 counties and in Bucharest, the most significant increase occurring in counties Vaslui (2958 people), Dolj (2243 people), Constanta (1539 people), Harghita (1535 people) and Alba (1422 people). The unemployment rate was lowed in three districts, namely: Dambovita with 445 people, Maramures with 357 people and Ilfov with 34 people. Counties with the highest share of unpaid unemployed in total unemployment rate are:

Mehedinti (82.15%), Galati (81.72%), Bucharest (81.71%), Teleorman (81.07%) and Dambovita (79.53%). Unemployment increased in counties: Vaslui by 1.8 pp, Harghita by 1.1 pp, Covasna, Dolj and Alba by 0.8 pp, Calarasi by 0.7pp, Tulcea, Mehedinti and Satu Mare by 0.6 pp.

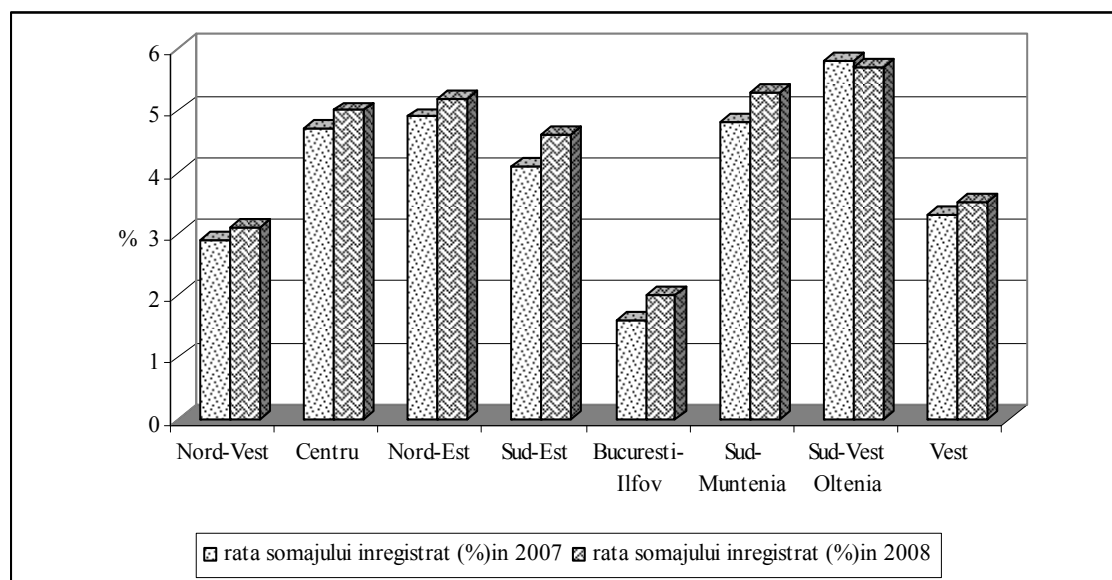
The largest number of unemployed (allowances) comes from construction, agriculture and related industries.

Decreases in unemployment rate occurred in 3 districts namely: Maramures, Ilfov and Dambovita by 0.2 percentage points, while in Bucharest the rate was unchanged compared with the previous month. The highest unemployment rate was achieved in Vaslui (10.2%), followed by counties: Mehedinti (9.3%), Dolj (8.4%), Teleorman (8.0%), Gorj (7.4%), Covasna (7.2%) and Alba (7.0%).

Minimum unemployment rate in December 2008 of 1.4% was registered in Ilfov county. Amplitude, 8.8 percentage point increased over November of 2008 by 1.5 percentage points due to the maximum held by Vaslui.

Statistical regions with highest unemployment rates were South West (7.0%), Northeast (5.3%) and center (5.2%), regions where rural activities are predominant. There are disparities within regions, where predominantly agricultural counties coexist with the most developed. For example, in North-East region there have been discrepancies between districts in terms of unemployment rate, as follows: the maximum level was reached in Vaslui (10.2%) and minimum in Botosani county (3.5%), the spread is 6.7% percentage points (Figure 4).

Analyzing the graph of Figure 4 reveals the fact that in 2008 in almost all regions of the country's unemployment rate is in upward progress, Bucharest and Northwest regions recording the lowest levels of unemployment, 1.7%, respectively 3.3%. In the Bucharest region there is the largest labor market in the country, also direct investments are higher in this region providing increased employment opportunities.



Data source: National Agency for Employment

Figure 4 Evolution of the average rate of unemployment, by region, 2007 and 2008

South-West region recorded also during 2008 the highest unemployment rate, followed by South-Muntenia. There is a predominance of agricultural activities in certain parts of the region or county economic restructuring, in early 2000, when there were closed unprofitable state enterprises, especially in mono-industrial areas. This is characteristic for regions with high rates of unemployment.

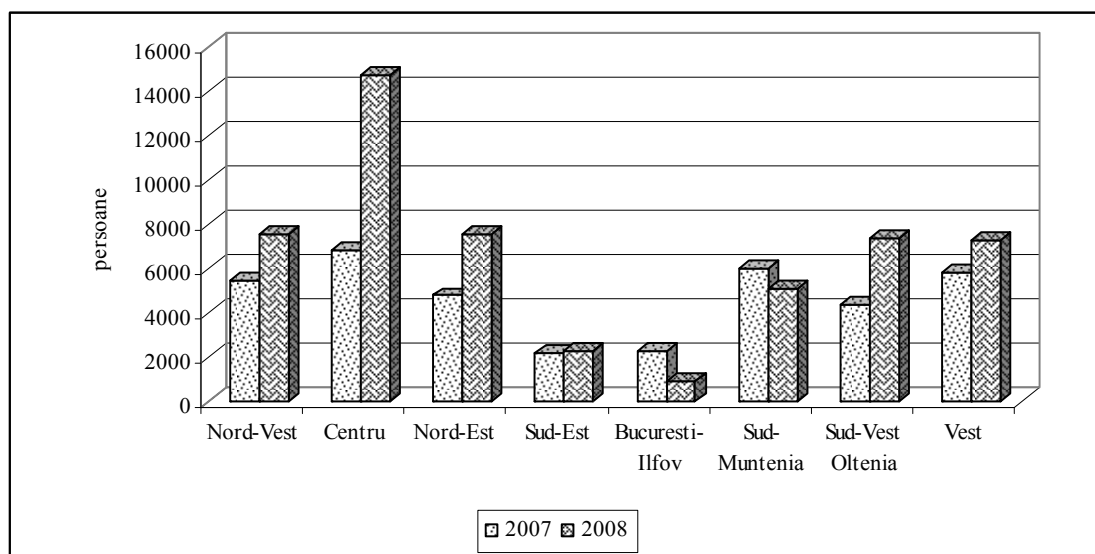
In 2008, amid a relatively high number of unemployed in rural areas (218,810 and 60% of the average number of unemployed) there is still a reduction in the number of employed people in rural areas (184,644 people), and 44, 72% compared to 45.6% as recorded in 2007. In terms of environment of origin in 2008, the regions that had the highest increase in the number of employed persons were North-East (78,890) and South-Muntenia (68,000), in 2007, maintaining the same growth for the same region, namely North-East (90,768) and South-Muntenia (87,987). Regions which registered decreases in terms of the recruitment in 2008 are: Bucharest-Ilfov (18.621) and center (43.599) and in 2007, regions which showed a decrease in the number of employed people are Bucharest-Ilfov (23,579) and Northwest (54.703).

In 2008, out of the 412,922 people who were employed, 41.04% are women, while the remaining 58.96% are men, the proportion being slightly similar in 2007 when there were the following: 39.78% for women and 60.22% for men. Most of women were placed in counties like Hunedoara - 10.262, Bucharest - 9600, Timisoara - 8947, Neamt - 8787, and the regions where most women are employed are: South Muntenia - 27,099, North East - 26,444, West - 25.807 followed by North West - 22.023 and South-West Oltenia - 20.753.

The information and counseling measurement in 2008 holds a share of 16.04% of total people employed, by 3.64 percentage points higher than 2007. Regions with the highest share in total extent are: Northwest (23.15%), center (18.58%), Northeast (% 17.43) and Bucharest-Ilfov region with the lowest value, namely 0, 55%.

Labor migration requires the development of at least three relevant issues: the management of legal migration, illegal migration and integration of legal migrants in receiving societies. Thus, in 2008, the number of mediated workers, for countries with which bilateral agreements were signed between the government institutions in the field (Germany, Spain, France and Switzerland) was 52,389, while during the same period of 2007, the number of workers was 37,639, representing an increase of 39.19% compared to 2007.

Regarding the area of origin of mediated workers, both in 2008 and in 2007, most applicants who have a contract of employment abroad came from the geographical center (14.747 respectively 6.790) representing 28.15% of total mediated workers respectively 18,04% (Fig. 5). Most employment contracts obtained by the mediated workers have been employed for the purpose of Germany, in 2008 the number of employment contracts obtained for destination Germany increased by 59.22% compared with 2007.



Data source: National Agency for Employment

Figure 5 The number of media workers in developing regions 2007-2008

In terms of employment contracts obtained for Romanian workers with destination Spain, it fell by 54.98%.

In 2008 the share of total female employment contracts was 49.68%, while in the same period of 2007 this share was 55.73%.

Regarding age, the people who have obtained an employment contract, a total of 18,744 contracts of employment were obtained from people in the age group 26-35, representing a 35.78% share of all employment contracts followed by age group: 36-45 years (31.11%).

In 2007, most employment contracts, namely 15,679, were obtained from individuals belonging to age group between 36-45, representing a 41.66% share of total employment contracts obtained in this period, followed by those in the age group 26-35 (34.86%).

In 2008 the number of employment contracts obtained by private employment agency was of 11,380. Most contracts were obtained for the United States, 2660 contracts representing 23.37% of the total number of contracts, Cyprus, Italy, United Kingdom of Great Britain and Germany.

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ECONOMIC DISPARITIES BETWEEN EU STATES AND REGIONS

Professor Ph.D. Ion CIUREA, Teaching Assistant Cornelia MIU

University of Pitesti, Faculty of Economic Sciences,
ionciurea@yahoo.com, cornelia_miu@yahoo.com

***Abstract.** EU has 27 Member States representing a community and a market of 493 million citizens, which creates further economic and social disparities between the states and their 271 regions. In a region in four, the GDP (gross domestic product) per capita is 75% below the average for the EU-27. Based on the concepts of solidarity and cohesion, regional policy of the European Union favors reducing structural disparities between EU regions, the balanced development of the community and promoting an effective equality of opportunity between people. Over the past 50 years, European cooperation has helped build highways, sewage plants, bridges, laboratories for biotechnology. She helped to revive urban areas and neglected activities, through countless projects in the poorest regions of the Union.. Two key values: solidarity and cohesion, underlying these projects and the regional policy of the European Union. The economic, social and territorial cohesion will always be at the heart of Europe Strategy 2020, a key mechanism for achieving the priorities for a smart growth, sustainable and inclusive in the Member States and regions.*

***Keywords:** European Union, economic disparities, political cohesion, GDP per capita.*

1. INTRODUCTION

Although the EU is one of the richest regions in the world, it has very large disparities in income and opportunity. The European Union has 27 member states representing a community and an internal market of 493 million people, which cause even more economic and social disparities between these countries and their regions 271. A region of four recorded a GDP (gross internal product) per capita below 75% of average in the European Union of 27 Member States.

The European Union's cohesion policy, built into the Treaties since 1986, has been given the objective of reducing the gap in the different regions' levels of development, in order to strengthen economic and social cohesion. The Single European Act (1986) lays the foundations for a genuine cohesion policy designed to offset the constraints of the single market for southern countries and other disadvantaged areas (13).

- 1989-1993. In 1986 key events brought with them the impetus for a more genuine 'European' Cohesion Policy, most notably the Single European Act, the accession of Greece, Spain and Portugal and the adoption of the single market programme. In March 1988, the European Council in Brussels decided to allocate ECU 64 billion to the Structural Funds which represented a doubling of annual resources over the period 1989-93.
- 1994-1999. In December 1992, the European Council decided on the new financial perspective for the period 1994-1999 and ECU 168 billion was set aside for the Structural and Cohesion Funds. This represented a doubling of annual resources and equalled a third of the EU budget.
- 2000-2006. With the integration of 10 new countries in 2004, then of Bulgaria and Romania in 2007, this attempt at harmonisation had to be reinforced. The main beneficiaries of the

funds have been asked to contribute to the economic development of their new partners. Cohesion policy is one of the European Union's most visible policies. Following a decision taken by the European Council of Berlin in March 1999, the 2000-06 budget for Cohesion Policy totalled €213 billion for the fifteen Member States. An additional allocation of € 22 billion was provided for the new Member States for the period 2004-06.

- 2007- 2013. All 27 EU countries benefit from cohesion policy through its three funds - the European Regional Development Fund, the Cohesion Fund and the European Social Fund – to: reduce economic disparities; develop competitive, diversified regional economies; boost sustainable growth and jobs. The European Council agreed in December 2005 on the budget for the period 2007-2013 period and allocated € 347 billion on Structural and Cohesion Funds of which 81.5% are planned to be spent in the "Convergence" regions. Based on simplified procedures, nearly all of the 436 programmes covering all EU regions and Member States were agreed before the end of 2007. The radical shift in their priorities means that a quarter of resources is now earmarked for research and innovation and about 30% on environmental infrastructure and measures combating climate change.
- Through its regional policy, the EU seeks to reduce these gaps by transferring resources from wealthy areas to poorer regions. Its objective is to modernize the underdeveloped regions, so they can catch up with the rest of the EU. Cohesion policy is not just a redistribution policy between countries or regions and intends to guide the use of financial transfers to a dual purpose of regional development and convergence (9).

At the same time, the whole of the Union is facing up to the challenges resulting from the acceleration of economic restructuring following globalization, the opening up of trade, the effects of the technological revolution, the development of a knowledge-based economy, of an ageing population and the growth of immigration.

The new regulatory framework (2007 – 2013) provides for a number of reforms. First of all, the cohesion policy is modernized through a new architecture placing greater emphasis on the need for a strategic vision in pursuit of a common set of Community priorities. These priorities are summed up in the Growth and Jobs Agenda which was launched by the Union in 2005. In fact, the European cohesion policy will be the major instrument at Community level for the modernization of the Union's economy in the years to come.

The economic development of a region is usually expressed through the evolution of gross domestic product (GDP). Comparisons between regions are also reported in this indicator. GDP per capita is the most common indicator for measuring living¹.

The European Parliament stresses the need to define in the context of economic, social and territorial cohesion, additional qualitative indicators for better design and implement the relevant policies in the field, taking into account the different territorial specificities. Parliament calls on the Commission to effect immediately the necessary studies and has the possibility to establish new indicators and reliable procedures for their integration into the evaluation system of regional disparities.

Noted that GDP was the only criterion used to determine the eligibility of the Regions under Objective 1 (Convergence), while other indicators have already been used for the regions eligible under the Competitiveness Objective and employment "Parliament has expressed its concern over the fact that the undeniable convergence between advanced countries often mask the differences between ever-increasing and regions, and insists, therefore, on the need to a

¹ Regional GDP is calculated in the currency of the country concerned. To enable comparison of GDP between countries, this indicator is converted into euros at the average official calendar year. Currency rates do not reflect any differences in price levels between countries. To make compensation in this regard, GDP is converted USING conversion factors, called "purchasing power parities (PPP) in a common artificial currency, called" purchasing power standard (SPA), which compares the buying power of different currencies.

reflection on the advisability of taking the GDP as the main criterion of eligibility has support under the Structural Funds (10).

Comparable *regional statistics* form an important part of the European statistical system, and have been collected for several decades. Eurostat's regional statistics cover the principal features of economic and social life within the EU. The concepts and definitions used for these regional statistics are as close as possible to those used for the production of statistics at a national level.

All statistics at a regional level within the EU are based on the nomenclature of territorial units for statistics (NUTS) - a hierarchical classification; it subdivides each Member State into a number of regions at NUTS. The current NUTS (version 2006) subdivides the territory of the European Union (EU-27) into 271 NUTS level 2 regions (6).

2. COMPARISON WITH KEY COMPETITORS

GDP per head in PPS terms in the US in 2004 was 60% higher than the EU-27 average, and 43% above the EU-15 average. Only two Member States, Ireland and Luxembourg, had levels above that of the US. In Japan, GDP per head in the same year exceeded the EU-27 average by 19%, though in this case, six Member States had a level above this and in five it was only slightly below. Between 1995 and 2005, GDP per head in the EU grew at virtually the same level as in the US (2% as against 2.1%) and twice as fast as in Japan.

Regional disparities in GDP per head are far more extreme in the EU-27 than in the US or Japan, especially after the two recent enlargements. In the EU, GDP per head in the region where this is highest is 8 times greater than in the region where it is lowest. In the US, the difference is only 2.5 times and in Japan just two times. All US states have a GDP per head that is above the EU average. In Japan, 40 of the 47 regions do. Clearly, the challenge of reducing regional disparities and ensuring economic and social cohesion across the EU is far greater than in the US or Japan.

The variation in rates of GDP per head growth across regions in the EU is also much greater than in the US. Over the period 1997–2004, growth at regional level in the EU varied from below zero to over 8.6%, while in the US it varied from zero to 3.6%. This wider variation in growth rates, however, is in some degree a positive feature given the much greater need for low income regions to catch up.

In China, GDP per head, again in PPS terms, is only one-fifth of the EU average, while in India, it is one-eighth. In Romania and Bulgaria, which have the lowest GDP per head in the EU, the level is still over twice as high as in India and 50% higher than in China. These two countries, however, are catching up rapidly with the EU. Growth of GDP per head in India has been double that in the EU over the past decade and the growth rate in China was three times the one in the EU. Nevertheless, even if such high growth rates can be sustained, it would take over 40 years for GDP per head in China to come close to the current level in the EU (3).

Despite the vast difference in GDP per head, the size of regional disparities in India and China are similar to that in the EU. The region with the highest GDP per head in both China and India has a level seven times greater than in the lowest regions against eight times in the EU. Differences in regional GDP growth rates in India between 2000 and 2004 were very similar to those in the EU, varying between 1% and 13% while, in China, they varied by much less – by between 6% and 11%.

The regional dimension of creativity and innovation also includes a global dimension. Studies indicate that the EU lags behind the United States, but has started to catch up. Investment in R&D are less than 2%, against 2.6% in the U.S. and 3.4% in Japan, the deviation from the U.S. is half of our lower share of firms High Technology (2). The global ICT market weighs 660

billion euros and employs one third of those active in research: EU companies account for only 23%.

Less than 1 in 3 people aged 25-34 years have a university degree, against 40% in the United States and more than 50% in Japan. 1 of 7 young leaves school without a diploma and 1 in 4 is poor reading. Notably, the EU higher growth in respect of higher education graduates, researchers, public R & D, venture capital, access to broadband and service employment-intensive connaissances³, and it ranks near the top in terms of graduates in science and engineering, branding, technology balance of payments and employment in manufacturing medium and high technology (4).

Despite the progress, only two thirds of our working age population (66%), over 70% against the U.S. and Japan. Only 46% of our older workers (55-64) gainfully employed, over 62% against the U.S. and Japan.

We can not achieve sustainable convergence on condition that they take into account the circumstances in which the economy operates in the Union. In the above context, the "catch up" takes various forms. The role of cohesion policy is to help regional economies to integrate into global markets, networks and global groups of prime importance to enable them to identify their strengths and weaknesses in terms of obstacles and opportunities the world stage and promote their internationalization.

Un aspect essentiel, tant au niveau national qu'au niveau supranational, est l'organisation de systèmes de gouvernance capables de mettre en œuvre des politiques régionales de développement. Reconnaisant cet intérêt, la Commission a signé des protocoles d'accord sur la coopération dans le domaine de la politique régionale avec la Chine, la Fédération de Russie et le Brésil, trois pays confrontés à une aggravation des disparités régionales et à des défis majeurs dans le domaine de la gouvernance.

Davantage d'importance sera donnée aux flux d'information de type ascendant dans les processus de prise de décision et d'élaboration des politiques. De nombreux autres pays et organisations (Afrique du Sud, Ukraine, le MERCOSUR, l'Union économique et monétaire ouest africaine) ont exprimé leur réel intérêt pour le modèle européen de politique de cohésion, considéré comme un mécanisme très efficace compte tenu de son envergure budgétaire limitée. Par le biais de la coopération internationale, la politique de cohésion diffuse les valeurs européennes au-delà des territoires de l'Union (8).

For the first time in history, many countries outside the EU have expressed their interest to cooperate with the European Union to share their experiences. Cooperation has been placed on the agenda of a conference which brought together representatives of governments and regions in Europe, Africa, Russia, China and South America. Organized in the context of a growing interest in regional policy in external relations of the European Union, it aims to examine the experience gained in the field of regional policy in the EU and similar policies in other parts of the world.

The conference was not only interested in the EU experience in this field, but also examine different models of development paths for the exchange of experiences in cross-border cooperation and the role of European regions in promotion of direct partnerships with third countries' regions. The conference was organized by the Directorate General for Regional Policy in cooperation with the Directorate General for Development, the Committee of Regions and the Forum of Global Associations of Regions (FOGAR) (11).

3. SITUATION AND EVOLUTION OF DISPARITIES

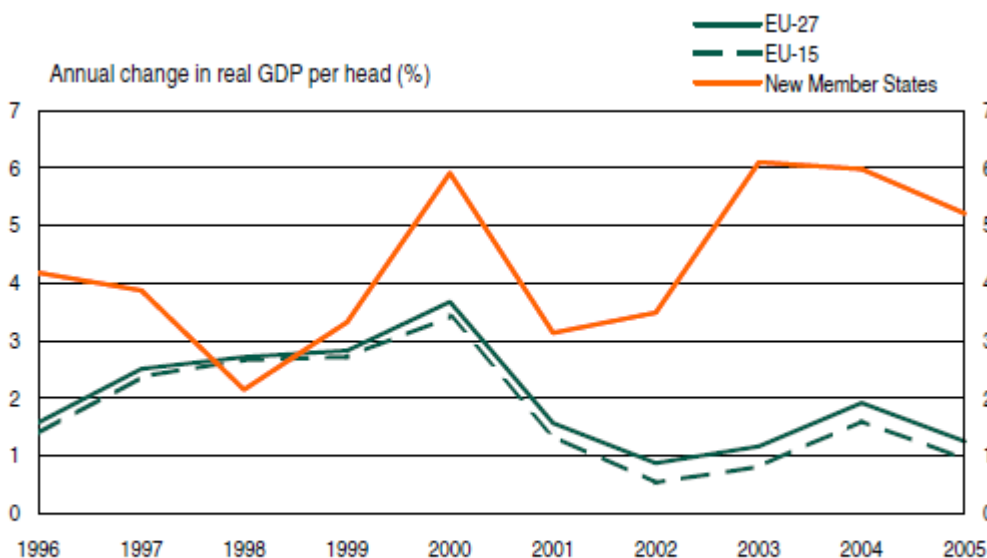
Disparities in GDP per head between regions in the EU have narrowed markedly over the past decade as growth in the least prosperous regions has outstripped that elsewhere. This has meant at the same time a lessening of the division in terms of economic potential between the

core and the periphery and a corresponding reduction in territorial imbalance. However, although convergence of levels of GDP per head across regions has been accompanied by a narrowing of disparities in rates of employment and unemployment, these remain wide between both different parts of the Union and different areas within regions so posing a threat in some places to social cohesion.

Disparities between EU regions, expressed in terms of GDP per capita, were significantly reduced during the past decade, the least prosperous regions have shown growth rates higher than elsewhere. This development was accompanied by a reduction of the gap between center and periphery in terms of economic potential and a corresponding decrease of territorial imbalance.

At national level, Greece, Spain, Ireland and Portugal – the largest beneficiaries of Cohesion Policy in recent years – have experienced significant growth. Between 1995 and 2005, Greece reduced the gap with the rest of the EU- 27, moving from 74 % to reach 88 % of the EU’s average gross domestic product per head. By the same year, Spain had moved from 91 % to 102 %, and Ireland reached 145 % of the Union’s average starting from 102 %. We can expect similar results in the new Member States, where Cohesion Policy has just begun to take effect, underpinning the high growth rates (7).

Fig.1. Growth in real GDP per head in the EU-15 and the new Member States, 1996-2005

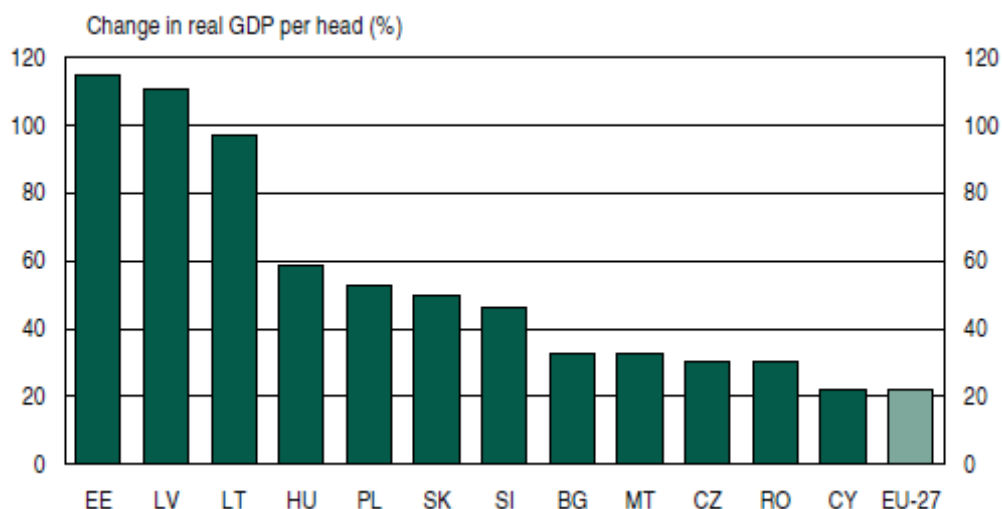


Source: Eurostat

The situation has evolved very differently in the 12 new Member States, namely the ten that joined the EU in 2004 and two who came in early 2007: GDP per capita has also experienced strong growth 2000 (6%) (Fig.1).

Growth rates varied greatly according to the new Member States between 1995 and 2005. Several of them have grown particularly fast: the three Baltic States and tools doubled in real terms, GDP per capita in a decade with average growth of 7-8% per year. Bulgaria and Romania, however, experienced an economic recession during the second half of the 1990s and have yet both grew by 6% per year on average since 2000 (Fig.2).

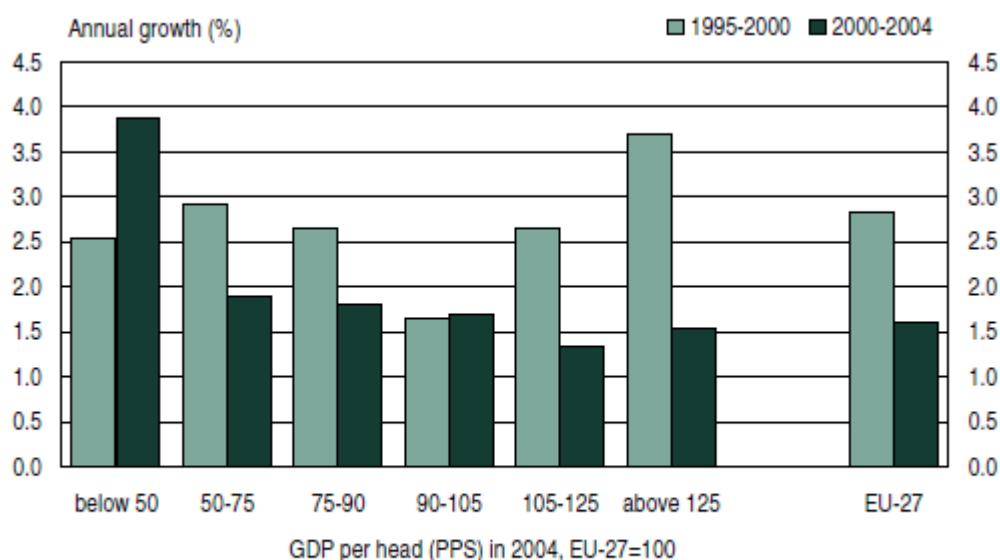
Fig.2. Total increase in real GDP per head, 1995-2005



Source: Eurostat and DG REGIO calculations

Romania and Bulgaria joined the European Union on 1 January 2007. This enlargement added 8.6% to the Union's landmass and 6.3% to its population – a similar addition to when Austria, Finland and Sweden joined in the mid -1990s - but only 1% to its GDP measured in purchasing power standard terms, less than any previous enlargement. GDP per head is, therefore, only 35% of the EU average in Bulgaria and 38% in Romania. Accordingly, the accession of the two countries will lower the EU average level of GDP per head by just over 4%.

Fig.3. Growth in real GDP per head in EU regions, 1995-2004



Source: Eurostat and DG REGIO calculations

However, due to levels of GDP per capita very low, based on current growth rates, it seems that Poland and, more specifically, Bulgaria and Romania will take more than 15-20 years before reaching a GDP per capita 75% of the average EU-27.

At the regional level, the relatively strong growth seen over the last ten years in regions with low GDP per capita means that all EU regions are converging. Between 1995 and 2004, the number of regions with GDP per capita below 75% of the EU average has declined from 78 to 70 and the regions to GDP below 50% of the EU average has dropped from 39-32 (Fig. 3).

The lagging regions in the EU-15, the main beneficiaries of aid under the Cohesion Policy during the period 2000-2006, showed a significant increase in GDP per capita relative to the rest of the EU between 1995 and 2004. In 1995, 50 regions with a total population of 71 million people have registered a GDP per capita below 75% of the average EU-15. In 2004, almost one in four regions, which roughly corresponds to 10 million inhabitants, GDP per capita has exceeded the threshold of 75% of the average.

In 1995, 78 of the 268 NUTS 2 regions now forming the EU-27 had a GDP per capita below 75% of the EU average - designated hereinafter as "lagging behind". Among these 78 regions, 51 were located in the new Member States and 27 in the rest of the Union. Of the 51 regions of the new members, 39 had a GDP per capita below 50% of the EU average, and only four per capita GDP higher than 75% of the EU average, namely: Prague Bratislava, Cyprus and Malta (3).

4. DISPARITIES REMAIN IMPORTANT

Despite these advances, disparities remain large. In 2007, the 12 countries that joined the EU since 2004, GDP per capita is below the EU average (see Table 2.2). Of the 14 countries that are below the average, only Greece and Portugal part needle. Romania and Bulgaria not only occupies the last two places, but also the only countries whose share is below 40% of the EU average (Table 1) (13).

There are significant differences in levels of prosperity among the Member States and within Member States themselves. Luxembourg, the most prosperous country in the EU (65 700 PPS, 279,6 %), is over seven times richer than Romania (9 100 PPS) and Bulgaria (8 600 PPS), the last countries arrived in the EU, which are also the poorer Member States (Table 1 and Fig.4). The most prosperous regions in terms of GDP per capita (the most common indicator for measuring living standards) are all urban areas (such as London, Brussels and Hamburg).

Eurostat regional yearbook 2009 gives an overview of the regional distribution of GDP per capita (percentage of the average for EU-27 23 600 PPS) for the European Union and Croatia, as well as the former Republic Macedonia.

It ranges from 25 % of the EU-27 average (5 800 PPS) per inhabitant in North-East (Romania) to 336 % (79 400 PPS) in the UK capital region of Inner London. The factor between the two ends of the distribution is therefore 13.6:1. Luxembourg at 267 % (63 100 PPS) and Bruxelles / Brussel at 233 % (55 100 PPS) are in positions 2 and 3, followed by Hamburg at 200 % (47 200 PPS) and Groningen (Netherlands) at 174 % (41 000 PPS) in positions 4 and 5.

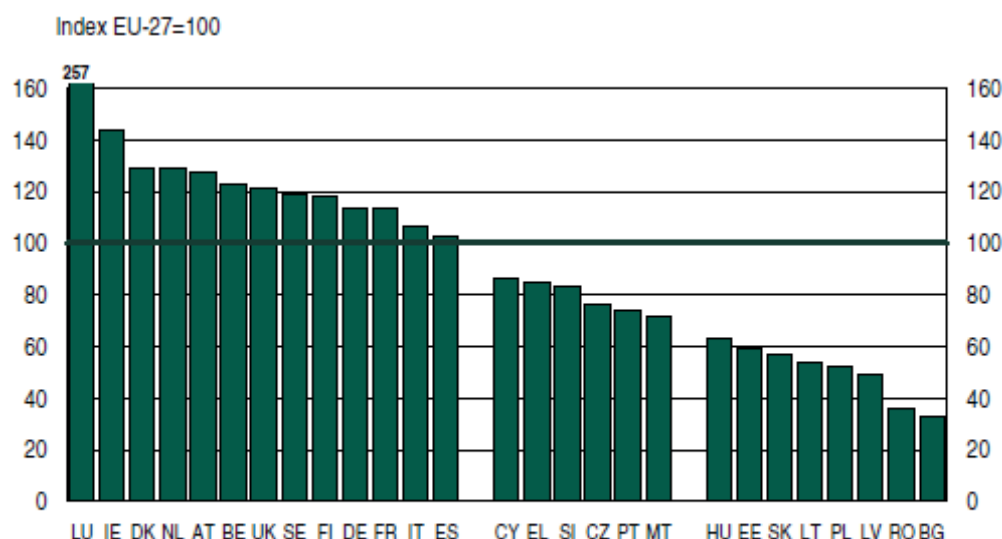
The regions with the highest per inhabitant GDP are in southern Germany, the south of the UK, northern Italy and Belgium, Luxembourg, the Netherlands, Austria, Ireland and Scandinavia. The capital regions of Madrid, Paris and Praha also fall into this category. The economically weaker regions are concentrated at the southern and western periphery of the Union and in eastern Germany, the new Member States, Croatia and the former Yugoslav Republic of Macedonia.

Table 1. PIB par habitant en SPA dans l'UE-27 (2007)

Member States across the EU-27	GDP in PPS	% Average EU 27 = 100	Member States across the EU-27	GDP in PPS	% Average EU 27 = 100
1. Luxembourg (LU)	65700	279,6	14. Grèce (EL)	22900	97,4
2. Irlande (IE)	34200	145,5	15. Chypre (CY)	21600	91,9
3. Netherlands (NL)	30700	130,6	16. Slovénie (SI)	20700	88,1
4. Austria (AT)	30000	127,7	17. République tchèque (CZ)	18500	78,7
5. Sweden (SE)	29300	124,7	18. Malte (MT)	18100	77,0
6. Denmark (DK)	29600	126,0	19. Portugal (PT)	17500	74,5
7. Belgium (BE)	28200	120,0	20. Estonie (EE)	16100	68,5
8. United Kingdom (UK)	27800	118,3	21. Hongrie (HU)	15300	65,5
9. Finland (FI)	27500	117,0	22. Slovaquie (SK)	15000	63,8
10. Germany (DE)	26900	114,5	23. Lituanie (LT)	13200	56,1
11. France (FR)	26300	111,9	24. Lettonie (LV)	12600	53,6
12. Spain (ES)	24700	105,1	25. Pologne (PL)	12300	53,3
13. Italy (IT)	24300	103,4	26. Roumanie (RO)	9100	38,7
EU-27	23500	100,0	27. Bulgarie (BG)	8600	36,6

Sursa: Eurostat.

Fig.4. GDP per head (PPS), 2005



Source: Eurostat

Praha (Czech Republic), the region with the highest GDP per inhabitant in the new Member States, has 162 % of the EU-27 average of 38 400 PPS and is thus in 12th place, whilst Bratislavský kraj (Slovakia) at 149 % (35 100 PPS) is in 19th place among the 275 NUTS 2 regions of the countries examined here (EU-27 plus Croatia and the former Yugoslav Republic of Macedonia). However, these two regions must be regarded as exceptions among the regions in the new Member States which joined in 2004, since the next richest regions in the new Member States are far behind: Közép-Magyarország (Hungary) at 106 % (24 900 PPS) in position 101, Zahodna Slovenija (Slovenia) at 105 % (24 900 PPS) in position 103 and Cypru at 90 % (21 300 PPS) in position 161. With the exception of three other regions (Mazowieckie in Poland, Malta and București – Ilfov in Romania), all the other regions of the new Member States, Croatia and the former Yugoslav Republic of Macedonia have a per inhabitant GDP in PPS of less than 75 % of the EU-27 average.

If we classify the 275 regions considered here by their per inhabitant GDP (in PPS), the following picture emerges: in 2006, GDP in 72 regions was less than 75 % of the EU-27 average. These 72 regions are home to 25.2 % of the population (EU-27, Croatia and the former Yugoslav Republic of Macedonia), of which three quarters are in the new Member States, Croatia and the former Yugoslav Republic of Macedonia and one quarter are in EU-15 countries. (1).

Even within countries there are considerable differences between regions. For many economic and social rights, the considerable differences can also be detected inside one country. In most cases, the area of the capital of a country is doing better, economically speaking, than the more rural areas. The richest European regions in 2005, according to GDP per capita, were concentrated in the major conurbations of the Member States of the EU-15, the region of Inner London topping the rankings (with 67,798 euros per capita) (6).

The Cohesion Fund is aimed at Member States whose gross national income (GNI) per inhabitant is less than 90 % of the EU average. It serves to reduce their economic and social shortfall, as well as to stabilise their economy. It supports actions in the framework of the convergence objective. For the 2007-2013 period, the Cohesion Fund concerns Bulgaria, the Czech Republic, Estonia, Greece, Cyprus, Hungary, Latvia, Lithuania, Malta, Poland, Portugal, Romania, Slovenia and Slovakia; Spain is eligible to a phase-out fund only. The Cohesion Fund finances activities under two categories: trans-European transport networks, notably priority projects of European interest; and the environment, also supporting projects related to energy or transport, as long as they clearly present a benefit to the environment.

Regional differences are most pronounced in the United Kingdom, which shows a factor of 4.3 between the two extreme values, as well as France and Romania, with a factor of 3.5 and 3.4 respectively. The lowest values were recorded in Slovenia, with a factor of 1.5, as well as Ireland and Sweden, with a factor of 1.6. Moderate regional differences in GDP per capita (that is to say less than a factor 2 between the highest value and lowest) are observed only in the member states of the EU-15 and in Slovenia and Croatia.

The convergence is making progress. A simple approach is to establish the interval between the highest value and lowest. It appears that this value has declined by a factor of 16.0 in 2001 13.6 in 2006. The main reason for this sharp decline has been accelerating the economic development of Bulgaria and Romania. But since this approach takes into account the extremes of the distribution, it illustrates clearly not much lag between the regions.

In another approach, which allows a more accurate assessment of convergence, regions are divided into categories according to their GDP per capita (PPS). Economic convergence among regions has made significant progress during the five year period from 2001 to 2006: thus, the share of population living in regions where GDP per capita is less than 75% of the average of the EU-27 fell by 28.5 to 25.2 percentage points.

At the same time, the share of the population live in areas with a higher GDP to 125% of the average was reduced from 23.0 to 20.1%. With the changes occurring at the top and bottom of the ladder, the proportion of population located halfway (GDP per capita from 75 to 125%) has increased significantly, from 48.5 to 54.7%. This corresponds to an increase of more than 35 million inhabitants.

Cohesion policy has adapted over the years and never deviate from its main focus: working towards sustainable and balanced development of regions in Europe (5). In over 20 years of European cohesion policy we define four stages evolution: 1989-1993; 1994-1999; 2000-2006; 2007-2013. Table 2 summarizes the steps, the total budget, the main beneficiary countries and the expected results.

Table 2. Stages of policy, the total budget, the main recipient countries and expected results

Stages of policy	The total budget	The main recipient countries	Expected results
1989-1993	ECU 69 billion, or 25% of the Community budget and 0.3% of total GDP of the EU	Spain Italy Portugal Greece	<ul style="list-style-type: none"> • Creation of 600,000 jobs through in Germany Greece, Ireland, Portugal and Spain, average GDP per capita in these countries from 68.3% to 74.5% of the EU average; • 917,000 beneficiaries of training; • 470,000 small and medium enterprises have received assistance.
1994-1999	168 billion ECU, approximately one third of the EU budget and 0.4% of Total GDP of the Union	Spain Germany Italy Portugal Greece France	<ul style="list-style-type: none"> • 700,000 net new jobs were created in Portugal, in the new Lander, in southern Italy and Spain; • 800,000 small and medium enterprises have benefited from direct aid to investment; • 4104 km of highways have been built or upgraded, and about 31,844 km of other roads; • The funding has enabled the creation of approximately 567,000 gross new jobs.
2000-2006	213 billion euros in EU-15 between 2000 and 2006, and 21.7 billion euros for the 10 new Member States between 2004 and 2006, about one third of the budget of the EU and 0.4% the total GDP of the EU	Spain Germany Italy Greece Portugal UK and France	<ul style="list-style-type: none"> • Creation of approximately 570,000 net new jobs, according to estimates, including roughly 160,000 in the new Member States; • In Spain, the Structural Funds have invested about 4 billion euros in research, technological development, innovation and information technology; • In Greece, the Athens Metro, Spain, investments in highways have reduced travel time; • 30,000 gross jobs were created; • In the UK, more than 250,000 small and medium enterprises have received support.
2007-2013	347 billion euros or 35.7% of the EU budget and 0.38% the total GDP of the EU, which, for the regions of Objective 1: 81.5% 170 million (35% the total, including the phasing-out regions)	Poland Spain Italy Czech Republic Germany, Hungary Portugal and Greece	<ul style="list-style-type: none"> • By 2015, structural funds and cohesion could have created up to 2 million additional jobs; • According to ex ante priority now given to research and innovation will create 40,000 additional jobs; • In the transport sector, 25,000 km of new roads or roads rehabilitated, and 7,700 km of new railway tracks; • Many Member States and regions have made the fight against climate change and developing economies with low carbon emissions a priority in their programs.

Regional convergence of per inhabitant GDP (in PPS) can be assessed in various ways on the basis of indicators supplied to Eurostat by the national statistical institutes. A simple approach is to measure the gap between the highest and the lowest values. By this method, the gap closed from a factor of 16.0 in 2001 to 13.6 in 2006. The main reason for this clear convergence was the faster economic growth in Bulgaria and Romania. However, as this approach looks at only the extreme values, it is clear that the majority of shifts between regions are not taken into account.

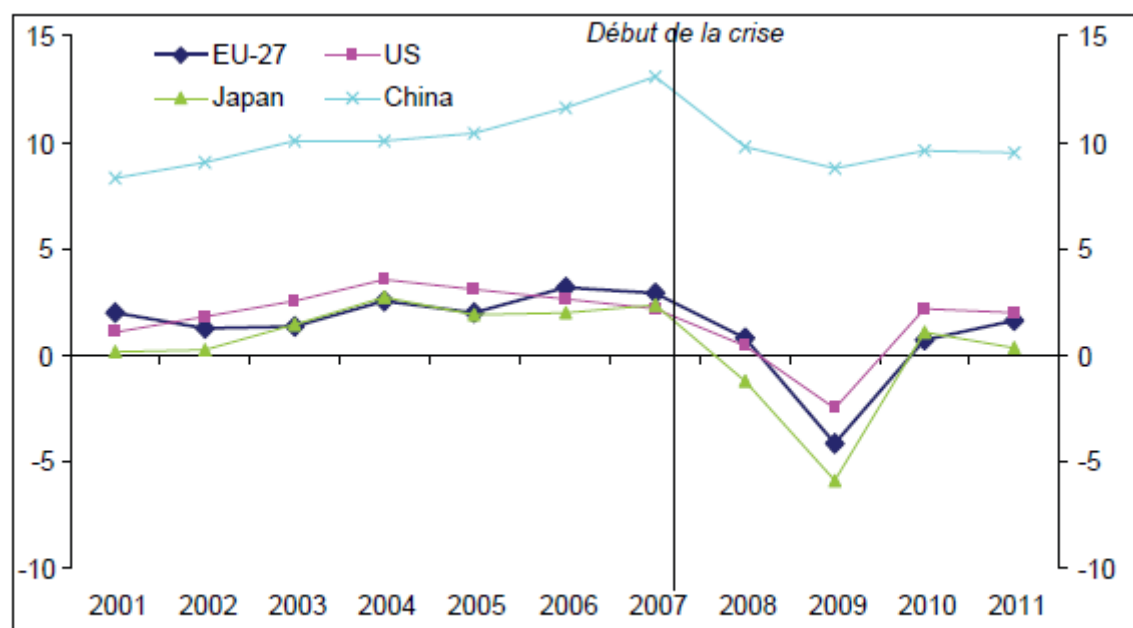
Another, much more precise, assessment of convergence consists of classifying the regions according to their per inhabitant GDP in PPS. In this way, the proportion of the population of the countries being considered (the EU-27 living in richer or poorer regions, and how this proportion has changed, can be ascertained.

Table 3. Proportions of resident population in economically stronger and weaker regions

Percentage of population of EU-27, Croatia and the former Yugoslav Republic of Macedonia resident in regions with a GDP per inhabitant of	2001	2006
> 125 % of EU-27 = 100	23.0	20.1
> 110–125 % of EU-27 = 100	16.0	16.5
> 90–110 % of EU-27 = 100	22.7	24.9
> 75–90 % of EU-27 = 100	9.8	13.3
less than 75 % of EU-27 = 100	28.5	25.2
less than 50 % of EU-27 = 100	15.3	11.5

Table 3 shows that economic convergence between the regions over the five-year period 2001–06 did indeed make clear progress. The proportion of the population living in regions where per inhabitant GDP is less than 75 % of the EU-27 average fell from 28.5 % to 25.2 %. At the same time, the proportion of the population living in regions where this value is greater than 125 % fell from 23.0 % to 20.1 %. These shifts at the top and bottom ends of the distribution meant that the proportion of the population in the mid-range (per inhabitant GDP of 75–125 %) increased significantly from 48.5 % to 54.7 %, i.e. by more than 35 million persons.

Fig. 4. Annual GDP Growth (%)



Source: Commission européenne

The financial crisis and economic downturn that followed have hit all parts of the Union. The effects are still very important economic development and employment:

- Evolution of GDP – 4 % in 2009, the highest since the 1930s (Fig. 4)
- Industrial production: - 20 % because of the crisis, back in the 1990s
- Figures of unemployment with 23 million unemployed; 7 million unemployed and more in 20 months; the rate of unemployment should reach 10.3% in 2010 (back in the 1990s); youth unemployment exceeds 21 %. By investing further capital in regional research, innovation and education, we can contribute to support competitiveness and innovation in our region.

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SUSTAINABLE DEVELOPMENT AND DEMOGRAPHY

Professor Ph.D. Viorica PANĂ, Professor Ph.D. Ioan PANĂ

University of Pitesti, Faculty of Economic Sciences
viorica_pn@yahoo.com, panaioan2004@yahoo.com

***Abstract:** Sustainable development is another philosophy of human society, where the main purpose is to ensure life on earth as a period of time. At the heart of this new philosophy is man wherever he occupied on earth.*

To lay the foundations of sustainable development each country must take into account demographic issues, because every man has the main role in this process aims. Also, any action taken must take account of sustainable development.

***Key words:** Sustainable development, demographic, finality sustainable development, principles sustainable development, sustainability, equity, sufficiency, efficiency, transparency*

For over 20 years speaks about sustainable development. Books are written, the globe is meetings, conventions and protocols are signed, to make reports, but the results are far from expectations.

The first question is: why there are no results to expectations? Responses are very many, some justified, others less or not at all motivated.

One of the possible answers and reasons, with some difficulty is that sustainable development is an entirely different philosophy of the future existence of mankind and its implementation in practice means changing the mentality of the vast majority of world population, primarily those with decision power at various levels of political and especially economic.

Definition of sustainable development in the Brundtland Report published in 1987 - achieving present needs without compromising the ability of future generations to meet their own needs - is by far the best known and most frequently mentioned, but often criticized, at least three points view, namely:

- Definition is a quintessence of a philosophy of development of human society, showing how society should act to ensure that human life on earth as a period of time. Criticism focuses on questions like: what is started (which are the objectives and areas), it begins (time)? at what level to start changing (local, national, planetary)? to make human society capable of thinking their own existence into consideration the interests and human needs of today and tomorrow.

- The definition is too general, even simplistic, and that occurred more than 60 definitions. The research deepens the relationship between man and nature, on the one hand, and on the other hand, the relations in different ecosystems, including industrial ecosystem, the more problems appear solved. Research has shown that sustainable development should not be regarded as a model, method, procedure to be applied to solve problems, but as a long term process, which involves the creation of a particular purpose, specific objectives, with thoughtful

action, with time resources and responsibilities. In other words, each area of activity must consider their strategy to achieve sustainable development.

• The definition is seen as a utopia. Many perceived the philosophy of sustainable development as a utopia. Even so it seems at first sight. Only a living organism can grow, but any development has a beginning and an end. The word sustainable is the meaning of existence permanently. Rock is permanent, never a living, which includes any species can be sustained only for a limited period. Consequently, something alive can not last, so joining the two words “development” and “sustainable” creates a concept that can easily be classified as utopian. The philosophy of sustainable development, sustainable word is not synonymous with the word forever. Attribute lasting (sustainable) has degrees of comparison, more sustainable or less sustainable, instead always attribute has no degrees of comparison. This being so, sustainable development is a philosophy of life, and many ideas and concepts at first seemed utopian, but time has shown that they are very real, applicable life.

That sustainable development should not be regarded as a utopian philosophy but a new philosophy of development of human society are witness to hundreds of studies that appear annually in the world, revealing different aspects unknown or finding solutions to problems so far unclear. Perhaps the biggest gain is that the terms, concepts, sentences, theories, models of study, methods used, the instruments used have begun to settle, to become accepted by most of the scientific community to be taken to become operators which greatly facilitates communication in the scientific and beyond.

Fundamental question of philosophy of sustainable development as any other philosophy is what is desired by implementing this new approach? The answer is one: the continuation of life on Earth as a period of time. But this simple answer inevitably produces two other questions:

- which aims to achieve them that human society now and in future to preserve life on Earth as a period of time?

- are fundamental principles on which to base actions to ensure achievement of the aims of sustainable development?

Before giving the answer to these questions should be said that it appeared after several years of gathering and comparing information from the scientific world, but political. Synthesizing information we concluded that many proposed actions to implement sustainable development process must lead to the following three finality:

① Allocation and optimum utilization of natural resources, human and economic assistance to enable the continuation of life on Earth as a period of time.

② Equitable distribution of revenues from economic activity among the participants in the economic process: labor, nature and capital.

③ Balanced allocation of the area between humans and other terrestrial life forms on Earth, plants and animals.

To achieve the goals in the nearest future will be possible to achieve set goals in each area, the targeted goals must be named with deadlines and responsibilities and the objectives of specific actions necessary resources for their success.

Each action will have to take into account the following principles: sustainability, equity, sufficiency, efficiency, transparency.

To try to approach the world from demographic aims and principles of sustainable development for the proposed goals, objectives and actions. Demographics is a part of each of

the goals of sustainable development, and man, the essence of demographics, will have to follow the principles proposed in any of his actions.

To continue to develop the subject we call the little history. The concept of sustainable development emerged in 1987, i.e. 15 years after the first meeting of the planet (Stockholm, 1972), when policy makers from all over the world met to make way action to stop or even reduce degradation of natural environment and protect plants and endangered animals in order to maintain biodiversity. All Heads of State or Government agreed with the proposals for protecting the natural environment, including biodiversity, but a head of government in a developing country with huge population, has some questions that might translate so: It is normal for political power to protect plants and animals, but the people who protect them? It is normal for political power to act to stop environmental degradation, but how does the political power to stop poverty, the most cruel way to human degradation?

Those questions were entitled to some answers from the princes of the world, but as usual the answer to a question gives rise to other questions. So the possible answers appeared much later. After 15 years of scientific and political debate has reached the concept of “sustainable development”, which puts the focus “Man“, “the smallest unit of society and the most important.”¹

Since then many people expected the action to really put the focus of political and especially economic, MAN, regardless of geographical location or busy office on Earth. But today, after 22 years, things are far from those expectations. The questions have multiplied, and the responses were not always the most accurate.

If the aims of sustainable development are basic human concern, then the goals, objectives and proposed actions will have regard to demographic issues. Because there is no predetermined models in achieving the goals, objectives and actions are very different from one country to another and even within countries, from one area to another.

In some way be put in the context of demographic issues of sustainable development in developing countries and very different in developing countries or developed countries with low population in developing countries with large populations.

¹ Christian Potié - Diagnosis quality, expertise and investigative methods, Technical Publishing House, Bucharest, 2001, p. 43.

Table 1. Main demographic indicators

Current issue	Country	Population Mil. population	Population density (pop./sq.km)	Natural growth 1%	Hope living Women /Man -year-	Illiteracy %	City/ Village %
Developed countries							
1.	Canada	33,4	3	0,9	84/77	1,0	80/20
2.	France	61,6	113	0,4	84/77	1,0	77/23
3.	Germany	82,6	231	0,1	82/76	<1,0	88/12
4.	Japan	127,4	337	0,1	86/79	1,0	66/34
5.	Great Britain	60,0	251	0,2	82/77	<1,0	89/11
6.	Spain	44,3	88	0,9	84/78	2,0	78/22
7.	United States of America	303,0	31	0,9	81/75	1,0	81/19
	Total population	712,3					
Developing countries in Africa							
1.	Ethiopia	76,5	68	2,3	50/48	67	16/84
2.	Kenya	36,9	63	2,8	55/55	15	42/58
3.	Mozambique	21,3	27	1,8	42/40	52	36/64
4.	Nigeria	135,0	146	2,4	48/47	32	48/52
5.	Congo Dominican Republic	65,8	28	3,4	60/55	34	54/46
6.	Sudan	39,4	16	2,2	50/48	39	41/59
7.	Tanzania	39,4	42	2,1	52/49	30	38/62
8.	Uganda	30,3	128	3,6	53/51	28	13/87
	Total population	464,6					

Source: *Encyclopedia-SEA Countries, Point Publishing, Bucharest, 2009*

Examples conclusive. Consider these problems through the instrumentality of some indicators developed countries and some developing countries, each with populations exceeding 20 million. Member development in the study were over \$ 25,000 per capita gross national income and developing states as \$ 1,000 per capita gross national income (Table 1).

The first purpose, optimal allocation and use of natural resources, human and economic resources we consider only human. They were old, in history, and recently returned to this view, a treasure for any country, and their optimal allocation and use, the source of this wealth. Therefore, each country, depending on the specific goals and objectives aims to achieve in the field of demography in general, the demographics in the context of sustainable development in particular.

Is known that within a country, its qualities and functionalities ensure economic and social sustainability of the population. A given territory can only support a certain number of people, obviously depending on the level of development of technique and technology.

In this context, goals and objectives of each country of the population is completely different, because the number of inhabitants is very important, but population density in number of inhabitants per km².

From this perspective, the study, developed countries are divided into two groups: countries with low desitatie: Canada, U.S. and even Spain and densely populated countries: Japan, Britain, France, Germany.

Developed countries with low population density, Canada and the U.S., have proposed many years ago as the main purpose of population increase. To achieve this in two ways: increasing population growth and acceptance of immigrants. Natural growth in both countries is the largest group of developed countries (0,9%), implying the existence of measures able to support this indicator. At the same time accepted the minimum restrictions on migration of people from other countries. Thus, when in 1990 Canada had 27,4 million inhabitants in 2008 reached 33,4 million. Population growth based solely on natural increase was about 4,9 million inhabitants. Canada's population actually increased by 5,7 million people.

In the U.S. things have gone the same direction. In 1990 the population was 249,95 million. In 2008 reached 303 million. Population growth on natural increase was the 43,8 million inhabitants, but in reality was 53 million people. Measures taken to increase the population in the two countries have reached our goal.

Developed countries with higher population density Japan, France, Germany and Britain have proposed increasing population, although this phenomenon occurred, mainly due to migration from other countries rather than natural increase of population, it is very low (0,1%). In the last 18 years the population increased by 2,44 million people in Britain, 3,2 million people in Germany, 3,9 million people in Japan and 4,9 million people in France.

It is clear that the two key indicators, the number and density of population, goals and objectives developed countries are quite different.

Another important demographic indicator is life expectancy. In developed countries life expectancy is high, as shown in Table 1. Corroborating this indicator with natural growth, is one definite conclusion: the aging population, especially in countries where natural increase is 0,1%. Countries will be targeted to propose improvement actions with important implications on the economic and social activity.

The degree of civilization in these countries is another important aspect, as shown by the indicators: illiteracy with values below 2% and population ratio urban / rural population with values between 66-89% in urban areas and between 11-34% in rural areas. Increasing urbanization in European countries caused depopulation of areas and crowding others. For this reason, these countries have already proposed concrete measures with financing provided to determine a rational distribution of population in the territory.

Obviously, each country has developed specific demographic and other issues that will have to solve in the future.

The second purpose of sustainable development is equitable distribution of revenues from economic activity among the participants in the economic process: labor, nature and capital.

Over time, capital was most favored in the distribution business revenue. Economic efficiency has ensured primarily through a modest remuneration of labor and almost complete circumvention of the contribution to the economic nature of society. This way of looking at things has led to the current situation, dividing the world into rich and poor and seriously deteriorating natural environment.

In developed countries studied, per capita GNP is over 30 000 dollars per capita, which indicate that the workforce is adequately remunerated. That does not mean that these countries

are unemployed, poor people, people who need help society to live. Each State must propose concrete objectives and actions to improve this situation.

Level of degradation of the natural environment in which he had in the '70 of the last century have forced developed countries to take tough measures to limit the effects of economic and social activity on the natural environment. The situation has improved but is far from normal.

Next will be proposed goals, objectives and concrete actions in each country to ensure restoration of the natural environment to create normal human existence.

The third purpose of sustainable development is the allocation of the area inland from humans and other life forms on Earth, plants and animal. In every country there are unique circumstances that have determined the existence of specific plants and animals. The occupation of these territories with different human activities restricted or even destroyed the area of existence of these forms of life, in many cases leading to their disappearance. For example, in Western European countries have long disappeared from the wolf, bear, lynx, etc. Today is seeking their reintroduction in these countries, creating walkways over highways and railroads that animals can move from eastern Europe where there are such species.

All actions undertaken in developed countries to ensure sustainable development must take account of principles. An action taken under the umbrella of sustainable development can serve a certain immediate financial interest, without taking into account the future effects that may come into conflict with the precepts of sustainable development.

The second group of countries studied is the developing countries in Africa.

In these countries the number of inhabitants and population density are comparable to developed countries, instead of population growth is four times higher. Between 1990-2008 the population increased with values ranging between 50% and 85% in Mozambique in Congo. Population growth coupled with a gross national income per capita between \$ 120 to \$ 640 Democratic Republic of Congo and Sudan, problems of demography in the context of sustainable development are not only others but also prioritized very difficult to allocate resources to their resolution.

To achieve the goals of sustainable development first, the main goal for Nigeria, a country with large population and high density and high density population of Uganda, the population would be maintained at current levels. To achieve this goal should be proposed as the first objective, reducing the natural increase and family planning as concrete measures, increase training in general, women in particular, contraceptive measures, etc.. These actions should be provided financial resources on the one hand and on the other personnel in the areas concerned. In these countries, as in all African countries are very few financial resources and often allocated for purposes other than stated above. See this high illiteracy of data, ranging from 15% to 67% in Kenya and Ethiopia.

Moreover, how should thought optimal resource allocation and utilization of labor in countries where life expectancy is between 42-60 years to 40-51 years for men and women and urban population is between 13% -54% and rural between 46% -87%? It is clear that that objective in these countries have too many options. The most important state action could be initiated plans to achieve sustainable development in local communities, they were able to determine the exact state of affairs and to propose measures for which local resources.

The second purpose proposes equal distribution of incomes among the participants in economic activity: capital, labour and nature. Agreement on a current conviction to produce and consume is unanimous. Africa as a whole, with natural and human wealth has been exploited by the ferocious and Roman times until today, especially the countries of Western Europe. There must be sought writings, old and new statistics on this claim. Simply visit the great museums of Western Europe to see what routes they have traveled around the world and values where they have accumulated. If you want to see the mind's eye, of which 30-35 are developed countries and 170 are poorly developed, of which 1 billion people do not question tomorrow and 2,5 billion people live on less than \$ 3 per day.

If how to produce and consume is responsible for the most part of the current situation, and this system is promoted by large unqualified producers of goods and services, then all it is their duty to repair where they broke. It is about radical change of lifestyle in Africa, with great riches of the continent's exploitation. Those who have exploited and exploiting the natural riches and still the cheapest labor are also ought to give the Africans even now, because until now I have done a fair remuneration for employment, but also natural environment where they took as they could without paying anything, but without thinking the effects on nature and the local population. Of the 54 African countries only four countries with GNP less than \$ 5,000 and one country (Reunion) with 800 thousand inhabitants is close to a gross national product of 15 thousand U.S. dollars.

By Thomas L. Fridman and ardent supporter of market economy and recognizes that globalization has so far competed well in trade relations between countries: "The gap between first place and second place is increasingly open, and the gap between first and last place becomes even frightening place. Of course, in many areas there is rarely one winner, but the place near the top get a disproportionate portion".² More direct and harsh, Klaus Werner and Hans Waiss says that major international corporations derive their fabulous profits from the exploitation of labor in developing countries for not paying wages in which to live³.

It is clear that there must be thought completely different actions, for they keep large companies primarily operating in Africa and who must accept without reservation the provision of financial and human resources to improve the situation of the inhabitants of this continent in terms of labor compensation labor and environment protection.

Balanced allocation of the area between humans and other terrestrial life forms on Earth, plants and animals, is the third purpose to be to find resolve in implementing sustainable development. Demographic explosion produced in African countries has declined territories required the existence of wild animals and irrational exploitation of forests and wild animal species led to their reduction to near extinction. Forest destruction and overexploitation of pastures has led advancing deserts in northern and southern Africa to the equator, considerably narrowing the area suitable for human existence and wild animals and plants. It is difficult to limit the area needed for the existence of population in a country when its population nearly doubles every 20-25 years. Yet, these measures should be taken if desired, in the future people can see elephants, rhinoceroses, lions, giraffes, apes and other animals of different species, some

² Thomas L. Fridman - Lexus and the olive Pro Publishing Foundation, Bucharest, 2001, p.327

³ Klaus Werner, Hans Waiss - New book mark black firms. Intrigues of international concerns. Aquila Publishing, Bucharest, 2004, p.21

unique, of this continent. There are some timid beginnings, the contribution of states or individuals who have dedicated rescue African wildlife, creating larger or smaller reserves, but whose example is worth following because it shows that if you want, and can be.

Finally we must say that if we want to continue life on earth with all that has created over its existence, we must hurry to implement the precepts of sustainable development even if for some and for others is a dream utopia. And dreams be fulfilled.

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THIRD COUNTRIES, BETWEEN POVERTY AND DEVELOPMENT

Professor Ph.D. Viorica PANĂ, Professor Ph.D. Ioan PANĂ

University of Pitesti, Faculty of Economic Sciences
viorica_pn@yahoo.com, panaioan2004@yahoo.com

***Abstract:** We appreciate the important role of the International Monetary Fund (IMF) Agreement that requires specific behavior in implementing the budget and monitoring the Executive to fulfill the commitments. Also, the EU proposal to consider the national budgets of the governments of other countries in order to monitor the budget deficits would be for this stage also necessary and beneficial. We are now experiencing the reconsidering of the budget process and budget system at European level with the required EU enlargement, which aims to rethinking the perception role that public finances must play inside contemporary society. The article aims to highlight some of the causes of poverty in the Third World, from analysis of states with a gross national product per capita below U.S. \$ 1,000. There are multiple causes of underdevelopment. Some come from the history of these countries, others are the result of policies pursued by interest groups led by international bodies.*

***Keywords:** third countries, between poverty, development, GNP/capita U.S. dollar, life expectancy, Illiteracy.*

In the early '70s of last century broke a food crisis that has quickly become a global problem. International bodies, and not only have developed various projects to help countries covered by the food crisis, but also to remove the causes that have led it. Some of the projects have achieved results, improving the situation in various areas and countries. Other projects implemented even have been a failure, while others have remained on paper design stage. The projects propose actions to improve health, education, infrastructure, various social issues, but the most important economic development through investments aimed able to highlight the natural and human resources of those countries.

Projections forecast that economic growth at the end of last millennium to improve the standard of living of the population of these countries, reducing considerably the number of the poor, including a number of countries with endemic poverty. But expectations were not true. In June 2000, at G 8 + Russia meeting found that poverty still exists in acute forms, being declared one of the most serious problems of mankind. It has also developed a plan, among many others, in order to reduce the 815 million poor people by 2015.

For many years the World Bank, responsible for economic development in third world countries, the estimated minimum level of poverty as per capita income U.S. \$ 1 per day. Since 2005, because inflation manifested world has established several levels of poverty: \$ 1,25 U.S. \$ 1,45 U.S. \$ 2 U.S. and U.S. \$ 2,5.

In June 2003, the UN published “Human Development Index (HDI)” for 2003, designed on the following indicators: longevity and life expectancy at birth, degree of literacy of population, level (grade) of primary school attendance, secondary and higher education, gross domestic product per capita, infant mortality, of equipment and automotive electronics, access to information (media and telecommunications), degree of urbanization, gender equality. The 2009 Human Development Report is published by the UN Development Programme, which is achieved HDI ranking of countries in the world after 2007. The survey is conducted on 163 countries from the existing 212, ie 76,9% of total.

Countries were divided into four groups according to HDI, which has values from 0 (zero) in 1,000, as follows: Group I, very high human development countries, where HDI is between 0,900 and 1,000 and includes 38 countries, the group II, countries with high human development where the HDI is between 0,800 and 0,900 comprising 43 countries, group III, medium human development countries where HDI is between 0,500 and 0,799 with 58 countries and the Group IV, low human development countries where HDI is between 0,000 and 0,499 with 24 countries. Grouping seems less random while in group III countries like Uganda appear with a gross national product of \$ 280 U.S., 28% illiteracy, average life expectancy of 52 years and 13% degree of urbanization, or countries like Mali , Nepal etc.. whose national domestic product per person per day is less than \$ 1 U.S..

In this article, we tried to achieve a ranking of third world countries on human development using method Onicescu for 2008, taking into account the following indicators for which they had data: gross national product per capita, life expectancy, illiteracy, the proportion of urban population and population growth rate.

Table 1**Analyze key indicators**

Current issue	Countries	Population (mil. inh.)	GNP/capita U.S. dollar	Population growth rate (%)	Life expectancy -year- W/M	Illiteracy (%)	City/ Village (%)
1.	Cameroon	18,1	1000	2,2	53/47	25	53/47
2.	Chad	9,9	400	2,3	48/46	52	26/74
3.	Rep.Centrafricană	4,4	350	1,5	44/44	49	44/56
4.	Rep. Congo	3,8	950	2,6	55/52	16	54/46
5.	Rep. Dem. Congo	65,8	120	3,4	60/55	34	32/68
6.	Côte D' Ivoire	18,0	870	2,0	52/46	49	45/55
7.	Ethiopia	76,5	160	2,3	50/48	67	16/84
8.	Ghana	23,0	450	2,0	60/58	26	46/54
9.	Guinea	10,0	420	2,7	51/48	59	36/64
10.	Kenya	36,9	540	2,8	55/5	15	42/58
11.	Mali	12,0	380	2,7	52/48	54	31/69
12.	Madagascar	20,0	290	3,0	65/61	31	27/73
13.	Mozambique	21,3	310	1,8	42/40	52	36/64
14.	Niger	12,9	249	2,9	44/44	81	23/77
15.	Nigeria	135	560	2,4	48/47	32	48/52
16.	Sudan	39,4	640	2,2	50/48	39	41/59
17.	Tanzania	39,4	340	2,1	52/49	30	38/62
18.	Togo	5,7	350	2,7	60/56	40	40/60
19.	Uganda	30,3	280	3,6	53/51	28	13/87
20.	Zambia	11,7	500	1,7	39/38	20	35/65
21.	Zimbabwe	12,4	350	0,6	39/41	9	36/64
22.	Afghanistan	32,0	250	2,6	44/44	64	24/76
23.	Bangladesh	150,5	470	2,1	63/63	57	25/75
24.	Cambogia	14,1	430	1,7	63/59	26	17/83
25.	India	1130	730	1,6	71/66	39	29/61
26.	Kyrgyzstan	5,3	450	1,35	73/65	2	34/66
27.	Laos	6,6	430	2,4	58/54	1	27/73
28.	Pakistan	165,0	690	1,8	65/63	50	38/62
29.	Tadjikistan	7,1	330	1,9	68/62	1	26/74
30.	Uzbekistan	27,8	520	1,7	69/62	1	37/63
31.	Vietnam	84,5	620	1,3	72/67	6	25/75
32.	Haiti	8,8	450	2,5	59/55	45	41/59
33.	Nicaragua	5,7	950	1,9	74/69	22	57/43

Source: Encyclopedia-SEA Countries, Point Publishing, Bucharest, 2009

The study noted that countries have taken the annual gross national income below \$ 1,000 per person, or under \$ 2,75 per day per person. We had complete data for 33 countries on all continents where people live 2,43 billion (Table 1), but there are still 16 countries with annual per capita gross national product under \$ 1.000, for which we have all necessary data, where 144 million people live. In all the world over 2,38 billion people live in conditions of poverty.

According to the method Onicescu scores of the 33 countries surveyed were located between 27 and 47 points obtained by Ethiopia deck for Kyrgyzstan. Classification was done on three categories: under 35 points, between 36 and 40 points and over 40 points. Countries included in each group are presented in Table 2.

Table 2

Grouping countries by indicators analyzed

Groups	Countries
Group I , under 35 points with 121.4 million people	Afghanistan, Chad, Rep. Dem. Congo, Ethiopia, Guinea, Madagascar, Mali, Mozambique, Niger, Uganda
Group II , 36-40 points with 530.6 million people	Bangladesh, Cameroon, Cambodia, Rep. Centrafricană, Cote D'Ivoire, Ghana, Haiti, Kenya, Laos, Nigeria, Sudan, Tajikistan, Tanzania, Togo, Zambia, Zimbabwe
Group III , over 40 points to 1468, 1 million people	Rep. Congo, India, Kyrgyztan, Nicaragua, Pakistan, Uzbekistan, Vietnam

In group I annual GNP per capita is between \$ 120 to Rep.. Dem. Congo and \$ 400 in Chad, or \$ 1,25 below the minimum limit set by World Bank. These countries account for a very long time the poorest countries on earth, where over 121 million people live.

In Group II of the gross national product per capita is between \$ 330 and \$ 1.000 in Tanzania in Cameroon, over 530 million people living here.

Countries included in the two groups can be considered the least developed, with major problems in the future.

In Group III countries have a gross national product between 450 and \$ 950, but other indicators are superior to the other two groups. The population in these countries than 1.468 million people.

The situation of these countries raises many questions, but two are crucial: the causes of this low level of development and the development prospects of countries have.

The first question answers are many, they are given according to the author on the matter, but his interest on this.

☞ A first response to the colonial status of these countries it has stopped their normal development. In the middle of the second millennium comprised colonial expansion across Africa, the Americas, South Asia and Oceania. Colonial powers of the moment were Britain, Portugal, Spain, France, Belgium, Holland, Denmark, each creating his large colonial empires. Later they felt entitled to participate in exploitation of the world and Germany, Italy, USA and Japan. The effect of colonial domination was different continents and within their territories. First were deployed large masses of population on one continent to another, for example from Africa to the Americas, the native population was exterminated, as happened in South America with the natives in the U.S. with indians Australia with aborigines.

Another important issue that occurred was the destruction of traditional food system of the resident population. Any lesser or greater community to be there to create an agrifood system. Settlers have destroyed this system to produce agricultural products exported in large cities, large profits. Countries that depend occurred one to two agricultural products such as sugar cane Cuba, Brazil coffee, Cote d'Ivoire cocoa, natural rubber Malaysia, Sri Lanca tea etc.. In many countries forests have been cleared for timber exports or agricultural land, the others have exploited

mineral resources: gold, diamonds, ores of all kinds. How local people can not work for new masters without food, settlers have created an alternative system based on food imports, causing yet another reason to increase the population of settlers dependence.

As you can see the colonial state of underdevelopment may be a prerequisite, not the main cause, because the U.S. was a colony and today is the main political and economic power in the world, and Australia and Canada were still colonies and tutelage Great Britain, but are highly economically developed countries.

☞ A question often raised of underdevelopment is the lack of political and economic culture of the political class in Third World countries, unable to lead the country towards a real economic development. There is much truth about the lack of culture in general economic and political culture in particular, if we consider the percentage of illiteracy in these countries. But here and there and today there was a population with opportunities and materials to support children in schools, and many of them attended prestigious universities in Western countries became leading specialists in various fields. These experts have demonstrated that they can propose projects to successful economic development of their countries. Evidence is rapid economic growth of countries in South - East Asia, countries known as the seven tigris, whose journey between 1970 and 1997 surprised everyone. The question is why the crisis occurred and why could not continue after the same rate of growth crisis? There was still the same political class and before and after the crisis? Why never managed to achieve economic growth at the same pace as before the crisis? These are questions that after 12 years began to emerge responses.

☞ Another question posed by politicians in developed countries, not only is corruption in third world countries. It relies here on funds received aid in time of these countries from international organizations or other developed countries. It is true that corruption exists in these countries but in developed countries there are such practices? Often occur about corruption of senior officials or politicians from almost all developed countries since U.S. and European Union continued to board. Moreover, where there is corruption must be a corrupt and corrupter. If senior politicians in third world countries is corruption, who are corrupt people? People in their own country, or foreign persons with money who want to obtain economic benefits in these countries?

These are the main causes of poverty circulated on third world countries. None of them, nor all together can not justify the poverty in these countries. Besides these cases must be considered and others who have so far been suppressed, but lately more and more specialists in economics, sociology, philosophy begin to bring to light the true causes of underdevelopment, whether representatives of those countries whether they worked or work in international bodies concerned with the economic development of the third world.

It is a truth universally accepted that the current way of producing and consuming created the world economic situation, dividing the world into rich countries and poor countries. Making the economic theory that free market mechanism can adjust only the problems of society, including social and environmental, it was the start of processes and phenomena in the economy, society and environment can hardly be controlled.

Here are some considerations about the current mode of production and market role in the economy issued by Joseph Stiglitz, Nobel laureate and former World Bank chief economic adviser and former Bill Clinton. "The market economy is a very unstable system. Greenspan (between 1987 to 2006 Chairman of the U.S. Federal Reserve Governor-note) made a fundamental mistake, which he recognized her. He believed that market economy is correcting itself. Not so. So we need a stronger role of government, the administration of markets, defining rules of the game, the regulation of the financial system "....., Current capitalism has proved not only unstable but also unfair. We need a market system based on fair rules. So should not operate

a market economy, not marketing. It is capitalism that socialize losses and privatize profits”(s.n), Market alone does not solve poverty, because: the invisible hand of the market is invisible because it does not exist.” “No argument that the market provides long term employment total employment is not valid, because the long term we are all dead “.

It is a very harsh criticism of capitalist mode of production. This economic model has been followed by all developed countries today, high in rank, and “religion” almost all economists and politicians of the last century. How was natural specimen was taken and the third world, because as we were taught to conceive of running society in the future. If developed countries have managed to fail and why third world countries to ensure the welfare of their populations? The result is quite contrary to expectations. Developed countries have developed because natural resources were available across the globe have used it for their benefit, irrespective of which leave behind, extreme poverty and a degraded environment, operated by exhaustion.

👉 This is not a cause of underdevelopment?

It was long believed that globalization will improve life in Third World countries, because large multinational companies will locate their production in these countries resulting in natural resources and labor. Quickly found that things did not go in that direction. On the contrary, multinationals have increased exploitation of these countries, increasing the gap between rich and poor. Worse is that globalization is an inexorable fate, but the result of conscious policies based on accurate economic concepts (sn), whose stock is that the rich have become richer and the poor remained in most cases, all poor says Joseph Stiglitz. And one really knew much, but untold: the money is flowing from the bottom up, from poor to rich is also noted by Stiglitz, “The amounts received by rich countries from poor by raising trade barriers are three times than total development aid given you”.

👉 No this is not a question of underdevelopment?

The literature speaks more often of social responsibility companies are international committees, related conferences, to take documents which are part of the field values of human rights, labor standards, environmental protection, fighting against corruption, establishing principles ahead for all companies.

The United Nations Global Compact, the most important international platform encouraging responsible corporate practices established 10 principles, including:

Principle 1. Businesses should support and respect universal human rights protection.

Principle 2. To ensure that it is not complicit in abuses of these rights.

Principle 4. Eliminate all forms of forced labor.

Principle 5. Effective abolition of child labor.

Principle 10. Businesses should combat corruption in all its forms, including extortion, giving and taking bribes.

In this body have joined over 700 companies from 90 countries submitting reports in 2008. The analysis made showed that: 83% of companies said that their employees are not discriminated against based on race, religion, sex, 61% say they discourage juvenile work, 57% were discouraged forced labor, and to fight corruption 67% said they changed their company policy to respect this principle. Number of multinational companies in the study is insignificant since only in Romania over 12.300 works of multinationals. If we extrapolate percent above only the 12.300 companies can readily find the level that is above the principles of most multinationals. Things are really serious.

Examples of large corporations over the years accused of irresponsible practices in human rights and corruption: Adidas - molestation and sexual exploitation of children and Bayer - exploitation of children by its supply of raw materials, Coca-Cola - the exploitation of children to harvest oranges, McDonald's - child labor in Britain and China, Nesle - exploitation and child

abuse in companies supplying raw materials. And so on. If these things are happening in Millennium III, as they were in town have spent centuries XVIII and XIX.

✎ Neither did state such practices in the development of third world?

Worldwide there are international organizations with a mission to eradicate poverty in third world countries, such as the International Monetary Fund, World Bank Group. It is well known that any of the countries that have implemented World Bank and IMF programs have not solved the problems, the contrary it worse. Hence harsh criticism against the two bodies. For example: "The IMF agrees to lend for investment in social sectors", exactly where they have the greatest need. For loans from WB and IMF should be restructured countries in economy, but to ensure the development, but „ ensuring the return of loans and especially interest". WB and IMF-type measures do not improve living standards in Third World countries, but freedom of natural resources and their sale on the open market at prices unfavorable to the exporting countries. "IMF practice is absurd to reward any kind of deficit reduction, even the cutting of forests or related to the sale price of property state anything," said Stiglitz. And yet, open borders policy for large corporations is a major policy of these bodies.

✎ Does not this practice was not a cause of underdevelopment of the Third World?

Aristotle said: Poverty is the parent of revolution and crime.

Does such a looming future of mankind?

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ECONOMIC ASPECTS OF FINANCIAL LEASING IN BUSINESS INVESTMENTS

Associate Professor Ph.D. Adrian ȘIMON

„Petru Maior” University, Târgu-Mureș,
adr_simon@yahoo.com

***Abstract:** Leasing, as a financial instrument, was able to affirm itself in many developed countries as one of the most effective and accessible mechanisms for financing the expansion and development of the means of production, asset finance necessary for the development and for the application of new technologies in business. Leasing is a modern way of financing through which the customer enjoys a good, the payment being spread over the period of the lease, and the installments paid being deductible according to the type of leasing contract. Compared with other forms of financing, leasing has the advantage of eliminating red tape required for the granting of credits and the financial guarantees only with the asset that is the subject of the lease.*

***Keywords:** leasing, investment project, financial flows, estimating risk.*

1. CONCEPT, ECONOMIC CONTENT AND CHARACTERISTICS OF LEASING OPERATIONS

Changes occurring in the global economy, the requirements of scientific and technical progress on the replacement of fixed assets and the need for more efficient use of financial resources imply the use of new methods of renewing the technical-material base. Out of these considerations leasing, in recent decades, has become a non-traditional and effective investment tool.

Operations similar to "leasing" were known in ancient Babylon 2000 years BC. Including leasing practice in economic relations took place in the year 1877, when telephone company "Bell" decided not to sell the telephone appliances made by them, but to lease them. Leasing appeared first in the United States, gradual penetrating in other countries, particularly in Europe.

There are several different definitions accepted of the term "leasing". From the point of view of financial specialists leasing is an original financing technique, medium-term or long term, practiced by a financial company, having as legal support a contract of lease of goods. A broader definition of the concept of leasing could be the following: a trade and financing method by location by financial institutions specializing in these operations, by financial institutions or directly by manufacturers, to companies that carry out particular operations, or do not have sufficient borrowed or own funds to buy them. On the other hand, leasing is a rental technique - carried out by specialized financial companies - of equipment to beneficiaries who do not have borrowed or own funds to purchase them from manufacturers.

The harmonization of the legal framework for international leasing was accomplished on the 28th May 1988, by the adoption of the Convention on international financial leasing by the Commission of the International Institute for Uniformity of Private Law (UNIDROIT), at Ottawa, to which 59 countries participated and signed.

In Europe, the representative of the leasing industry is the European Federation of National Associations of Leasing Companies - Leaseurope, founded in 1973. Although Leaseurope was founded with the intent to be a forum in which to discuss the specific problems of this new form of financing, it has become an institution for promoting the interests of its members in negotiations with the European Union Commission, the International Council for Accounting Standards etc.

Basically, one can say that leasing operations involve a method of financing, lending and development of the technical-material base of enterprises with limited possibilities to attract sources of financing and a method of long term investment in assets of funds available or borrowed.

1. PARTICULARITIES OF THE DECISION MAKING PROCESS WITHIN THE ANALYSIS OF INVESTMENT PROJECTS FINANCED THROUGH FINANCIAL LEASING

Investment decisions are intended to identify and select the most profitable projects for the investment of money on the long term. We believe that the following factors contribute when considering an investment decisions with a greater responsibility:

- Making investments puts a hold on important financial funds on the long-term, therefore, the company is waiving its internal flexibility and becomes more vulnerable;
- Investment decisions involve the expansion of operations based on increased future cash flows, so that the investment decision implies the identification and proper planning of revenues expected during the life cycle of the investment project;
- Investment decisions define the business's strategies. The investment process is an important component of strategic management.

In our opinion, the analysis of investment projects financed through leasing should be based on the following steps:

- Defining the investment project;
- Identification of the financial flows related to the investment project;
- Project selection based on the updated net value (UNV) or the internal rate of return (IRR);
- Project implementation.

1. Defining the investment project: At this stage, the company identifies a set of independent projects, which would come out of the overall strategy of the company. The investment projects which completed each other are combined to create independent projects. Anything company, in the search for investment projects, starts with the specific advantages which it has and is trying to capitalize.

Typically, investment projects can be built according to the following alternatives:

- Investment projects of specialization and deepening of the profile of activity, developing products and new technologies;
- Diversification investment projects (investment portfolio), respectively the buying of social capital of other companies.

2. Identification of the financial flows related to the investment project: It is the most important phase of the investment process. The decision regarding the implementation of the investment project is influenced decisively by the size of the financial flows. The risk of the

investment project also depends on the ability of managers to estimate correctly the size of the cash flows.

We believe that there are three financial flows that characterize the investment process, namely:

- a.* The cost of the investment - a net negative financial flow, consisting of the expenses that the company makes to put together the expected business: purchasing and installing the equipment, initial value of necessary intangible assets (patents, licenses) and the original value of the current assets.

$$CI = V_{FA} + V_{IA} + V_{CA} + O.C. - V_{LFA}, \text{ where:}$$

CI- the cost of the investment,

V_{FA} - the value of fixed assets invested,

V_{IA} - the value of intangible assets invested,

V_{CA} - the initial value of current assets,

O.C. - other investment costs,

V_{LFA} - the liquidation value of fixed assets replaced. Typically, the liquidation value of the fixed assets is determined by the following relationship:

Selling price - (selling price - stock value) tax rate on income.

b. Financial flows during the life of the investment project - Profit is not a good indicator of the outcome of the economic activity, because it may vary depending on what methods are applied for the assessment of costs. Thus, the evaluation of the operational results of the investment is made based on the cash flow. There are two main components of cash flow:

- net profit - as a result of operational activities;
- depreciation and amortization - the recovery of the amount invested in fixed assets and intangible assets.

$$PF = NP + D + AIA + I \pm \Delta WC - OF, \text{ where:}$$

PF - the annual positive flows generated by the investment,

NP - the net profit,

D - the annual depreciation of fixed assets,

AIA - the annual amortization of intangible assets,

I - interest on loans and leasing used to finance the investment,

ΔWC - the changes in the working capital,

OF - other financial flows (the cannibalization effect of income).

c. Financial flows related to the liquidation of the investment - In the event of liquidation of the investment there are two financial flows:

- The liquidation value of assets over the long term. Liquidation value of fixed assets is determined by the following relationship:

Selling price - (selling price - balance amount) the rate of income tax

- Amount of revolving fund, as the ceasing of activity will also mean the recovery of the amounts invested in stocks and claims.

$$LF = V_{LFA} + WC, \text{ where:}$$

LF- liquidation flow,

V_{LFA} - the liquidation of fixed assets,

WC- working capital when the investment is liquidated.

3. Project selection based on the updated net value (UNV) or the internal rate of return (IRR): In this phase, the manager must compare positive flows with the negative ones, in order to decide whether to implement the project. Using the well-known criteria of the updated net value (UNV) and the internal rate of return (IRR), he will decide on the effectiveness of the analyzed project.

An important step is to determine the rate of update. The rate of update, used in the estimation of the efficiency of the investment projects, should reflect more variables:

- Expectations for return of capital providers;
- Opportunity cost of capital;
- Inflation level;
- Risk of project, etc.

If the UNV is positive, the investment will be implemented. UNV shows by how much the value of the company will increase if the project will be implemented.

By determining the IRR the company can establish the economic profitability of the project. As a rule of thumb, the project is implemented if the IRR is greater than the weighted average cost of capital corresponding to the project. Typically, a project that is acceptable under the criteria of the UNV, will automatically also be accepted under the criteria of IRR, therefore, in some cases it is sufficient to calculate only the first indicator.

4. Project implementation: The decision of implementing the project depends, in addition to the UNV and the IRR, on the investment budget allocated by the business for the investment project. Usually, the company may waive some investment projects keeping their financial capabilities in mind, simply because there are other projects that have a greater UNV or IRR.

Investment decisions are intended to identify and select the most profitable projects for the investment of money on the long term. We believe that the following factors contribute when considering an investment decisions with a greater responsibility:

- Making investments puts a hold on important financial funds on the long-term, therefore, the company is waiving its internal flexibility and becomes more vulnerable;
- Investment decisions involve the expansion of operations based on increased future cash flows, so that the investment decision implies the identification and proper planning of revenues expected during the life cycle of the investment project;
- Investment decisions define the business's strategies. The investment process is an important component of strategic management.

2. THE ADVANTAGES OF LEASING IN FINANCING INVESTMENTS

The causes for the rapid growth of the funded lease are found in those advantages which this financing method offers, compared to the purchasing of assets with cash or with contracted loans. The analysis of the qualities of the leasing operations, in comparison with traditional forms of financing investments, proved that financial leasing is a much more attractive method in the investment activity.

The indicator according to which one compares leasing and credit is the total expenditure for each source of funding. The basic principles of choice between two sources of funding refer to: the amount of lease payments and the amount of payments for credit are incomparable; we can not compare the credit interest rate with the commission established by the leasing company for its services; we must take into account all of the expenses for maintenance for every possible funding source; we must take into account the tax benefits for leasing and for credit; the analysis of cash flows should be consistent with the term of full depreciation of the asset, without

limitation to the maturity terms of the sources of funding; all cash flows are discounted to the same period.

Using in a significant extent leasing in the business investment activity offers additional benefits over other methods of financing the assets:

- Increased financing availability of the company;
- Through leasing one can ensure rapid recovery of assets in case of insolvency of the company which is the lessee;
- Leasing allows splitting the risk between the lessor and the lessee;
- Flexibility;
- A number of tax benefits through cost-benefit accounting.

One of the main benefits of funding by leasing concerns, firstly, the right of the Contracting Parties of the lease to use the depreciation of the leased object with the coefficient of acceleration up to 2. This leads to the reduction of payments related to income tax during the first years after purchasing the asset as well as reducing the payments for property tax.

Leases may also be considered a form of privatization, which has advantages both for the state – temporarily preserving the ownership of the economic agent concerned, with the possibility of being definitively privatized after the customer has proven management skills - and for the actual customers, with the possibility to draw into this action capable managers, who, having no capital, couldn't engage in such business.

Other advantages of leasing include:

- the possibility of larger investments by companies which do not have own financial resources, but have real possibilities of development;
- the cost of capital assets is spread over the useful operating life;
- avoiding capital restraints;
- allows precise quantification of the costs of leasing over the entire duration of the contract;
- helps avoid bureaucracy, the leasing company taking over all operations related to the purchasing of the asset.

3. ESTIMATING RISK FACTORS FOR INVESTMENT PROJECTS THROUGH LEASING

Leasing is the solution that allows overcoming the difficulties arising from an inappropriate economic environment - expensive and limited funding, bureaucracy of the banking system, and also allows businesses to obtain the right to use, with minimal initial financial efforts, machinery, equipment, technological equipment, that will generate increased productivity, profitability and increased profits.

The quality of the investment project is determined, in a large part, by calculating the risk factors of the project. For an investment project with the financing by leasing risk factors are associated with the long-term character of the financing. All participants (direct and indirect¹) in the investment project are subject to risk.

For any investment project on the long term, one of the main factors which determine the dynamics of the indicators of the project is inflation². If the project is oriented towards leasing of imported equipment, a risk factor is, of course, the currency exchange rate.

Another risk factor, to be taken into account in the evaluation of investment projects financed through leasing refers to the need for credit (medium-term and long-term), to avoid disruptions in the funding flows. In this context, it is necessary to quantify the credit risk, called

¹ Lessor and Lessee

² By inflation we refer to a general increase in price levels.

the risk of insolvency risk. This risk expresses the likelihood of actual receipt of the given credit and the afferent interest in due time. Non-compliance is a prime credit risk to which leasing companies need to develop protective measures. An additional risk is related to the refusal of the leasing beneficiary to pay until the equipment is properly manufactured, maintained and repaired.

Through a permanent supervision of the risk level one can manage credit risk on the basis of two fundamental principles: dividing risks and limiting risks.

Other categories of risk that appear in leasing operations are: project risks, risks that relate directly to the asset took through leasing, portfolio risk, risk related to interest rate, tax risk, legislative risk etc.

CONCLUSION

In conclusion, we can state that leasing companies should establish their own systems of risk assessment and control, so as to avoid their occurrence or, when risks do appear, to have good methods and techniques of risk management. The use of financial leasing as an effective investment in fixed funds of the enterprises, depend not only on the existence of laws, but also on the accuracy of leasing operations, effective risk management and a favorable investment climate.

The liberalization of the economies of Central and Eastern Europe states, amplified by their wish to integrate into the world economy, provided an upward dynamic for the leasing market, attracting substantial foreign investments in this sector. In recent years, the contribution of leasing transactions indicates an increase in the percentage of total investments in fixed capital in these countries.

Factors stimulating the development of leasing constitute fiscal advantages in comparison with bank lending (accelerated depreciation, including the award of lease payments to production costs etc.), how accessible the financing of fixed assets is, and moderate risks for sellers of automobiles and machinery manufactured by local producers.

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BUDGET AND BUDGETARY PROCESS IN ROMANIA

Assistant Professor Ph.D. Gherghina DRILA

University of Pitesti, Faculty of Economic Sciences

***Abstract:** The unitary system of budgets was an important moment in the evolution of public finances, creating the framework for more effective management and control over allocated funds, public finances becoming those interactive tools used to match the requirements of economic and social environment, also being a catalyst for development. Romanian economy hasn't matured yet, we are to achieve satisfactory participation in Gross Domestic Product (GDP) which, concerning the budget, should be translated into a higher need for contribution, or should be seen, as well, as a factor of progress and a step towards European integration.*

We appreciate the important role of the International Monetary Fund (IMF) Agreement that requires specific behavior in implementing the budget and monitoring the Executive to fulfill the commitments. Also, the EU proposal to consider the national budgets of the governments of other countries in order to monitor the budget deficits would be for this stage also necessary and beneficial. We are now experiencing the reconsidering of the budget process and budget system at European level with the required EU enlargement, which aims to rethinking the perception role that public finances must play inside contemporary society.

***Keywords:** budget, public finance, legality of public funds*

1. INTRODUCTION

Literature defines the budget process as "all actions and measures undertaken by the competent state institutions for realizing financial policy applied by the government"¹. These activities are for the state as the main force of development by exercising their functions between the levers and instruments occupying an important place in the legislative and public budget.

The legislative framework governs the conduct of state entities in society and the budget helps resources to be mobilized in public expenses. Both the legislative and budget were constantly imposed by dynamic internal and external factors and by the changes taking place in society. As the main instrument of the state, budget has changed in line with public finances; without the changes, though, there would have been imbalances inside the society itself.

Concerning the public finances after the 1990, changes were imminent due to the new conditions appeared inside the Romanian society, being carried out both at the conceptual level and functions of public finance and starting in 1991; the transformations continued, being regulated in 1996 and 2002 by endorsing the Law of Public Finances, without considering the process to be complete.

Law no. 10 of 1991 established a direct link between public finance and state budget, a law that was to provide expertise in developing and executing the budget, setting the collection of the state revenues, the use of public funds and control of their management. These changes defined the early beginning of the budget democracy in Romania.

¹ Vacarel, I. and colective, Public finance, Didactic and Pedagogic Publishing House, Bucharest, 1999, p. 607.

At one point the changes became so inadequate, blocking progress towards a world that was fully experiencing the process of globalization so that they have imposed new changes which were established by a new public finance law, Law no. 72/1996. This law has refined the means of managing public funds, has improved tracking and control system of fund management, which has led to a unified system consisting of budgets: state budget, state social insurance budget, local budgets, special funds budget, state treasury budget, budgets of autonomous public institutions.

2. THE CONCEPT OF BUDGET IN RELATION WITH PUBLIC FINANCE

The unitary system of budgets was an important moment in the evolution of public finances, creating the framework for more effective management and control over allocated funds, public finances becoming those interactive tools used to match the requirements of economic and social environment, also being a catalyst for development.

Romanian economy hasn't matured yet, we are to achieve satisfactory participation in Gross Domestic Product, (GDP) which, concerning the budget, should be translated into a higher need for contribution, or should be seen, as well, as a factor of progress and a step towards european integration.

An important part of public finance reform was the development of the Law 500/2002, which established significant changes, being at that time a step towards our country's accession to the European Union. This law approved issues deepening democratization of public finances through the introduction of modern tools that track and control: the general consolidated budget. This tool has created a legal framework for eliminating highlighting of the revenue repeatedly being transferred towards authorized officers, thus using the aggregation procedure for all public funds that compose the budget system.

Another important provision of this Act is to redefine the respective responsibilities of public institutions and independence of action under the law.

Provisions on the budget and budget process, contained in the Public Finance Law no. 500/2002 represent a step towards liberalization and democratization of public finances, which also are a requirement of the need for progress.

Analyzing the concept of budget in relation with public finance, as a tool used for showing the ability to mobilize state resources and public expenses, we take notice of a threefold approach regarding this concept in the literature: legal, economic and financial.

a. The legal approach of the budget is built on the following features:

- Approval is made through the law, by the Parliament which gives it a compulsory character during the period of approval;
- It is an official document, in which income and expenses are included in the approved annual budget law. So, the income and expenses are authorized for a period of one year.

b. Economic approach is the linkage between budget and the evolution of GDP, the latter determining the level of revenue and expenditure included in the budget, requiring compliance with macroeconomic correlations between GDP and budget. At the same time, the budget expresses economic relations that begin once with the distribution of GDP in order to fulfill state functions.

c. Financial approach is explained by that function of an economic and financial instrument, by indicators showing the financial balance of public finances, separating income and expenses, under the Ministry of Public Finance's (MPF) mandatory regulations. The reality involved in the three budget approaches raises a number of comments from theorists / academics about the order of importance and yet the three approaches explain their apparent complementarity, excluding the possibility of any individual treatment or hierarchy.

In addition to its role as document that records the dispositions and financial accounting, budget is particularly important for maintaining financial stability, when it comes to macroeconomic monetary and foreign currency balance, by using funds in those strategic areas of the economy, thereby facilitating economic growth and recovery from stress/ crisis conditions.

Integration into the EU and especially the recent crisis in our country require a different philosophy from the authorities dealing with the budget process and the national budget system. Current trends manifested in the world are particularly oriented to give greater attention to the state office, as the administrator of public funds, with attention focused on supporting investments. At this stage Poland, Hungary, the Czech Republic have managed to overcome a state of crisis by using bold investment policy.

Crisis history has shown that without efforts focused on significant investments to generate capital gains and rapid retraining, the crisis moments are likely to worsen. For example, Japan emerged from the crisis in the years 1929-1933 through major investments, although at that time had a weak economy.

To track the progress made on the public finances in the budget process we use data for 2008 and 2009 budget which represent two periods of interest for analysis. The objective of our analysis is to study the degree of revenue collection approved by the annual budget law, the degree to incur expenditure, differences in the performance index of the two indicators, analysis of revenue and expenditure structure.

After the implementation of macroeconomic indicators presented in the consolidated budget during 2008 and 2009, that are found both in the preparation phase and implementation phase, there was no taking into account of the principle of determining realistic budget revenues, the consequences being translated into the increase in public debt, that was to cover the registered budget deficit. Inside the structure there is a reduction of capital expenditure in 2009 compared to 2008, up to 13.3%, which is not favorable for economic recovery. Tax revenues, wages, income and capital gains were reduced by 3.4%.

The financial amounts Romania received from the EU were of great help, speaking in terms of financial contribution for 2009; those amounts have, in a certain way, raised the level of economic and social activity. Expenditure on social assistance have reached alarming levels in 2009 - 12.7% of the GDP, the growth being registered only up to 18.10%, compared to 2008.

Indicators achieved in 2009 led the Executive, the main factor in achieving the budget process, to review economic and financial policy for 2010, so that the budget be prepared as a combination of economic doctrine and concepts of every field's specialists.

We appreciate the important role of the International Monetary Fund (IMF) Agreement that requires specific behavior in implementing the budget and monitoring the Executive to fulfill the commitments. Also, the EU proposal to consider the national budgets of the governments of other countries in order to monitor the budget deficits, would be for this stage also necessary and beneficial. We are now experiencing the reconsidering of the budget process and budget system at European level with the required EU enlargement, which aims to rethinking the perception role that public finances must play inside contemporary society.

Changes occurred mainly in the legislative field, but also regarding the changing attitude in using the public funds and their management. In our country, once with the third stage of the reform of public finances made by Law 500/2002, the state has reformed until now less visible aspects of the budget process such as: commitment, validation, authorization of public expenditure, which led to the separation of the authorized officer's duties from the attributions of the ones responsible for paying and increasing accountability of decision makers of society.

The link between public finances and the budget was one of interdependence. Along the history of finance area, budget and budget process were defined by the role they had in society and by the degree of complexity of state tasks at that particular stage. Since establishing the

functions of mobilization, allocation and utilization of money key resources, budget has been an economic category occurred at a certain stage of development of human society, whose role has been demonstrated within time.

Such a document was drawn up for the first time in England in 1215 and it expressed the figure forecast, at the time, of structure elements representing a program or established and defined tasks in time and space. After absolutist monarchies used for a long time budgets of the states, this right of theirs was restricted by the introduction of control and revenue and expenditure records, expressing today's complex relationships and contemporary democratic economic policy.

CONCLUSIONS

Today's budget concept defines all money relations that are put into practice by public finance in every country, as an act of will in which issues like source of income and destined expenses assessed in a realistic amount, for the public needs and intangible economic sphere of society, are well established and considered as needs to be determined and legally authorized by decision makers. Budget evaluates financial targets, projects and programs that will achieve the financial year.

To summarize, the above budget can be defined as:

- systematic prediction of priority objectives inside both economic and social areas;
- financial plan that describes in specific terms the means and sources to achieve agreed objectives;
- balance between uses and resources that can be mobilized by the state in a given period based on a general framework which lays down rules, principles, procedures;
- plan estimating, forecasting and managing income and expenses for achieving legal objectives under government authority, through the institution's will and responsibility.

The main objective of the budget process is thus the budget for the realization of which the following steps are to be taken:

1. drafting a budget;
2. budget approval;
3. budget execution;
4. conclusion of budget execution;
5. control of budget execution;
6. approval of budget execution.

Each stage has its role in building a realistic budget to meet the economic doctrine of the government and budgetary principles that are the foundation of reality, legality and effectiveness of using public funds.

The crisis has yet imposed its beneficial economic cooperation between doctrine and technocracy.

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THE IMPORTANCE OF THE CALCULATION METHODS BASED ON DIRECT COSTING IN MANAGERIAL DECISIONS

Associate Professor Ph.D. Victoria FIRESCU

University of Pitesti, Faculty of Economic Sciences
firescuvictoria@yahoo.com

Abstract: In response to the criticisms of the cost centre accounting, the calculation methods based on the direct costing concept no longer use the arbitrary calculations for the allocation of indirect expenses based on less pertinent allocation keys. Indirect costs create the illusion of a relation between costs and products, and inexact complete costs lead to an inadequate evaluation of the circulating assets, thus leading to the distortion of the accounting results. The usage of complete costs as forecast norms proves to be delicate. The costs obtained by using the Direct Costing methods are closer to the current cash flow structure, allowing for decisions to be made on short term, in the context of certain given capacities and production procedures.

Keywords: direct costs, decisions, calculation

1. INTRODUCTION

The specialized literature mentions an increase in the conceptual area of direct costing, as it takes into account other types of costs as well besides variable costs and direct costs. The cost of the product is considered a partial cost because it does not include selling costs and administration costs in its structure. Moreover, the marginal cost is assimilated to direct costs taking into account that it reflects the expenses generated by the additional units of the previous production. The direct costing system starts with the assumption that costs include only a pertinent part of the expenses of the enterprise. The primary and synthetic indicators supplied by the Direct Costing method represent an important instrument when decisions are made for the optimisation of the economic and financial result.

2. THEORETICAL AND PRACTICAL DELIMITATIONS CONCERNING THE DIRECT COSTING METHOD

At the end of the 19th century, in 1898 German economist Schmalenbach emphasized the elements of the Direct Costing method, by grouping costs into fixed costs and variable costs and charging only proportional costs to the cost bearer. A Direct – Costing calculation was made for the first time in 1923 at General Motors de Donaldson.

The promoters of the Direct – Costing are Jonathan N. Hariss and G. Charter Harrison who applied it independently from one another in the USA.

According to the logic of the direct costing method, products should generate a margin that should absorb fixed costs [1]. The supporters of the direct costing method maintain that the value of the stocks in the balance should not include fixed production costs because these costs are not relevant for the future events, and cannot create benefits.

According to the direct costing system, structure costs are not considered costs of the accounting period because they are created by the time and not by the production or commercial activity.

The absorption costing/full costing method capitalizes part of fixed costs in the value of stocks, postponing their recognition until the moment of the sale, which seems to distort the obtained result (the production volume influences this result more than the level of sales).

Function of their relative time horizon, fixed costs can be compulsory or can be influenced by the company management (discretionary costs)

Fixed compulsory costs are long-term costs borne without any possibility to decrease their level; they are fixed costs that cannot be eliminated without jeopardizing the normal activity.

Discretionary fixed costs (advertising, training, etc.), can be reduced for short periods of time (when the volume of the activity experiences noticeable decreases), without adverse effects on the long-term objectives; these are relative or controllable fixed costs.

The traditional delimitation of fixed and variable costs function of the volume of activity must many so-called “fixed” costs have a preponderantly variable component, but are, on the other hand, changed function of other parameters as compared to the volume, these parameters being related to the complexity.

Direct – Costing is a method used for the calculation of costs as well as short-term results, and therefore, a useful instrument for the creation of certain simulations.

The calculation specific to the direct costing method implies the assessment of the following primary decision-making indicators:

- the cost per unit is measured as a total variable cost/production ratio;
- the contribution margin represents the difference between the selling price per unit and cost per unit;
- the result is calculated as the difference between the total contribution margin and fixed costs.

Function of the partial cost used for calculating the margin, several types of margins can be calculated:

- margins of variable purchase costs;
- margins of variable manufacturing costs
- the margin of variable cost.

The balancing point, also known in the specialized papers as “break-even point” represents the relative volume of activity, the turnover at which the profit is null; this synthetic indicator of variable costs allows for the calculation of the physical volume of activity so that a profit P may be gained.

Another decision-making indicator supplied by the Direct Costing method is the *coverage factor* that estimates how many percentages of the sales are necessary in order to cover fixed costs and gain profit. The coverage factor can also be used as a forecasting instrument for the selling price.

The dynamic coefficient of safety or the margin of safety indicates how much sales should decrease so that the company should reach the balancing point. This indicator should be considered for the creation and usage of the output capacity. If the degree of usage of the capacity is lower than the percentage of the coefficient of safety in the break-even point, the company runs at a loss.

3. DECISION-MAKING AREAS IN WHICH THE DIRECT COSTING METHOD IS USED

- The *Cost – Volume* analysis model– *Profit used for making decisions in commercial forecasting*

The *Cost Volume Profit* model is a completion of the direct-costing method, and is used in commercial forecasting for making decisions such as:

- changing the amount of fixed costs by increasing the volume of sales;
- changing variable costs and the volume of sales;
- changing the amount of variable and fixed costs as well as the volume of sales;
- changing the selling price;
- changing the selling price, the fixed costs, and the volume of sales.

In order to exemplify the decisions concerning the change in the selling price, fixed costs and volume of sales, we consider the following application:

In order to increase sales by 30 %, the management considers reducing the selling price by 10% and increasing selling costs with 35.000 m.u..

Solution:

Current situation:

- turnover: 2,400,000 m.u.
- total variable costs: 1,200,000 m.u.
- contribution margin 1,200,000 m.u.
- result: 700,000 m.u.

Forecast situation:

- turnover: $(8000 + 30\% \times 8000) \times (300 - 10\% \times 300) = 2,808,000$ m.u.
- total variable costs: $(8000 + 30\% \times 8000) \times 150 = 1,560,000$ m.u.
- contribution margin: $2,808,000 - 1,560,000 = 1,248,000$ m.u.
- fixed costs : $500,000 + 35,000 = 535,000$ m.u.
- result: $1,248,000$ u.m. – $535,000$ m.u. = $713,000$ m.u.

Taking into account that the profit is increased by 13,000 m.u., the presented decision can be implemented.

The model cannot quantify the impact of the future increase in selling costs.

If, in the analysed period, the selling price remains constant, the margin of costs and the variable costs vary proportionally with the turnover.

By analysing the impact of the change in one or several parameters of the model we can measure:

- *the variable cost rate* calculated as the total variable cost – turnover ratio:

$$r = \frac{CV}{CA} \times 100; \text{ we can see that } r = \frac{Q \times C_v}{Q \times P_v} \times 100 = \frac{C_v}{P_v} \times 100, \text{ where } C_v = \text{variable cost per unit, } P_v = \text{selling price per unit.}$$

- *the margin rate* calculated as the variable cost margin-turnover ratio:

$$r' = \frac{MCV}{CA} \times 100; \text{ similarly, } r' = \frac{Q(P_v - C_v)}{Q \times P_v} \times 100 = \frac{P_v - C_v}{P_v} \times 100 = 1 - r$$

For pertinent decisions, the analysis using the *Cost – Volume – Profit* model should be applied when the following conditions are met:

- the analysis should not exceed the relevant the relevant range of activity ;
- the production sold must be equal to the manufactured production in order to eliminate the impact of the variation of the inventory;
- the prices of the production factors should be constant;
- costs can be divided into fixed costs and variable costs;
- variable costs should vary proportionally with the volume of the manufactured and sold production;
- the manufacturing processes should b known and should not undergo changes in the period for which the analysis is made;
- the cash problems should not be considered in order to eliminate the lap between an incurred cost and its payment, between obtaining an income and collecting the related liquid assets.

The full costing methodology that allocates the full costing of outputs inevitably includes irrelevant elements. However, in order to make the right decisions, the irrelevant aspects should be eliminated from the decision-making argumentation.

● Decisions made based on relevant-differentiated costs

A cost is relevant insofar as it is applicable to the manager’s option in the decision-making process, i.e. can be partially or totally eliminated from the choice of a version or another version in the decision-making process. The decision-making process based on relevant (differentiated) costs implies:

- collecting all costs associated to each decision alternative;
- eliminating costs that have already been made;
- eliminating costs that are not different in all the alternatives;
- making decisions based on the remaining “cost” information.

The decisions in relation to which managers should distinguish between relevant and irrelevant costs can be:

- *keeping an item of equipment or replacing it with a new one;*
- *keeping or abandoning a product line;*
- *the “make or buy” decision.*

In order to exemplify the “*make or buy*” decision we assume that the company ALFA is currently manufacturing an assembly necessary for the manufacturing of one of its main products. The costs afferent to the manufacturing of the semi-finished product are presented below:

Table no.1 The costs afferent to the manufacturing

<i>Designation</i>	<i>Cost per unit</i>
Direct materials	50.m.u.
Direct labour	40 m.u.
Indirect variable costs	10 m.u.
The auditor’s salary	30 m.u.
The depreciation of a specialized item of equipment	20 m.u.
General allocated costs	45 m.u.
Total	195 m.u.

The company ALFA can buy the subassembly in the necessary quantity of 1.000 pieces on the market at the de unit price amounting to only 160 m.u.

In order to make the right decision, the manager should take into account the relevant expenses (direct materials, direct labour, indirect variable expenses, and the auditor’s salary) because they could not be avoided, if the company stopped manufacturing the semi-finished product in question. On the other hand, unavoidable costs (the ones that have occurred) are not taken into account (the depreciation of the specialized equipment for which the company cannot find a buyer, the general allocated expenses).

The argumentation based on differentiated costs is presented in the table below:

Table no. 2 Differentiated costs

Designation	Differentiated cost per unit	
	Make (m.u.)	Buy (u.m)
Direct materials	50	
Direct labour	40	
Indirect variable costs	10	
The auditor’s salary	30	
The depreciation of the equipment	-	
General allocated costs	-	
Acquisition costs		160
Total	130	160
Difference in favour of making or buying		30

We can notice that the optimum solution implies that the company should continue to manufacture the subassembly because the manufacturing cost per unit is lower than the acquisition one by 30 m.u. In the above-mentioned analysis based on differentiated costs, the space used for manufacturing the respective subassemblies is deemed to be inadequate for any other activity of the company.

4. SPECIFIC COSTING METHOD (ADVANCED DIRECT – COSTING).

The concern of companies with making short-term decisions as radical as concerning the production, distribution, expected return resulted in the improvement of the Direct – Costing method.

The Advanced Direct – Costing is one of the developments of the direct-costing method, also known under several other names: the specific cost method, the advanced variable cost method, the contribution margin or inflow method, operational cost.

The Advanced Direct costing has the following characteristics:

- ▶ it assesses a cost as close as possible to the product that generated it by taking into account both variable as well as fixed costs specific to the cost bearer;
- ▶ the fixed costs specific to a product are allocated based on an accounting relation [2];

- ▶ the settlement of fixed costs is made in stages on product, group of products, centres and activities, work cells, departments, company.
- ▶ it has a higher capacity to supply information taking into account that the assessment of the coverage contribution is assessed at each stage;
- ▶ it allows for setting responsibilities on centres, activities, for as many costs as possible;
- ▶ it determines two margins: a variable cost margin and a specific cost margin (own gross margin);
- ▶ it is a pertinent method used for making decisions such as: abandoning an activity, a product, a distribution; it allows for using standards and budgets that provide for the forecast analysis and management control.

M/Cfs assesses the profitability of products in a more realistic manner reflecting the extent to which sold products contribute to covering fixed indirect costs.

The advanced version as well as the superficial calculation use indicators expressed in relative figures for the development of several courses of progress.

5. ADVANTAGES AND LIMITATIONS OF THE DIRECT COSTING METHOD

As a cost calculation method, Direct Costing has a number of advantages such as:

- it is a simple method because it easily eliminates the cost per unit based only on variable costs;
- it is an efficient method because it supplies information related to the final result in an operative manner, and especially information related to companies with a large number of products and ranges of products;
- it is a cost-efficient method if we take into account that it reduces costs with obtaining information for the calculation of the cost per unit;
- by calculating the gross contribution to the profit, it supplies information necessary so that the management could make decisions concerning the manufacturing and distribution policy;
- it allows for management control, both in what labour productivity on posts or centres of activity is concerned, as well as in what the profitability of the product is concerned;
- by calculating the breakeven point, it allows for optimizing the manufacturing and distribution process;
- the price-cost-volume model allows for short-term decisions concerning the profit optimization through forecasts;
- it allows for planning costs and responsibilities at all the levels of the management, for the results of the business;
- it allows for the indirect calculation of the selling price as a supply price.

The Direct Costing method also has some limitations in what its applicability and efficiency are concerned, when it comes to the cost calculation and optimization of the result, for the following reasons:

- the separation of production costs into fixed costs and variable costs can never be made in an accurate manner, given the fact that there are costs shifting, for short periods of time, from the semi-fixed cost behaviour to that of semi-variable costs;

- the result calculated through Direct Costing is distorted due to the fact that it takes into account fixed costs related to the production manufactured in the current period, instead of fixed costs related to sold production;
- a high gross contribution to profit does not always represent high profit, because it also includes fixed costs the amount of which is known only at the end of the year.

6. CONCLUSIONS

The indicators supplied by the Direct Costing method represent an important managerial instrument in optimising the economic and financial result of the company. By using the Cost-Volume-Profit model, we can determine the influences resulted from the changes in the factors that influence the value of the result.

- *An increase by a certain percentage in the selling price will lead to:*
 - An additional profit equal to the sold quantity multiplied by the price increase;
 - an increase in the coverage factor and in the dynamic coefficient of safety;
 - a decrease in the break-even point.
- *A reduction of the variable cost per unit shall result in:*
 - an additional profit equal to the sold quantity multiplied by the reduction of the variable cost per unit;
 - an increase in the coverage factor, in the dynamic coefficient of safety, and the margin of safety;
 - a decrease in the break-even point.
- *An increase in the physical volume of production and distribution leads to:*
 - an increase in the profit equal to the additional sold quantity multiplied by the gross unit margin;
 - the increase in the dynamic coefficient of safety and in the margin of safety;
 - the coverage factor and the break-even point are not changed.
- *Promoting a production and distribution structure in favour of the range of products with the highest coverage factor will lead to an increase in profits;*
- *The reduction of fixed costs by a certain percentage shall have the following impact:*
 - the increase in profit according to the reduction of fixed costs;
 - the diminution of the break-even point;
 - the coverage factor remains unchanged;
 - the increase in the dynamic coefficient of safety and in the safety margin.

In making decisions, managers may face risk situations in the anticipation of the evolution of many variables that are uncontrollable or hard to control [3].

The closer the turnover of a company to the break-even point, the higher the economic risk of this company. The economic risk of a company is assessed by means of the volatility coefficient (the operating lever) that reflects the percentage variation of the result function of the change in the volume of sales. In fact, the volatility coefficient represents the elasticity of the result as compared to the turnover and should be interpreted function of the cost pattern, or function of the fixed cost-variable cost ratio.

In the companies with seasonal business, the seasonal variations do not influence the value of the critical turnover, but they influence the critical period.

In case of the companies that operate in an uncertain environment, the critical turnover cannot be accurately assessed. The probability of reaching or exceeding the break-even point can be calculated. Prudence is recommendable in using the critical probabilistic point.

In the pertinent evaluation of the critical point, the following aspects should be considered, in respect to the functions of the costs and of the turnover:

- fixed costs are constant when the volume of activity does not exceed the output capacity;
- for a given production structure variable costs have a different evolution (from the range of de increasing returns to that of constant returns and that of decreasing returns).
- In order to increase the volume of sales, the company should grant certain commercial discounts (which means that the assumption of the selling price independence in relation to the sold quantity is no longer observed).

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THE REFLECTION OF THE COMPANY'S PROFITABILITY AND LIQUIDITY IN THE ACCOUNTING RESULT

Associate Professor Ph.D. Claudia BURTESCU

University of Pitesti, Faculty of Economic Sciences
claudia.burtescu@yahoo.com

***Abstract:** An enterprise can have economic performance, but may end as a result of the financial deficit of liquidity. Between the beneficiary capacity and liquidity there is no mechanical relationship. In the practice of enterprises it is not sufficient to follow only the economic indicators but it is necessary to ensure the liquidity of the enterprise in its quality of particular dimension of financial management. Liquidity and treasury must be well defined and bounded as they represent the object of several accounting measurements.*

***Keywords:** accounting result, liquidity, treasury, self financing capacity, overall surplus of treasury.*

The financial position of an enterprise is influenced by the economic resources that it controls, its financial structure, its solvency and liquidity and also its ability to adapt to changing the environment in which they operate. The information about economic resources controlled by the enterprise and its past capacity to modify these resources are useful to predict the ability of the enterprise to generate cash or cash equivalents in the future. The information about the financial structure- are useful to anticipate the future lending needs and how the profits and future flows of treasury will be divided between those who have an interest in business; these are useful to anticipate the opportunity to receive funding in the future. The information about liquidity and solvency are useful to anticipate the capacity of the enterprise to honor its financial commitments due.

Liquidity refers to the availability of cash in the near future, after taking into account the financial obligations related to this period.

Solvency concerns the availability of cash for more than they should honor the financial commitments due.

An enterprise that spends more on consumption and investment than it receives from the sale of products begins to deplete the different ways of credit. The cost of the credit is possible to cover temporary cash-flow needs, but it may become prohibitive when it comes to financing development.

The inability to regulate trade after the enterprise made use of all credit resources and improvement of liquidity, it may lead to cessation of payments and placing it in the recovery or wound up.

The **state of incapacity** may have three origins: the failure of economic profitability, errors of management structure and financial fragility.

A weak **economic profitability** limits the ability to renew its equipment, promote new products, to recruit qualified employees, etc. Progressively the business is deteriorating; the financial needs can not be covered only by excessive indebtedness, which cost is added to the

excessive expenditure and the falling spiral continues. In this case, the low performance of the enterprise is the cause of liquidity crisis.

The decreased profitability may be the consequence of economic and management errors. In this case, for example, the enterprise which supports important fixed costs, incurred in periods of favorable juncture and have not provided the opportunity for recovery in case of activity reduction when it occurs, it will be preserved a higher cost of business opportunities. The professional competence of the company has not been valued and it is the victim of some management errors by over dimension.

Also, a dependency of a very high customer places the supplier company at his attitude regarding the payment. This is commonly found in small companies. Diversification of customers allows the reduction of illiquid risk. But lack of payment is not only a consequence of a crisis of operating conditions. An enterprise may be destabilized in terms of financial structure without being simultaneously economically destabilized, but rapid growth can cause fragility in financial terms, if it was not provided the necessary increase in working capital, or was confronted with a variation of the waist of the enterprise under the growth in the capital. Such businesses, economically strong but financially fragile may seek to recover the treasury, but this must be done before the financial difficulties are passed over the economic performance.

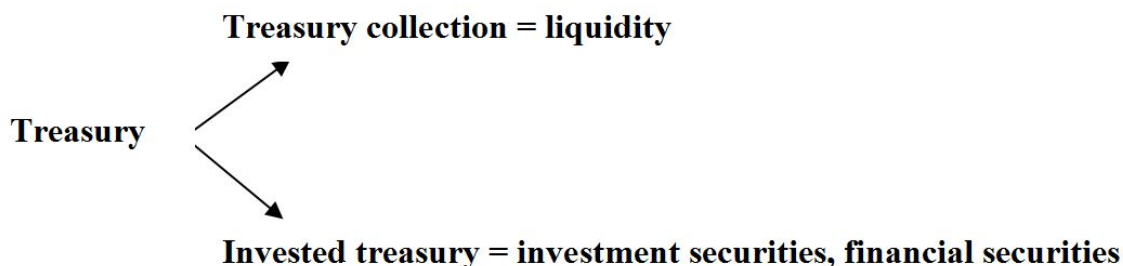
Therefore, **an enterprise may have economic performance, but it may end financially as result of the deficit of liquidity.**

The conclusion is that there **is no mechanical relationship between the beneficiary capacity and liquidity.** It is not enough to follow only the profitability of economic indicators, it is necessary to ensure the liquidity of the company in its quality of particular dimension if financial management.

Notions of liquidity and treasury must be well defined because they are the subject of many accounting measurements. On the one hand, certain liquid investments are not immediately available, but quickly mobilized, such as investment securities, shares and bonds. The questions that are raised are: can such values be included in the Treasury or should they be maintained in debt? Starting from what level of liquidity can a claim be treated as a fixed availability? On the other hand, there is a passive Treasury amended by the appropriations necessary to cover the bank's treasury agreed in various forms. These refundable credits have generated a treasury entry, and at the moment of refunding it changes to a potential levy on a short-term. If the bank renews the loans with a certain frequency, then it can be treated as a stable resource. Thus, the strict accounting of net cash is the subject to differences, bringing into discussion the borders of the treasury both in passive and active.

Seen in active, treasury is an investment. A slow collection of payment or placed shortly after a certain period offers a profit that is lower than the productive investment of the company. This brings into question two restrictions: first, the enterprise must provide the liquidity necessary for its transactions, on the other hand, it must also capitalize its assets.

From those presented it results the treasury scheme:



Often, there is a confusion between **treasury** and **liquidity**.

Treasury is calculated from the balance sheet between items that indicate the instantaneous value at the date of cost closure.

Liquidity is the result of the flow of entry and exit of money, delayed in time.

So, the treasury from day “d + 1” can vary greatly from the treasury from day “d”. For example, a seasonal activity is committed to spending money over a calendar year, but receives revenue, especially between November and January next year. The collection of amounts actually takes place next year, and it appears the activity resulted in a profit situation, but the company shows at the end of the year a liquidity risk.

In other vein, treasury calculated from the balance sheet items does not reveal its origins. We can not make the same diagnosis if the treasury is linked to a high degree of indebtedness, the external input of capital of self financing. The liquidity risk of an enterprise is evaluated differently by how the treasury is provided by recurring operating streams or external resources. From this point of view, the diagnosis takes into consideration, particularly, the treasury surplus resulted from the operation.

So, the notion of treasury varies, depending on the circumstances and the point of view from which is addressed. The account measures of the treasury correspond to particular definitions, seen as receipts, liquidity stable amounts and almost cash preserved to ensure transactions.

If we have the picture of funding, the **net treasury** represents the amount of deposits, less the current bank loans (credit balance of the current account), which means that securities investments are included in the claims of outside exploitation.

If we consider that securities investments, in terms of financial markets and capital, can be easily converted into currency and this conversion rate depending on the evolution of market liquidity, it means that the liquidity of securities investments may be greater than its registration, which gives a return. On the other hand the transfer of securities investments generates expenditure.

All these issues lead us to the idea that the definition of net cash must strive to overcome the concept and availability to take the form:

$$\text{Net availability} = \text{Treasury} + \text{Securities investment} - \text{Current bank loans}$$

Seen through the liabilities prism, we have that extensive concept of the treasury that requires a very careful analysis of the liquidities of the corporation, where:

$$\text{Treasury} = \text{Availability} + \text{Securities investment} - \text{Current bank loans} - \text{Effects expected and not achieved date of payment} - \text{Other financial liabilities of less than one year}$$

One can object that these loans are a permanent resource only if they are permanently renewed. Moreover, financial debts less than a year cover a part of short-term loans during the year, which is no longer a treasury debt. Finally, if all the financial debts of less than one year are treasury debts, why wouldn't we say so about other debts that are less than one year?

The different interpretations of cash can lead to the formulation of different diagnosis, and the analysis of firm liquidity should never lose sight of the substantive definition of the treasury.

The financial result of the company includes revenues and expenses, regardless their financial settlement. Besides the income there are also included the provisions and some transfers of expenditures, while alongside the costs there are included the amortisement and provisions setup, and also the value of ceased assets. If this result is an accountant economic result, it is interesting to calculate the result of the treasury or a **collected result**. This ability is the meaning of **Self Financing Capacity (SFC)**.

But the ability of self financing, as defined, is an expression of partial collected results. In essence, it does not include income from the disposal of assets which, although they are related to a financial flow, is extraordinary.

The ability of self financing is therefore calculated from the usual business of the company, such as:

$$SFC = \text{proceeds} - \text{expenses that are to be paid}$$

The ability of self financing can be calculated by two methods: either from intermediate management balances, or from the net accounting result.

The calculation of self financing capacity is based on the following:

$$\begin{aligned} SFC = & \text{GEE (Gross Excess of Exploiting)} \\ & (+) \text{ other unbreakable operating income} \\ & (-) \text{ other payable operating expenses} \\ & (+) \text{ unbreakable financial income} \\ & (-) \text{ paid financial expenses} \\ & (+) \text{ extraordinary unbreakable income} \\ & (-) \text{ payable extraordinary charges} \\ & (-) \text{ income tax} \\ & (-) \text{ participation in profit} \end{aligned}$$

The calculation of the ability of self financing starting from the result of net accounting is based on the following relationship:

$$SFC = \frac{\text{The net accounting result}}{\text{The net accounting result}} + \frac{\text{Expenses that were not paid}}{\text{Expenses that were not paid}} - \frac{\text{Unearnable income}}{\text{Unearnable income}} - \frac{\text{Income from transfers}}{\text{Income from transfers}}$$

Which leads to the identification of calculation, namely:

$$\begin{aligned} SFC = & \text{net accounting result} \\ & (+) \text{ Expenses on almost cash and amortisement (exploiting, financial)} \\ & (-) \text{ Income from re-provisioning (exploiting, financial)} \\ & (+) \text{ Extraordinary expenses} \\ & (-) \text{ Extraordinary income} \end{aligned}$$

Regardless the method of calculation, its size is the same and represents a result partly cashingly because it includes stock changes (which is seen very well by the second method, since the net result is influenced more or less by the income of stored production), which is not a cash flow budget. In other words, measuring the flow of treasury shall differentiate revenue and expenditure from the receipts and payments, in addition to the variation of inventories, and when the self financing calculus is made starting from the net result which includes stock variation, this being corrected, where from:

$$\text{Unbreakable operating flux} = SFC - \text{stock variation}$$

The reasoning used for the stock variation can be applied even in the case of restrained production because the expenditure has already been registered during the year, their counterparty being found in the fixed assets account. It can be concluded that:

$$\text{Treasury flux} = SFC - \text{stock variation} - \text{restrained production}$$

In other vein, if for the same volume of sales, earnings are at a frequency less rapidly, we will see a simultaneous reduction of job availability and an equivalent increase of the post of claims. Conversely, all the increases in operating debt correspond to an increase in treasury.

To obtain a collectable flux, meaning the treasury variation called equally and global treasury over-balance by the **Overall Surplus of Treasury** (OST), it is sufficient to determine the balance variation (claims - liabilities). Taking into account all the variation (stocks debts and current debt) affecting the collectable operating flow, we have:

$$OST = SFC - \text{stock variations} - \text{balance variation (claims - liabilities)}$$

or

$$OST = SFC - \text{variations (stock + exploiting debts - exploiting liability)}$$

But in the expression (stocks+ claims of exploitation- debt of exploitation), the definition for the need for working capital (NFR) is recognized, where the final expression of global treasury is:

$$OST = SFC - \text{variation of the necessary working capital}$$

Therefore, the ability of self financing takes into account all the operations that are converged with the result: exploiting operations, financial and extraordinary, while global treasury surplus variation is related to treasury operations essential to continuing the operation.

Although one of the attributes of the new cost accounting is to determine when the cost is made in the moment of its employment, and the income in the delivery of goods or provision of services, making the circuits “purchase-sale” and “payment-receipts” have some disconnection, between the result and treasury is still a relationship, not being a value identity.

A product or a margin is in fact a difference between the output price and the cost of input factors in production of goods or providing services. It expresses the economic power of the company, meaning the ability to extricate itself over resources, its growth and financial compensation.

But the outcome is not immediately reflected in the company. It is not equal to the cash balance shown by all the operations leading to the payment and collection of input factors sold for the following reasons:

- The result takes account of certain expenses that are not part of the payment, but which are part of production costs such as depreciation and provisions;
- Unearned income influences the growth of result but without affecting the treasury;
- Operations are included in the result account as they are employed and not as they are on financial liquidation. For example, if a sale has not been paid by a customer, even if costs have been paid, the cash flow generated by this operation is negative, while the outcome is positive.

The interval between the date of employment and financial liquidation of payments are the source of differences between the result and cash flow.

In most practical cases, the operating expenses and operating income are not fully charged and paid. As such, the amount of accounting profit and depreciation does not exactly match to the net cash flow.

If we consider the fact that the gap commitments – receipts/payments are generally short and are offset by flows from the previous year gap, it can be considered that the capacity size of self-financing represents an almost exact assessment of the net cash flow released in the year.

This approximation is more than satisfactory for financial analysts, but inadmissible in treasury management business.

Users of accounting information are not satisfied only with the information contained in the balance sheet, profit and loss sheets. On one hand because the evolution of financial market is a point of interest not as in the beginning of the year, and on the other hand because the use of accrual accounting generates the “hypothetical” size of business performance.

As noted above, the profit shown at the end is a somewhat abstract concept, as it is not the same, most times with the balance of the available cash at the same year-end. We rely on the principle of achieving the recording costs and revenues, but sooner or later, costs will be paid and revenues received.

CONCLUSIONS

In countries where performance is strongly influenced by financial market, the investors requirements are the most important and in the analysis of the financial situation the privileged concept is not the result but the cash-flow.

That is why in the last ten years the need to include in the financial situations of a document which could show the degree in which different activities of the corporation release cash flows, surpluses or deficits of cash has been felt.

Cash flow statement has been elevated to mandatory reporting document, first in the area of international capital markets and then in the International Accounting Standards.

But in the current context of economic crisis, we believe that small businesses which have faced with a lack of liquidity should complete the set of annual financial statements with the statement of cash flows.

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INFLUENCE OF THE CONSTRUCTION ASSEMBLING ACTIVITY UPON COSTS AND THEIR CALCULATION

Teaching Assistant, Ph.D. Candidate Cristina GHINEA,
Teaching Assistant, Ph.D. Candidate Camelia CHIRILA

Constantin Brancoveanu University, Pitești
crighi1@yahoo.com, cameliachirila2004@yahoo.com

Abstract: *The activity of construction assembling is essentially differentiated from other industrial branches as it is developed in the open air, being subject to all kind of unfavorable environmental factors.*

The construction contracts include providing services associated both with constructing the actives (design), and with dismantling or demolishing them and restoring the environment. Due to the particularities of this type of activity, the construction contracts include: costs awarded directly to the contract, costs awarded to the contract activity and allocated to the contract, further costs specified in the contract and are in the beneficiary's duty. The construction assembling works also have an important role in the complex exports.

Keywords: *construction contract, fixed-price contract, cost-plus contract, incomes, costs.*

The realization of an important number of construction works, yearly planned at higher and higher levels, cannot be the result of as seasonal activity, interrupted or slowed down by the cold climate, but only as the result of a continuous activity, developed all the year round.

While the industrialization increases, the construction field enlarges its activities, people make more complex constructions and they use more complex equipment whose continuous usage becomes very important all the year round. Even in the case of a high level of industrialization, the activity of construction assembling is essentially differentiated from other industrial branches as it is developed in the open air, being subject to all kind of unfavorable environmental factors.

Some special issues appear when the weather gets cold, forcing the company to take some special measures or to ensure specific technologies for the rest of the year, whose usage is required for the rest of the year and which influence the economic results of the construction assembling company. The result of the production process in construction assembling is the "construction" which is realized through a series of works developed successively or concomitantly consisting of simple and complex technological processes.

The simple technological processes can be:

- > Preparation processes: land clearing, marking, suspending, bordering, casting;
- > Processing processes: concrete preparation, mojar preparation, trimming;
- > Transportation of: materials, semi fabricates, prefabricates;
- > Execution processes: masonry, prefabricates assemblage

The complex technological processes result from the combination of the simple technological processes. The construction works result from the combination of more complex technological processes (casting, reinforcement, concreting).

The industrialization of the construction assembling works is a process in a continuous evolution, but the constructor's direct intervention is required (as a good manager) and concretized in:

- centralization within their production bases of some material-processing actions (sorting the aggregates, making some boards, welded nets and metallic constructions) or some specific activities (concrete preparation, trimming, pre-packaging of concrete shields).
- execution processes in order to pre-fabricate some elements that cannot be produced in industry (as their series is reduced).
- activities regarding the production of some devices needed to complete the technological flow.

The main climate factors determining the development of the assembly construction works are the low temperatures, the rains preceding the frozen climate, followed by the snow which rapidly alternates with the snow melting.

They influence both the equipments' and the workers' efficiency, and the quality of the executed construction as well as the equipments' and the workers' security. Consequently, if the adaptation of the execution technologies to provide construction efficiency is not possible, it becomes compulsory to interrupt the respective works.

The construction contract is, in accordance with the international accounting standards, a negotiated contract particularly to construct one active or a combination of actives which are interdependently linked regarding the design, technology and their final purpose.

Construction contracts can be:

- the fixed-price contract – it is the contract in which the constructor agrees with the contractual fixed price or with fixed rate per finished product unit, which, in some cases is the subject of the prices deviation clauses;
- the cost-plus contract – it is a contract in which the constructor recovers the allowed costs or in other way defined, plus a percent from these costs or fixed fee.

Some contracts include characteristics belonging both to the fixed-price contracts and to the cost-plus contracts.

The construction contracts include providing services associated both with constructing the actives (design), and with dismantling or demolishing them and restoring the environment.

When a contract covers a certain number of actives, the construction of each active must be treated as a separate construction contract if each of them was submitted to a separate negotiation, and the costs and the incomes may be identified.

A group of contracts must be treated as a separate construction contract when the following conditions are fulfilled:

- the group of contracts is negotiated as a single package;
- the contracts are tightly connected as part of a single project with a global profit rate;
- the contracts develop simultaneously or in a continuous sequence.

Constituting another active must be treated as a separate contract when:

- the active differs significantly as design, technology;
- the price of the active is negotiated without taking into account the price of the initial contract.

The contractual costs must include:

- costs awarded directly to the contract;
- costs awarded to the contract activity and allocated to the contract;
- further costs specified in the contract and are in the beneficiary's duty.

The costs awarded directly to the contract include:

- a) the costs of the power-man on site (including supervision);
- b) the costs of the used construction materials;

- c) the amortization of the technical machines and equipment;
- d) the costs of transporting the technical equipment and the materials to and from the site;
- e) the cost of the technical equipment and devices;
- f) the costs for designing and technical assistance awarded directly to the contract;
- g) the estimated costs for the correction and for the guarantee and insurance works
- h) the debts to third parties.

The costs awarded to the contract activity in general and which can be allocated to specific contracts include: insurance, costs for designing and technical assistance, indirect construction costs.

The costs not awarded to a construction contract or which cannot be allocated to this are excluded from the costs of a construction contract:

- the general administration costs for which the reimbursement is not specified in the contract;
- the selling costs;
- the research and development costs for which the reimbursement is not specified in the contract;
- the amortization of the technical machines and equipment which are not used according to the contract.

The contractual costs include the costs associated to a contract from the beginning to the closure of the contract.

The construction assembling works also have an important role in the complex exports.

Similar to the operations of exterior cornet regarding the materials exchange, the execution of construction assembling works abroad can be made on the company's own or in commission.

To realize the construction assembling works, on its own, the exterior commerce companies constituted abroad various subunits without legal liability which develop their activity according to the principles of the functional and financial autonomy, on the basis of activity programs and budgets of incomes and expenses.

They respond of the integral execution of works at the contracted terms, of the quality of these works and the judicious usage of the labor force and of the material base.

The general contractor is the exterior commerce company, which, in order to reach the construction assembling objectives, closes at internal level some commercial contracts with subcontractors, Romanian or foreign economic agents, specialized in designing works, construction assembling, production of materials, equipment, parts, and providing services.

Without legal liability, the foreign subunits do not have external economic and financial relations and do not keep the accounting of the activity if in the respective country there are more objectives accomplished; the task to effectuate the clearing with the external beneficiaries, with the economic unit in the country and to keep the accounting of their activity belongs to the coordinating (accounting documents are drafted up to the level of the verification balance).

According to the construction assembling works effectuated abroad, in commission, there are two types of contracts: contracts for commission, closed between Foreign Trade Company (FTC) and the construction assembling unit in the country and external contracts closed between FTC and the external beneficiaries. The internal contracts are closed on behalf of FTC, but the risk is taken by the construction assembling units.

FTC participates at the execution of the construction assembling works abroad, as general contractor, and the foreign subunits subordinated to FTC and the construction assembling unit as executants.

But as we mentioned the activity developed in commission, all the expenses for the execution of the works are covered by to the construction assembling units. They recuperate the expenses from the price taken from the external beneficiaries through FTC.

The expenses of FTC have a general administration and management character and their main financing source is the commission retained to the construction assembling unit from the external price.

The expenses made with the execution of the construction assembling works in commission are effectuated as follows: the foreign subunits effectuate external expenses in the local currency.

The financing source is that part of the external price collected in local currency by the subunits as an advanced payment and previously after the execution of the works. Separately, the subunits have their own administration and management expenses which obtain as financing sources the foreign currency sums collected by FTC from the commission of the construction assembling unit from the external price.

FTC effectuates its own administration expenses which are financed from the commission retained from the construction assembling unit. The construction assembling unit effectuates its own expenses with foreign works as follows: external expenses in local currency (through FTC) financed from the external price collected in local currency; the internal expenses in lei, effectuated in the country whose financing source is the external price collected in convertible foreign currency.

The main issue of the construction contracts accounting is the contractual incomes and costs allocation. In accounting, when recognizing the incomes and the expenses corresponding to the construction contracts one can use two methods:

- The method of the finalization stage (or percentage down payment/advanced percentage);
- The method of works finalization.

While the method of the finalization stage answers to the connecting principle with the incomes, the method of works finalization corresponds with the cautious spirit which we have to take into account. The chosen method has an influence over the evaluation of the works in progress, at the exercise closing.

Through the method of works finalization, the works stock figurates at the production cost for the performed works, diminishing with the intermediary invoicing, while through the applying of the advanced percentage, the value of stock includes a part from the benefits, part in proportion with the performed works.

CONCLUSIONS

International Accounting Standards (IAS) 11 rules specify that any time the contract result can be realistically estimated, and the method which has to be used is the one of the advanced percentage. The conditions which have to be fulfilled based on the contracts with fixed prices and also on the contracts in overhead, were specified at “contractual incomes”. Also the rule IAS 11 specifies that, when the conditions are not fulfilled the contract result also can not be estimated in a credible/realistic way, has to be applied the method of works finishing. If further, the uncertainties regarding the contract were diminished very much, one has to use the method based on the percentage of work advancement method.

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ETHICS IN MANAGEMENT ACCOUNTING

Teaching Assistant, Ph.D. Candidate Marian ȚAICU
University of Pitești, Faculty of Economic Sciences
taicumarian@yahoo.com

***Abstract:** In the knowledge based economy, accounting information in general, and cost information in particular acquire increased importance. The quality of accounting information can be affected by the non-compliance with professional ethical requirements. In relation to the management accounting, the law provides a higher degree of freedom for the organization and presentation of the information, as compared to the financial accounting. Due to the importance of the information supplied, management accountants should observe certain professional ethical standards. Professional associations develop ethical guides with the purpose of supporting management accountants in solving the ethical problems they may encounter. Among other factors, universities play a significant role in the development of management accountants' professional ethical conduct.*

***Keywords:** ethics, management accounting, cost, information*

1. FOREWORD

Under the current economic circumstances, when the economy of each country is a component of the global economy, the importance attached to production cost information is constantly increasing.

Enterprises should offer high-quality products on the market for reasonable costs, in such a way as to ensure their future economic growth.

Nowadays, there are two accounting organization systems used worldwide:

- the integrated or monist system;
- the non-integrated or dualist system.

The integrated accounting system requires the existence of a sole accountancy able to meet the external as well as the internal information needs at the same time.

The non-integrated or dualist system, specific to Romania, proposes the organization of two distinct types of accounting: the financial accounting and the management accounting, autonomous from the functional point of view, but dependant from the informational point of view. Unlike the annual accounts provided through the financial accounting, which are standardized, the statements provided through the management accounting do not have this feature. Thus, budgets, synthetic charts, reports, cash flow charts, as well as other situations are influenced both in terms of form as well as in terms of contents, by the users' information needs and by the nature of the activity performed by the company.

2. THE IMPORTANCE OF THE INFORMATION SUPPLIED BY THE MANAGEMENT ACCOUNTING

The management accounting is the main supplier of business information required for making decisions within a company. In relation to the management accounting, the law provides a higher degree of freedom for the organization and presentation of the information, as compared

to the financial accounting. The freedom provided by the law in governing management accounting should be used as efficiently as possible by adapting the organization of the management accounting to the management information requirements. The management accounting is a control tool used for various internal business processes of the enterprise, thus becoming indispensable in any manager's everyday life.

While the information provided by the financial accounting is dedicated both to external, as well as to internal users, the management accounting information is confidential and is dedicated to internal users only.

The IASB General Framework presents seven categories of financial statements users: current and potential investors, employees, creditors, suppliers, and other commercial creditors, customers, the government and its institutions, and the public.

Professor Horia Cristea presents¹ the users of the management accounting information (internal accounting, in this author's opinion) in the following block diagram:

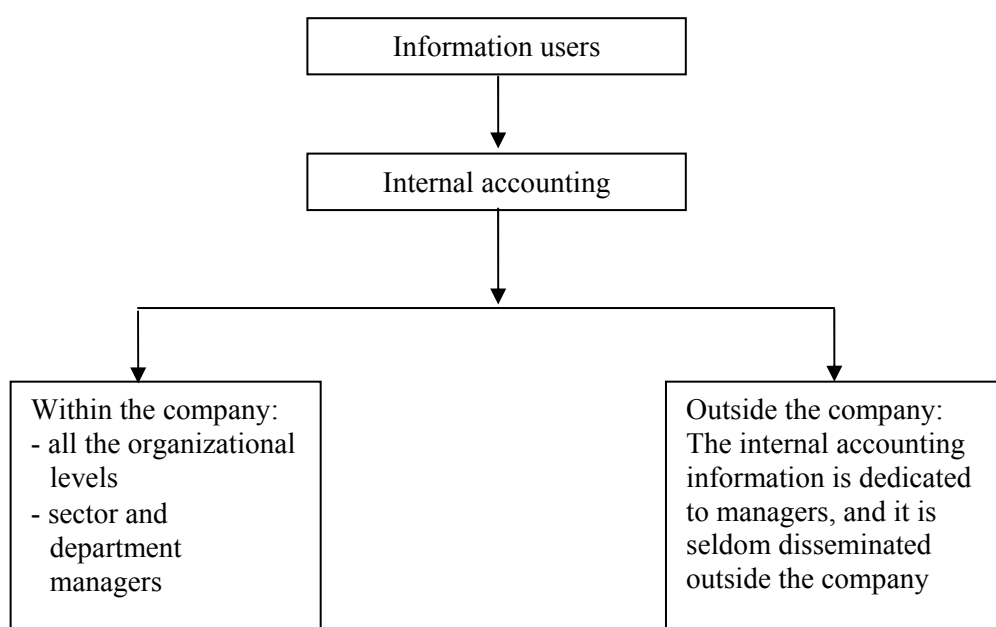


Fig.1. Users of management accounting information

In the same author's opinion, the information generated internally is used by the managers in three ways²:

- for drawing up plans and monitoring these plans;
- for the daily coordination, including pricing and an adequate publicity policy;
- for solving the problems encountered by their organizations.

The management accounting supplies the information necessary for drawing up internal reports and analyses used by the company management in the decision-making process.

Based on the cost information, they can set a sale price. Cost-based pricing relies on the objective theory of prices built by taking into account the interest of the supplier to ensure a price

¹ Cristea H., *Contabilitatea și calculațiile în conducerea întreprinderii*, (Accounting and Calculations in the Company Management) 2nd Edition, CECCAR, Bucharest, 2003, p. 18

² Cristea H., *Contabilitatea și calculațiile în conducerea întreprinderii*, (Accounting and Calculations in the Company Management) 2nd Edition, CECCAR, Bucharest, 2003, p. 15

able to cover his expenses. According to this concept, the price is set by adding the intended margin to the cost. In the market economy characterised by strong competition among product and service suppliers, the level of the price is determined by the supply/demand ratio.

One of the anti-competitive practices applied to companies with very good results is the cost strategy. This strategy is also called “the Japanese strategy” and consists in acquiring supremacy on the market by low prices, as a result of low costs.

Suppliers seem to compete in the market at the level of prices set for the same product. Actually, the competition is related to the costs of each supplier³.

3. ETHICS IN THE MANAGEMENT ACCOUNTING. INFLUENCE FACTORS

Due to the importance of the information supplied, management accountants should observe certain professional ethical standards.

Professional management accountant organizations worldwide have developed professional ethics standards. Setting professional ethical standards is important due to the fact that:

- they provide trust in the employee-employer relationship,
- standards represent a reference for management accountants facing ethical dilemmas;
- they provide a guarantee to the information users that concerning the quality of the information.

In the USA, in the opinion polls related to the ethics of the members of various professions, accountants are systematically present on the first places. This proves the improvement in the image of this profession.

The Institute Management of Accountants (IMA) is the most important management accountant professional organization in the USA. IMA developed “Standards of Ethical Conduct for Management Accountants”. These standards require the compliance with four basic principles: competence, confidentiality, integrity, and objectivity.

Management accountants have the obligation to improve on a continuous basis in order to insure a high level of professional **competence**.

Taking into account the nature of the information supplied by the management accounting, it is important to ensure its **confidentiality**. Management accountants have the obligation not to communicate confidential information; with the exception of the cases when they have the legal obligation to do so. According to their position within the compartment, management accountants have the obligation to inform their subordinates concerning the confidentiality of the information obtained during work, and to supervise their subordinates’ compliance with these principles.

Management accounting practitioners must be **incorruptible**. They must avoid conflicts of interests, and refuse presents or benefits that might influence their current or future actions.

The objectivity expected from management accountants is related to their obligation to communicate the information correctly, objectively, even if this information is not in the favour of those who requested it.

The balance statements can be manipulated in order to obtain the results expected by current or potential shareholders.

The objective of the professional ethics guides is not to provide solutions to all practical ethical problems encountered.

³ Moșteanu T. and co-authors, *Prețuri și concurență, (Prices and Competition)* University Publishing House, Bucharest, 2006, p. 96.

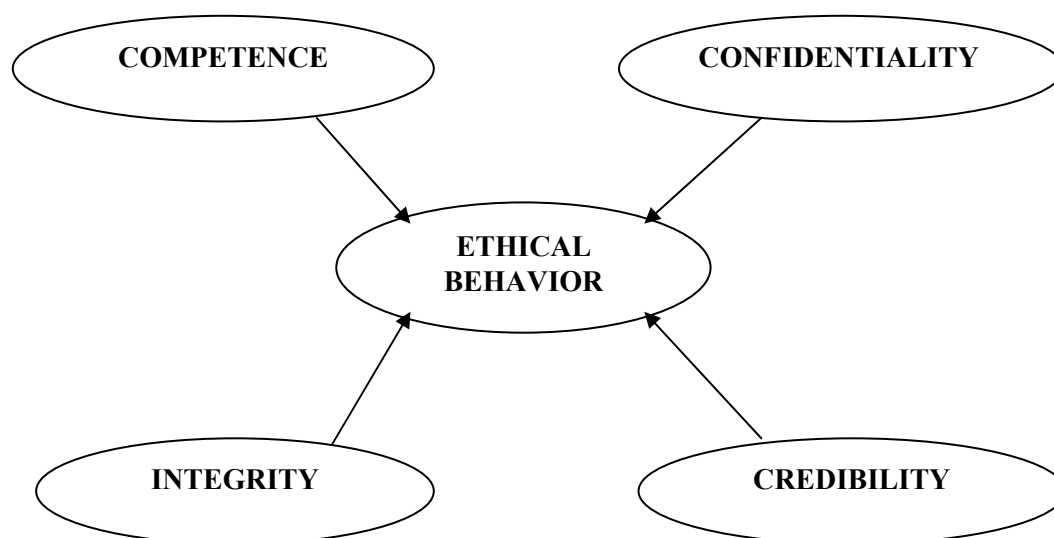


Figure 2. The four basic principles required by IMA's ethical standards

The resounding bankruptcies occurred in the USA in the last decade have once again brought to the forefront the aspects of professional ethics in the accounting field.

Their role is to support management accountants who encounter such problems in making a decision. In the USA, the Institute of Management Accountants established special telephone lines for the counselling, under the protection of anonymity, of management accountants confronted with ethical problems for which they cannot find any solution.

Higher educational institutions play an important role in the cultivation of the values of professional ethics. Universities should cultivate ethical values instead of allowing young specialists to acquire them on their own.

In the last decades, a new problem raised worldwide was that of the adaptation of the university curricula, by including aspects of professional ethics.

Teaching staff in universities can successfully use case studies and examples of reality to teach professional ethics. Students must realize that in practical work they may face ethical dilemmas. They must understand that ethics is the foundation of sustainable business. Company responsibility is not confined to economic aspects but also include ethical, social and environmental aspects.

More often than not, the first criteria of young graduates looking for a job are the following:

- the salary;
- other benefits offered by the employer;
- possibilities to promote.

The problems related to the ethics of the employer are often on the last place.

Some studies have analyzed the change in attitudes towards ethical issues. Cohen et al (2001) compared the ethical attitudes of Canadian students and practitioners. The results showed that accounting professionals saw some scenarios as less ethical than were considered by accounting students.

Factors that may influence ethical behavior of accounting practitioner are presented in Table 1.

Table 1. Factors that may influence ethical behavior of accounting practitioner

Type	Influence factors	Role
Educational, support	Universities	Train management accounting professionals in terms of scientific knowledge and ethical conduct
	Professional organizations	Provide support to accountants, but may also penalize those who do not comply with the standards, and can even exclude them from the profession
	Moral and religious reasons	Guide individuals' conduct
Coercive	The law	Contains provisions that must be observed and penalties for infringements
	Internal procedures of the company	Guide employees' behaviour in compliance with the legal provisions and to the interests of the company

4. CONCLUSIONS

The sources of ethical problems can be:

- ▶ the management's expectations opposed to the principles of professional ethics;
- ▶ the desire to be promoted;
- ▶ the desire to earn money quickly;
- ▶ personal obligations or obligations of companions.

Unlike external auditors, management accountants are employees of the company and are paid by the company, and due to this aspect the company expects them to be loyal.

Managers who want to be appreciated by the Board of Directors may put pressure on the accountant in order to make a facelift of the balance sheets. Many times, accountants are tempted to give in to such pressures.

Accountants have the obligation to present balance sheets in which they should depict situation of the company with maximum accuracy, even if this is not in favour of the management team or of the company itself.

The ethical standards developed by the IMA specify that "practitioners of management accounting and financial management have an obligation to the public, their profession, the organization they serve, and themselves to maintain the highest standards of ethical conduct".

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ELIMINATION OF DATA AFFECTED BY ERRORS AND CHECKING A RANDOM SAMPLE

Assistant Professor Ph.D. Consuela NECȘULESCU, Assistant Professor Ph.D. Carmen-Gabriela
SECARĂ

University of Pitești, Faculty of Economic Sciences
necșulescuc@yahoo.com

Abstract: *This study presents the Chauvenet criterion to eliminate those data affected by anomalous errors and the Yong test to verify the aleatory feature of a sample of experimental values. These tests can be applied to any sample of experimental data obtained from measurements to identify, and eventually eliminate the influences due to the errors. This is absolutely necessary when the elimination of differences between the measured values and the real ones is wanted.*

Keywords: *anomalous errors, systematic errors, random erori, Young test, random character*

1. TYPES OF ERRORS

Where it is intended to determine the value of a variable in a given process, then it is desirable to eliminate or reduce effects due to different types of errors, the experimental values obtained are subject to some tests which evaluate the influences induced by the factors generating measuring errors.

The main categories of statistical tests applied to a sample of experimental values are dedicated to identifying and possibly to eliminating any influences due to the three types of errors that can lead to differences between measured and actual values of the variable:

- ▲ aberrant/gross errors (outliers), caused by the malfunction of the measurement system or comes from the non-compliance of the human operator with the appropriate measurement methodology;
- ▲ systematic errors, generally caused by the incorrect configuration of the measurement system or by the influence of some external factors of constant value;
- ▲ random errors present in most measurement activities, due to stochastic nature of any natural process, including the studied process and the one generating the experimental values.

Next, a series of tests will be presented in order to identify the three types of errors listed above. If the identification of experimental values affected by anomalous errors can be followed by the elimination of those values from the experimental data sample that experienced the presence of systematic errors can not be seen only by its influence on the entire sample of experimental values.

Reducing the systematic errors induced by the systematic errors can be achieved only by comparing the results of processing several experimental values samples.

Since random errors occur in most experimental values samples, in this case the statistical tests do not aim at anything else, but the emphasizing of the degree to which those errors have affected the sample, indicating whether its probability density still coincides as a general shape to that of a real variable that has been measured.

2. ELIMINATION OF DATA AFFECTED BY ANOMALOUS ERRORS

As a set of experimental values x_1, x_2, \dots, x_n , value “ x_i ” value is affected by anomalous errors, if condition no. 1 is checked (Chauvenet criterion):

$$|x_i - \bar{x}| > z \cdot \sigma \quad (1)$$

where \bar{x} is the arithmetic mean and σ represents the standard deviation of the experimental values set; “ z ” parameter is chosen from table 1 depending on the “ n ” number of values from the set.

Table 1

N	z	N	z	N	z	N	z	N	z	N	z
5	1,64	10	1,96	15	2,12	20-21	2,26	34-38	2,46	101-106	2,88
6	1,73	11	2,00	16	2,14	22-23	2,29	39-45	2,51	167-500	3,09
7	1,80	12	2,04	17	2,17	24-26	2,33	46-55	2,58		
8	1,87	13	2,07	18	2,20	27-29	2,37	56-71	2,65		
9	1,91	14	2,10	19	2,23	30-33	2,41	72-100	2,75		

For obvious reasons, it is enough that the checking of relationship (1) be made only for extreme values of the sample.

The value of standard deviation of the experimental values set is determined in this case by the following formula:

$$\sigma = \sqrt{\frac{1}{n} \cdot \sum_{i=1}^n (x_i - \bar{x})^2} \quad (2)$$

Value “ z ” from table 1 can also be determined through the following relation:

$$z = \frac{0,435 - 0,862 \cdot a}{1 - 3,604 \cdot a + 3,213 \cdot a^2} \quad (3)$$

where: $a = \frac{2 \cdot n - 1}{4 \cdot n} \quad (4)$

If, after applying the test, it results that one of the tested values is affected by anomalous errors, that value is removed from the sample, the values of the mean and standard deviation are recalculated for the remaining values and checking the condition (1) is resumed, the algorithm being applied until that condition is no more checked for either of the two extreme values of the sample.

3. CHECKING THE RANDOM CHARACTER

One of the most commonly used tests for checking the random character of a sample of experimental values is Young, described by the algorithm below.

Step 1: Given a set of experimental values x_1, x_2, \dots, x_n , the following parameter is calculated:

$$\delta^2 = \frac{1}{n-1} \cdot \sum_{i=1}^{n-1} (x_{i+1} - x_i)^2 \quad \text{and the parameter: } M = \frac{\delta^2}{\sigma^2} \quad (5)$$

Step 2: Parameter M is compared to VCI values (lower critical value) and VCS (upper critical value), selected from Table 2, and it is considered that the set of experimental values has a random character, with probability α if the following requirement is met:

$$VCI < M < VC \quad (6)$$

The test can be applied only for samples containing no more than 25 experimental values.

Table 2

n	VCI		VCS		n	VCI		VCS	
	$\alpha=0,95$	$\alpha=0,99$	$\alpha=0,95$	$\alpha=0,99$		$\alpha=0,95$	$\alpha=0,99$	$\alpha=0,95$	$\alpha=0,99$
4	0,78	0,53	3,22	3,47	10	1,06	0,75	2,94	3,25
5	0,82	0,54	3,18	3,46	11	1,10	0,79	2,90	3,21
6	0,89	0,56	3,11	3,44	12	1,13	0,83	2,87	3,17
7	0,94	0,61	3,06	3,39	15	1,21	0,92	2,79	3,08
8	0,98	0,66	3,02	3,34	20	1,30	1,04	2,70	2,96
9	1,02	0,71	2,98	3,29	25	1,37	1,13	2,63	2,87

Parameter α in Table 2 has the significance of a confidence coefficient and may be chosen indicatively, depending on the sample size, in Table 3.

Table 3

n	5	6	7	8	9	10	12	14	16	18	20	25	30	50	100	150
α	0,960	0,970	0,976	0,980	0,983	0,985	0,988	0,990	0,991	0,992	0,993	0,994	0,995	0,996	0,997	0,997

If the sample size is between two values of Table 3, it is advisable to choose value α , corresponding to a smaller size of the sample.

Choosing the confidence coefficient in Table 3 may be replaced by its determination using the following relationship:

$$\sigma = \frac{1,5057 + 0,9968 \cdot 3^{1,7404}}{2,1803 + n^{1,7404}} \quad (7)$$

If the chosen or calculated value of the confidence coefficient is among the values available in Table 2, it is advisable to choose the lower available value.

The value selection VCI and VCS in Table 2 may be replaced by their determination using the following relations:

$$VCI = \begin{cases} 0,481 + 0,081 \cdot n - 0,003 \cdot n^2 & \text{for } \sigma = 0,95 \\ \frac{192,883 + 1,269 \cdot n^{2,336}}{411,427 + n^{2,336}} & \text{for } \sigma = 0,99 \end{cases} \quad (8)$$

$$VCS = \begin{cases} 3,317 - 1,057 \cdot e^{-8,919 \cdot n^{-0,941}} & \text{for } \sigma = 0,95 \\ 3,484 - 0,882 \cdot e^{-33,574 \cdot n^{-1,399}} & \text{for } \sigma = 0,99 \end{cases} \quad (9)$$

4. PROCESSING EXPERIMENTAL DATA

During the development of a simulation model of the operation of a production system, it is aiming at the determination of reparation function of the number of parts processed by a machine- tool during a working day.

For this, during a six week period of time, the amounts processed by that machine- tool are recorded, thus obtaining the results contained in Table 4.

The following are checked:

- Existence in the data sample of the values affected by anomalous errors.
- Checking the random character of the data sample.

Table 4

Week	Mon	Tue	Wed	Thur	Fri	Week	Mon	Tue	Wed	Thur	Fri
I	32	39	33	38	40	IV	39	41	33	33	37
II	32	41	41	39	41	V	38	40	41	33	35
III	33	33	33	34	37	VI	40	40	32	38	32

✓ **Elimination of data affected by anomalous errors**

Step 1: It is calculated the arithmetic mean of those n=30 values from table 4:

$$\bar{x} = \frac{1}{n} \cdot \sum_{i=1}^n x_i = \frac{1}{30} \cdot \sum_{i=1}^{30} x_i = \frac{1098}{30} = 36,6 \quad (10)$$

Step 2 : It is calculated, using the expression (2), standard deviation of those 30 values:

$$\sigma = \sqrt{\frac{1}{n} \cdot \sum_{i=1}^n (x_i - \bar{x})^2} = \sqrt{\frac{351,2}{30}} = 3,4 \quad (11)$$

Step 3: From table 1, it is chosen value z =2,41 (for n=30).

Evidently, among the data belonging to an experimental sample, those suspected of being affected by anomalous errors (outliers) are extreme values of the set of data sorted in an ascending or descending order. Ordering in an ascending manner those n = 30 values of the studied sample, it will be checked the influence of errors for the minimum value $x^{(1)}=32$ and maximum value $x^{(30)}=41$, where the indices between the parentheses represents the position in the ordered set of values. Applying the equation (1), it results:

$$|x^{(1)} - \bar{x}| = 4,6 < z \cdot \sigma \approx 8,387 \quad \text{and} \quad |x^{(30)} - \bar{x}| = 4,4 < z \cdot \sigma \approx 8,387 \quad (12)$$

The conclusion is that none of the extreme values is affected by anomalous errors.

If, after applying the test, it would have resulted that a value is affected by anomalous errors, it must have been excluded from the experimental sample and the test should have been applied again to the remaining values, recalculating the parameters mean (\bar{x}), standard deviation (σ) and z.

✓ **Checking the random character**

Step 1: Using the relation (5), the following value is being calculated:

$$\delta^2 = \frac{1}{29} \cdot \sum_{i=1}^{29} (x_{i+1} - x_i)^2 = 22,897 \quad (13)$$

and using the relation (5), the following parameter is being calculated:

$$M = \frac{\delta^2}{\sigma^2} \approx 1,891 \quad (14)$$

Step 2: From Table 2 are chosen the values VCI =1,13 and VCS=2,87, corresponding to a confidence coefficient $\sigma = 0,99$ and to a certain size of the experimental sample n = 25 .

The value of the confidence coefficient was chosen so as to be as close to the recommended value in Table 3.

VCI and VCS limits were chosen in correspondence to n = 25 value, because there are no available values for a size of the sample n = 30, in Table 2. An extrapolation of the values in Table 2 could be allowed in this case, noting the asymptotic inclinations of the functions (8) and (9) describing the variation of limits VCI and VCS, amounts to which they change to a unitary variation of the sample size and the position the M value falls between the two limits.

Since the condition (6) is met, it is drawn the conclusion that the experimental data sample has a random character.

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OPTIMIZING QUERIES IN SQL SERVER 2008

Professor Ph.D. Ion LUNGU¹, Nicolae MERCIOIU², Victor VLĂDUCU³

¹Academy of Economic Studies, Bucharest, Romania,

²Prosecutor's Office attached to the High Court of Cassation and Justice

³Prosecutor's Office attached to Vâlcea Court

ion.lungu@ie.ase.ro

***Abstract:** Starting from the need to develop efficient IT systems, we intend to review the optimization methods and tools that can be used by SQL Server database administrators and developers of applications based on Microsoft technology, focusing on the latest version of the proprietary DBMS, SQL Server 2008. We'll reflect on the objectives to be considered in improving the performance of SQL Server instances, we will tackle the mostly used techniques for analyzing and optimizing queries and we will describe the "Optimize for ad hoc workloads", "Plan Freezing" and "Optimize for unknown" new options, accompanied by relevant code examples.*

***Keywords:** Query, SQL Server 2008, Optimization.*

1. INTRODUCTION

Improving the performance of a DBMS includes identifying bottlenecks and their causes, using appropriate techniques and tools for solving them and evaluating the added performance obtained. It is generally accepted that aiming to achieve maximum theoretical performance is unrealistic and counterproductive, as the investment cost beyond reaching the "good enough" time increases exponentially with the performance gain.

Most times, efficiency and performance are the last criteria considered when designing and developing new applications using a database. These criteria become important only after the system goes into production. Sometimes it appears that the application does not display the information requested to the database in a reasonable time or completely fails to display it, the set timeout being exceeded. The reasons may be related to the application design, but in many cases the DBMS does not return the data quickly enough, due to the nonuse of indexes, deficient design of the queries and/or database schema, excessive fragmentation, use of inaccurate statistics, failure to reuse the execution plans or improper use of cursors.

Once the full set of running SQL queries captured, one should identify the queries exerting high pressure on system resources and those running the slowest. The component dealing with optimizing queries in SQL Server attempts to determine the most efficient way to execute a query, taking into account possible plans, and decides which one is the best. The optimization based on actual cost strategy involves the estimation of a runtime "cost" for every possible plan, allowing choosing the execution plan with the lowest "cost" in terms of disk I/O operations, CPU load, memory load etc.

2. GOALS FOR IMPROVING PERFORMANCE OF A SQL SERVER INSTANCE

The elements to be focused on for increasing performance have been found to be, in ascending order of importance: Windows operation system, SQL Server instance, hardware, database and application. According to Microsoft, the most important objectives to be considered in order to improve the performance of SQL Server are:

- Designing an efficient data schema.
- Optimizing queries.
- Optimizing indexes, stored procedures and transactions.
- Analyzing execution plans and avoiding recompiling them.
- Monitoring access to data.

Designing an efficient data schema requires initial normalization and subsequent denormalization (e.g. persons/institutions address), if necessary. A reverse approach would involve additional activities meant to insure the data consistency. Another issue to be considered is the use of the declarative referential integrity. This approach is more efficient than using triggers employing system temporary tables. The use of primary, foreign and unique key constraints contributes to the creation of effective execution plans. It is also recommended to define data types as close as possible to the real ones, given that implicit and explicit conversions are intensive consumers of computational resources.

A very important aspect comes from the need to use indexed views, when the information is not frequently updated, as indexed views are stored physically as a table.

In optimizing indexes and stored procedures the fact that they allow a rapid response to selection operations but slow down insert, update and delete operations should be taken into consideration. Generally, the creation and use of indexes should be balanced among read and write operations i.e. indexes improve read operations but may positively or negatively alter write operations. Indexes have to be also created for all foreign keys on tables that are often queried and do not contain image or bit type fields. As regards transactions, they should be kept as short as possible. Transactions requiring user intervention are to be avoided and data validation is recommended before starting the transaction.

Stored procedures must include the SET NOCOUNT ON command. This command prevents sending the message regarding the number of affected records for each operation carried out within this procedure.

It is important to analyze and run execution plans on representative data so that the best plan suggested by the optimizer may be chosen. In this regard, plans involving scanning tables and indexes should be avoided. Scanning is worthy only for tables containing up to hundreds of records. Also, major CPU and memory resources consumers are the records sorting and filtering operations. In general, recompiling execution plans should be avoided due to the loss in performance. This can be avoided by using parameterized queries and stored procedures and avoiding cursors over temporary tables. However, recompiling plans may bring benefits when the optimizer is able create a more efficient execution plan.

It is very important to monitor through statistics (if they are kept up to date) and use the profiler for queries running a long time, as well as for scanning and monitoring the use of resources. The queries optimization will be tackled in detail below.

3. QUERY ANALYSIS AND OPTIMIZATION TECHNIQUES

Analysis and optimization techniques require individual approach but also of the whole set of queries, on the premise that although individual queries can be optimized enough, the whole set performance may be poor.

First and most important optimization technique is to limit the amount of returned data by limiting the number of records (the WHERE clause) and fields specified in the SELECT list. This will lead to an efficient use of the indexes. In principle, a WHERE clause should be selective as it is the one establishing the use of indexes on columns.

For an efficient use of indexes, according to the utilization requirements for the system, the SQL Server provides clustered and non-clustered type indexes. Within the Online Transaction Processing schemes — whose tables are frequently updated — the clustered indexes are recommended, but on as few columns as possible. A large number of indexes in these systems will affect the performance of the INSERT, UPDATE, DELETE and MERGE commands, as all

indexes must be accordingly adjusted when data in the tables are modified. Clustered type indexes are effective when operators like BETWEEN, >, >=, < and <= are used, because after the record containing the first value is found, subsequent records with indexed values are physically adjacent. Also, if the query contains clauses like JOIN, ORDER BY or GROUP BY, the clustered type indexes are most appropriate. Non-clustered indexes use is recommended only for databases where updates are infrequent and gives the optimal solution for the "exact match" type queries. Queries can effectively use indexes only if within the WHERE clause functions and arithmetic operations are as much as possible avoided. For example, using the LIKE clause instead of the SUBSTRING function will cause the optimizer to use the index on the Name column:

```
SELECT Name
FROM AdventureWorks.Production.Location
WHERE SUBSTRING(Name,1,1) ='P'
```

The recommended option is:

```
SELECT Name
FROM AdventureWorks.Production.Location
WHERE Name LIKE 'P%'
```

Likewise, the exclusion conditions <>, !=, !>, !<, NOT EXISTS, NOT IN, NOT LIKE IN, OR or the LIKE example '% <literal>' will determine the DBMS's optimizer not to use the indexes on columns in the WHERE clause. Instead, the inclusion conditions, BETWEEN and the LIKE example '<literal>%', allow the optimizer to increase query performance because the SQL Server will find the record in the index and will return the adjacent records too, as long as the condition in the WHERE clause remains true.

Another optimization method is using, where possible, the BETWEEN clause instead the IN or OR conditions. The SQL Server 2008 will resolve the IN condition by accessing the index for a number of times equal to the number of values by which to search. Using the BETWEEN clause, the optimizer will turn it into a pair of conditions >= <=, the index being accessed once.

```
SELECT *
FROM AdventureWorks.Purchasing.PurchaseOrderDetail
WHERE PurchaseOrderID IN (651,652,653)
```

The recommended option is:

```
SELECT *
FROM AdventureWorks.Purchasing.PurchaseOrderDetail
WHERE PurchaseOrderID BETWEEN 651 AND 653
```

While the two previous examples have the same execution plan and use the clustered type index, in the first case the SQL Server version will resolve the IN clause using three values in three OR conditions and the index will be accessed three times. In the second option, the index will be accessed once, from the first to the last record satisfying the condition in the WHERE clause. In general, using the BETWEEN clause instead of the IN/OR conditions will reduce the number of logical reads. Using arithmetic operators on a column in the WHERE clause will make the optimizer not to use the column index.

```
SELECT PurchaseOrderID
FROM AdventureWorks.Purchasing.PurchaseOrderDetail
WHERE PurchaseOrderID * 3 =1953
```

The recommended option is:

```
SELECT PurchaseOrderID
FROM AdventureWorks.Purchasing.PurchaseOrderDetail
WHERE PurchaseOrderID =1953/3
```

The difference in actual cost for the previous queries, run on a SQL Server 2008 Express, is

about 70 percent. The SQL Server 2008 optimizer dynamically determines a query processing strategy based on the current structure of the table and indexes, as well as on the existing data. However, this process can be overwritten if the optimizer suggestions are used, its behavior becoming static as the query processing strategy will not be permanently updated and self-parametrization will be omitted. In general, the cost-effective strategy based on the data distribution, indexes and other factors is efficient and it is not recommended to force the optimizer to execute specific strategies, due to potential loss of performance.

In order to avoid the execution of queries involving intensive resource consumption, it is recommended to verify the existence of data using the EXISTS () function instead of the COUNT (*) function. In the first version, the SQL Server 2008 will scan and stop at the first record meeting the criterion between the EXISTS brackets, while using COUNT (*), the DBMS will scan all table records. Implicit data type conversion is to be avoided, meaning that variables declared in the query must be of the same type with the columns to be compared with. In the SQL Server, implicit data conversion is done following the rules for data types precedence. Normally, the low precedence data type is converted into a higher precedence data type. Implicit conversion worsens the query performance due to the inefficient execution plan, materialized additional CPU load. An alternative is using the CAST and CONVERT functions.

It is recommended to avoid local variables in scripts containing multiple queries, especially when the variable values are transmitted from one query to another. The SQL Server optimizer will generate an inefficient execution plan if the WHERE clause contains local variables. Between queries in the following script the performance difference is about 50%.

```
USE AdventureWorks
DECLARE @id INT = 1
SELECT *
FROM Sales.SalesOrderDetail
JOIN Sales.SalesOrderHeader
ON Sales.SalesOrderHeader.SalesOrderID = Sales.SalesOrderDetail.SalesOrderID
WHERE Sales.SalesOrderHeader.SalesOrderID >= @id
SELECT *
FROM Sales.SalesOrderDetail
JOIN Sales.SalesOrderHeader
ON Sales.SalesOrderHeader.SalesOrderID = Sales.SalesOrderDetail.SalesOrderID
WHERE Sales.SalesOrderHeader.SalesOrderID >=1
```

For each query in an executed stored procedure or script, the SQL Server will return the number of affected records (2323333 row(s) affected). To save resources, it is preferable to use the SET NOCOUNT ON <Queries> SET NOCOUNT OFF sequence.

4. NEW OPTIMIZING OPTIONS IN SQL SERVER 2008

Some applications run scripts once in a session (*ad hoc workloads*). The fact that the SQL Server stores each execution plan for a possible reuse results in an excessive increase of the used memory, leading to a lower efficiency of the instance. In order to solve this problem, Microsoft introduced the option of optimizing this kind of queries — *optimize for ad hoc workload* — for all its variants of SQL Server 2008. Once this option activated, when the script is compiled for the first time, the DBMS will save only a small part of the ad hoc query execution plan. This part will help in a later phase to determine whether that script has been compiled. If the script is re-executed, the SQL Server 2008 removes that small part of the originally compiled plan and will recompile the script in order to get the complete execution plan. On first running of the following script, the second query will return a single result, showing that the first query execution plan was memorized.

```
DBCC FREEPROCCACHE
DBCC DROPCLEANBUFFERS
GO
USE AdventureWorks
```

```
GO
SELECT * FROM Person.Contact
GO
SELECT usecounts, cacheobjtype, objtype, text
FROM sys.dm_exec_cached_plans
CROSS APPLY sys.dm_exec_sql_text(plan_handle)
WHERE usecounts > 0 AND
text like '%SELECT * FROM Person.Contact%'
ORDER BY usecounts DESC;
GO
```

Before re-executing the script, we activate the optimization option and change slightly the LIKE clause in the second query (text like 'SELECT * FROM Person.Contact%'):

```
SP_CONFIGURE 'show advanced options',1
RECONFIGURE
GO
SP_CONFIGURE 'optimize for ad hoc workloads',1
RECONFIGURE
GO
```

In this case, the second query will not return any results, reflecting the fact that no execution plan has been memorized for the first query. If we went on re-executing the script, we would notice that the SQL Server 2008 is saving the query execution plan, regardless of the state of the discussed option. Thus we can conclude that after activating the *optimize for ad hoc workload* option only new execution plans are affected and those already memorized are not affected.

Another feature introduced in the SQL Server 2008 version is the one allowing a direct creation of the guide (*Plan Freezing*) for any execution plan for a query existing in the SQL Server memory. This feature adds to the support extension for the execution plans guides for all DML commands. Note that in the 2005 version of the SQL Server, this feature was available only for the SELECT command and involved the possibility to specify suggestions (guides) for the queries that can not be changed directly from the application.

In the following example we will run a query first in order to get the execution plan that will later be "frozen".

```
USE AdventureWorks
GO
DBCC FREEPROCCACHE
GO
SET STATISTICS XML ON
EXEC sp_executesql
N'SELECT *
FROM Sales.SalesOrderDetail
JOIN Sales.SalesOrderHeader
ON Sales.SalesOrderHeader.SalesOrderID = Sales.SalesOrderDetail.SalesOrderID'
SET STATISTICS XML OFF
GO
```

Next we will "freeze" the previously created execution plan.

```
DECLARE @plan_handle varbinary(1000)
SELECT @plan_handle = plan_handle
FROM sys.dm_exec_query_stats qs
cross apply sys.dm_exec_sql_text(qs.sql_handle) sqt
WHERE text like '%SalesOrderDetail%'
SELECT @plan_handle
EXEC sp_create_plan_guide_from_handle 'TEST_Plan_Guide_1', @plan_handle=@plan_handle
```

The `sp_create_plan_guide_from_handle` procedure allows us to ensure that the optimizer will always use the same plan for a specific query. We'll use the "frozen" execution plan and run the query again:

```
SET STATISTICS XML ON
EXEC sp_executesql
```

```
N'SELECT *
FROM Sales.SalesOrderDetail
      JOIN Sales.SalesOrderHeader
      ON Sales.SalesOrderHeader.SalesOrderID = Sales.SalesOrderDetail.SalesOrderID'
SET STATISTICS XML OFF
GO
```

We can easily see that the plan used is the one previously created.

The *Optimize for unknown* option causes the optimizer to use a standard algorithm to be permanently employed to generate a query plan. Instead of using the actual values of the parameters submitted by the application, the optimizer will consult all the statistical data to determine which values could be used to generate an effective plan.

The approach known from the earlier versions of SQL Server was to use parameterized queries which allowed saving and reusing the execution plans, avoiding recompilation. The problem arose when the parameters values sent in recalling queries were not comparable to those originally transmitted. On the first execution, the SQL Server would compile and save an effective plan for those values. Subsequently, the same plan would cause a suboptimal query execution.

```
DECLARE @C1 INT
DECLARE @C2 INT
SET @C1 = 5000000
SET @C2 = 400
SELECT * FROM TEST WHERE COL1 > @C1 or COL2 > @C2 ORDER BY COL1;
```

When the plan created by the previous query is deleted and the non-typical values 1 and 90 are given to the two variables C1 and C2, the optimizer creates, upon the re-execution of the query, a plan that may be different from the first. In practice, as the query is the same, the optimizer will keep and use the plan originally created, with the corresponding loss of performance, for the subsequent values of the C1 and C2 variables. In order to avoid this situation and benefit of the query parameterization, the previous query may be rewritten as:

```
SELECT * FROM TEST WHERE COL1 > @C1 or COL2 > @C2 ORDER BY COL1
OPTION (OPTIMIZE FOR (@C1 UNKNOWN, @C2 UNKNOWN))
```

5. CONCLUSIONS

The optimization process is iterative and includes steps like identifying bottlenecks, solving them, measuring the impact of changes and reassessing the system from the first step as to determine if satisfactory performance is achieved. This process allows a gradual improvement of the performance but we should always keep in mind that performance depends on the amount of data and the distribution of users' activities within the application. These elements are dynamic in time so regular performance review is needed.

There are many aspects that should be addressed in order to achieve optimal performance of queries and SQL instance.

In principle, superior performance can be obtained by writing an efficient code at the application level and properly using the design and database development techniques. Nevertheless, changing the SQL Server configuration will not result in a significant improvement of the performance.

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PROBLEMS OF CONTROL ENVIRONMENT AND AUDIT RISK ANALYSIS IN IT SYSTEMS AUDIT

Teaching Assistant, Ph.D. Candidate Cristian AMANCEI, Professor Ph.D. Traian SURCEL

Academy of Economic Studies Bucharest
cristian.amancei@ie.ase.ro, tsurcel@ase.ro

The paper presents some considerations on the analysis of the control environment and risks on IT auditing. IT auditing is approached as a complex process which takes into considerations IT systems and IT applications audit, information processing environment audit, systems development audit, IT systems management audit, client / server infrastructure and telecommunications audit. The paper highlights the role, the usefulness and the content of the control environment and IT risks analysis in IT systems audit steps sequence. There are analyzed a series of theoretical and practical issues aimed to provide a better understanding of the IT systems audit methodology, based on a clearer understanding of the IT control structure components and the IT risk, in order to reduce the risks impact on the organization.

Keywords: IT audit, audit process steps, control environment analysis, IT risk.

1. IT AUDIT AND AUDIT PROCESS STEPS

Audit is a process by which a person or group of individuals, independent and qualified as auditor, free lancer or legal entity entitled, analyzes and evaluates professionally, the information related to a particular entity, using specific techniques and procedures to obtain audit evidence, based on which the audit report is issued, a responsible and independent opinion, by using evaluation criteria arising from legal regulations or good practice widely recognized in the area where the audited entity operates. In general, by using the nature of the entity and the processes subjected to an audit, in computing systems environment we can discuss about five categories of IT audit processes:

- Systems and IT applications audit – audit process that verifies if the systems and the applications are appropriate, effective and adequately controlled to ensure valid, reliable, accurate and complete of the entries, processing, and output functions, at all levels of systems activity;
- Information processing environment audit - audit process that verifies whether the processing environments are controlled, to ensure timely, accurate and efficient processing of the applications, in normal conditions, but also in difficult conditions;
- Systems development audit - an audit process that verifies whether the systems under development meet the objectives of the organization, aiming to certify that it complies with generally accepted standards for the IT&C systems development;
- IT systems management audit - audit process that verifies that IT management has developed an organizational structure and necessary procedures to ensure a controlled and efficient environment for information processing;
- Client / server infrastructure and telecommunications audit (intranet and extranet) - an audit process to verify that controls are defined and implemented by the client to control these environments.

A special mention must be made with regard to information security audit that is a vital part of the IT audit process, disregarding which of the five categories mentioned above are addressed. Auditing information security focuses on the following aspects: data center (data center physical security and logical security of databases), computer networks and applications security. Because this area of security audit is now completed and well documented, it is now necessary that IT auditors focus on other aspects related to IT systems environment as a homogeneous and functional whole.

To support methodologically this goal, the IT audit process must be addressed while respecting the following sequence of steps [3]:

- Establish the engagement terms;
- Preliminary analysis;
- Establish the audit materiality level;
- Planning the audit;
- Analysis of the internal control system and risks;
- Perform audit procedures;
- Audit report issue.

A. Establish the engagement terms

This step allows the auditor to establish goals and objectives underlying the relationship between auditors and audited organization. The engagement letter by which the *audit mission* is formulated, must contain the obligations (scope, independence, deliverables), authority (rights of access to information) and the auditor's responsibility, the rights of the audited entity and the agreed completion date.

B. Preliminary analysis

This step allows the auditor to gather information from the audited entity, in order to create the audit plan. The preliminary analysis will identify the organization strategy, responsibilities for management and control of computer applications. The auditor may carry out further analysis on the major components of the information system, on which the IT audit will focus, such as accounting system to determine which applications are significant for financial management processes. Elements considered in this step are: obtain general information about the company, identifying the areas covered by IT applications, prepare a preliminary plan for the audit.

C. Establish the audit materiality level

In order to identify audit purposes and in order to properly plan for IT audit, the preliminary analysis must assess the materiality and business risks of the environment where the client activates. The materiality level should determine, as in financial audit, the minimum level from which the impact of the threats produces significant material/financial damage, reported to the turnover of the company. If the impact is minor, then for those threats, the evaluation through audit of the control procedures and risk minimization efforts are not justified.

D. Planning the audit

Adequate audit planning will ensure, starting from determining the scope of the audit mission, the identification and the schedule of the audit activities in an effective and efficient manner. When developing the audit plan, the auditor should consider the results of the preliminary analysis carried out within the organization audited, the results of risk assessment and limitations on the resources available for the audit mission (time and human resources).

E. Analysis of the internal control system and risks

The internal control system should be regarded as the set of general controls and application controls. This system should be designed and operated so as to provide reasonable confidence that the organization's objectives are achieved by pursuing the following: effectiveness and

efficiency in operations, confidence in reporting and compliance with applicable laws and regulations in the field and confidence in information security.

Auditor shall be responsible for identification, inventory and understanding of these controls. He should take into account information from previous audits, the inherent risk has been established, decisions that were made on the materiality and complexity of organization operations and of the IT systems the organization uses.

Once the auditor has understand the organization's system of internal controls, it will be able to assess the level of control risk - risk that material damage will not be prevented or detected by internal controls.

F. Perform audit procedures

The application and the implementation of the audit procedures follows the assessment of the general controls and internal controls, and is based on the audit evidence gathered from testing the controls specific to the category of IT process audited. A substantive approach to the audit process seeks not only the existence of the controls, but also the functionality of the control procedures, the accuracy, the efficiency and the usefulness of integrated control systems.

G. Audit report issue

The audit report completes the audit process of a computer system. According to auditing standards, the audit report must contain a clear written expression of the opinion on the audited entity. The auditor, through the audit report, will conclude on each of the nonconformities identified, and may express: unqualified audit report, unqualified audit report with explanation, qualified report, qualified report with disclaimer, qualified report with and adverse opinion.

The audit report is the standard document by which it is formally communicated the audit findings and conclusions on the actual situation of the audited system. Informally, these findings are discussed with those responsible for these findings to be properly understood, accepted and to define appropriate measures to maintain control of major risks of computer applications.

2. ANALYSIS OF THE CONTROL ENVIRONMENT

The success of the IT audit process is subject to the planning quality, quality that mainly depends on the analysis of the control environment

COSO - Committee of Sponsoring Organizations of the Tread way Commission, defines internal control as a process, influenced by an entity's board of directors, management, and other personnel, that is designed to provide reasonable assurance in the effectiveness and efficiency of operations, reliability of financial reporting, and the compliance of applicable laws and regulations. The auditor evaluates the organization's control structure by understanding the organization's five interrelated control components. This includes:

- *control environment*, refers to the system, the operating style and the management philosophy;
- *control activities*, by which it is monitored whether employees follow the management instructions. Types of control activities that an organization should implement are: preventive controls (control that are intended to stop the occurrence of an error), detective controls (controls that are intended to detect whether an error has occurred), and mitigating controls (control activities that can mitigate risks associated with key control not operating effectively);
- *information and communication*, identifies how the organization obtains relevant information and communicate them internally and to business partners.
- *monitoring*, review the out of the control activities and conducts evaluations.

Understanding the control components of the organization is essential for what is to follow in continuing audit process, namely the assessment of general controls and application controls of the organization.

Analysis of audit control environment, allow the auditor to form an image on the significance and complexity of computing environment, the accessibility of data for audit. Analysis of the control environment takes into consideration the following:

- *organizational structure of the computing environment*;
- *complexity and automate processing importance of each significant application*. A computer application can be considered complex when:
 - the volume of transaction is seen by application users as difficult for errors identification and correction during processing;
 - application can generated significant automated transaction or can provide inputs to significant input to other applications;
 - the complexity of the arithmetic calculations;
 - transactions are exchanged electronically with other organizations, which implies additional controls associated with the communication channels.
- *data availability*. In a paperless environment, certain information requested by the auditor may exist only for a shot period and / or only in electronic form. In this regard it should be analyzed the vulnerability of data / information storage media.
- *use of computer assisted audit techniques* to increase performance of audit procedures.

Analysis of the control environment for IT systems should be consistent with the fact that IT systems support the information and the calculation procedures for financial accounting systems, more often subjected to audit. For this reason, IT audit is often a corollary of the financial audit and therefore we must regard as a paperless environment, the extent of risk taken another dimension. Nature of these new risks is influenced by:

- *Information density* is much higher than conventional systems based on paper. Magneto-optical storage media which are used to save the large volume of information, totaling tens of thousands of pages of paper, can be subject of a more discreet theft, thereby generating fraud or at least affect the confidentiality of such information
- *The transparency of documents relating to the conduct of operations*:
 - a) the absence of the input documents – the data can be entered into the system without the justifying documents – the example of online transaction systems.
 - b) the absence of visible “traces” from transactions – although in practice, for manual processing any transaction can be traced – in automatic processing, the route of a transaction there may be a limited period in an electronic format.
 - c) lack of visible output – certain transactions or results, especially when they represent details, can retrieved stored in the application database (not in a printed form also).
- *Transaction authorization*. In a paperless environment it is include the ability the computer system to initiate and execute automatically some transactions. The design of the computer application usually involves the incorporation of certain implied authorization and automatic generation functions.
- *Uniform processing of transactions*. A computer application process similar transactions uniformly, with the same instruction program. In this way, writing errors associated with manual processing are eliminated. Conversely, programming errors may lead to incorrect processing of transactions, so that auditors will focus on accuracy and consistency of output.
- *Unauthorized access to data, files or databases*, can be performed with greater ease, which implies a large potential for fraud and error.

- *Retention of data storage media*, after having been removed, the media storage can be a sure way to take possession of valuable information.
- *Strong systems integration* occurs as a consequence of improving forms of communication and the proliferation of computer networks and ERP system.

3. RISK ANALYSIS

IT risk manifest itself through its own components: *threats, vulnerabilities and impact*. Threats exploit vulnerabilities of a system causing the impact and, in essence, the combination of three elements determines the size of risk. The risk level of an organization cannot be eliminated, it will always exist, the company management is responsible for reducing it to an acceptable level. In this regard, Figure 1 gives the correlation of different elements that need to be considered for risk reduction.

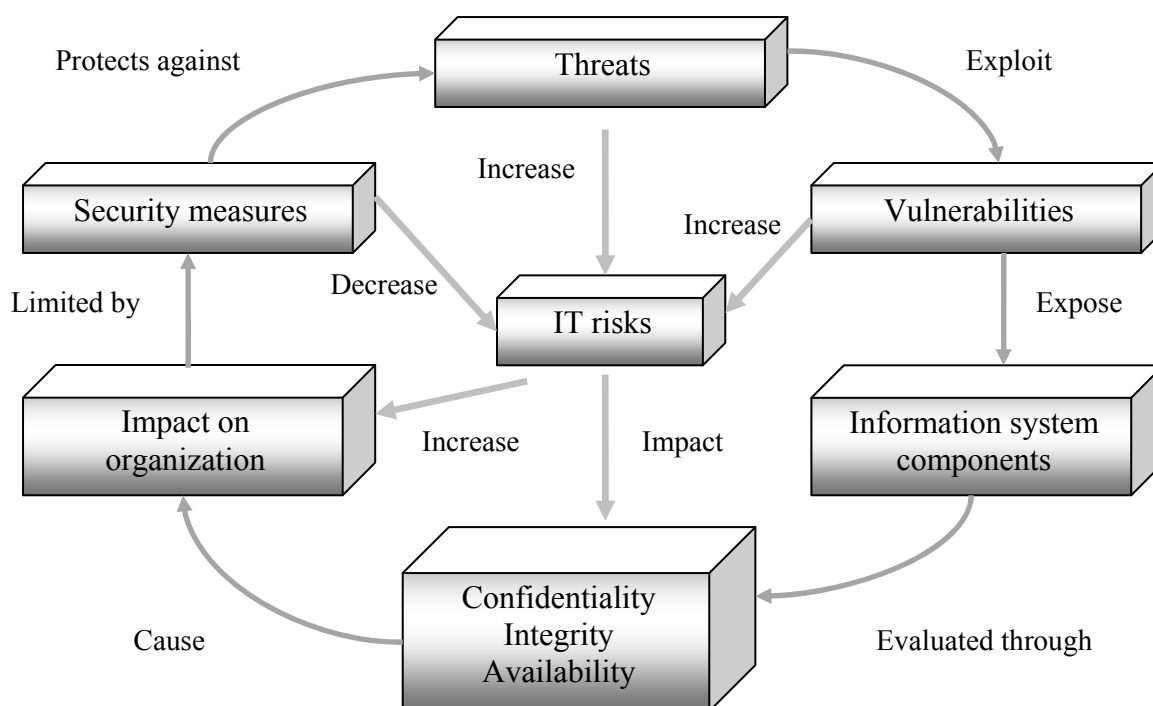


Figure 1: Components of IT risk, adapted after INTOSAI [6]

In general, the risks associated with a computer system, that must be taken into consideration and evaluated by the auditor (in this case the technique is commonly used questionnaire), in order to assess the system address:

- *Physical security risk* will be assessed according to information collected on: the existence of security systems, fire detection and alarm systems, protection systems against power failure, equipment protection against theft, protection against natural disasters (floods, earthquakes) physical protection of storage media;
- *Communication risk* can take different facets, depending on availability of the system to the public network, situation in which the auditor is required to consider security measures: the existence of a firewall, firewall configuration, analyzing the data transmission through the public network (using encryption techniques, the existence of a virtual private network - VPN). Confidentiality concerns not the storage on workstations or servers, but also the communication lines.
- *The risk of data integrity and transaction* involves all the risks associated with the authorization, completeness and accuracy of data.

- *Access risk* refers to risk associated with inappropriate access to the system, data or information. The implications of this are major, as the risk addresses data privacy, integrity of data or data bases and their availability. In this respect, the auditor's actions involve an analysis of the management of passwords within the organization, an investigation of unauthorized attempts to access the system, an analysis workstation protection.
- *The risk of antivirus protection* that requires an analysis of antivirus programs used by the entity, at the server and workstations level, update of these programs (manually or automatically). Fighting viruses is essential but not easy. Despite the large number of existing antivirus software is required on an analysis of program characteristics: real-time scanning or continuous monitoring of its system, e-mail scanning, manual scanning.
- *Risk related to information security documentation.* The general documentation of an information system consists on the one hand from the network and operating system documentation, and on the other hand, the documentation of the installed application. This documentation may be different for administrators, users and operators so as to assist in the installation, operation, management and use of the product. Risks associated documentation may refer to the fact that it does not reflect reality in terms of system, is not comprehensible, or it is accessible to unauthorized persons and is not updated.
- *Employee risk* can be analyzed in terms of the following criteria:
 - *Organizational structure* on the IT department will consider how the tasks and responsibilities are distributed within it. Assigning too many responsibilities at a single person or a group of people is a sign of a poor internal organization.
 - *The practice of selecting employees.* On the basis of an appropriate control environment are staff competence and integrity, which involves a review by auditors of the employing organization's policies and procedures, specialization, performance evaluation and promotion of employees.
- *Infrastructure risk is reflected in the fact that the organization lacks an effective information technology infrastructure (hardware, networking, software, people and processes) to support its needs.*
- *Risk management for contingency situations (risk of availability) is the risk associated with natural hazards, disaster, system failure that can lead to permanent loss of data, applications, in the absence of monitoring procedures of activity, and recovery plans in case of disasters.*

Risk analysis requires an assessment based on quantitative and qualitative methods, starting a classification as the one presented in this paper, which can be only one point of view to be developed and improved in accordance with environmental features and specific control processes audited.

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DATA WAREHOUSE AND DATA MINING – NECESSITY OR USELESS INVESTMENT

Associate Professor, Ph.D. Emil BURTESCU

University of Pitesti, Faculty of Economic Sciences
emil.burtescu@yahoo.com

***Abstract:** The organization has optimized databases which are used in current operations and also used as a part of decision support. What is the next step ? Data Warehouses and Data Mining are indispensable and inseparable parts for modern organization. Organizations will create data warehouses in order for them to be used by business executives to take important decisions. And as data volume is very large, and a simple filtration of data is not enough in taking decisions, Data Mining techniques will be called on. What must an organization do to implement a Data Warehouse and a Data Mining? Is this investment profitable (especially in the conditions of economic crisis)? In the followings we will try to answer these questions.*

***Keywords:** database, data warehouse, data mining, decision, implementing, investment.*

In the last decade we assist at an explosive growth of our capacity of generating and collecting data. The progress made in collecting data, spreading the use of bar codes for most of the commercial products and computation of business and government transactions have flooded us with information. It is being discussed more and more about the ocean of data, which in specialty literature is called “ubiquitous”. This term doesn’t have an exact translation or a very accurate meaning. It refers to data that follows almost invisible the day after day life of modern man. The origins of the data are different, and their existence is almost unnoticeable for human eye. They come from the most diverse sources, from the most simple devices such as electronic washing machines, microwave ovens, digital cell phones to complex databases concerned with population, health etc.

1. DATA WAREHOUSE

The data warehouse concept has its origins in the early 60’s when following the collaboration between a group of companies and a university in the United States were introduced new terms such as *dimensions* and *facts*.

The role of Data Warehouse was obviously marked by the year 2000 once with the advent of applications accessible to all consumers.

Data Warehouse represents in fact a response to the developers of IT society dynamics. There are two premises that led to the emergence of data warehousing:

1. Economic premises.
2. Technological advances.

The premises are in close relationship with economic and market dynamics, namely: **globalization of trade; the dramatic sharpening of competition; spectacular shortening of products’ cycle of life due to technologic dynamics and imposing of extremely high quality requirements.**

The economic premises are: **the increase of computing power and low prices.**

Given the above, we can draw the following conclusions: informatics systems exist; data can be accessed from anywhere; the need for information is acute; great computing power; large and cheap storage capacity and available software tools. So there we have all the premises for implementing a Data Warehouse. Data Warehouse is a collection of designed data for the fundamentals of management decision. Data Warehouse contains a great variety of data that present a coherent image of business conditions of a company at one point in time.

A Data Warehouse like system is used to monitor the activity of organizations by generating reports in standard formats for analyzing issues related to the work in the organization and based on this analysis taking coordination decisions is made.

In a Data Warehouse Data Mining operations are particularly made. One can say that Data Mining instruments use raw materials supplied by the Data Warehouse.

Basic features of a Data Warehouse are:

1. It is focused on daily operations and transactions. It focuses on the data used in the analysis on which decisions are taken.
2. The basic operation is to add data. The data is not deleted and not at all overwritten. A log of data is maintained.
3. The system is integrated. Data is collected from different places (operating systems, databases, files etc.), is transformed by bringing the data to the representation format from the Data Warehouse and centralized in the system.
4. The integration of data represents the most important issue in the construction of a Data Warehouse.

The necessary costs for creating and maintaining a Data Warehouse are divided equally into the following categories:

- Required hardware systems and data storage systems.
- Software needed for extraction, processing, storing and analyzing data.
- Professional services.

Building a Data Warehouse is a complex work and it is addressed particularly to experienced professionals.

A basic Data Warehouse is made out of the following levels with their own structure and functionality (figure 1).

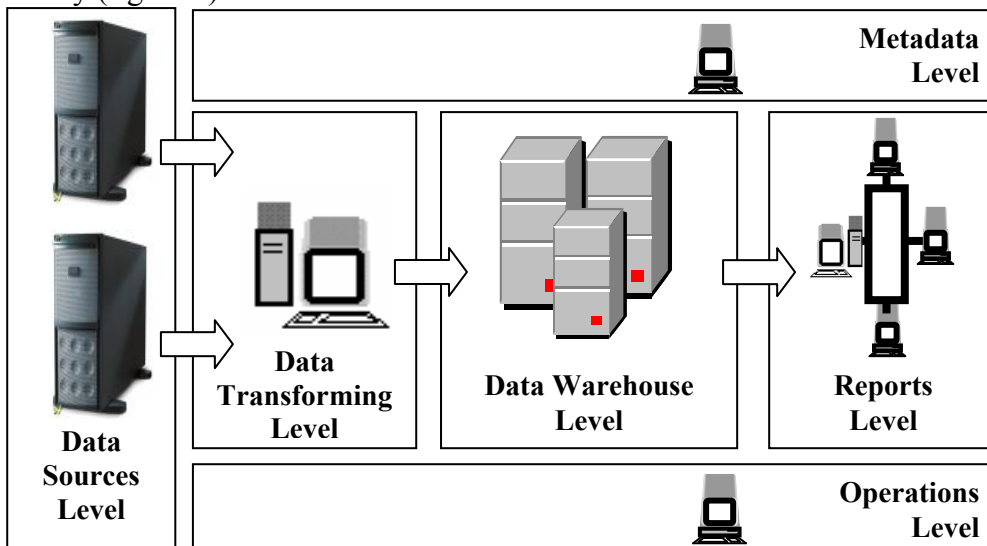


Figure 1. Data Warehouse structure

1. The level of data sources

The level of data sources refers to any information, usually electronic, that must be collected and stored in the Data Warehouse. It uses as data sources: mainframe databases (DB2, IBMS,

VSAM, ISAM, Ababas etc); client-server databases (Oracle, Informix); small databases, from PC's (MS Access); spreadsheets and other types of files.

2. The level of data processing

This level deals with bringing the collected data to a standard form. The transformation consists in bringing them to the internal format of the Data Warehouse. Special applications are used such as ETL (Extract, Transform and Load).

Data transformation may require operations of “cleaning” data (accuracy, consistency, totals, subtotals etc).

3. Data Warehouse level

Data Warehouse level is actually dealing with data storage. For storage relational databases are used. Data is retained for determined periods of time.

4. Reporting level

The level of reporting is the one that does the analysis and generates reports for monitoring the organization's activity. The generating of reports can be done using specific tools: Business intelligence tools; Executive information systems; Enterprise Information Systems; OLAP; Data Mining and KDD (Knowledge Discovery in Databases), that uses statistic analysis techniques, “form” recognition to discover correlations, rules, knowledge etc.

5. Metadata level

Metadata includes administration information of the Data Warehouse (date of last update, number of connected users etc.)

6. Operations level

This level has as main purpose loading data in the Data Warehouse, but also manipulating and extraction of data. The second purpose is represented by the user management, security, capacity but other administration functions as well.

Three types for the implementation of a Data Warehouse are known: **analytical, for standardization of reports** and **for homogenization and consolidation of data**.

Analytical. This is very complex and requires a lot of attention from design to implementation. It is mainly addressed to the analysts who can interpret the data.

For standardization of reports. These are the most common types known on the market (80%) because they are easy to interpret. Because of the fact that they are based on developing standard reports, these have appeared long before Data Warehouse.

For homogenization and consolidation of data. These are the most complex and combine multiple sources of information in order to fit the data.

Typically Data Warehouses double their size the first 12 up to 18 months.

2. DATA MINING

Another very powerful tool, along with the Data Warehouse, that is available to assist organizations as support to taking decisions is represented by Data Mining techniques.

Data Mining is a “deeper search” in the source data. The source data means both the data from the Data Warehouse but also other data categories. Data Mining, also known as “knowledge discovery in large databases” is a modern and powerful IT instrument that can be used to extract useful information but still unknown.

Data Mining in many cases involves data analysis in large data deposits - Data Warehouse. Data Mining is the process of extraction knowledge from databases (Data Warehouse), knowledge that was previously unknown, valid and in the same time operational.

Unknown data = new, unexpected, surprising;

Valid data = extracted knowledge must be translated and applied in practice;

Operational = operational knowledge to be obtained in a short time.

By unknown knowledge we understand extraction of new knowledge that are unanticipated and sometimes even surprising. Extracted knowledge must be translated and applied in reality. Also they must be made operational and obtained in a short time.

Data Mining differs from other data processing for data analysis, such as data query, reports, OLAP etc.

Information obtained through Data Mining techniques can be predictive or descriptive. Predictive information is used to describe an event, such as the possibility of fraud.

Using Data Warehouses and data extraction from warehouses using Data Mining techniques will give the organizations that use them a clear advantage over the competition.

Implementing Data Mining techniques, also as in the case of Data Warehouse, must be done by specialists in order for the results to be the ones expected.

Operating principle in the processing of data mining is illustrated in next figure (figure 2).

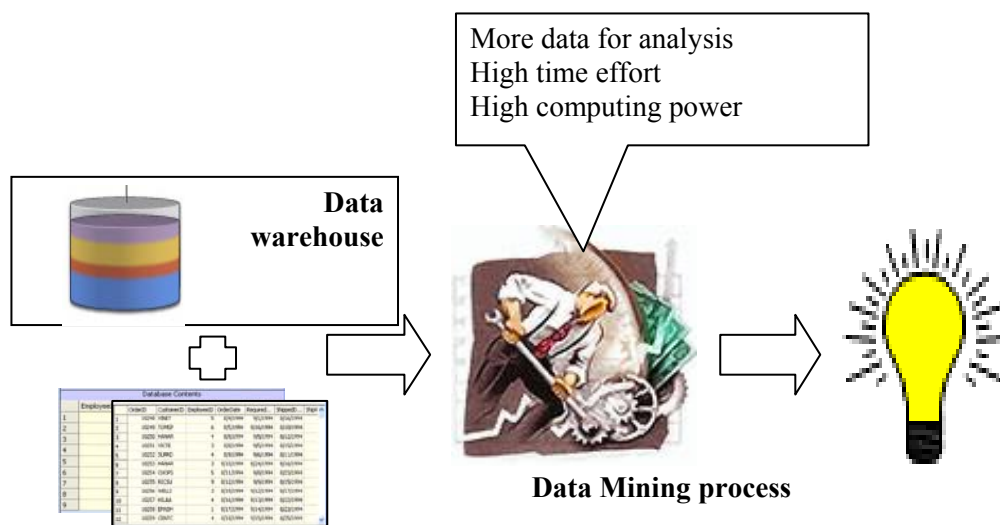


Figure 2. Data Mining process principle

In detail, a Data Mining process consists of the following steps (figure 3).

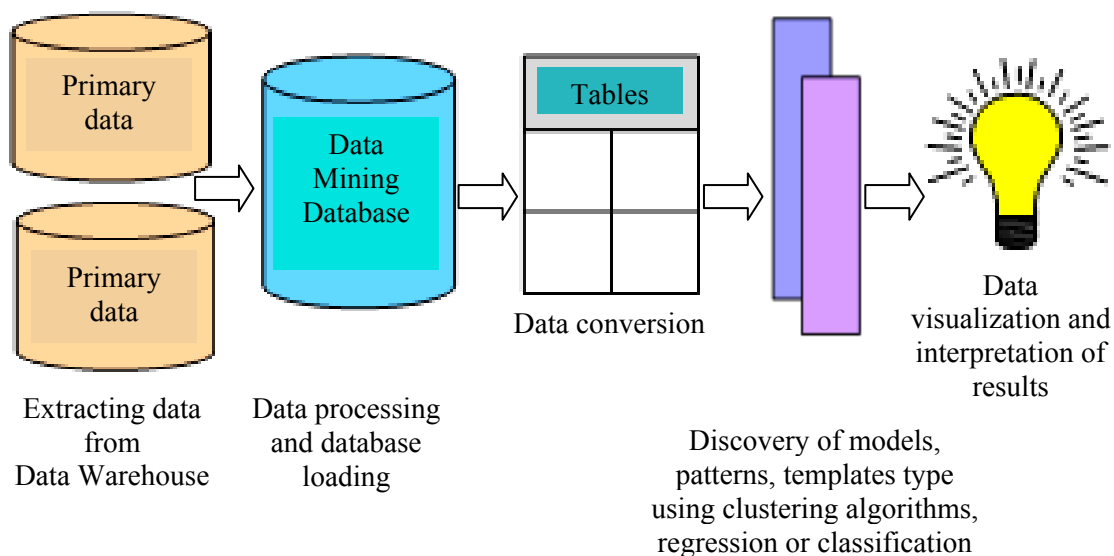


Figure 3. Data Mining process detail

The areas where Data Mining is used are multiple. They are used especially in the following directions:

- sales analysis and establishing customer behavior;
- research (medical research);
- fraud, electronic fraud and (cyber) terrorism ;
- risk analysis.

Data Mining tools use technologies of Artificial Intelligence (AI) to process and extract data. Lately, Artificial Intelligence solutions are more and more present in the offers of the companies who offer data analysis software for business activities, thereby we have the Business Intelligence (BI) concept. Using a Business Intelligence solution is suitable both for the management departments and for the other departments. Each department can use specific capabilities of a Business Intelligence solution. Architecture of Business Intelligence solutions is illustrated in next figure (figure 4).

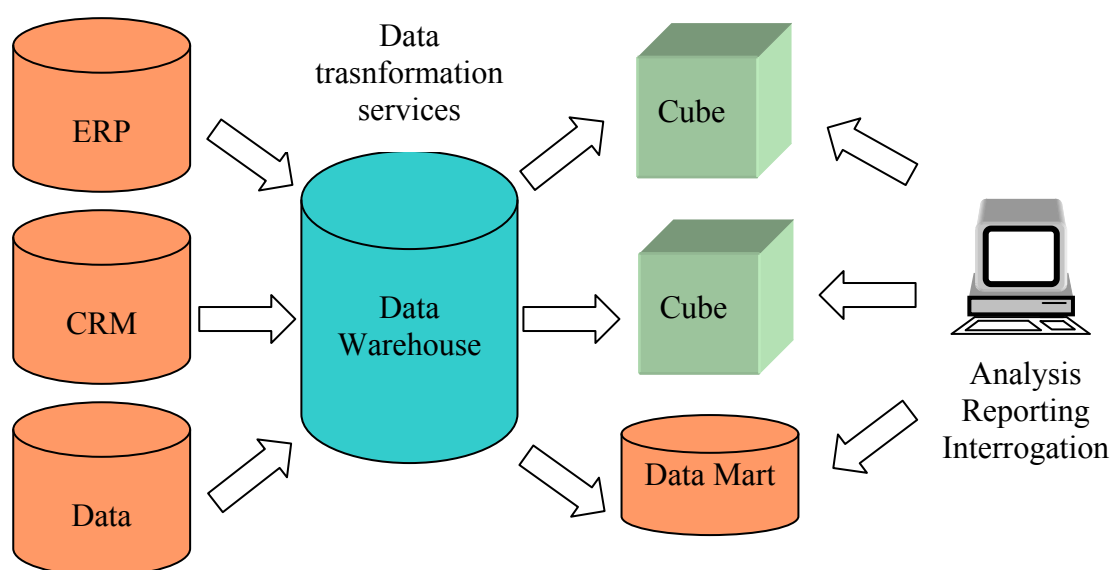


Figure 4. Architecture of Business Intelligence solutions

The benefits are:

- Financial departments will use Business Intelligence to analyze data and generate reports, financial statistics and to take important financial decisions based on the information.
- Operations department can anticipate requests, estimate stocks and can make the production process more efficient.
- Marketing and sales department can analyze the response to promotions and marketing campaigns, can estimate sales and the analysis of market behaviour.
- Freeing IT departments from tasks.

Components of Business Intelligence solution are: Windows Server 200X, SQL Server 2000 Analysis Services, Microsoft SQL Server Accelerator for Business Intelligence, Project Server 2000, SharePoint Portal Server, Data Analyzer, Map Point and connection customers.

Commercial Data Mining tools can be found at:

- <http://www.oracle.com/technology/products/bi/odm/odminter.html>
- <http://www.sas.com/>
- <http://spss.com/clementine>
- <http://www-306.ibm.com/software/data/iminer/>

Implementing the system

To design and implement a Data Warehouse and Data Mining it is necessary to go through some stages. We will discuss about Data Warehouse, understanding the existence of Data Mining.

There is no strict methodology to design and implement a Data Warehouse. In the following we will define the important stages without concentrating ourselves on technical elements.

Stage 1. Implementation decision

The first question one has to answer when someone wants to implement a Data Warehouse is: “Do I really need this?”. The answer can be multiple some of them being clear and others ambiguous. Ten years ago probably, especially in our country the answer would have been: “No”. A great part of the decision would have been taken due to the ignorance of the used terms-Data Warehouse and Data Mining. Nowadays the answer must be emphatically “Yes”. A decisive argument in the foundation of the response is given by the sharpening of the competition on the market. Companies are forced to explore a huge volume of data in a very short time in order to take a decision. A second argument is given by the companies that study the IT market. Gartner Groups Inc. was making in 2009 the following predictions for the upcoming years:

- by 2012, due to the lack of information, processes and tools, more than 35% from the total of 5000 companies worldwide will have problems in taking optimal decisions for the company’s activities.
- by the year 2012 the companies will allocate 40% of the budget for Business Intelligence.
- in the late 2010, 20% of the organizations will rule analytical software applications as a Business Intelligence component.
- by 2012, one third of the analytical applications will be delivered through Web applications (web application hybrid).

Stage 2. The analysis of the existing economic system

At this stage a strategic analysis referring to the company’s assets and the ways of achieving these objectives, and also an analysis of the existing informational system must be done. From the existing economic system we will retrieve data which consequently we will use to help management factors in taking a quick and correct decision. If the collected data is not correct and the decision will be incorrect - *garbage in garbage out*. In many cases, from personal findings the managers expect certain errors to be corrected by the IT personnel.

Stage 3. Analysis of the existing IT system

At this stage 2 things must be established:

- if the existing IT infrastructure can be used (at least partially to reduce costs) to implement Data Warehouse and Data Mining;
- whether the organization has a well defined and formalized security policy (in conjunction with step 3).

Hardware components that will form a new architecture cost one third of the total cost so I have to see if I can lower this cost. Ideal would be to find as many solutions to reduce initial costs, by relocating the existing computer systems, following that these to be replaced by the ones initially indicated. We should not exaggerate, an equipment with minor problems will create big problems in such a system.

In a Data Warehouse the important data about the organization is stored in one place. This involves increased risks for the organization. Building a Data Warehouse must be done very carefully because having all the data of a company focused in one single point data security problems might appear. The steps that follow are much more complex gaining technical meanings.

Stage 4. Data Warehouse architecture design

Taking as starting point the existing architecture we can define the future architecture. The new architecture must be designed in such way that it will have as little impact as possible on the existing system but a further development to be allowed [3]. We define physical and logical configurations, the data, the necessary applications and financial and architectural support are designed. Basically the main components must be designed: the data stores, ETL (Extract, Transform and Load) system and the front-end applications.

Stage 5. Selection of the technological solution

At this stage we will identify the implementation tools for data and applications, and the tools needed for technical and architectural support. Selecting these tools must take into account the structure and the complexity of the Data Warehouse. According to their function, these tools can be classified into the following categories: Transforming and extracting time, data cleaning, data loading and refreshing, data access, security providing, version control and configuration management, database management, data backup and recovery, disaster recovery, performance monitoring, data modeling, metadata management [3].

Stage 6. Development

At this stage the elements designed in the data stores are designed, ETL system (including data quality system and metadata) and the front-end applications.

We define the detail level of design for every operation that has as purpose data extraction.

Stage 7. Testing and implementation

At this stage, all designed and built elements are put together forming a system, and are tested and implemented thereafter.

Stage 8. Operation and maintenance

This is actually the last stage, with equal duration of the Data Warehouse life. It involves using Data Warehouse for the purposes for which it was designed and also for periodical application on Data Warehouse of some test and maintenance operations, evaluation and security assessment. All these stages are done one at a time, when one is finished the other starts-waterfall methodology.

3. WAYS OF IMPLEMENTATION

To be able to define a strategic plan for initial implementation and further development it is necessary to know the financial resources, time and specialists of the company. In the case of financial resources an implementation at a lower level for the Data Warehouse and Data Mining must be done. Depending on the time available one can choose for the application development his own personnel or can choose the COTS products (Commercial On The Shelf). This option must be put together with the level of the company's specialists. If the training of the specialists is high, then the implementation can be done, but otherwise this operation must be outsourced, with the problems that can appear starting from this point.

Creating and developing a Data Warehouse can be done starting from the following three stages:

1. Implementation from scratch.
2. Improving the existing system.
3. Converting an older system.

Implementation from scratch has the advantage that I do not need an audit of what we have in the organization but it implies higher costs. For operating safely it is advised to start from scratch. Instead upgrading the existing databases or hardware and software will reduce costs, but will also create "fear" in later use. If something goes wrong later, then I would probably ask myself: "Why haven't I changed the ... too?". With a limited budget I will probably be forced to use open-source applications.

With a budget that is over the calculated average we will have a new and reliable system, with increased computing power. It would be best to have all the amount of money in order to make all the assembly powerful.

An option to reduce costs would be outsourcing certain services. Outsourcing any service must be done by weighing three factors: money, performance and security. With less money I can get more performance but I need to share data with an outsourced organization.

4. RETURN ON INVESTMENT

For this we have to answer the question: “How do we measure success?”. Displaying new results will be a gained point in understanding the necessity of building and exploiting the Data Warehouse and Data Mining.

Time factor will also be essential. Making a report in a very short time will put another brick in the building of the system.

But most important is the fact that all the system can be used in assisting decisions, this time disposing the results of a large data volume, so with a higher precision.

Finally, an analysis with the specialists in the company or outside the company will highlight the benefits of using Data Warehouse and Data Mining.

The most important thing is represented by the acknowledgement of resources owner over the necessity of this type of investment.

There are Data Warehouses consisting of databases containing between 1 and several tens of terabytes. Creating such a warehouse costs around 3 million dollars. What organization would invest so much money without obtaining profit?

Now we have more clearly - it is time to improve the organization databases by creating the Data Warehouse and using Data Mining tools on these and on other data in the system.

5. CONCLUSIONS

For the medium and large organizations with a very good computer system, implementing a Data Warehouse and of course a Data Mining are absolutely necessary.

Even if it seems an easy task at first sight, implementing a Data Warehouse proves to be a challenge for the specialists. Lately, more and more commercial applications come with Data Warehouse facilities implemented. Very often, the organization implements a Data Warehouse and thinks the issue is solved. But things are not as easy as they seem. Probably many companies have specialists who can read a standard report given by a Data Mining tools on a Data Warehouse. But how many companies have analysts who can read and interpret an analytical report or a report for homogenizing and consolidating data? This is where things get complicated. The decision personnel must be assisted by persons who are capable to interpret the data, which consequently will be used in the decision process.

Finally, after the system will be used in assisting the first decisions, the benefits of using a Data Warehouse and Data Mining system will be seen.

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THE COMPLEMENTARINESS OF THE BUSINESS PROCESS REENGINEERING AND ACTIVITY-BASED MANAGEMENT

Associate Professor, Ph.D. Violeta DOMANOVIĆ,
Associate Professor, Ph.D. Vesna STOJANOVIĆ-ALEKSIĆ
University of Kragujevac, Faculty of Economics
vterzic@kg.ac.rs

***Abstract:** In order to sustain long term growth and development, an enterprise has to envisage and implement contemporary management innovations altogether. In transition economies, like Serbia is, it is of great importance to redesign business processes and activities, to analyse activity profitability in order to select value-added activities and reduce non-value added ones. This paper considers the possibility for complementary implementation of the business process reengineering and activity based management in the process of long term efficiency improvement. Namely, the basic postulate of business process reengineering concept might be established in the process of activity based management implementation and conversely.*

***Keywords:** business process reengineering, activity based management, enterprise, efficiency.*

1. INTRODUCTION

The fact is that modern enterprises face with very intensive changes in all environment segments, starting from scientific and technological from market and economic, to demographic and political ones. As the reaction on these changes in managerial and organizational science and practice it is developed numerous theories and concepts, among which dominate transformational theories in latest years, thus those that deal with more radical organizational changes.

In modern business environment, cost management has become a critical factor of the enterprise success. The globalization process has brought with itself bigger pressure of competition. The competition effects on enterprise functioning are remarkable, and those enterprises that do not react successfully may failed or become a takeover target. Nowadays, simply cost reduction is not enough; instead, costs must be managed strategically. Strategic cost management implies the application of such cost management techniques, which simultaneously improve strategic position of such an enterprise and reduce the cost level. The changes in industrial business environment caused the changes in cost structure as well.

As the results of the technological and other changes is decrease in share of the direct labour cost in total production costs. In many industries, the material and component costs take more and more share in total production costs. Automation and decrease of the equipment life cycle caused that capital equipment costs take more share in total costs and must be reproduced in much shorter time period. The information technology costs and other overheads also increased in total costs. The phases in product life cycle must be managed effectively and efficiently. Business dynamism and urge for the fast making decision means that efficient computerized information system should provide relevant and timely information. All this makes an additional pressure on profit rate high.

In order to survive and develop in long term, a company is forced to diversify the assortment so that products and services consume different amount of indirect resources. In such circumstances, thus, too simplified system of the overhead allocation probably will generate inaccurate information and result in inadequate price and management decisions. This is from reason that traditional cost accounting (1) is designed so that shows total product costs, but not particular product features in different activities; (2) uses the common cost driver whether for an enterprise or a section of a factory and ignores the differences in activities for different products or production cycles in section of a factory or sector; (3) takes into account the common volume of the activity for all operations as direct labour hours are as the basis for the overhead allocation on all products while selected activity takes marginally share in total production activities and (4) accentuates the long term product analysis. This caused that many managers did not calculate the real profitability of their products or the best product mix because they did not know which resources and activities their products consume.

There are rarely management concepts which do experience enormous medium and business support so quickly, as the business process reengineering is. The phenomenon of reengineering came in all business lexicon and encyclopaedias, whether through the term of the business process reengineering, or synonym like business process redesign, core process redesign, business process transformation or simply reengineering are [3, str.27].

The term business process redesign is for the first time used on Massachusetts Institute of Technology, within the research program "Management in 1990's", which is implemented from 1984 to 1989. Within this program, it is born the idea about creative use of the information technology in aim of the redesigning and transforming the organization business and increasing its efficiency and effectiveness, what is actually presented the inception of the reengineering concept. As a new managerial technique and philosophy, based on process orientation, which is advocated for radical re-examining and redesigning all business segments, reengineering is, according to the many authors' opinion, got primacy of the most important managerial concepts in 1990s.

2. THE REENGINEERING CONCEPT CORE

The core of the reengineering concept and one of its most important characteristics is adopting the process-oriented approach to business. It means that reengineering in the middle of its interests and investigations put the business processes, with envisaging the possibilities for their redesigning and improving. Business processes, as the set of the activities that create the value for customers, are of the essential significance for the enterprise functioning. Since the value creation is the basic point of the functioning and the condition for each enterprise' survival, it is of special importance that such processes function much better.

Adopting the process orientation, the reengineering concept is directed, practically, on abandoning traditional principles of high specialization, hierarchy and functional activities grouping and transition on system of integrating the particular operations into connected business processes that teams manage. It is important, thus, to recognise the differences among processes and business functions. A process may be realised as the set of the activities by which it is, through transformation of inputs into outputs, created the value for consumers.

In most number of enterprises, the processes are fragmented through particular functional areas – research and development, marketing, planning, production, finance and similar. There are experts of specified profiles working in these functions, so that each of them is engaged on some of the processes, but working only a part of total task. Since the functional areas are very often closed in own frameworks and that the tasks performed inside are just the segments of total activities in process, the employees in particular departments often do not have a feeling that they work on common project, what results in hard communication, lack of control, time and

decreased effectiveness and efficiency. Negative characteristics of the traditional organization are reflected in the following:

- Process are fragmented, divided through divisions or organizational entities;
- Business activities are unknown for the participants because none has a perspective of the whole process;
- They are not managed uniquely because, conditionally speaking, none is responsible for the result and implementing the process from the beginning to the end. [5, p. 37].

The reengineering concept is based on concentration of organizational activities that is on integration of partial activities into connected processes, which will teams lead and supervise. It is considered that experts from different profiles should do together in mixed teams in all phases of the process, whenever it is possible. Since that in that way each member of the team has the visage of the whole process, he becomes a conscious of his role and strive that his part of the job perform so well that later on there is no correction, accommodation and slowdown. In such organized processes the communication system is significantly improved, so that errors in communication that exist among traditional functions are reduced to the least level, and total efficiency and effectiveness increase at higher level. In figure 1, it is shown how an organization transits from classic functional into process, so called "triangle organization".

Certainly, beside the process orientation there are others, equally significant characteristics of the reengineering, like: re-examining all rules, procedures, aims and strategies of the organization, redesigning the way of performing existing activities and creative use of the information technology, which represent a remarkable significant driving force of the reengineering.

Most of these characteristics are never in question. However, much controversies caused original insisting on reengineering implementation as a technique of the "clean paper list", that is completely neglecting the existing state of affairs and starting from the scratch. It should be said that in initial phases of the reengineering development it was really accentuated the concept radicalism and many proponents of this concept fanatically defended the idea of fundamental change and destroying all that exist in the organization. Once upon a time, it was clear that this reengineering characteristic is often misinterpreted and that changes do not mean totally refusing of all established values and prerequisites but, above all, critical re-examining of the existing situation and seeking for the response on the core issues, which refer to the organization business. The existing state of affairs must not be a limit for finding new possibilities, but it does not mean that it should be refused everything during the new processes and structure creation, as well as that what was valuable in old system.

When it is said "sea change" we should bear in mind the radical changes of the attitudes about organization structure, hierarchy, control, the way of units grouping, position of the employee in organization, and above all, on change of the process treatment in enterprise. One of the biggest contributions of the reengineering as a concept lay just in stimulating the moving from the old way of thinking toward new realisation of the organization, where the accent is moved from the structure on processes.

3. THE BASIC POSTULATES OF THE ACTIVITY-BASED MANAGEMENT

In 1980s there was a real revolution in cost management practice. Firstly, there was appeared the concept of activity-based costing as a substitution for traditional standard costing systems, which in their base stayed unchanged at the end of the last and in beginning of the new century. Such a costing system is used for developing the activity-based management system. Secondly, activity-based management – operating improvements and strategic action undertaken on basis of activity-based costing – is integrated with other cost management techniques, like

kaizen costing and target costing, and all of this in aim of finding new ways of cost reduction as well in the chain value as in product life cycle.

The activities along the whole chain of the organization processes which add value have a significant effect on costs and thus profit. Recently developed approach of the management accounting in aim of the evaluating this impact and envisaging core cost drivers is activity-based costing. Activity based costing offers an alternative approach to product costing as a response on critics of the traditional costing systems.

If a company produces just one product then all overheads may be allocated on that product. Particular products are then average costs. The difficulties in the overhead allocation appear when a company produce more products using more different resources which are spent in different proportion in the process of particular products making.

Traditional approaches to the cost allocation allocate the overheads, for instance on basis of the direct labour hours or produced units. Hence, they are led by volume of the business activities, based on scientific management of the massive production with standard design, high percent of the labour cost in total costs, high volume, low fixed costs and with the demand bigger than supply. All of this led to the competitive advantage on the base of cost leadership.

The activity based costing starts with the consideration of the different activity groups that lead to the overhead increase instead of production volume: mobility, production demands, quality and design. This costing system is based on premise that activities consume resources, and that products consume activities. There is a need to identify how labour and resources are actually used and it is possible to do by interviews, questionnaire, observation and process activities mapping.

Since here is a word about the activity based costing system, it is logical at first to become familiar with the some significant terms: activity, resources, cost driver, resource consumption cost driver and activity consumption cost driver. [2, 135]

Activity is a specific action or work that is to be performed. It may be one action or set of several actions. Resource is the economic element which is necessary or is consumed during the production activities realisation. Cost driver is the factor which causes or is referred on changes in costs of an activity. Since the cost drivers cause or are referred on cost changes, measured or quantified cost drivers amount are excellent base for resources cost allocation on activities and costs of one or more activities on other activities or cost objects. Cost driver is either resource consumption driver or activity consumption driver.

Resource consumption driver is the measure of the resource quantity which one activity consumes. This driver is applied for the resource cost allocation on the specified activity. The examples are number of the items in supply or sale orders, changes in product design, the size of the factory and machine hours. Activity consumption driver measures the activity quantity which is performed for one cost object. It is used for the cost allocation of the activity group on the cost objects. The examples of these cost drivers are the number of the machine hours in the production of the product A, the number of series in the production of the product B.

The concept of the activity-based costing divides the total overheads on variable and fixed, so that variable costs are divided into short term and long term. In the activity based costing system, it is supposed that fixed costs do not depend on any measures of the business activities volume for the specified time period. Short term variable costs – costs based on the volume – are defined in the same way like traditional variable costs – material and labour costs. Long term variable costs – activity based costs – are defined like those costs that vary with the activity volume. The examples of these costs are the setup costs and entrance of commodity, which depend on the number of the production cycles and customers orders, respectively.

The activity based management system uses information based on the activities and focuses on efficiency and effectiveness of the business processes and activities, and that implies cost

reduction, cost modelling and customer profitability analysis. Identifying resources which are consumed on customers, products and activities, activity based management direct management focus on critical factors of the success and increase the enterprise competitive advantage. This system is consisted of the four key processes: profitability analysis, activity based costing; product activity based costing and activity performance measurement and management. One good activity based management system should promote more efficient cross-sectional management.

Activity based management refers to the set of actions that are to be performed, on better information base, information about activity based costs. With activity based management, the organization realizes desired outputs with less demands of the organization resources, i.e. organization realizes the same results (for example, revenue) at lower total costs (less consumption of the organization resources). Activity based management realizes this through two complementary application called operating and strategic activity based management.

Operating activity based management increases the efficiency and use of the asset and reduces costs; focuses on right doing things and more efficient doing the activities. Operating activity based management uses management techniques like activity management, business process reengineering, and total quality management and performance measurement.

Strategic activity based management attempts to change the demand for the activities and increase profitability by more efficient performing activities. Strategic activity based management focuses on the choice of the specified activities for the business. By strategic activity based management, an enterprise improves the profitability reducing the unprofitable activities, eliminating unnecessary activities and selecting the most profitable customers. Strategic activity based management applies the management techniques like process design, production line and customer mix, suppliers relationships, customers relationships (price, order size, delivery, packing etc.)

4. ACTIVITY-BASED MANAGEMENT AND BUSINESS PROCESS RE-ENGINEERING

Business Process Re-engineering or *Business Process Management* is the techniques that substituted less popular concept of the total quality management and *Benchmarking*. As it has already said in the first part of the paper, the business process is any series of the steps, which are followed in order to perform some task in business. While *TQM* analyzed in details all those what stand behind the customer needs involving all employees in implementing the tools and techniques of the continual improvement, *BRR* exposed one more radical approach. While *TQM* accentuates the team approach involving the people which work directly in the processes, it is more probable that these same people impose business process reengineering, with that in the business external consultants are to be engaged. If it is not radical, then it was not reengineering. Instead that the existing system improves in series of the incremental improvements, the business process is completely redesigned in order to eliminate unnecessary steps, decrease the possibilities for the mistakes and reduce costs.

BPR is closely connected with the concept of the lean enterprise. Such an enterprise may be created from the scratch or through transformation of the existing enterprises. The decision may be made only when the chain value becomes the subject of the reengineering. Business process reengineering focuses on the simplification and elimination of the unnecessary effort. The central idea is that all activities that do not add value to the product or service are to be eliminated.

The activities that do not add value to the product or service that customers are willing to pay are known as the activities that do not add value. Moving big series in the course of the

production from one work station to the second one is the example of the activity that does not add value and may be eliminated by redesigning the factory interior.

The starting point of the reengineering is not “how we can do something faster or cheaper or better” but “why we do something at all? Is it because of demand satisfaction or internal organization?” Shortly, reengineering is not incremental process (little by little) – it is everything or nothing. Lean enterprises attempt to organize the work through business processes, but not on functional base with the traditional accent on the specialization and division of labour.

If we start from the definition of the business process as a collection of the activities that take inputs and create outputs, which are of value for the customers, it is clear that there is a relationship between the concepts of activity based management and business process reengineering. On the one side of the scale, reengineering may be considered as an extension of the total quality management, but with the increased cross-sectional process perspective. In this case, employees would be still involved in seeking for the improvement possibilities, but with the special reference to the influence which would any changes have on the whole process. On the other side of the scale, the beginning with the clear list of paper and work design from the scratch offer the possibility to be radical and innovative.

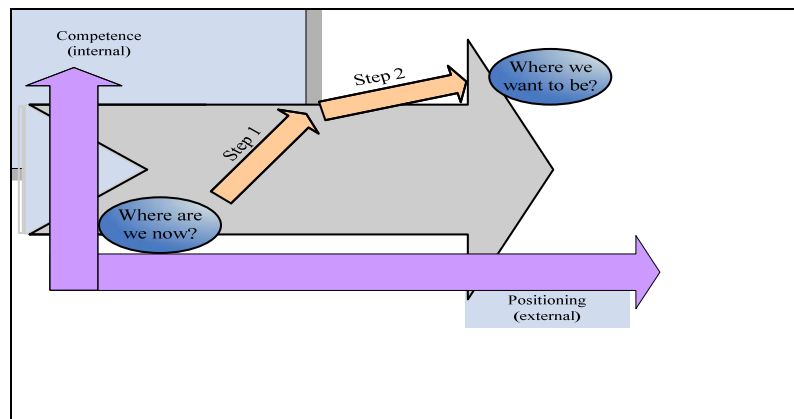


Figure 1. Two steps on the way toward business process reengineering

Source: Plowman, B., (2001), *Activity-Based Management: Improving Processes and Profitability*, Abingdon, Oxon, Gower Publishing Limited, p. 108.

Step 1. This step implies the observation of the current processes in order to decrease unit costs and improve services that are offered to the existing customers. This step generally starts with the analysis of the customers needs so that it could be possible to identify the differences in services in comparison with the competitors. This is an action on the axis positioning. However, there is a danger that the enterprise will attempt to increase the services to all customers. Activity based management offers the significant information in this phase analyzing the customer profitability. Since it is made the customers selection with which the enterprise will cooperate in future, then just those processes that refer to the selected customers will be the subject of the reengineering so the service level could be increased. Without that knowledge of particular customers profitability, offering the better services and unprofitable customers make a risk of the attracting more such customers.

On the axis competence, reengineering initiative will start with the collecting data about the activity that are undertaken, and then it is defined through attributes the processes and activity types which are of core significance for adding the value and those activities that discourage the employees from the core job because the process is failed. These data give the base for developing the ideas for the process improvement.

If the data about activities are collected in purpose of the reengineering processes, it is not big undertaking to allocate the activities on products and services that company offer, as well as on the customers that serve. Profitability and customer analysis is just on the step further from the reengineering project. In the same way, if the data about the activities for one model of the activity based management included the same attributes, then the enterprise is also on the step further from the implementation of these activities data as the base for the business process reengineering. Implementing both these concepts, there are realized the bigger benefits (synergetic effect), than the sum of the individual benefits of the both approaches is.

Step 2. In the second step, it is taken the different business perspective. In the activity based management concept, the costs are categorized into infrastructure, maintaining, internal services and frontal line. While the step 1 is concentrated on the today's business, increasing the efficiency of the current frontal activities and processes, the step 2 is the vital maintenance activity, in sense that it looks long term on design of future business. The step 2 is the key role for the higher team, whose task is to devote the issues that will lead enterprise to the position of the world class with the capability of the world class. Before the reengineering process, step 2 redesigns the business as a whole so the new position on the market could be fortified.

Building the new business on the basis of the activity based management is the key for the retaining the focus on the profit drivers and all sub processes which should fortify how it could be realized the real profit from the right products and services which are offered to the profitable customers.

Business process reengineering requires from the management accountants to be more flexible and to work in teams with the non-accountants. The accounting job is diversified and non-accountants may do it too. Non-financial performance measures are more significant. The accent is on eliminating overheads not on their measurement or allocation. Organization structures/departments/budgets are less significant that process.

Process analysis and costing may be used for the identification the areas that would have benefits from the improvements, as well as activity based management. Activity management may be combined with the benchmarking so that it could be provided one systematic approach to the activity identification with the biggest area for the improvement.

Activity based management provides different interpretation of the real activity based costing influence. Starting from the moderate aim of the improving the accuracy of the absorption system with one base, the activity based management project expanded into translating the indirect costs into direct ones. Besides, this project introduced a new agenda of "productive employees" so that staff activities are to be connected with the products. [1, 99-120].

The critics of the activity based management think that an attempt to count the staff functions bear the risk of losing the core of those functions. Although some staff functions may be counted and routine, team work and customer relationships may be damaged because they are difficult to measure. The staff may be connected with the available, countable cost drivers so that activity volume may be founded. There is a danger that activity performance will have a priority over the original purpose. Activity based management and business process reengineering may lead to the elimination of the subroutine staff activities even if they create the value for the enterprise.

5. CONCLUSION

The implementation of the reengineering in enterprise is primarily directed on redesigning business processes, in order to make them more efficient, effective and flexible. Its implementation, however, has multiple effects on all dimensions of the organization architecture. Namely, the nature of the business process determines the way of doing things, as the way the

people who perform those jobs will be grouped and organized. Thus, the fragmented processes in traditional enterprises will cause close specialized jobs and organization structure based on functional departments, while integrated processes will cause multidimensional jobs which are the best performed with help of the process teams. This leads to the change of the management system, the way of making up decisions, authority distribution, controlling way, rewarding system, and system of value, beliefs and attitudes of the employees, i.e. organization culture. Because its implementation leads to the extensive changes of all segments of the organization, business process reengineering may be considered with full right as one of the transformational concepts. However, it is not one of the programs or techniques for the business upgrading – reengineering is also a specific business philosophy which impels open, more flexible the way of thinking, directed on different relationship toward changes, which must not be realized as the threats, but as a chance, possibility and challenge. Thus, no matter if the enterprises will decide upon undertaking the reengineering program or not, it is certainly useful as a concept that points to the significance and role of the business processes and necessity to devote much more attention to the its design and the way of functioning. This is especially important for the enterprises which are faced with the need of overcoming the traditional way of work and management, and creating more flexible relationships as well as inside of the organization so with the environment.

Business process reengineering may be compared with the other management innovations like activity based management. Namely, the basic postulate of these concepts might be established in the process of activity based management implementation and conversely. Complementary observed, these management innovations significantly contribute to the upgrading total enterprise efficiency through total costs reduction, more fairly allocation of the overheads, decrease of the unused capacity, increase of the business activity volume, decrease of the production cycle, increase of the sale volume by right customer relationship management, and all to the increase of the profit margin.

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THE PSYHOLOGY BEHIND THE ECONOMIC CRISIS

Assistant Professor Ph.D. Amalia PANDELICĂ¹,
Associate Professor Ph.D. Ionuț PANDELICĂ²

¹University of Pitesti

²AGORA University of Oradea
amalia.pandelica@yahoo.com

***Abstract:** This paper is an extensive analysis of bought international business press and academic literature in the field about crisis management and related fields. The paper is grounded on the premise that the psychology of the crisis is an important component of the present international context and psychological factors play an important part in the alteration of consumer's behavior. The question that generated our research approach in such conditions was at what extent peoples' behavior is determined by individual rational choices. The central message of this paper is that in the present economic crisis conditions the factors that are playing an important role in shaping people's behaviour are: risk perception and risk attitude. We consider that at present managers should understand how their clients react in crisis conditions and how their behavior changes in order to handle successfully the present situation.*

***Keywords:** economic crisis, behavior alteration, psychological segmentation.*

1. INTRODUCTION

Since September 2008, we began to carefully supervise the national and international business press in order to see the effects of the financial crisis that began in the USA on various national economies. It is amazing how fast the financial crisis extended and transformed into an economic crisis worldwide, all national economies being affected at a certain extent. Likewise, it is unbelievable how a crisis generated another crisis. For example, at the end of 2008, business analysts launched pessimistic forecasts regarding the evolution of national economies in 2009, but they considered scarcely the issue of social crisis generated by the economic crisis.

Within the conference: "Crisis of Confidence. The Recession and the Economy of Fear" sponsored by the University of Pennsylvania's Department of Psychiatry and the Psychoanalytic Center, there was emphasized the following aspect: "The emotion not only led America into the present economic crisis but it could also keep it there." David M. Sachs, training and supervising analyst at Psychoanalytic Center of Philadelphia stated that "the economic crisis is not one of concern but one of confidence". The emotional response of consumers to the effects of the financial crisis determined the decrease of their confidence in trademarks, organizations, governments. In other words, the negative emotional response determined the appearance of confidence crisis. The negative economic evolutions and the decrease of consumers' confidence implied the restriction of consumption, people considering savings as a reaction to the uncertainty of their present existence. This had as a consequence markets' contractions and alterations, sometimes important in their structure, as they generated overproduction.

Thus, emotion conducted to economic crisis, and confidence crisis conducted to a sharpening of economic crisis, some specialists appreciating the fact that the decrease of consumer confidence in trademarks, companies, fields of activity, governments and anti-crisis measures taken by them, could prolong the actual economic crisis. This is proved, for example, by the decrease of Consumer Confidence Index (CCI) which according to Nielsen Global

Consumer Confidence Index Report (October, 2008), consumers' confidence diminished at the end of 2008 worldwide and on some national markets it attained an absolute decrease record. This emphasizes the economic and social concerns of consumers all over the world.

Consumer's voice:

"There will be no spending for a long time; we have cut up all our credit cards".

"The economic crisis has made me curtail my spending habits. In the future, I will continue to hold off on my spending until the economy gets better".

"The economy is scary".

The Nielsen Company – Consumer Reaction to the Banking Crisis, USA, October, 30, 2008

"The evolution of the Romanian economy is dramatically"

"The present economic situation is very bad"

The effects of the economic crisis over life quality in Romania – own research, April 2010

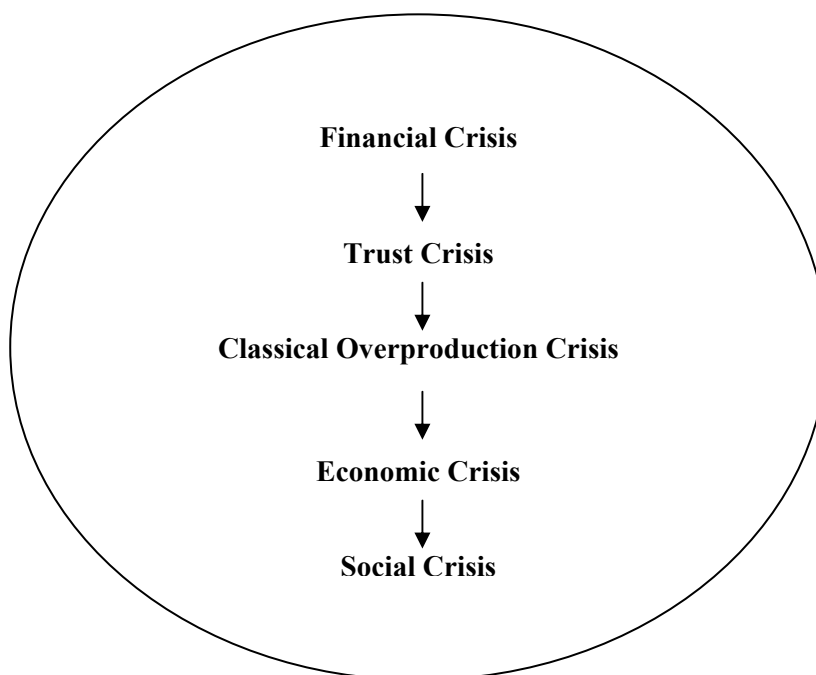
The one hand, the number of those who profess today that they do not afford almost anything is increasing on all national markets. For example, in a survey made by GFK with the purpose to identify consumers' reactions in different countries in the context of negative economic environment, there is pointed out that in comparison with 2007, in 2008 in Austria the number of those who claim they cannot afford almost anything, increased from 16% to 21%, while in Germany the increase was from 26% to 27%. In 2009 we expect these percentages still go up. At the same time, the number of people living in poverty increased significantly. For example, in Romania, according to a UNICEF and World Bank Report, in 2009 the number of Romanians living in poverty will increase to 7,4% compared to 5,7% in 2008.

On the other hand, the effects of economic crisis, as, for example, the unemployment led to what Ron Anderson (2009) calls "the loss of social capital". Social capital represents the capacity of an individual of being employed and involved in the community he lives. According to the results of some empirical researches, between unemployment, depression and anxiety there is a direct relation of causality. Therefore, the person affected by unemployment not only loses his/her position within the community but also the capacity of interacting with the members of the community. The loss of the social capital affects both the individuals and the community and the entire society (Jennie Brand, 2008).

In this global agitated context, the companies have to learn the survival lesson and find their own way out of the crisis. Having as starting point what Darwin said that "species surviving during time are not the strongest or the most intelligent ones but those having a higher capacity to adapt themselves in changing conditions" we think that companies overcoming the economic crisis and having a successful comeback, are those with a higher adapting capacity through change. This means they have the capacity of responding quickly and effectively to a new context. At the same time, we think that the companies should build their response considering the outside-toward-inside prospect. What we would like to suggest is that in present, disregarding the market, sets in danger not only the recovery of the company from the crisis but also its survival.

If in conditions of economic raise, the companies concentrated their marketing efforts on gathering information about consumers' needs and desires, information used to build the value proposition (Kholi and Jaworski, 1993); in present this approach represents an unjustified marketing effort. What companies should understand is how their clients react in crisis conditions and how their behavior changes. Such an understanding represents a good starting point in planning the response of the organization. Thus, the companies have to "penetrate" into their clients' minds.

Diagram No. 1. The context of the economic crisis



Source: Authors' point of view

2. INSIDE CONSUMERS' MINDS IN ECONOMIC CRISIS CONDITIONS

Unemployment, the increase of inflation, the freeze or decreasing of salaries, the decrease of purchasing power, the decrease of investment values, the increase of criminal rate, a new flu pandemic (AH1N1) represent only some of the realities that the consumers face at present on almost all national markets. These generated stress and panic among people. The picture wouldn't be complete if we didn't speak about the role that media plays in strengthening panic. In some situations, media has the tendency to exaggerate when they present the effects of the economic crisis, delivering scenarios that make people agitated. Even when press reflects correctly the actual problems, it is empirically proved that the more people read about the crisis and the more the press focuses on its reflection, the more people have to face a negative psychological impact upon them (Miller and Reilly, 1994).

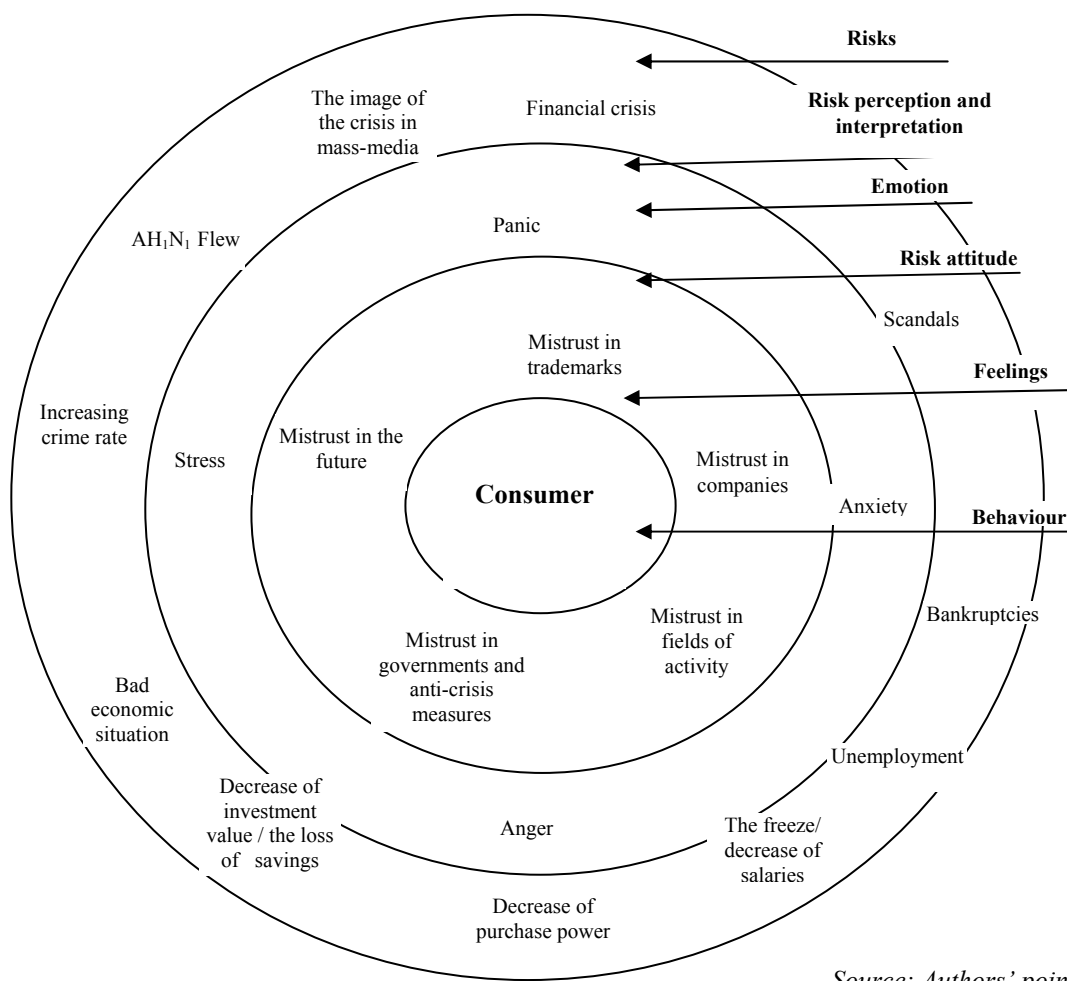
In order to determine the way in which consumers react in crisis conditions and how their behavior moulds, we started from a larger frame. We analyzed a certain number of research papers dealing with various types of crises: economic crises (Recession in Germany, 2002-2003; The Asian Crisis, 1998-2000, The Great Depression, 1928-1938); food security crisis (salmonella contamination, avian flu); terrorist crisis (USA, 2001); public health security (AH1N1 flu, 2009). Our analysis revealed the fact that obviously one type of crisis is not similar to another type, but also that two crises of the same type are not necessarily alike, they may be different as to generating causes, effects, duration, severity, etc. Interesting is the fact that all these situations with a negative impact have a certain common point. The factors playing an important role in shaping people's behaviour in all these circumstances are: risk perception and risk attitude. Thus, the change of behaviour in present conditions is determined, on a great extent, by psychological elements along with other types: economic or political elements, etc.

If we admit that psychology of the crisis is an important component of the present economic crisis and that psychological elements play an important part in the alteration of consumers'

behavior, then it becomes an essential condition for companies to know and understand these aspects in order to handle the crisis successfully. Therefore, we would like to have a closer look upon the way that people’s behavior is molding in present economic crisis conditions.

Within our pattern, negative economic and social evolutions (the effect of economic crisis) represent stimuli that unleash human reaction; we labeled these stimuli as risks as long as these evolutions represent “uncertainties that matter” (Hillson D. and Murray-Webster R., 2007). Every risk is perceived and represented (interpreted) differently by every individual. Risk perception reflects the interpretation that the individual makes regarding the chances for risk exposure – unemployment, decrease of purchase power, decrease of the value or the loss of investments, etc. Still, it is empirically proved that people make different estimations for this chance. The interpretation of risk content represents the subjective judgment that the individual makes about its characteristics and steadiness. Risk perception and representation consequently stir emotions – panic, stress, anxiety, anger, etc. Emotions are the basis of risk attitude. Risk attitude is a hypothetical construction representing the degree of individual risk content liking or disliking that reflects risk aversion. This is the basis for feelings – mistrust in trademarks, companies, governments and anti-crisis measures adopted by them, mistrust in future, etc. The feelings lead, in the end, to behavior patterns.

Diagram No. 2 Consumers’ behavior in the context of economic crisis

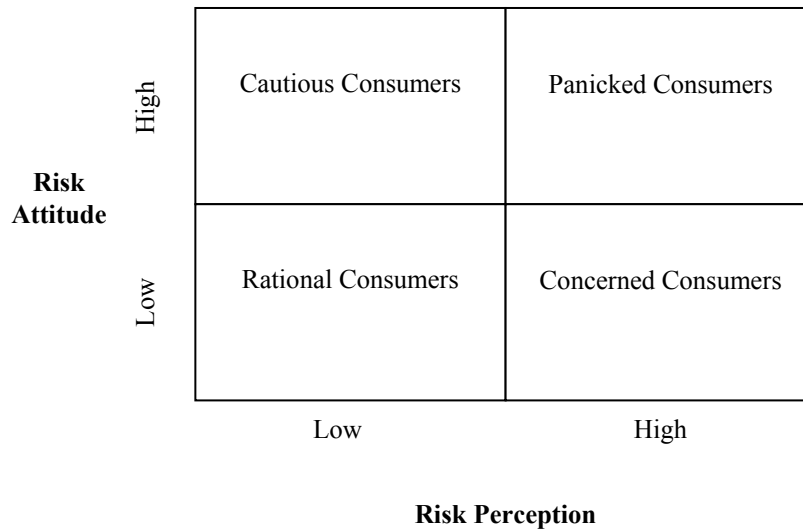


Source: Authors’ point of view

But not all people are alike and they do not react identically in a negative impact situation such as an economic crisis that is why we expect that behavior alteration may not have the same

intensity and follow the same patterns for all consumers. What we suggest is the fact that in a situation such as the economic crisis, by decomposing consumers' behavior, the companies can get a more comprehensive image of the way their clients react in crisis conditions than if they used criteria such as: income, lifestyle, etc.

Diagram No. 3. Psychological segmentation of the market



Source: Authors' point of view

Panicked consumers are those consumers thinking that the effects of the present economic crisis will affect them on a great extent. They dislike a lot the present economic situation. Such consumers have sometimes the tendency to exaggerate about their own and their family situation, and in some circumstances they have an irrational behavior. Those belonging to this segment are first of all consumers with a low income but also actual and would-be unemployed persons. It is expected that this category of consumers reduce drastically their expenses for all categories of products, cut off major purchase and migrate to the low part of demand curve by changing trademarks, allotting an extra information period and comparing offers in order to find the lowest price.

Cautious consumers are those who dislike a lot the present economic situation but who think that nowadays economic and social evolution will scarcely affect them. This category includes those consumers who have relative job stability and thus, income stability, retired persons with an average pension and people that are unlikely to lose their jobs. It is expected that these consumers be careful and plan carefully their expenses. They either postpone or do some major purchases in this period. Sometimes they move down to the lower part of demand curve, changing trademarks.

Concerned consumers are those having no risk aversion but they think that present economic and social evolution will affect them on a great extent. This category includes those having no secure job, income or investments but they calmly handle this instability tolerating the risk. It is expected that this category of consumers plan carefully their expenses, postponing major purchases. In some situations they move down the demand curve by switching trademarks and buying major products only if they are necessary and they perceived as good investments.

Rational consumers are those thinking that present economic and social evolution will scarcely affect them and take chances having a low risk aversion. Thus, it is expected that this category preserve the "habitual behavior" they had before the crisis. This category includes those

with a high income level but also those with secure average income and those who are not in danger of losing their jobs – retired persons. Thus, these consumers will buy their favorite trademarks and only in some particular situations they will move down on demand curve. Still, even in the case of this category, the expenses will be carefully planned and it is expected a decrease of average consumption.

3. THE DYNAMICS OF SEGMENTS

The dimension of the four segments varies from one national market to another depending on how deeply the national economy was affected by the economic crisis and thus, according to either the intensity of effects generated by the crisis or the previous experiences, that is, if the respective national economy has in its recent history such anomalies.

When people interpret the risk content in order to evaluate how severe is the situation they confront with at present, they use the past experience (the recessions overcome in the past) for this interpretation. In fact, consumers learn from past experiences and use them for these evaluations. In other words, the response of such consumers is built on learning and they are in a better position to evaluate correctly the gravity of the situation. If a previous experience lacks, consumers' response will be an emotional one, as in the absence of a previous experience we project our worst fears in the evaluation of present situation. That is why, on markets that do not have a relatively recent crisis past, the consumers tend to exaggerate the gravity of the present situation as long as there is no past context to include such events. Taking into account these aspects, we expect that on national markets that experienced relatively recent crisis of the kind, the number of panicked people be lower than on national markets that did not have a recent experience of such anomaly.

On the other hand, the four segments change their dimensions according to the evolution of the crisis. Thus, it is expected that migrations appear between the four market segments as the crisis evolves – a worse economic situation, a climax of the crisis, the signs of recovery and the overcome of the crisis. For example, the more severe the crisis becomes and more people become affected by it, the higher the number of panicked people, due to the alteration of risk perception and risk attitude. At the opposite pole, recovery signs of economic situation and the beginning of the overcome leads to migrations between the four segments, but this time in a reverse way, because risk perception and risk attitude decrease. That is why, the number of rational consumers is expected to rise.

In conclusion, the enlargement of the segments varies from a national market to another according to: how severe the effects of the economic crisis are (stimuli) (S), the experience / lack of experience in previous crisis of relatively recent history (E), the moment within the crisis (T).

$$M_s = f(S; E; T)$$

Management decision:

“We need to get right inside customers' heads to understand their feeling and come up with relevant new, value proposition for them”. - HR Director, UK pub chain

“We have to stop focusing on sales targets and now look at the broader picture of the customers and their behavior”. - Group HR director, financial service company.

4. CONCLUSIONS

The present economic crisis is an unprecedented situation for the entire world if we consider its global and severe character. As a consequence of negative economic and social evolutions of all national markets of the world some important alterations appeared in the way that people think and behave as well as in they way they treasure things. The question that generated our research approach in such conditions was at what extent peoples' behavior is determined by individual rational choices. The results of our analysis revealed that in uncertainty and turbulent conditions the psychological factors play an important role in building consumers' behavior.

That is why we think that in order to overcome the economic crisis and to have a successful recovery the companies should understand the way their clients react and behave at present and this is a good starting point in planning organization's response.

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CONSIDERATIONS ON APPLYING SIX SIGMA AND ISO 9000

Assistant Professor Ph.D. Crenguța Ileana TOMESCU
University of Pitesti, Faculty of Economic Sciences
crengutaileana@yahoo.com

***Abstract:** A relatively new approach of quality management in higher education is that regarding the role and impact of the Six Sigma strategy in the mentioned field. According to this strategy, the quality improvement of the educational services is possible through a rapid adaptation of both the structures of the academic institution and the tertiary educational system to the market demands and customers' needs, as well as to other stakeholders' expectations. Within higher education institutions such strategy could be applied in order to increase the performances of the educational services, to improve the efficiency and effectiveness of the management processes in attaining the desired goals and to enhance the capacity of the institution to achieve quality in all components that define the organization as a whole. These are strong arguments for an institution of higher education to implement Six Sigma and harmonize its practices to the already adopted model ISO 9000.*

***Keywords:** Six Sigma strategy, ISO 9000, higher education.*

1. INTRODUCTION

Competitiveness and performance are the key words that best define the goals of the present business environment. Under the given circumstances concepts such as quality improvement and quality control become important actors in achieving these goals. It is in fact the duty of the personnel to carry out the necessary actions to meet the established objectives.

How well are the employees trained and how competent are they in the field of quality improvement and quality control is a question that intercepts with the notion of academic environment.

Regarded as a whole, higher education plays various roles such as: training the students and preparing them for the economic environment by involving them in the teaching-learning and research processes and offering the example of a system whose outcomes meet the organizational goals by implementing Six Sigma.

The paper focuses on the way Six Sigma is applied to higher education and it is compatible with one of the quality management systems, namely the model ISO 9000 within universities.

2. ASPECTS REGARDING SIX SIGMA

Six Sigma allows a multidimensional approach, as it could be viewed as “a metric, a philosophy or a methodology for quality improvement” (Mitra, A., 2004).

The variety of approaches depends of the organizational level the concept is utilized. Top management perceives Six Sigma from a philosophic point of view, as it incorporates the commitment of the entire organization to achieve continuous quality improvement.

Six Sigma could be defined as a metric not only at top management level, but at other levels, as well as, such as the level of the operating personnel (Mitra, A., 2004). From a statistical perspective, six sigma defines a “process performance that produces 3.4 defects per million opportunities”, (Goffnet, S. P., 2004) with other words the concept is used for processes that, virtually, perfectly meet the customers' requirements and needs.

At the mid-management level Six Sigma is used by project leaders as a methodology to achieve quality improvement by reducing the defects in products, services and processes (Mitra, A., 2004). Whereas for products and services the DMAIC (define-measure-analyse-improve-control) approach is being used, for products and processes another approach is popular in the literature, namely DMADV (design-measure-analyse-design-verify) (Pfeifer, T. et. al., 2004).

3. ASPECTS REGARDING ISO 9000

The ISO 9000 family of standards is one of the most well-known models belonging to the quality management systems. The revised ISO 9000:2000 relies on eight principles: customer focus, leadership, involvement of people, process approach, system approach to management, continuous improvement, factual approach to decision making, mutually beneficial supplier relationships. Further on it is presented how these principles can be applied within a higher education institution.

Customer focus. First of all it is very important that any higher education institution identifies its customers and stakeholders - students, professors, parents, employees, etc.- in order to better understand their needs and expectations. Following these steps the higher education institution aims at best fulfilling their needs and satisfying their requirements.

The similarity with Six Sigma relies on the consideration of this principle, customer orientation, as a prerequisite of the success of an organization (Pfeifer, T. et. al., 2004).

Leadership. According to this principle, a higher education institution has on one hand to establish the direction it is moving to, along with a mission, vision and goals to be attained and on the other hand it is responsible for the environment people are working in, for offering them the opportunity to develop.

From the point of view of creating an internal environment sensitive to people's needs a further similarity with Six Sigma can be emphasized (Pfeifer, T. et. al., 2004).

Involvement of people. Within a higher education institution the involvement of people in different processes and activities should be increased as knowledge creation, dissemination and utilization are the main tasks to be carried out. This principle brings people's active participation at various activities forward, positive attitudes regarding their creative role and responsible attitudes towards solution finding.

Process approach. According to the revised version of ISO 9000, the quality management system is process based. Process components that are to be taken into account are the inputs and outputs of the teaching-learning, respectively research processes. A clear evaluation of the risks and effects of the performed processes upon the various stakeholders is to be made (Olaru, M. et al., 2006). Higher education is viewed as a network of processes, where the existence of resources and their efficient use play an important role in achieving quality outcomes and quality educational services.

Within ISO 9000 the PDCA (plan-do-check-act) methodology, also known as the Deming cycle can be applied to all processes, whereas Six Sigma uses a different methodology called SIPOC (supplier-input-process-outputcustomer) (Pfeifer, T. et. al., 2004).

System approach to management. Higher education is seen as a system of integrated processes that interact and communicate with each other under the supervision and control of the top management and of the other responsible parts. By means of this approach the management structures are able to better enhance and improve the quality of the educational processes as well as outcomes.

Continuous improvement. Within higher education institutions this principle is achieved by measuring the quality of processes and outcomes - under these circumstances it is necessary to

introduce and use quantitative and qualitative indicators, and by comparing it to stakeholders' satisfaction.

To continuously improve both research and educational products and services one should increase the efficiency and effectiveness of the quality of the university processes, and permanently evaluate the process outcomes and criteria used to analyze the results (Olaru, M. et al., 2006). Another possible way of evaluation is by conducting audits (Pfeifer, T. et. al., 2004).

Just like ISO 9000, Six Sigma focuses on quality improvement by reducing the defects and flaws in the processes of delivering educational services. Permanent efforts are being made to increase customer satisfaction by decreasing the number of failures that lead to clients' dissatisfaction.

Factual approach to decision making. A factual approach is possible when data is available and reliable. A higher education institution should develop a system specially designed for collecting and assessing the necessary data. To make appropriate and sound decisions the data and the information should be clear and accessible and should be first analyzed (Olaru, M. et al., 2006).

The factual approach in decision making is vital within Six Sigma, as all decisions are based on data rather than on simple assumptions (Antony, F., 2004).

Mutually beneficial supplier relationships. Lasting relationships with suppliers can be achieved and consolidated when both parts are committed to quality based activities and outcomes.

4. BRINGING THE TWO CONCEPTS TOGETHER

A synergetic approach created by analyzing and simultaneously using the benefits of Six Sigma and ISO 9000 plays an important role in the development and success of a higher education institution.

While Six Sigma is orientated towards those projects that offer financial success through customer focus, ISO 9000 is related to those projects that aim at improving the existing processes and activities, targeting the same goal, namely customer satisfaction (Pfeifer, T. et. al., 2004). These two approaches are compatible and complementary, and are used, for instance, within research processes or partnerships.

A prerequisite for the success of this synergetic approach is the congruence of the project goals of Six Sigma with the process goals of ISO 9000 (Pfeifer, T. et. al., 2004). A certain goal correlation has to be identified between the two models. With complex projects this prerequisite is difficult to meet.

The planning of a Six Sigma project and the recruitment of employees to participate are closely related to the processes already identified and analyzed within the ISO 9000 documentation (Pfeifer, T. et. al., 2004). The different management levels existing in a quality management system (rectors, deputy rectors, deans, chairs, etc) such as ISO 9000, coincide with the structures identified by Six Sigma: green belts - representing the practitioners, black belts - representing the experts responsible with the problem solving, master black belts - supporting the personnel involved in the project, and champions or leaders (senior management) -responsible with the project supervision and control and providing the necessary resources.

One of the issues common to both approaches and extremely debated within higher education institutions regards the seeking for resources and their transparent utilization. As many higher education institutions struggle to tackle the issue generated by the so called "funding gap" (Winckler, G., 2006), Six Sigma projects within such institutions could offer an answer to this matter by generating monetary benefits and possible financing resources through a continuous focus on customers' needs and expectations.

The success of the synergetic approach of Six Sigma relies on the development, such as ISO 9000, of a well structured documentation, explicit procedures, clear defined tasks, activities, indicators and achievable goals.

In addition to ISO 9000, Six Sigma emphasizes a statistical thinking, making use of statistical methods to evaluate the academic processes and outcomes and to improve them by reducing defects and failures.

Combining the two approaches is made possible due to a few main similarities (compare to Antony, F., 2004): both process based aspects imply the existence of disfunctionalities and perturbances that occur during the various processes and activities and the preoccupations and intense measures undertaken to improve the quality of services and products by eliminating the causes that lie at the their bottom.

5. CONCLUSION

In order to intensify the actions carried out to reach high levels of performance, higher education institutions should more often consider and refer to Six Sigma as a success strategy in maintaining academic quality at high standards and improving it continuously.

The complex character of Six Sigma, defined by the existence of a customer orientation, a management infrastructure (the different levels of belts), a process based perspective and quality improvement steps and measures, proves its compatibility with ISO 9000, a quality management system. In this regard integrating Six Sigma in the quality culture of any higher education institution could be a success.

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ECONOMIC CRISIS AND THE CORPORATE SOCIAL RESPONSIBILITY

Ph.D. Candidate Victoria-Mihaela BRÎNZEĂ, Teaching Assistant, Ph.D. Candidate Olimpia
OANCEA, Teaching Assistant, Ph.D. Candidate Marinela TANASCOVICI

University of Pitesti, Faculty of Economic Sciences
mihaela.brinzea@upit.ro, olimpioancea@yahoo.com, marinela.tanascovici@yahoo.com

***Abstract:** How should the problem of the recent economic crisis be tackled, apart from the safety measures and the refinancing plans that are currently mobilizing the energies, in the prejudice of discussions on content? It seems ever difficult to try to „moralize” the institutions. Should the responsables be sanctioned? Definitely, but how could it be avoided that these incriminated behaviors stop happening, if there is no intent to revive the true ethics culture within the business mediums? And if ethics finds its place here, what is its efficacy, besides using certain mechanisms of sanction and protection? The current crisis invites us to a content debate. It has become clear that the moralization of economic stakeholders is not separable from the issue of the value of equity the capitalist societies are ready to protect, if they have the necessary resources. This reflection dedicated to ethical aspects of the economic crisis will tackle the issue under its double aspect: of individual ethics and collective ethics.*

Keywords: economic crisis; corporate managerial responsibility; ethics; scandals; codes of ethics.

INTRODUCTION

The economic and financial crisis which we are currently experiencing makes us ask ourselves a question which, until not too long ago, was considered unnecessary from a commercial point of view, namely the question regarding business ethics.

„It is a one and only social responsibility business has – to use its own resources and engage in activities dedicated to profit growth, as long as the rules of the game are observed, which means engaging in free and open competition, free of evasion of frauds”(Friedman, 1962).

The scandals in which some corporations have been involved have renewed the talks regarding business ethics.

In one sense, it could be said that the typical U.S. approach of focusing on the individual actions of the manager has received further impetus from the spate of corporate scandals involving companies such as Enron, Worldcom, Andersen, and others. To many, these are incidents of personal greed and misconduct that need to be analysed from the perspective of individual decisionmaking.

However, in a closer analysis it becomes rather evident that individual immorality, or even criminal behaviour, can hardly be understood without an appreciation of the ethical presuppositions of the broader systems in which these scandals occur. To continue with the example of recent scandals in the U.S., a closer analysis seems to expose quite a close link between a micro-perspective on decision making and a macro perspective on the broader economic system in which those individuals act. Though acknowledging a plethora of possible interpretations of the scandal (Boje and Rosile, 2003), we would argue that the gradual slide into what ultimately ended up being corporate fraud and misappropriation of assets at Enron,

Worldcom et al. was substantially influenced by a specific business model that raises the maximization of shareholder value to pre-eminence. Initially within the legal boundaries, the accounting tricks applied at Enron could be argued to be the rational managerial response to the American model of capitalism (Sims and Brinkmann, 2003).

The same applies to the damage inflicted on employees in these companies, to name another aspect of these scandals. In a welfare system which over the last few decades has increasingly shifted responsibility for pensions away from the state to the individual, the fact that so many employees lost their pensions is another result not only of individual unethical behaviour on the part of managers, but of a system that entrusted these individuals with the administration of their employees' social and economic welfare in the first place.

Arguably, the same cultural and institutional bias is reflected in the North American debate about potential prevention of such unethical practices. The basic thrust of measures such as the Sarbanes-Oxley Act of 2002 is to improve corporate governance structures through stronger independence of nonexecutive directors, adjusting the incentive structures for executives, or increasing disclosure levels and liability of managers for misconduct (Ribstein, 2002). All these measures, however, in principle do not challenge a typically American trust in the ability of markets and private actors to produce morally desirable outcomes for society, let alone a fundamental questioning of Anglo-Saxon style capitalism (Stelzer, 2004).

One could argue that this ethical link between micro- and macro-issues is by no means confined to Anglo-American forms of capitalism: in continental Europe many of the major scandals of the past – such as the Elf-Thyssen Scandal in France and Germany (Crane and Matten, 2004) or Berlusconi's dubious business practices in Italy (Crane and Matten, 2004) – are usually embedded in a capitalist system which is governed by deep interlocking patterns of ownership, long-term relations and friendships in business as well as close governmental and political involvement in the economy. The recent example of corporate fraud and misappropriation of assets in the case of Parmalat in Italy illustrates these differences quite visibly. With high levels of concentrated share ownership, underdeveloped financial markets, and low levels of transparency and accountability of corporations, the crucial reaction of Italian regulators was not to improve an existing market but to start making some first steps towards the creation of basic elements of a market for corporate capital (Murphy, 2004). Being just one example among the entire two thirds of all Italian companies that are owned by single shareholders, the owners of Parmalat were able to abuse this absence of market mechanisms, transparency and control to bring about a scandal of similar dimensions to the fall of Enron—but that seems to be as far as the similarities go. The same would also apply to other parts of the world, such as East Asia, where specific forms of corruption can only be understood – let alone prevented or disincentivized – by understanding the ethical nature of the broader economic context.

As for globalization, it expands the agenda. In a national setting corporations deal with a more homogeneous culture. In a global setting there are multiple cultures to accommodate. In a national setting we see one set of rules and ethical expectations - but globalization also means multi-nationalism and multi-culturalism, thus multiple set of rules and expectations.

Today, a large number of companies face the lack of confidence in their integrity. One of the possible courses of action in order to gain the trust of the stakeholders in these companies, be them multinational/ transnational companies, or small and medium enterprises is to fully acknowledge the fact that a good corporate citizenship represents a key element to business success in the 21st century, and responsibility and transparency are some of its manifestations.

The efforts made by companies in present in order to obtain the good corporate citizens status find materialization in:

- Environmental protection;

- Juvenile smoking prevention;
- Support for the development of the arts;
- The initiation of humanitarian actions;
- Combating drugs consumption by young people etc.

More and more, companies use important resources to demonstrate that they are responsible corporate citizens. For example, some of the business principles of ABN AMRO are:

“We are a responsible institution and a good corporate citizen.”

“We respect human rights and the environment.”

*“We are responsible for our actions and open about them.”*²⁴

The World Business Council for Sustainable Development (WBCSD) considers that social responsibility is represented by the “engaging of business mediums in contributing to sustainable economic development, working together with employees, their families, the local community and the society altogether, in order to improve their life quality”.

The E.ON AG Group, one of the largest integrated companies, electricity and gas provider in Europe, expresses its ethical commitment through five fundamental values regarding the social responsibility of the company:

- **integrity**, what it stands for, as E.ON AG points out, the commitment to “do what we say”;
- **openness** – “we say what we think”;
- **trust and mutual respect** – “we treat the others the way we would like to be treated ourselves”;
- **courage** – “we do and say what we believe is right”;
- **social responsibility** – “we act according to the company’s long-term interests”.²⁵

E.ON integrates social responsibility in its entire sphere of activities. The 2006 report on social responsibility details this commitment: “We behave responsibly towards our colleagues, clients and suppliers, towards the environment and the communities we live and work in. We make efforts to improve lives wherever we operate, having as objective a safe and sustainable environment”.²⁶

The Lafarge Group presents the role it attributes to ethics in the ensemble of sustainable development policy and social responsibility: “...Our responsibility towards society is expressed by our commitment to sustainable development, as well as by the our employees’ enthusiasm to make efforts in order to create a better world.”²⁷

ERC President Dr. Stuart Gilman, Managing Director Dr. Patricia Harned, Principal Consultant Frank Navran and Programs Manager Jerry Brown presented in an article “*Ten Things Your Company Can Do to Avoid Being the Next Enron*”, such:

1. *Examine your ethical climate and put safe guards in place*
2. *Dont just print, post and pray*

If we have a Code of Conduct or an Ethics Code, printing copies and posting them on the wall and on bulletin boards is not enough. Codes of conduct are an outgrowth of company

²⁴ Our Business Principles, www.abnamro.com

²⁵ Our Values, www.eon.com

²⁶ E.ON AG’s Corporate Social Report 2006, Changing Energy, www.eon.com

²⁷ Lafarge Sustainability Report 2006, www.lafarge.com

missions, visions, strategies and values. Thoughtful and effective corporate codes provide guidance for making ethical business decisions that balance conflicting interests.

3. Build a robust ethics infrastructure that is self-sustaining

Many corporations establish independent “hot lines” or “help lines”, where employees can seek guidance when they are faced with an ethical dilemma or when they encounter unethical conduct in the workplace.

Annual training on the code is becoming commonplace.

4. Publicly commit to being an ethical organization

5. Separate auditing from consulting functions.

6. Talk with employees at all levels...often!

Employees basically want to know two things. They want to know what is expected or required for them to survive and to be successful (tasks and ethics). They also want to know how they are doing. at this point in time (tasks and ethics).

7. Build ethical conduct into corporate systems

8. Establish an Ethics Committee to constantly keep the organization focused on the seven main provisions of the Federal Sentencing Guidelines (FSG) of 1991

9. Choose to live your corporate values

10. Keep the lines of communication open.

CONCLUSIONS

The acute crisis period we are experiencing represents the opportunity for remembering a multitude of concepts, rules and practices in the economic- financial sphere, which, despite the oppositions met, must be the basis on which global economy shall be built during the next 30 years.

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PROFESSIONAL PERFORMANCE OF THE HUMAN RESOURCES DURING A CRISIS

Ph.D. Candidate Iulian MITUȚ

The Academy of Economic Studies of Bucharest
mitut_iulian@yahoo.com

Abstract: *In a vigorous social and economic environment dominated by multiple situational changes and complexity of organizational activities, professional/organizational performance tends to be a result of managerial competence. Crisis characterized by reducing organizational expenses and increasing occupational stress level is the best test for the ability of the manager who has to motivate and influence the human resources with low costs. Managing human resources was, for many companies, one of the main organizational problems of 2009. The feeling of uncertainty and insecurity specific to the crisis has augmented the organizational failure and occupational stress of human resources, leading to the loss of loyalty to the organization, poor health and even death of certain employees because of inadequate human resource management during a crisis, respectively due to prolonged effort and organizational tensions.*

Keywords: *professional performance, human resources, motivation, organization, occupational stress.*

1. PROFESSIONAL PERFORMANCE OF THE HUMAN RESOURCES IN MODERN MARKET ECONOMY

In the current socio-economic environment the knowledge-based organization is efficient when human resources generate organizational excellence and efficiency. The origins of the organizational management theory are closely linked to the need of improvement of the industrial productivity, of economic power growth and increasing organizational performance, the main driver of this development/productivity is the human resource – *“The most valuable asset of an organization.”*²⁸.

Starting with the '50s, in order to achieve organizational performance and productivity growth of economic activities it was necessary an orientation to the human resource. It is when they emphasize the fact that employees, as members of the organization, have needs/expectations that can not be reduced solely to financial issues or work safety. Therefore a redesign was needed of the strategies of human resources activity and of the strategies for decision and control processes in order to enable human resources to identify with the objectives of the organization and to work efficiently to attain them. We can see today various forms of organizing/coordonation of human resources in political, economic, industrial or military systems but each of them is based on activity ergonomics issues or on the orientation to own personnel through the focus on evaluation process and motivational aspects, as well as through the interest in employee health (stress, depression, accidents, etc.).

²⁸ Manolescu A., *Human Resource Management*, Editura Economică, Bucharest, p. 21, 2003;

One of the main promoters of the orientation to human resources was Rensis Likert²⁹, who, after the Second World War compared simultaneously work groups with high productivity and work groups with low productivity, examining the influence generated from the managerial decision and control systems on professional performance. The result revealed that in the highly productive groups the management style is oriented towards human resources, while in low productive groups the management style is focused on production capacity. Likert has shown that the orientation towards human resources is more profitable than any other organizational activity.

The main ideas regarding the professional performance of the experiment conducted by Likert reveals that in an organization the effectiveness of the human resources is influenced by the leadership style and the behaviour of the manager, and the author recommends:

- Using the „supportive relationships” principle, which can prevent and eliminate the problems regarding the occupational stress and lack of organizational communication;
- *Cohesion of the members of the organization* that affects human resources productivity, directing it towards professional duties;
- Application of the „*participative management*” principle, which implies the existence of collaboration between managers and performers in establishing organizational objectives and the execution of the professional tasks.

In another conception, the professional performance of the human resource is reported to the motivational system. In a knowledge-based economy the human resource is the only capable of acting contrary to the organization’s objectives or to generate organizational excellence, aspect that is acknowledged by the major organizations of the modern market economy that “*get sustainable growth and profits because they do what other companies do not succeed in doing: they maximize innate individual talents of the employees into customer relations. They know that the use of human resources is the only area where significant improvements can lead to an unlimited source of competitive advantage in the competition marketplace.*”³⁰

The managerial motivation and training of the resource are essential elements for the modern organization for the process of planning for and obtaining organizational performance.

The study of managerial motivation comes from the *hierarchy of individual needs* or the so-called “*Maslow's pyramid*”. Further development and adaptation of Maslow’s theory generated more diverse classifications of the individual needs; relevant to the organizational environment is the “*Theory Z*” produced by the American professor of Japanese origins William Ouchi. It proposes a type of organizational culture based on:

- ▶ satisfying the higher needs of the member of the organization;
- ▶ individual achievement in his working environment and the intersection between this environment and the family and social environment;
- ▶ individual access to the organizational culture and his involvement in the development of the organization, setting goals and improving the results.

²⁹ Likert R., *New Patterns of Management*, McGraw-Hill Book, New York, pp. 249-263, 1961;

³⁰ Ciffman C., Gonzalez G., “*The Galup Way – Emotional Economy*”, Allfa Publishing House, p. 15, 2007;

Table 1 – Motivation by Maslow and Ouchi

Maslow's Theory and its implications	Ouchi's Theory and its implications
<i>Self-actualization</i> (<i>self-development, personal achievement, career development</i>)	<i>Higher needs</i> (<i>recognition, esteem, status, self-actualization</i>)
<i>Esteem</i> (<i>assigned or assumed responsibilities, prestige, recognition of contribution and effort, status</i>)	<i>Increased focus on human resources</i> (<i>team work, decision-making by consensus, individual achievement in the organizational environment and its intersection with social and family environment, emphasizing the group responsibilities</i>)
<i>Social</i> (<i>belonging to a group, collegiality, communication</i>)	<i>Increased confidence among members of the organization</i> (<i>job security – long term employment, individual access to the organizational culture and his involvement in the business development, setting goals and improvement of the results, informal control</i>)
<i>Safety</i> (<i>work safety, working conditions, personnel policy</i>)	
<i>Biological</i> (<i>food, home, salary and other bonuses, transportation</i>)	

According to Ouchi's theory, the manager must know his own employees and recognize the relevance of labor ergonomics on the productivity of the company/organization. From this point of view "Theory Z" provides solutions for a competent management of human resources, efficient organizational communication and eliminating occupational stress causing staff turnover and high financial costs.

In order to analyze business performance, besides "theory Z", the well-known "expectations theory" is relevant; this theory is developed by the Canadian Professor Victor Vroom who considers that from the organizational point of view, performance depends on the work climate, ability and motivation of the employees, according to the following equation:

$$PP = f(Me, A, M) \quad (1)$$

where,

Me = Work environment (good/poor working conditions)

A = ability (effect of the qualification, involvement, experience of the employee);

M = managerial motivation.

In a socio-economic environment dominated by technological evolution, scientific organization of labor production, development of transport means, action and communication, the professional performance depends both on work ergonomics and capabilities of the employee supported by motivation and occupational stress which affects more and more intensely the physical/physical condition of human resources. Given that in the knowledge-based organization the working environment influences the stress level of human resources, professional performance is represented by:

$$PP = AxM - S \quad (2)$$

where,

A = ability (effect of the qualification, experience and involvement of the employee);

M = managerial motivation;

S = occupational stress.

With a high level of occupational stress (S) human resource needs to be re-positioned and to reassess the need to continue its work, feeling suffocated by work overload, the significant mental and relational pressures, destabilization and uncertainty of their future, aspects that are inversely proportional affecting professional performance, irrespective of the involvement (A) and managerial motivation (M).

Thus, employee skills, efficient use of managerial motivation together with appropriate involvement and organizational stress control are the foundation of competitive and sustainable results for organizations in the modern market economy both for normal economic situations and for the crisis.

2. PROFESSIONAL PERFORMANCE DURING A CRISIS

The prospect or the occurrence of a crisis is deemed, in all areas of socio-economic life, as deepening the difficulties, disrupting social, economic and/or financial stability, or conflict outbreaks.

At organizational level a crisis generated by endogenous and exogenous influences. Endogenous causes dysfunction consist in the dysfunctions of their own internal control system, conflicts of interest, the professional conduct of human resources, mismanagement and inadequate motivation system, situations that usually deepen the occupational stress. In terms of exogenous causes, a crisis is difficult to foresee, as it can be triggered by unexpected causes, from political environment to unconventional wars or natural disasters.

A crisis can cause various effects upon organizations, from financial losses to underperformance, lack of productivity, loss of market position and even loss of image. Whatever the cause, exogenous or endogenous, crises entail changes in the conduct of economic and social actors, changes in the attitude of managers, entrepreneurs and consumers. Each participant in the economic life is affected and therefore reacts, according to one's own set of values and knowledge. In these circumstances, organizational stress is high, managers' motivation is difficult to attain, and the human resources are concerned with the insecurity, rather than organizational performance.

When a crisis occurs, the human resources have to bear the higher demands - physically and mentally-, which translates into high levels of stress. Due to stress and/or crisis members of the organization will react, depending on personality and education, in two different ways, namely:

- They will involve actively in the activity of the organization, reacting to the state of uncertainty and insecurity of work. A recent study conducted by researchers at the *Finnish Institute of Occupational Health* points out that the intensive activity of the human resources generates higher negative effects for long-term organization and its members. With a sample of 2214 subjects, the researchers of the above mentioned institute highlighted that those who work more than 50 hours per week face a higher risk as regards the brain functioning³¹. Such a attitude leads to concentration problems and a poor quality in performing the tasks;
- They will develop/ amplify a feeling of insecurity and uncertainty, reaching high levels of occupational stress.

Thus, in times of crisis, when it is difficult to make the best choice, the manager's professionalism is paramount for raising the awareness and total involvement of the employees in the organization, with a view to obtaining excellence and avoiding organizational

³¹ Virtanen, M., Singh-Manoux, A., Ferrie, J., Gimeno, D., Marmot, M., Elovainio, M., Jokela, M., Vahtera, J., Kivimäki, M., - "Long working hours may be a risk factor for decline in cognitive function", *American Journal of Internationale Epidemiologie*, vol 169, nr. 5, p. 596-605, 2009;

ineffectiveness. The manager has to train and motivate the human resources, with low costs, as the organization's expenses cuts, so specific for periods of crisis, affect, usually, "the *most valuable asset of the organization*" as well.

Analyzing the pyramid of needs developed by Maslow, one can notice that, in times of crisis, the needs of the employees are negatively affected, which eventually influences on to professional performances.

Table 2 – The hierarchy of the needs of the individual and their implications in crisis situations

Motivational levels according to Maslow	Aspects affecting human resources motivation during crisis
<i>Self-actualization</i>	- <i>Lack of an efficient management of human resources, generated by the managerial orientation exclusively towards the economic and financial aspects of the organization</i>
<i>Esteem</i>	- <i>Reduction of market positioning of the organization;</i> - <i>Organization image loss</i>
<i>Social needs</i>	- <i>Social needs are not directly affected by the crisis</i> - <i>During a crisis, they may be exploited by providing a relative autonomy in decision making and work teams control</i>
<i>Security</i>	- <i>Lack of job security</i> - <i>Reducing employee health costs</i> - <i>Failure to ensure salary growth according to the inflation rate</i>
<i>Biological needs</i>	- <i>Salary losses</i> - <i>Reducing/terminating financial rewards</i>

Regarding to the staff expenses policies, if possible, in times of crisis, as well as in situations of decreased performance, in terms of to maintain the salaries, rather that cut them, as a system characterized by decrease and steps back would lead to a decrease in the employees motivation and will entail irreversible process in the organizational performance. In times o crisis, the psychological incentives are recommended, as they increase the interest for career and the employees' commitment to the organization. Also, an alternative/complementary motivation policy determines a complex balance that has infinitely more nuances than the mere salary policies. The Employee Recognition and the feedback on performance achieved require very small costs, as it depends more on the creativity and openness of the decision makers, with considerable impact in terms of motivation. In times of crises, the advantage will belong to the organization which has implemented a motivation system which is not centred on salaries, and generalized it throughout the organization, transforming it into tradition. An organization that has a motivation system focused on psychological aspects will have a greater cohesion among employees, will avoid the organizational stress and, in term of employee's attitude, will easily overcome a crisis.

Professional performance in crisis situations can be achieved by using two types of strategies aimed at influencing the human resources:

1. *Direct Influence* - the strategy refers to direct interaction between managers and human resources that has to be motivated. The effectiveness of this type of strategy depends on the employee's set of values and on the manager's values as well. Thus, young employees will be oriented towards meeting basic needs, while employees will be oriented towards meeting the

superior needs. Depending on the scale of the crisis, manager may choose to implement a series of incentives for the human resources:

- A training course chosen by the employee or organization;
- Purchase of books or tickets to an event from the organization's fund;
- Taking over part of the employee's tasks for a short period of time (a day);
- Offering a meaningful gift for the employee, etc

Such methods do not require high costs, have a positive effect if the employee's needs have been properly assessed; it requires more than managerial creativity. Furthermore, such method reduces organizational stress, as it makes the human resources more emphatic with the management decisions.

2. *Situational adaptation* - adaptation strategy refers to the adaptation of human resources to the working climate, so as to influence situations within the organization. Specific methods mentioned strategy consists of:

- Feedback - recognition of merit, providing useful information to employees and achieving an effective vertical and horizontal communications;
- Management by objectives – participation of the employees in planning, setting goals and decision making within the organization;
- Competition - determining the desire to win the competition by placing several employees and/or departments in competition

The incentives and bonuses are the easiest method of motivation, but in times of crisis, the manager's ability to work with people and influence human resources is paramount to success. In addition these additional payments are used by employees to meet higher needs; in times of crisis, it is recommended that these needs are be satisfied with lower costs by the organization's manager. Thus, a crisis means, for the manager, an assessment of his own abilities and success/failure of the organization is the result of the test.

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PSYCHOSOCIAL SPECIFIC IN THE INTERACTION MANAGER- MANAGEMENT TEAM MEMBERS

Professor Ph.D. Marian POPESCU, Assistant Professor Ph.D. Emilia POPESCU,
Teaching Assistant, Ph.D. Candidate Nicoleta ISAC

University of Pitesti, Faculty of Economic Sciences
popescu.marian@yahoo.com, nykoll2008@yahoo.com

Abstract: In the conduct of the managerial team activity an important role falls on the manager. Interaction manager - the team management is closely related to the psychology of organizing activities of the group. We envisage a series of psychological processes such as, for example, the power, authority, suggestion, imitation, influence, popularity, prestige.

Keywords: power, authority, influence, popularity, group..

1. THE MANAGERIAL TEAM

In the managerial team the team members interaction is done at two distinct levels: interaction between the manager - team members and the interaction between the member - the team management members, each having a series of psychological features in the concrete functional plan. At the first level, the manager is the one who affects profoundly or superficially the managerial team members behavior, the reverse effect being less present.

The influence of the manager to the managerial team is explicitly, direct; the influence of the managerial team members to the manager is implicit, somehow mediated. On the plan of interaction between members of managerial team influences have a less decisive character, being realized in all respects and in all directions, including both quantitative and qualitative aspects more varied and multiple.

Interaction manager - the managerial team members is a certain system of functions aiming the behavior modification. It occurs most often in the form of interpersonal relations, namely of some relations that meet and work between two or more people, relations that have a psychological nature, are aware and direct. The interaction we talk about represents the essential means of livelihood of the managerial team.

Interaction manager – the managerial team members is not just sitting in meetings, but also work personal contacts. For manager such contacts can be an important source of information on the actual situation of an enterprise and an opportunity to operatively resolve some issues that arise in certain places.

In the process managerial team members manage to convince each other, to influence each other their opinions, to give advice, there are some contradictions. We can say that begin to exert an one another influence in behavior, attitude, in the analysis and approach to vital issues of the company.

Social contacts become the basis of a new element in the process of forming the managerial team cohesion, which is already a factor for the exercise of mutual influence between members of the team, so occurring the mutual interaction.

Managerial psychology put in place and highlighted the place and role of balance between manager and managerial team members in the interaction manager - the members of the respective group.

2. TEAM BUILDING

The secret behind the success of every successful organization is an efficient management and the formation of a quality team. If you want your organization to scale the same heights, team building and management training can help you reach there.

Team building refers to a wide range of activities, usually in a business context, for improving team performance. Team building is pursued via a variety of practices, and can range from simple bonding exercises to complex simulations and multi-day team building retreats designed to develop a team (including group assessment and group-dynamic games), usually falling somewhere in between. It generally sits within the theory and practice of organizational development, but can also be applied to sports teams, school groups, and other contexts. Team building is not to be confused with “team recreation” that consists of activities for teams that are strictly recreational. Teambuilding is an important factor in any environment, its focus is to specialize in bringing out the best in a team to ensure self development, positive communication, leadership skills and the ability to work closely together as a team to problem solve.

Work environments tend to focus on individuals and personal goals, with reward & recognition singling out the achievements of individual employees. “How to create effective teams is a challenge in every organization” Team building can also refer to the process of selecting or creating a team from scratch.

A team-building consultant is responsible for each component of a team building intervention. A team-building consultant will likely interact with the team once, or for a limited number of times. During this relationship, the consultant will actively work to assess the team, make recommendations, and provide activities (exercises that compose a team building intervention) for the team. These responsibilities usually require a team-building consultant to write a proposal after his or her evaluation of the organization and the team, indicating how he or she would go about improving the team’s performance. Once the organization and consultant determine which recommendations to utilize (if not all), the consultant is then responsible for providing a useful intervention that will transfer back into the organizational setting. This responsibility usually requires the consultant to create a detailed plan of events, while allowing for flexibility. After the intervention has been employed, the consultant will typically evaluate the team-building program and communicate the results to the organization. Otherwise!!

3. TRAINING FOR TEAM BUILDING

- A team building training can help a lot in building an efficient team that can get a lot of work done very easily. Team building training to all the staff, help in improving the collective organizational performance. It also helps in increasing its bottom line.
- Team building training helps the participants to develop effective communication skills. Communicating effectively can help to get the message across with diplomacy. This is very important to avoid any stress at the workplace.
- The training also involves the effective use of electronic communications mediums like, voice mail, fax and e-mail. This is important as these strategies are used on the job on a day to day basis. The training also teaches the right ways to open up the communications among all the team members, to avoid any stress from occurring in the team setting.

- The team building training also includes motivating the people to deal with certain team members that have a poor attitude towards important things. It also includes the techniques to inspire the team members to stretch and succeed in the team setting.
- The training also teaches the team leaders, the art of delegating appropriately. It also teaches them the ways to hold the team members accountable without making them angry. It also teaches the leaders some ways to save some time that is usually spent on any unnecessary business.

Management training

- An efficient management is the backbone of every successful company. Management training can help you to deal with a variety of problems in your organization and will help you to develop some key skills. Here is look at what all does it teaches you.
- The training helps you to deal with the whole process of recruitment and selection of new employees. It also teaches you the art of interviewing the prospective candidates.
- It helps you to lead effective meetings that are result oriented and help your teams to achieve the set goals.
- During the training you are also taught some ways to train your other team members for different tasks.
- The management training teaches you some ways through which you can maximize the performance of the other members working for the organization. It also teaches you ways to deal with the under performing employees and coach them for a higher performance.
- During the training you also learn some ways to deal with the variety of disciplinary issues that you come across in an organization.
- Both the team building and management training can be taken in the organization itself as well as at the training centers. So if you want your organization to benefit and scale new heights of success, invest some time in team building and management training.

4. THE CHARACTERISTICS OF INTEGRATION AND TRAINING OF THE MANAGERIAL TEAM

Integration and training of the managerial team as a group of participatory management of the company heavily depend on the balance between manager and team members. In the research of this balance will be considered the main characteristics of such relationships and in this framework is necessary to insist not on the obligations of members of the managerial team, but on the duties and the initiative of the manager in creating the respective balance. Among these, the most important are:

- manager should respect and show a careful attitude towards the views and suggestions of members of managerial team. He has the right and duty to participate actively in the formation of these views. To create an atmosphere that will facilitate members' understanding of body work team managerial goals and methods to achieve and to ensure a total consistency between personal beliefs and the line promoted by the respective group. Such an atmosphere should not lead to the offence of the convictions of managerial team members.;

- in the process of mutual adaptation, it should not reach a situation in which the manager to be in opposition with the entire managerial team or most of them;

- manager is required to regularly inform the managerial team of the main tasks, so that the respective group to understand this line and to assimilate;

- manager is required to show care towards how the managerial team members discharge the duties of service and their personal problems;
- have to strive to create an atmosphere of friendship and mutual trust between manager and managerial team members and between all members of the group.

Our research shows that the balance between manager and the managerial team members is one of the most important areas for creating a state of satisfaction - dissatisfaction. Polar relationship manager - managerial team members is not uniform in both directions, in relation to the formation of satisfaction. For members of her managerial team is a much more powerful source of satisfaction - dissatisfaction than for the manager.

The balance between manager and managerial team members raised some managerial problems with psychological implications. In the managerial process of managerial team members can manifest tendency to impose partial views, and tend to increase the degree of influence over others. They should therefore be moderated, on the one hand by obtaining a point overview of discussed issues, on the other hand, by limiting their role within the team, to exercise their rights but do not infringe on other members.

The balance between manager and the managerial team members is a fundamental relationship, a bilateral alive relationship. In this process between the members of the respective group are born different relationships and wrapping, appears elements of social psychology, managerial team acquires a specific feature that the manager has an obligation to know at all times to influence and use it in order to achieve the major objectives arising for the company the each stage.

Multitude of relationships that are established in the managerial team concerns on the one hand to the functional relationships seen in relation to the task nature to participate in managerial enterprise, and on the other hand activity in managerial team have emotional and affective emotional, moments of tension and conflict. From here the need for the manager to know emotional features of members of the team and on this way they can take effective action to mobilize resources of managerial team members.

5. CONCLUSIONS

In the management of the company the emotional states of satisfaction, happiness etc. - facilitates participation in management, while states of fatigue - fear, anger, sadness etc. - hinder participation. Therefore, both in meetings and individual meetings manager should avoid insulting words or phrases that can lead to misinterpretation and to create to managerial team members conditions to feel free to show their abilities, skills and individual peculiarities.

Manager is intended to discover the personality of each member of the body, boosting his qualities and skills, the guide to their fulfillment.

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SUPPLY MANAGEMENT TODAY

Assistant Professor Ph.D. Elena JIANU

University of Pitesti, Faculty of Economic Sciences
ejianu@yahoo.com

***Abstract:** Clearly, supply chain management is changing and organizations need to re-evaluate what the supply chain can deliver in terms of value. They must also recognize the need to invest time and resources in changing their structure, processes and technology in order to fully capitalize on the opportunities that supply chain management offers. A clear picture of the potential added value can be obtained by expanding forecasting activities into a more collaborative approach to planning which takes into account both the demand side and the supply side of an organization.*

***Keywords:** organization, management, customer, process, resources, supply chain.*

1. SUPPLY CHAIN MANAGEMENT

The supply chain is playing an increasingly important part in defining companies competitive positioning and, ultimately, their success in the marketplace. Consequently, in most organizations, the role of supply chain management is growing rapidly, as is awareness of this role. However, many companies remain unclear about precisely how to define supply chain management or how to integrate it with those parts of their business that are conventionally associated with the generation of revenue. This lack of clarity means that, understandably, organizations find it difficult to optimize their supply chains in response to the rapidly changing dynamics of today's markets.

The questions that senior managers are asking themselves about supply chain management not only indicate their strong desire to close this gap in understanding, but also highlight shortcomings in the methods they currently use to analyze their supply chains.

Typically, they want to know:

- What do supply chains look like?
- Which elements of each supply chain should my company own rather than have supplied as a service by another company?
- What are the typically cycle times for each stage of our supply chain?
- What are the typically cash cycles associated with our supply chain?

To begin to answer some of these questions and show that organizations need to adopt a more sophisticated approach to supply chain analysis I will look at what we now describe as supply chain management has come into processes, trying to break down the internal barriers, in order to create what has become known as the extended enterprise.

2. THE SUPPLY CHAIN PERSPECTIVE ON FORECASTING

For most companies, forecasting-the analysis of current and historical data to determine future market trends-is a familiar activity that remains extremely important in enabling them to achieve their strategic goals. It is generally applied to demand patterns in order to define customers' potential future behavior and has become a prominent focal point for most enterprises, as they need to know well in advance the likely demand profiles they will face. In developing, their forecasting techniques companies have worked to shorten the time horizon as

far as possible so that they can make earlier and more accurate predictions, thereby giving themselves more room for manoeuvre when preparing and planning their business strategies.

From a supply chain management perspective, however, it has become clear that forecasting should not focus solely on predicting demand as it has often done in the past. Instead, enterprises need to apply more accurate forecasting techniques to their supply response. In this way they will be able to position themselves better to cope with the increasingly complex, dynamic and global markets in which they must operate.

Current and historical data analysis should inform supplier management, production operations, logistics, transportation and return management. At present it is generally assumed that customer demand forecast are the only information needed and that data on sales volumes can be broken down into predicted volumes for the other domains through correlation tables. Such an assumption holds true in stable environments where demand can be modeled using stochastic modeling techniques based on cause-and-effect correlations. In reality, however, the current business world is far more unpredictable than such methods allow for and can't be easily framed within a stable model.

Some argue that unpredictability is nothing new and that it has always been a feature of any market; hence the creation of forecasting techniques in the first place. That is certainly true to an extent, but the unpredictable information that has been taken into account in the past related mainly to the quantity of goods an enterprise needed to sell. In today's more dynamic business environment there are several other unpredictable factors to take into account, namely:

- multiple product categories
- associated services
- rapidly changing consumer tastes
- price rebates due to stiff and often unfair - competition from countries in the Far East.

Since any deviation of the actual values from those forecasted could result in a huge negative impact on company profitability, companies must address these new variables and can do so in several ways. For example, they could shift away from centralized and automatic algorithm-based planning and forecasting towards an increasingly collaborative approach. Shared knowledge about market conditions, domain expertise and common sense now provide the results that were once automatically calculated by complex, multi-level algorithms. Enterprise application software that enables collaboration, dialogue and opportunity-based decisions now often sits beside the rigid and mechanical computation modules that have traditionally been used in the past. Forecasting software is therefore a support mechanism for the human-based, collaborative decision-making process.

3. SALES AND OPERATIONS PLANNING

Having recognized the new demands on forecasting, the next step is to consider how to analyze current data to develop and implement specific courses of action for future operations over a specified time period. In other words, we move from forecasting to planning, which requires that enterprises examine the entire spectrum of their supply chain processes and thereby derive its value.

There is evidence that many enterprises are already looking to move beyond simple forecasting based on algorithms towards more collaborative planning methods. Many are looking with great interest at how to develop sales and operations planning. In most cases, Sales and Operations Planning (S&OP) is performed monthly, with senior management teams balancing profitability objectives, channel requirements and the organization's overall business strategy to decide how best to balance demand with supply, using such tools as a consensus-based demand plan, a constraint-based supply plan and an agreed process to bring the two together.

This approach enables them to focus on the most profitable customers or, at the very least, on serving them more effectively.

Sales and Operations Planning basically drives a profitable balance between demand and supply. It helps to provide a vital understanding of important measures, such as the actual level of customer demand, which sectors of that demand are more or less profitable, and what constraints on supply a company faces. It also emphasizes the importance of establishing a collaborative demand plan across the many departments within the organization and involves customers in the definition of this plan. Good S&OP processes have been important for many years, but the decisions that companies must make based on such planning have.

According to industry analysts, successful projects for S&OP implementation focus more on change management and process alignment than on technology, but information technology (IT) has become an essential element in coping with the ever-increasing complexity of processes and is a vital process enabler for a new approach to S&OP. Recent studies conducted by industry analysts have revealed that initiatives to enhance S&OP can, on average, result in 30 per cent improvement in order fill rates and 25 per cent higher gross margins.

Clearly, predicting only one possible future is no longer sufficient. Instead, supply chain managers must plan for a range of different scenarios, and this can only be achieved by creating an environment in which the many partners in the supply chain can effectively collaborate to model different possible outcomes and align their activities to accommodate many different supply scenarios. Yet, although collaborative forecasting and planning is at the centre of a company's demand generation process, a strong strategic trend across large and medium-sized organizations is currently emerging: this aims to anticipate - rather than merely react to - market tendencies and needs, as we can see in the case of a pharmaceutical company with a keen eye on innovation.

4. APPLYING THE NEW DEFINITION OF VISIBILITY

Inventory visibility is a particularly important aspect, as supply chain solutions are primarily determined by their ability to manage logistics, material handling, inventory management and shop-floor processes. Nevertheless there is a need to look beyond inventory management to redefine visibility. Most successful organizations now consider four key factors that make up supply chain visibility:

1. *Product visibility*- This relates mainly to data on item definition, localization, life cycle and quality. Within this definition are enterprise software solutions covering bill-of-material management, track-and-trace identification, product configuration, product life cycle and product quality.
2. *Process visibility*. This enables the cross-referencing and control of the many operations that occur within an organization. It includes planning operations such as supply chain network design, customer demand forecasting, production planning, capacity management and maintenance planning. Manufacturing operations - production scheduling, shop-floor control, work-in-progress, track-and-trace and production efficiency also come under this definition, as do purchasing processes, such as spend management, supplier performance evaluation and real-time monitoring of process phases. Performance analyzes - including plant operational analysis, awareness of activities within any given plant, comprehensive category and product-level analysis across the entire supply chain - are further key elements, as are billing and invoicing, and returns logistics processes.
3. *Partner visibility* This enables organizations to understand customers' value propositions and communicate them to internal functions and to suppliers. It allows them to create supplier portfolios based on pre-set target margins for each product or service, which are then used to better understand and negotiate margins and profitability in the light of how these are influenced by supplier's services. Many organizations are adopting supplier cost-breakdown

analysis to estimate the 'fair' return they should give their suppliers, which provides higher-level verification of processes within the supply chain. Organizations can then focus on the big picture, rather than on micro-managing pennies. Contract compliance, customer relationship management, global trade management and channel relationship management are among many solutions that support and enable better partner visibility.

Profit visibility. This is the measurement of the impact of supply chain operations on profitability, showing how they affect the bottom line. It requires an appropriate set of indicators, and basic financial drivers are a good starting-point for a personalized - though generally acceptable - performance measurement system.

Different departments within an organization handle the inbound and outbound elements of the supply chain. And, at some point in the middle, profit visibility determines how well the customer value proposition is communicated from one to the other. Solutions include supply chain operations reference metrics, economic value-added models, enterprise asset management solutions, cost- information benchmarks, enterprise profit optimization and best practices such as those put forward by Pittiglio Rabin Todd & McGrath (PRTM), the American Productivity and Quality Center (APQC) and the Centre for Advanced Purchasing Studies (CAPS).

If an organization focuses solely on visibility of the manufactured product as it progresses through the supply chain, it misses out on the opportunity to ensure that its strategic goals are closely aligned to the objectives of its supply chain processes. This gap can be closed relatively easily by adding the additional categories of visibility - process, partner and profit.

5. CONCLUSION

Clearly, supply chain management is changing and organizations need to reevaluate what the supply chain can deliver in terms of value. They must also recognize the need to invest time and resources in changing their structure, processes and technology in order to fully capitalize on the opportunities that supply chain management offers. A clear picture of the potential added value can be obtained by expanding forecasting activities into a more collaborative approach to planning which takes into account both the demand side and the supply side of an organization. Supply chain managers need to examine how technology can help them to move towards this increasingly collaborative environment and to secure buy-in from senior executives to make the necessary investment happen. Furthermore, they must adapt their definition of visibility in the supply chain to encompass processes, partners and profitability in order to attain a more comprehensive view of how all the elements of a supply chain interact to affect their overall performance.

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PSYCHOSOCIAL ORIENTATION IN PLANNING THE RESPONSIBILITY

Professor Ph.D. Marian POPESCU, Assistant Professor Ph.D. Emilia POPESCU,
Teaching Assistant, Ph.D. Candidate Eliza ANTONIU

University of Pitesti, Faculty of Economic Sciences
popescu.marian@yahoo.com

***Abstract:** This paper presents the complexity of the process of psychosocial orientation in planning the responsibilities of the managerial team. The manager must strive to achieve a balanced distribution of responsibilities between members of the managerial team and there are also presented the main responsibilities of the managerial teams and the most important characteristics of them.*

***Keywords:** managerial team, responsibility, manager, organization, behaviour.*

1. FUNDAMENTALS OF MANAGERIAL TEAM

The complexity of problems that are put before the managerial team makes that the rigorous division of the tasks within the group has a specific *purpose*: to create conditions that every action has a solid background and a better contoured efficiency. Superficial treatment of this matter may lead to unnecessary and excessive loading of the work team, the dispersion of insignificant and marginal efforts.

The manager must strive to achieve a balanced *distribution of responsibilities* between members of the managerial team. In this process he has a duty to organize such activities that use that opportunity to promote personality and responsibility of each.

It is good that in planning responsibilities, the manager to require team members to express views on how they can contribute most effectively to achieve the objectives and tasks. In this way it monitors and, of course, can make a correlation with the tasks, qualities and interests of members. It will be also considered the difficulties that faced or might face team members.

In terms of responsibility the participatory management system complements its **contents**, giving new *values*:

- managerial team receives the opportunity to focus on major problems and needs of the enterprise and to find more effective solutions to resolve them;
- materializes formal relations between managerial team members;
- develops some managerial skills to team members, giving them the possibility of participation in the process of decision-making;
- rising level of conscientiousness of each member of the managerial team.

2. RESPONSIBILITIES OF MANAGERIAL TEAM

In our point of view responsibility managerial team represents *a specific psychological phenomenon*, which is expressed through the ability of each member, and the whole body to choose a particular line behavior, taking into account the social significance of his actions and the immediate and remote consequences together, the emotional experience of the state arising from the obligations assumed on this occasion.

The complexity of human activities at factory level determined Jean Francois Hirsch (1969) to state that no operational research can be a universal remedy or a manual of magic recipes. Therefore the human factor and especially the managerial team responsibility is one of the utmost importance. In such conditions participatory management of the company becomes an act of collective appreciation, a value, an expression of attitudes.

Application of democratic principles in the management of industrial enterprises in the form of management teams does not exclude, but on the contrary, assume the increase of individual responsibility. Democratic climate in the process of participatory management strengthens the responsibility for both the immediate and later effects. Developing democracy in the managerial team represents one side of the efficient management of the company and is also a moral investment certifying and also stimulating the existence of an evolved responsibility, calls the new ethical life, new professional skills.

In the transition to a market economy the managerial team should be designed in such a way that the body should have a feeling of satisfaction and completion of work performed, which provides necessary motivational potential.

The increase of responsibilities of managerial team members involves two elements:

- boldness, namely the inclusion in participatory management of more difficult tasks which requires a considerable intellectual effort;
- original managerial tasks, quality that allows the managerial team members to perceive the significance of work done and get the respect for people come into contact.

These elements are very relative; they take a range state to another depending on the personality of each and the conditions under which they operate to participate in the management company.

3. THE DEGREE OF RESPONSIBILITY OF MANAGERIAL TEAM

The study of forms of manifestation of responsibility in the managerial team gives us the opportunity to detach a series of concepts with a view to its characterization. Psychological support of the rapport between *debt and aspiration* to participatory management of the company determined that the degree of responsibility of managerial team members to depend not so mechanically conforms to the rules, how full their option to say that staff in management and participation the collective options.

Due to its importance and psychological effects of problem of managerial team responsibility acquires a meaning mainly psychological. And however, quite often in the analysis of the concept of responsibility, specialists in legal sciences neglect its psychological edge. In fact the study of relations and legal work confirms that legal responsibility is based on psychological components. If you would not have such bases, legal responsibility could not exist as a sanction, which implies a negative reaction of staff and an inner unrest of the person concerned.

Psychological aspects of the responsibility of managerial team have *more broadly sense*, more comprehensive than legal. They have a proactive, preventive positive function. They appear to share a permanent action mechanism, which provides not only responsible fulfill for the participatory management but also the initiation and implementation of measures designed to prevent and avoid situations that could harm the company.

The degree of responsibility is a true barometer of the moral value of the individual members of the managerial team. Personality itself is a creative of new material and spiritual

values and responsibility with her psychological and moral aspects - an inestimable force of creative and cohesive managerial team. Responsibility as a personality trait and responsibility as personal relationship is the result of subjective transposition in consciousness of member of the managerial team of the system of objective group relations.

4. THE CHARACTERISTICS OF AN EFECTIVE MANAGERIAL TEAM

The most important characteristics of an Effective Managerial Team are the following:

- *Clear purpose*: The vision, mission, goal, or task of the team has been defined and is now accepted by everyone and there is an action plan.
- *Informality*: The climate tends to be informal, comfortable, and relaxed. There are no obvious tensions or signs of boredom.
- *Participation*: There is much discussion, and everyone is encouraged to participate.
- *Listening*: The members use effective listening techniques such as questioning, paraphrasing, and summarizing to get out ideas.
- *Civilized*: There is disagreement, but the team is comfortable with this and shows no signs of avoiding, disagreement smoothing over, or suppressing conflict.
- *Consensus*: For important decisions, the goal is substantial but not necessarily unanimous agreement decisions through open discussion of everyone's ideas, avoidance of formal voting, or easy compromises.
- *Open*: Team members feel free to express their feelings on the tasks as well as on the group's operation. Communication. There are few hidden agendas. Communication takes place outside meetings.
- *Clear rules*: There are clear expectations about the roles played by each team member. When action is work assignments taken, clear assignments are made, accepted, and carried out. Work is distributed among team members.
- *Shared leadership*: While the team has a formal leader, leadership functions shift from time to time depending on the circumstances, the needs of the group, and the skills of the members. The formal leader models the appropriate behaviour and helps establish positive norms.
- *External relations*: The team spends time developing key outside relationships, mobilizing resources, and building credibility with important players in other parts of the organization.
- *Style diversity*: The team has a broad spectrum of team-player types including members who emphasize attention to task, goal setting, focus on process, and questions about how the team is functioning.
- *Self-assessment*: Periodically, the team stops to examine how well it is functioning and what may be interfering with its effectiveness.

5. CONCLUSION

Managerial teams in organizations are formed on the basis of functional grouping, which favors efficiency, or work flow grouping, which enhances flexibility. Informal characteristics emerge during the process of group development as groups pass through the four stages of initiation, differentiation, integration, and maturity. Owing to process loss, groups are usually less productive than individuals working alone. Process loss can be traced to the effects of production blocking, group-maintenance activities, and social loafing.

Owing to group synergy, groups can sometimes be more productive than individuals working alone; this gain can be traced to social facilitation, the need for affiliation, and within-group competition. Teams are a special type of group characterized by high levels of interdependence, work flow grouping, and differentiated knowledge, skills, and abilities possessed by team members. Because teams are not always more effective than individuals working alone, managers need to pay particular attention to the group's task and communication structure, size and composition, goals and incentives, and cohesiveness and conflict.

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THE VALUE CHAIN – STRATEGIC INSTRUMENT OF ANALYSING THE COMPANY’S COMPETITIVENESS THROUGH COSTS

Associate Professor Ph.D. Doruleț GRĂDINARU, Associate Professor Ph.D. Puiu
GRĂDINARU

University of Pitesti, Faculty of Economic Sciences
grădinaru_doruleț@yahoo.com
grădinarupuiu@yahoo.com

***Abstract:** Company’s value chain consists of value - activities which are distinct activities from physical and technological point of view, and in margin, which represents the difference between the total value, respectively firm’s total revenue, and the sum generated by the costs of value – activities. Setting the value chain involves the identification and individualization of business activities that are strategically relevant in order to understand the costs formation and find possibilities for differentiation the company’s activity from the corresponding ones conducted by competitors.*

***Keywords:** value chain, primary activities, supporting activities, value chain disaggregation, value system, margin.*

1. VALUE CHAIN CONTENT

The value chain shows the total value in which a company develops its products and services, its overall revenues, and consists of value - activities that the company develops and in their specific margin.

Establishing a business value chain involves the identification and individualization of activities, which are strategically relevant, in order to understand the mechanisms for costs formation and to find possibilities for differentiation of these activities from the corresponding pursued under competitors. Differentiation in the company’s advantage means that it is able to meet its strategic activities to costs below those made by competitors.

To highlight the fact that every firm is part of a broader stream of activities which goes beyond the upstream and downstream perimeter of own company, Michael Porter also introduced the value system concept.

Suppliers that influence company’s performance by the conditions under which they provide their products and services, have their specific value chains (upstream value). In the company’s downstream, along channels through which its products or services reach the user are performing other activities that add value, which affects both selling price to the user but also company’s performance (added value in the distribution channels). Finally, the purchaser’s own value chain, in which the company’s product or service is a crucial part (the buyer’s specific value chain).

Specialized activities of a company engaged to design, produce and sell products or services that they can assemble in the value chain according to the scheme in Fig. 1.

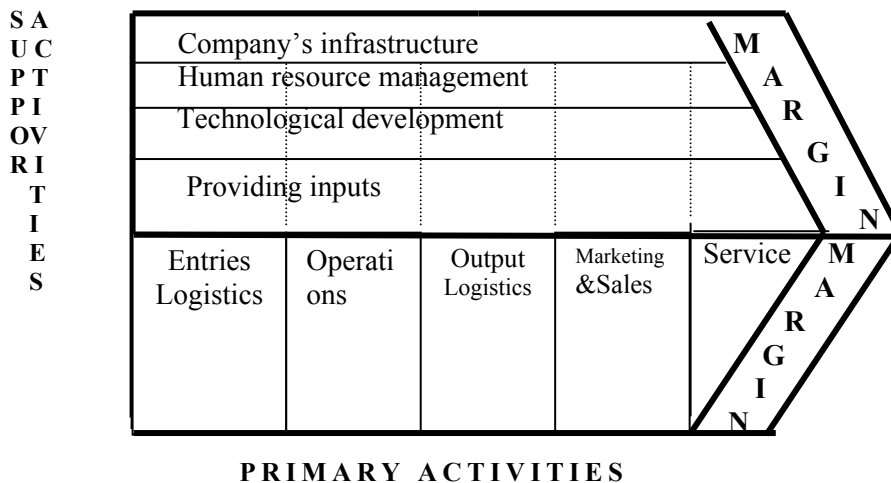


Fig. 1 A company's value chain

Company's value chain consists of activities - value and margin, which represents the difference between total revenue of the company, and the sum of activities costs - value.

Company's value – activities are divided into primary and support activities. Primary activities, shown in the lower half of Figure 1 are directly related to the achievement of product or service and its sale to the purchaser, including needed support of the latter after the act of sale. Support activities presented in the upper half of the figure, are supporting each other and assure materials input, technology and manpower required for the primary activities, cross sections of the figure representing these support activities by dotted lines indicate that such activities can meet the specific requirements of a primary activity or serve the entire chain. Instead, the segment of figure representing company's infrastructure, located in the upper part of the figure, it is not crossed by dotted lines, whereas the infrastructure can not be associated to a single primary activity, but serves all primary and support activities of the company.

Primary activities fall into five general categories listed below, each covering different activities whose content varies widely depending on industry profile in which the company is operating and business strategy.

- **Input logistics** is including activities of purchasing, reception, storage and distribution of input materials necessary to conduct other business activities and, primarily, of the production one. These activities consist in the inquiry for raw materials, equipment, etc., monitoring their receipt, their storage, inventory management, return raw materials to the supplier, materials, etc...with inadequate quality, supply internal warehouse etc.

- **Operations** are activities to transform material inputs and intangibles into outputs and also materials and intangibles, like the actual own – processing (production), assembly, packaging, maintenance and repairing of cars, machinery, equipment, etc... quality control, tests and samples.

- **Output logistics** includes storage of finished products, their conditioning and distribution to buyers, which means sorting and storing finished products on batches to sent, dispatch operations, preparing the necessary documents, company's external transport planning etc.

- **Marketing and sales** are activities that consist of noticing buyers about company's products or services and their characteristics in attracting new customers and in providing ways and means by which buyers can acquire company's products or services. Among these activities are recorded, so, using various forms of sales promotion (advertising, publicity, sales promotion, personal sales, exhibition with sales, exhibition, fairs), sales contracting, establishing sale price, choosing distribution channels, use of the selected channels.

- **Service** is maintenance and extra value of the product for its customers, such as product installation at the buyer's siege, its repair, training customers to use the product correctly, adjusting the product at the requirements and specific operating conditions, supply of spare parts required for the replacement of the used ones.

In turn, **supporting activities fall into four general categories.**

- Company's infrastructure is the only support - activity which supports the entire chain of value - activities and not individual activities. This category includes activities such as company's general management, planning, financial, accounting, legal, quality management.

- **Human resource management** is the category of support activities including company activities related to recruitment, selection, hiring, employment and psycho integration of personnel, training and improvement, employee appreciation, payment and social activities and services (ensuring proper working conditions, labor protection and occupational medicine, providing the conditions of accommodation for the staff, employees transport, maintenance and exploitation of social groups, sports, cultural, recreation etc..., organization of rest and treatment vacation, insurance, aids, installment payments, etc.).

- **Technological development** is the support activity that brings together all activities with the objective of improving company's products or services and processes for achieving them. Porter states that he use the term "technological development" instead of well known and widely used "research and development" since the latter has an effect far too limited for many managers. Hence generic category of technological development includes many activities, for example, applied research, product design and used technology in its manufacture, machinery design, tools and equipment provided by auto-equipment, technology design to ensure servicing, setting market research technology, defining supply screening procedures for materials, equipment, etc... and establishing priorities to meet customer orders, etc...

- **Providing input** is a generic kind of support-activities that supplies inputs used in the company's value chain such as raw materials, spare parts, fixed assets of machinery nature, equipment, production or office equipment, buildings and specialized information which enters in the category of consulting, strategic, financial, legal, environmental, etc...consultancy. Given this wide range of entries, which exceeds its supply target - said, Porter proposed the term "Procurement" and states that it relates to the supply inputs used in the value chain and not the purchased inputs.

2. BUILDING THE VALUE CHAIN

Specific value chain construction methodology of a company that operates in a particular industry involves the following steps:

- a. Training of managerial and professional staff involved in building the company's value chain;
- b. Disaggregating the value chain presented in individual activities, which effectively meet in the company;

- c. Demonstration of company's costs starting from the activities defined in the previous stage and running along the entire chain of activities - costs, from raw materials supply, fixed assets and up to the final price paid by the buyer;
- d. Establish, where possible, the same appropriate company cost structure to competitors;
- e. The discrepancies between our own cost activities and the costs of competing firms, highlighting on this basis the generating sources of competitive advantages and disadvantages;
- f. Assessment, based on comparing costs with those of the competitors, of the competitive position in terms of company's costs in the profile industry;
- g. Establishing by company's management, in consultation with the specialists involved in the cost generating activities, measures to ensure the creation and strengthening of identified cost advantage and possibly amplification of this advantage.

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THE MARKETING PHILOSOPHY AND CHALLENGES FOR THE NEW MILLENNIUM

Professor Ph.D. Dainora GRUNDEY

Kaunas Faculty of Humanities, Vilnius University, Lithuania
dainoragrundey@yahoo.co.uk

Abstract. *The world has changed a lot during this millennium and it still keeps changing. For this reason it sounds logical, that together with these changes marketing faces a lot of challenges which need to be overcome. That is why the second purpose of this paper is to define the challenges for marketing in the new millennium. Both theoretical considerations will be applied to the selected practical cases from international and Lithuanian markets.*

Keywords: *marketing, marketing orientations, philosophy, millennium challenges, Starbucks, Coffee Inn, the USA, Lithuania.*

1. INTRODUCTION

Introduction of a product, service or idea into the market is always followed by the marketing effort, the functions and forms of which have been changing over the decades. To follow these changes and overviewing the current position of art in marketing philosophy and marketing challenges, the following structure of the papers is offered in *Figure 1*. This research logic implies that the *main research goal* is to review the *marketing orientations* (Dibb and Simkin, 2004; Lancaster and Reynolds, 2005; Blythe, 2005; Drummond and Ensor, 2005; Morgan, 1996; Kotler and Armstrong, 2008; Pranulis *et al*, 1999, 2000, 2008) as constituted in the marketing philosophy and to determine the *marketing challenges* (Sutton and Klein, 2003; Blythe, 2005; Kashani, 2005; Brown, 2008; Kotler and Armstrong, 2008; Bishop, 2009) in the new millennium, which could be consequently applied and tested in national (Lithuanian) and international markets.

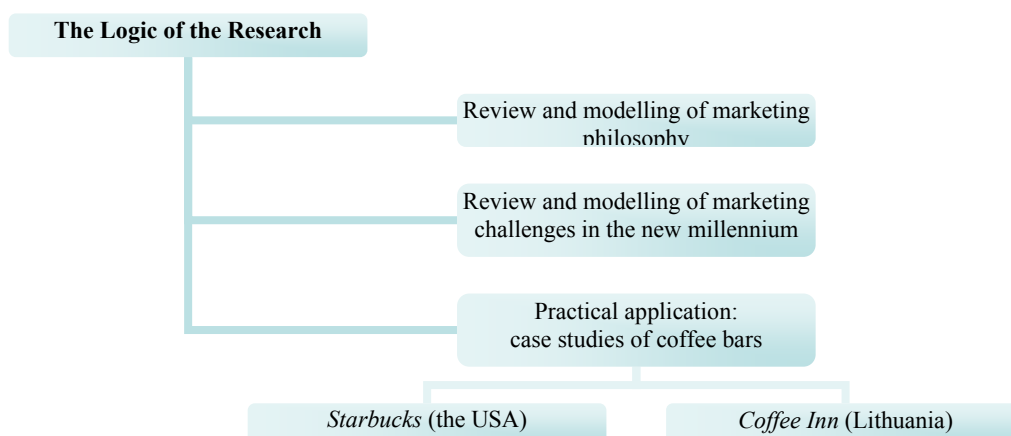


Figure 1. The Logic of the Current Research

Therefore, the paper also aims at applying the theoretical findings to the practical case studies, namely comparing two coffee bars – one on the international level – *Starbucks*; and another one from the Lithuanian market – *Coffee Inn*.

2. LITERATURE REVIEW ON MARKETING PHYLOSOPHY AND MODELLING

Efforts of reviewing and modelling marketing elements, concepts and philosophical attitudes were numerous and effective. But with new challenges causing hurdles in making marketing function more effective on macro- and micro- level of the economy, a revision of marketing philosophy is always at place.

Table 1. Elements of marketing philosophy

<i>Dibb and Simkin (2004)</i>	<i>Lancaster and Reynolds (2005)</i>	<i>Blythe (2005)</i>	<i>Drummond and Ensor (2005)</i>	<i>Morgan (1996)</i>
1. Production orientation	1. Production orientation	1. Production orientation	1. Production orientation	1. Cost philosophy
2. Financial orientation	2. Sales orientation	2. Product orientation	2. Product orientation	2. Product philosophy
3. Sales orientation	3. Marketing orientation	3. Sales orientation	3. Sales orientation	3. Production philosophy
4. Marketing orientation		4. Customer orientation	4. Financial orientation	4. Sales philosophy
5. Customer orientation		5. Societal marketing	5. Marketing orientation	5. Erratic philosophy
6. Competitor orientation		6. Relationship marketing		6. Marketing philosophy
7. Interfunctional coordination				7. Social marketing philosophy

Source: compiled by the author.

As indicated in *Table 1*, authors tend to use various terms for the elements of marketing philosophy:

- a) '**orientation**' (Dibb and Simkin, 2004; Lancaster and Reynolds, 2005; Blythe, 2005; Drummond and Ensor, 2005);
- b) '**philosophy**' (Morgan, 1996);
- c) '**concept**' (Kotler and Armstrong, 2008).

Even the Lithuanian authors, who wrote the first university book on marketing, professors Pranulis, Pajuodis, Virvilaite and Urbonavicius (1999, 2000 and 2008) have used the Lithuanian counterpart word '*orientation*'. Following this broad tendency of the term '*orientation*' usage, here, in this article, the choice of the '*orientation*' term will be applied.

The renowned American professors Kotler and Armstrong (2008, pp.9-12) indicated that their choice of *marketing management orientations* were as follows:

- the production concept,
- the product concept,
- the selling concept,
- the marketing concept.
- the societal marketing concept.

A similar opinion was expressed by a group of Lithuanian marketing professors, where they classified marketing orientations as follows (Pranulis *et al.*, 1999, 2000): a) production

orientation, b) product orientation, c) selling orientation, d) marketing orientation; e) social-ethical marketing orientation.

Because of the difficulty of incorporating all the various facets of marketing into a single definition, Lancaster and Reynolds (2005) distinguished features of the subject in the following statements (Lancaster and Reynolds, 2005, p.16):

- “Marketing is dynamic and operational, requiring action as well as planning.
- Marketing requires an improved form of business organisation, although this on its own is not enough.
- Marketing is an important functional area of management, often based in a single physical location. More importantly, it is an overall business philosophy that should be adopted by everybody in the entire organisation.
- The marketing concept states that the identification, satisfaction and retention of customers is the key to long-term survival and prosperity.
- Marketing involves planning and control.
- The principle of marketing states that all business decisions should be made with primary consideration of customer requirements.
- Marketing focuses attention from production towards the needs and wants of the market place.
- Marketing is concerned with obtaining value from the market by offering items of value to the market. It does this by producing goods and services that satisfy the genuine needs and wants of specifically defined target markets.
- The distinguishing feature of a marketing orientated organisation is the way in which it strives to provide customer satisfaction as a way of achieving its own business objectives.”



Figure 2. Proposed orientations in marketing philosophy

The author of the article **proposes the following perception on the classification of marketing orientations**, which constitute the marketing philosophy essence (see *Figure 2* and *Figure 3*):

- 1) the production orientation,
- 2) the product orientation,
- 3) the financial orientation,
- 4) the selling orientation,
- 5) the marketing orientation,
- 6) the market orientation (which extends to internal and external orientations),
- 7) the social-ethical marketing orientation,
- 8) the holistic marketing orientation (which extends to internal marketing orientation, integrated marketing orientation, social marketing orientation relationship marketing orientation).

The *holistic marketing concept* was proposed by Kotler and Keller (2007) but it was not mentioned or wider discussed in the textbook of *Principles of Marketing* (Kotler and Armstrong, 2008), but introduced in their co-operative book on *Marketing Management* (2007). For this reason, it is viable to include this new orientation in the proposed model (*Figure 3*), as it integrated at least four other sub-orientations: a) internal marketing orientation, b) integrated marketing orientation, c) social marketing orientation and d) relationship marketing orientation.

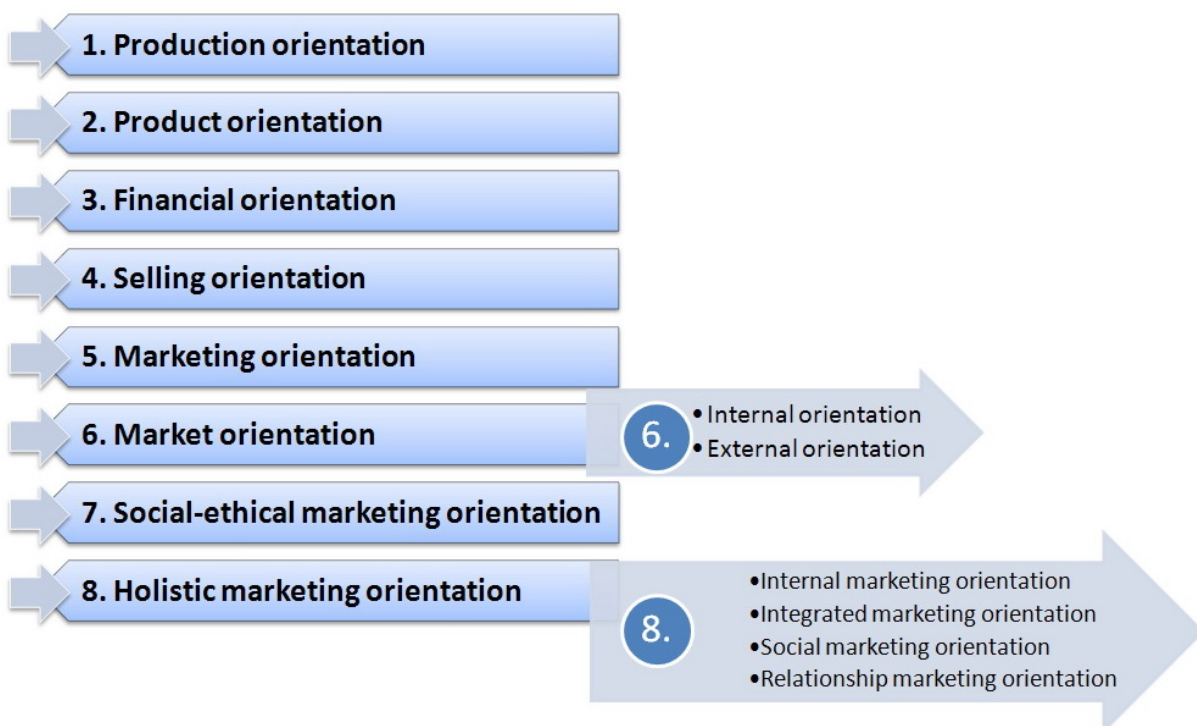


Figure 3. Extended proposed orientations in marketing philosophy

Internal marketing orientation will be directly dealing with a Marketing Department within an organisation. It will directly subordinate to the senior management level and other organisational department, emphasising the organisational culture and micro-climate, suitable for effective work and success factors in marketing performance.

Integrated marketing orientation would focus towards integrated marketing communications, the cost-effective selection of marketing channels and integrated development of products and services within the scope, demand and challenges of the national and international markets.

Social marketing orientation would be focusing on the concept of societal marketing proposed by Kotler and Armstrong (2008), where the basic societal marketing triangle is based on the well-being of the community, incorporating the corporate social responsibility of companies and non-profit organisations, legal issues and environmental protection issues, which altogether streamline the sustainable development of the economy and consumption patterns.

Relationship marketing orientation would be concerned with fostering the customer-company relationship with consumers, offering value added products and services. This orientation will also foster the company-partner company (B2B) relationship, seeking trust and reliability in partner selection process and its maintenance for coming years. Therefore, marketing channels should be effectively developed to reduce costs and enhance profitability ratios for all three market participants: a) producers, b) distributors and sellers, c) consumers.

The *market orientation* (No 6 in Figure 3) is proposed to be grouped as *internal* and *external* orientations. Though Narver and Slater (1990) proposed a model that identified the components of *market orientation* as:

- **Customer orientation**, which incorporates customers' perceptions and understanding by customers' creating value, offering cost-effective solutions to satisfy their needs.
- **Competitor orientation** emphasises one of the marketing's functions, i.e., to seek competitive advantage in the market. Competitor analysis, performed in various techniques (e.g. PESTED analysis, Porter's forces analysis, Boston matrix analysis, etc.), gives a company tools to objectively evaluate competitors' capabilities and results on the market.
- **Organizational culture** if analysed on an individual basis could be either included into market orientation factor or in the holistic marketing orientation, depending how integrative the marketing philosophy is on an organisational level. Organisational culture should support customer service and customer relationship development through employee performance prism.
- **Interfunctional coordination** should focus on the interaction between internal functional areas of the organization which best serve customer need and satisfaction, which in other cases would correspond to the *relationship marketing orientation* (Kotler and Keller, 2007).
- **Long-term focus** would incorporate the consideration of how the above can be sustained, and financially viable, over the long term.

In this paper the proposition by Drummond *et al* (2000) is closer to the author's perception of market orientation, therefore *the constituent parts of the market orientation* are considered to be the balance between:

- a) *External market orientation*: customers, competitors and other external stakeholders.
- b) *Internal market orientation*: employees and other internal stakeholders.

3. LITERATURE REVIEW ON MARKETING CHALLENGES IN THE NEW MILLENNIUM

The precondition, which fostered to review the challenges for the marketing in the new millennium, was the statements in various forms and shapes, which appeared during the past decade in text books, social networks, media and social forums. The selection of disturbing statements were selected and presented here for the discussion (see *Table 2*).

The biased perception of marketing functions and orientations at the dawn of the new millennium is not compelling. Traditional (conventional) marketing is visualised as a dead function, notwithstanding the critics of modern marketing practice. The critics bring up the issues of lost customers, mass marketing and viral marketing (Big Marketing Ideas, 2009; see *Table 2*). Therefore, a more fundamental change for marketing is at stake – towards a more personal touch in the field, as well emphasised by Spellings (2009).

Boynett and Boynett (2003) in their book on “*The Guru Guide™ to Marketing: A Concise Guide to the Best Ideas from Today’s Top Marketers*” have also identified a number of citations, which question the future of marketing and its conventional functionality. It is apparent that marketing is becoming a multi-disciplinary theory, which inevitably incorporates postmodern aspects of the markets and consumption patterns and consumer behaviour.

Table 2. Selected statements on the death of traditional marketing in the new millennium

<i>Authors/sources</i>	<i>Statements</i>
Boyett and Boyett (2003, p.1)	Death-of-marketing gurus rationalize their hyperbole by explaining that marketing is in the throes of fundamental change.
World of DTC Marketing (2008)	Conventional marketing is dead...
Bishop (2009)	Marketing is dead; long live marketing: Attracting consumers in the post-mass marketing era.
Big Marketing Ideas (2009)	The reason we say viral marketing is dead is not because content no longer spreads in the same way – quite the contrary. But the idea that you could create a flash game or a funny video and expect it to get a million hits and downloads within a week is now patently naïve.
Wymore (2009)	Forget direct mail, television advertising, and other mass media marketing. They just don’t work anymore. Traditional marketing is dead. In other words, these marketing chestnuts simply don’t stand out in today’s noisy media market.
Spellings (2009)	“Mass Marketing is Dead. Make Way For Personal Marketing”: The days of mass marketing are coming to an end as we enter a new era of personal marketing. Personal marketing will require more work, more preparation, and smarter implementation, but the rewards will be vastly better than the mass marketing approach.

Source: compiled by the author.

Table 3. Selected marketing challenges in the new millennium

<i>Sutton and Klein (2003)</i>	<i>Blythe (2005)</i>	<i>Kashani (2005)</i>	<i>Brown (2008)</i>	<i>Kotler and Armstrong (2008)</i>	<i>Bishop (2009)</i>
<ul style="list-style-type: none"> • Increasing market complexity • Accelerating demand for speed to market • Growing need to capture marketing knowledge • Increasing availability of innovative marketing technologies • Escalating demand for marketing efficiency and effectiveness 	<ul style="list-style-type: none"> • Relationship marketing development • Service quality enhancement • Internet marketing development • Marketing ethics • Marketing strategy revisited 	<ul style="list-style-type: none"> • <i>Commoditisation</i> (change in technologies, more informed customer, more intense competition) • <i>Consolidation</i> (mergers & acquisitions) • Power shift • Margin erosion • Value focus 	<p><i>Postmodern challenges:</i></p> <ul style="list-style-type: none"> • Hyperreality • Fragmentation • Reversed production and consumption • Decentred subjects • Juxtaposition of opposites 	<ul style="list-style-type: none"> • The new digital age • Rapid globalisation • The call for more ethics and social responsibility • Growth of non-profit marketing 	<ul style="list-style-type: none"> • Aggressive innovations • Building a strong value proposition • Engagement and connection to the customer • Delivering customer experiences at or above expectations

Source: compiled by the author.

It could be generalised that marketing in the 21st century presents many *new postmodern challenges* (see Table 3):

- *shrinking markets*, which in effect implies fragmentation and decentralised subjects (Brown, 2008), followed by increasing market complexity (Sutton and Klein, 2003) and market *globalisation* (Kotler and Armstrong, 2008);
- green issues (Blythe, 2005), more *marketing ethics* (Blythe, 2005; Kotler and Armstrong, 2008) and *social responsibility* (Kotler and Armstrong, 2008);
- *marketing strategy* revisited (Blythe, 2005) through accelerating the demand for marketing efficiency and effectiveness (Sutton and Klein, 2003) and speed to market (Sutton and Klein, 2003), and aggressive innovations (Bishop, 2009);
- advancements in *technologies* in the *digital age* (Kotler and Armstrong, 2008), including Internet, commoditisation (Kashani, 2005), communications (Bishop, 2009), internet marketing development (Blythe, 2005), increasing availability of innovative marketing technologies (Sutton and Klein, 2003);
- engagement and connection to the *customer* (Bishop, 2009), through service quality enhancement (Blythe, 2005), delivering customer experiences at or above expectations (Bishop, 2009), rapidly changing public attitudes towards consumption (Sutton and Klein, 2003);

- building a strong *value* proposition (Bishop, 2009) through growing need to capture marketing knowledge (Sutton and Klein, 2003), power shift (Kashani, 2005) and reversed production and consumption (Brown, 2008).

Therefore, marketers are facing the *re-evaluation of marketing strategy*, applying new tools and sophisticated techniques in the new millennium, where changes are of a constant nature. "Ultimately, the firms who take the greatest care of their customers' interests are the ones most likely to maintain their competitive edge in a cut-throat world" (Blythe, 2005 p.332).

4. THE CASE OF COFFEE BARS: APPLYING MARKETING ORIENTATIONS AND MARKETING CHALLENGES IN THE NEW MILLENIUM

In practice, each company selects business and marketing philosophy which suits it best. The decision depends on the company's type, size, products and services it produces, distributes and sells and etc. In order to apply marketing orientations and marketing challenges to a practical situation, two companies in coffee bars sector:

- a) an international company *STARBUCKS* (the USA) and
- b) a national company *COFFEE INN* (Lithuania).

Their briefs and marketing philosophies will be discussed bellow.

4.1 THE CASE OF STARBUCKS (THE USA)

Probably one of the most famous brands in the United States and now in the whole world, reflecting the specific lifestyle of the few generations, is definitely *Starbucks*. *Starbucks* is the largest coffee-house company in the world, offering a wide range of various coffees, hot and cold coffee and non-coffee drinks, sandwiches and sweet snacks.

Founded in 1979, only as a coffee bean retailer *Starbucks* became a coffee-house selling coffee drinks as well as beans, when its present headmaster Howard Schultz came in and bought the company from its former owners in 1987. Since then, an extraordinary quick expansion in the United States, and from 1996 in the whole world, has begun. Now, *Starbucks* owns approximately 16 000 stores in the world and announces about opening 900 new stores outside United States in 2009 (on the other hand, *Starbucks* is closing the same amount of stores in the United States) (www.starbucks.com).

It is obvious, that such a big success would be impossible without well selected and formulated marketing philosophy. As one of the most innovative companies in the world *Starbucks* has chosen *social-ethical marketing orientation* and declares care for the environment and common wealth as well as for people. The main idea of their philosophy is defined in the *Starbucks* mission statement. *Starbucks* has two mission statements which are placed in the official company's website : „*To inspire and nurture human spirit – one person, one cup, and one neighbourhood at a time*“ and „*Starbucks is committed to a role of environmental leadership in all facets of our business*“ (www.starbucks.com).

Social-ethical marketing orientation is getting a trendy buzz word, as environmental and ecological problems are on the increase. Some years ago *Starbucks* was criticised for wasting resources by using paper and plastic cups, for wasting water and even funding Israel army

(Vitkus, 2009). Now this company is shown as the best example of environmental friendly business in the business schools around the world. *Starbucks* announces its *corporate social responsibility* Annual reports for the public; here the company describes their attention to the employees, customers and the environment, manifesting *marketing orientation*, *market orientation* and *holistic marketing orientation*. They started to use cups from recycled paper or biodegradable plastic. Social responsibility is also emphasised in their coffee-bars' design, posters and various promotional campaigns (the *integrated marketing sub-orientation* in the *holistic marketing orientation*).

According to Pranulis *et al* (2008), the main idea of *marketing orientation* is to create the circle of loyal clients rather than one-time buyers. *Starbucks* could be called a champion in this field too. The chairman of *Starbucks* Howard Schultz explains, that a person gets more than just coffee when he/she visits *Starbucks* – „he gets great people, first-rate music and a comfortable and upbeat meeting place” (www.starbucks.com). That's why people all around the world are willing to pay for coffee more than in other coffee-bars – they buy and experience, not a drink (*the selling orientation*). According to Howard Schultz, *Starbucks* build personal relationships with each of their customers (this implies the *relationship marketing sub-orientation* in the *holistic marketing orientation*). Even the waiters at *Starbucks* are called *baristas* to make them feel exceptional and proud about their workplace, not to feel just simple service workers (*internal marketing sub-orientation* in the *holistic marketing orientation*).

Another core element of *marketing concept* (Pranulis *et al.*, 2008, Kotler and Keller, 2007) is to appeal to customers' needs. *Starbucks* does everything to achieve its costumers' satisfaction. They were the first who offered free internet at their coffee-bars and started to open the stores 10 minutes before the actual opening time just to make customers always feel welcome and happy. *Viral marketing* has also become one of the most important features of *Starbucks*'. You can hardly find an advertisement in any newspaper or marketplace, but they build extremely strong relationships by using social networks, internet and mouth-to-mouth marketing, which means *Starbucks* meets the **marketing challenges of** a) *the digital age*, b) *value proposition*, c) *connecting to customers*, d) *corporate social responsibility*, e) *green issues* and f) *overall revised marketing strategy*, g) *market shrinking factors* (as *Starbucks* was forced to close down 600 coffee-bars in the USA during the economic slowdown (Milasius, 2008).

4.2 THE CASE OF COFFEE INN (LITHUANIA)

The other company selected for a comparative study is a national company, located only in Lithuania. *Coffee Inn* is a coffee-bars' chain opened a few years ago in Vilnius, the capital city of the country. Started from just one coffee-bar, *Coffee Inn* now owns 7 coffee-bars in Vilnius and one in Kaunas in 2007 (Vaitiekuniene, 2007). At first, *Coffee Inn* came into the market with the same concept as *Starbucks* did. It sells coffee and various coffee drinks, served in paper cups, sandwiches and desserts in small, cosy coffee-bars, located in the city centre.

The main difference between *Starbucks* and *Coffee Inn* is that *Starbucks* is a big global company (*the globalisation challenge*) and can afford applying *social-ethical marketing orientation*, while *Coffee Inn* is still too small to afford huge investments for various social projects and campaigns and it has chosen the *marketing orientation*. However, *Coffee Inn* expands constantly, therefore, sooner or later this company will also apply *social-ethical marketing orientation* (now *Coffee Inn* supports various cultural festivals, such as cultural night *Tebūnie naktis*, or *Street music day*, not financially, but by helping to promote them, or by prolonging their opening hours during these festivals).

The main idea, the co-owner of *Coffee Inn* Nidas Kiuberis explains, is that they sell a feeling of pleasure rather than just a cup of coffee (Obcarskaite, 2009). It seems extremely similar to *Starbucks* idea. The waiters are called *baristas* too, *Coffee Inn* also offers free internet access and their menu is quite similar to *Starbucks* one. Lithuanians sometimes even claim that *Coffee Inn* tries to copy *Starbucks*. On the other hand, there are a lot of cafeterias offering similar facilities (e.g., *Vero Cafe*, *Double Coffee* and etc.), and *Coffee Inn* is not an exception. However, *Coffee Inn* is a lot smaller as coffee-bars' chain than *Starbucks* and for this reason it is much easier to control it. Being small enables *Coffee Inn* to be more flexible and to react to customers' demands and wants quicker and to create new demands and wants at the same time (*marketing orientation*). *Coffee Inn* constantly offers new drinks, snacks and other features (*product orientation*). They were one of the first who invited customers to come together with their pets, set free book collection and invited everyone to come to read or to donate a book (*the communication challenge*).

While talking about customers' loyalty, new technologies play an important part here too (*the technological challenge*): *Coffee Inn* keeps exceptionally close relationships with its customers using *Facebook* social network, writing the blog and honestly replying to all the letters and comments. The co-owner Nidas Kiuberis maintains the *Coffee Inn* blog himself – this is very important, as customers notice, that director of the company itself pays attention to their opinion (Milasius, 2008). Nidas Kiuberis explains, they are following “*guerilla marketing*” ideas, because it is the best solution for a small business without large budget, where creativity and energy are the most important things (Obcarskaite, 2009). “Viral marketing and personal blog writing costs nothing and gives better results, than advertisement on TV – your loyalty for customers loyalty, these are the things every company seeks, especially in a crisis time” (Obcarskaite, 2009). As a result, *Coffee Inn* has created a steady circle of loyal customers, who are indifferent to similar competitors, such as *Vero Cafe*, offers.

5. CONCLUSIONS

In the changing market environment with changing customer behaviour and seeking business opportunities, companies face marketing challenges on a daily basis. In the process of theoretical research, a modified model of marketing orientations, which form the marketing philosophy, was proposed, comprising eight major orientations, where market orientation and the holistic marketing orientation are split into further sub-orientations. The other task for the author was to review and structure marketing challenges in the new millennium and test these issues in two cases of coffee-bars sector on international (*Starbucks*) and national (*Coffee Inn* in Lithuania) markets.

Starbucks and *Coffee Inn* both follow similar marketing orientations. *Starbucks* follows social-ethical marketing orientation as a basis of business, while *Coffee Inn* is being still guided by the marketing orientation. Both companies sell an experience, rather than just coffee and image is very important for the customers of these companies as they are mainly young people (20-40 years of age, Miksys, 2008). Both companies use viral marketing techniques, though *Coffee Inn* can create closer relationships with its customers, because it is able to react to changes quicker. Loyal customers could be called the biggest strength and competitive advantage of these companies as they do not compete on price, just by creating exceptional atmosphere.

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THE CHANCES OF ROMANIAN TOURISM FACING THE INTERNATIONAL COMPETITION

Professor Ph.D. Mihaela DIACONU, Teaching Assistant, Ph.D. Candidate Cristina MICU

University of Pitesti, Faculty of Economic Sciences
diaconu_m2005@yahoo.com, crstnnl@yahoo.com

***Abstract:** Romania has represented a successful destination within the international tourism; it had an internal tourism based on a legal framework (the Law of tourism) ever since the inter-war period. The significant development of the accommodation capacities was achieved in the early '60s, especially on the Black Sea littoral. In the '70s Romania was an important tourist destination for many developed countries. After 1980 Romania was confronted with a strong decline of the number of foreign tourists, and this tendency was maintained till the '90s caused by the lack of funds for investments meant for development, by the slow and complicated privatization process, by applying inadequate fiscal obligations, by the lack of some facilities in the field of the banking credits. Taking the example of the developed countries where tourism participates with a very important percentage to the national wealth, Romania strives to reinstate an economic field with real chances of development and to turn tourism into the prosperous industry that can compensate the losses caused by rhythm and substance in the other economic branches. Romania has resources to achieve a high quality tourism.*

***Keywords:** personal travel & tourism, T&T Economy GDP, Direct Industry GDP, Travel & Tourism Capital Investments*

1. SHORT RADIOGRAPHY OF ROMANIAN TOURISM EVOLUTION

As A. Toffler was saying, the tourism is that binder that makes the connection between the most various civilizations and economies and between the cultures all over the world, it is the way by which humanity can change and develop, by which the cultural identities can be spread, the economic barriers and all kinds of prejudices that can be suppressed, it is a „real therapy”.

The development of tourism as an industry of producing services requested by a growing segment of population it is supported by the economical, social, ecological and educational importance that it has in the national economy.

Romania has represented a successful destination within the international tourism; it had an internal tourism based on a legal framework (The law of tourism) since interwar period. The significant development of the accommodation capacity has been achieved in the first half of the '60's, especially on the seaside of Black Sea. In the '70's, Romania has had an important travel destination for Germany, Great Britain, Scandinavian countries, France, Italy, Austria, Belgium. After 1980 Romania knew a strong decline of the number of foreign tourists, and this tendency was maintained also in the '90's because of the lack of funds for investments for development, the slow and complicated process of privatization, of applying an inappropriate fiscal policy, of the inexistence of facilities in bank loan field.

Between 1965-1980³² the activity held by Romania in the line of international tourism was higher than the tendencies registered on overall plan. The number of foreign tourists' arrivals in

³² Gh. Barbu (coord.) – *Turismul în economia națională*, Ed. Sport-Turism, București, 1981, p. 124

Romania has grown by almost 10 times, while on overall plan the growth was **just 2,4 times**. The increase of currency collection was for 15,5 times, while on overall plan it was for 8,3 times. Over 80% from the arrivals were from the socialist countries.

Towards the 1980's when the intern travel circulation has known a constant rising evolution, by 1990 it is registered a strong decrease of it, determined by social-economic factors. The economic failures registered after 1989 that has included the whole economy has affected also the tourism that is a consequential and interference branch.

The specific purposes in the sustainable development of the tourism after 1989 has aimed the increasing of travel product competitiveness of Romania and its competitive capacity that can finally lead the increasing of travel circulation and the volume of travel activities.

In the first overall ranking of travel and tourism made in 2007³³¹ that measures the development potential of tourism in different countries, **Romania is on the 76th position from 124**; it has received the best mark for human resources chapter, the score 4,96 from 7, for natural and cultural resources the score of 4,68, the 46th position; by the criterion of the regulations and rules in the tourism policy branch, Romania is situated on the 107th position with a score of 4,6, but about the environment regulations, Romania is situated on the 101th position overall, with the score of 3,31. Romania is situated on the 107th position depending on the importance that Romanian government grants to the tourism sector comparing with others branches of national economy. The promotion of Romanian tourism is on the 82th place overall with the score of 3,45. The efficiency of marketing strategy and branding for drawing the attention of the tourists in Romania is lower, our country situating on the 111th position. According to the competitiveness in Romanian tourism rate, Romania is on the 87th position, with the score of 4,19. Depending on the volume spent by the foreign travelers on travel services from the country, Romania is on the 95th position overall, with the score of 4,43. According to the safety and security, Romania is on the 72th position, with the score of 4,26, and the health and hygiene from Romanian tourism is on the 99th position overall with the score of 4,26. Regarding the attitude of citizens against the tourists, Romania is on the 76th position.

Pursuing the example of the developed countries where the tourism takes part to a very important percentage of the national wealth, Romania is striving to reset an economic branch with serious development possibilities and to make from tourism the thrifty industry made for compensating the rhythm and the subsite loss from other economic branches. Romania has resources to make brand tourism.

Critical considerations concerning the contemporary evolution of the Romanian tourism:

- the Romanian tourist market has not a modern management and it is immature; it is divided and does not benefit by a modern management;
- there is an image deficiency of Romania abroad, even if in the last years there were made visible efforts to improve it;
- the touristic infrastructure is still low developed;
- touristic services are low qualitatively, big costs and reduced performances in human resources management;
- excessive fiscality: there are paid 14 central taxes where there are added the local zone and the 9% VAT for the accommodation and 19% VAT for the meal (in Greece and Turkey these taxes are smaller than ours by 3-4 times);
- an inadequate ambient in the touristic places;
- the quality, the quantity and the accessibility of the information related to the touristic attractions need important improvement (only almost 50% from all touristic attractions are known and visited by the tourists);

³³ [Wall-Street](#) [02-03-2007], [Ziarul Financiar](#) [02-03-2007])

– the small diversity of the tourist schedule (unfortunately the schedules that should include trips with train times, in the agro-tourist area emphasizing the popular traditions, ecological gastronomy, Ecumenical and scientific tourism, all of these are not enough in the request report);

– the lack of a strategy at national and local level in the branch of promoting Romania's potential as a tourist destination for reunion. Romanian tourism is tributary and for the „Business Travel” segment shown in a powerful increase by widening the number of international corporate with overall needs appeared in Romania. The exceptions are those companies that asked other companies from „Travel Management”, companies that were already in Romania;

– the reduced economic power of customers and the lack of cohesion of the agencies despite the economic interest;

– the welcome capacities according to the European standards and with a qualified staff are few; there should be imposed some experience changes with developed countries in the classic tourist branch, but also agro-tourist branch, visited in places like Toscana and Calabria from Italy, Tirol from Austria, Bavaria from Germany, the Marine Alps in France, Macedonia in Greece;

– the number of entertainment possibilities is reduced, and there is not a definite motivation for buying a stay in Romania;

– Romanian traditional products are very low presented in restaurant's menus, and if they are presented they do not reflect the Romanian culinary reality. In Romania there are a lot of restaurants with Italian, French, Turkish, Chinese typical comparing with those with Romanian typical;

– the privatization of the actives in tourism was made without the substantial intervention of great actors from the international market with experience and managerial capacity to raise funds for major investments as it happened in Bulgaria. MEBO Method was not the most efficient alternative for privatization, as it was not efficient the administration place applied immediately after 1990 did not encourage the investment, but just practicing higher prices compared with the quality given;

2. THE ECONOMIC IMPACT OF TOURIST ACTIVITIES CURRENTLY AND IN PERSPECTIVE OF THE NEXT TEN YEARS

In order to quantify the economic impact of Travel & Tourism, World Travel & Tourism Council uses the framework of a simulated Tourism Satellite Account. The Travel & Tourism Satellite Account is based on a demand-side economic activity, because the industry does not produce or supply a homogeneous product or service as traditional industries (agriculture, electronics, steel, etc).

Demand-side accounts are: personal Travel & Tourism, business travel, government expenditures, visitor exports, capital investment, other exports.

Travel & Tourism is an industrial activity defined by the diverse collection of products and services that are delivered to visitors. There are two basic aggregates of demand (Travel & Tourism Consumption and Total Demand) and, by employing input/output modeling separately to these two aggregates, the Satellite Account is able to produce two different and complementary aggregates of Travel & Tourism Supply: the Travel & Tourism Industry and the Travel & Tourism Economy. The first captures the explicitly defined production-side industry contribution (direct impact only), for comparison with all other industries, while the second captures the broader economy-wide impact, direct and indirect of Travel & Tourism.

The Travel & Tourism Industry Supply includes:

- Travel & Tourism Industry GDP (direct) - Direct GDP and employment associated with Travel & Tourism Consumption. This is the explicitly defined Supply-side Industry contribution of Travel & Tourism that can be compared one-for-one with the GDP and employment contribution of other industries in the economy. Establishment in this category include traditional Travel & Tourism providers such as airlines, hotels, car rental companies, etc.
- Travel & Tourism Industry GDP (indirect) - Indirect GDP associated with Travel & Tourism Consumption. This is the upstream resident economy contribution which comes about from suppliers to the traditional Travel & Tourism Industry. Establishments in this category include fuel and catering companies, laundry services, accounting firms, etc.
- Travel & Tourism Industry Imports - the values of goods imported by direct and indirect Travel & Tourism Industry establishment.

Travel & Tourism Economy Supply includes:

- Travel & Tourism Economy GDT (direct and indirect) - direct and indirect GDT also know as Value Added and Employment associated with Travel & Tourism Demand. This is the broadest measure of Travel & Tourism's contribution to the resident economy. Establishments in this category include those described above as well as manufacturing, construction, government, etc that are associated with Capital Investment, Government Services and Non Visitor Exports.
- Travel & Tourism Economy Imports - the value of goods imported by direct and indirect Travel & Tourism Economy establishments.

Table 1. Satellite account tables - Romania

Travel & Tourism Accounts as % of National Accounts	2004	2005	2006	2007	2008E	2009F	2019F
Personal Travel & Tourism	3,8	3,8	3,8	3,6	3,6	3,9	4,7
Government Expenditure	4,3	4,3	4,4	4,4	4,4	4,4	4,6
Capital Investment	7,1	7,1	7,2	7,2	7,3	7,3	7,7
Visitor & Other Exports	5,1	5,1	5,0	4,9	4,9	4,6	3,9
Travel & Tourism Imports	5,6	5,4	4,5	3,4	3,0	3,4	3,2
Travel & Tourism Direct Industry Employment	3,1	3,1	3,2	3,4	3,5	3,4	3,8
GDP	1,9	1,9	2,0	2,2	2,2	2,1	2,5
Travel & Tourism Economy Employment	5,6	5,6	6,2	6,7	7,1	6,8	7,9
GDP	5	4,7	5,1	5,6	5,9	5,7	6,6

Source: WTTC - Travel & Tourism Economic Impact, Romania, 2009

A study made by World Travel & Tourism Council has proposed to illustrate the economic impact of travel-tourism activity in Romania at 2009 level in perspective of the next 10 years compared with the situation at the European Union and overall level.

Table 2. The economic impact of Travel & Tourism - at national, European and overall level in 2009* and 2019**

Indicators	ROMANIA				EUROPEAN UNION				WORLDWIDE			
	2009		2019		2009		2019		2009		2019	
	% of total	growth	% of total	growth	% of total	growth	% of total	growth	% of total	growth	% of total	growth
Personal Travel & Tourism	3,9	4,8	4,7	4,3	10	-3,3	8,9	2,5	8,6	-2,9	8,9	3,8
Business Travel	0,5	-1,4	0,4	3,1	1,4	-9,0	1,3	2,2	1,3	-7,2	1,3	3,6
Government Expenditures	4,4	4,0	4,6	4,7	3,3	3,4	4,0	1,9	3,9	3,3	4,0	3,2
Capital Investment	7,3	2,6	7,7	5,3	9,0	-8,0	9,3	3,0	9,4	-5,3	9,3	4,7
Visitor Exports	1,9	-6,8	1,0	3,8	6,1	-4,7	5,4	3,7	6,0	-4,5	5,0	4,7
Other Export	2,7	8,7	2,9	11,2	5,5	-1,2	5,4	5,0	5,0	-5,4	4,7	6,0
T&T Demand	4,8	3,0	5,2	5,9	10,3	-4,1	9,5	3,2	9,6	-4,0	9,5	4,3
Direct Industry GDP	2,1	-4,0	2,5	5,8	3,4	-4,0	3,1	2,5	3,2	-3,5	3,1	3,6
T&T Economy GDP	5,7	-2,4	6,6	5,8	9,9	-3,5	9,5	2,7	9,4	-3,5	9,5	4,0
Direct Industry Employment	3,4	-6,5	3,8	0,6	3,9	-3,8	3,0	1,1	2,7	-1,9	3,0	2,4
T&T Economy Employment	6,8	-7,0	7,9	0,8	10,4	-3,0	8,4	1,1	7,6	-2,8	8,4	2,3

*estimated, **forecast

Source: WTTC-Travel & Tourism Economic Impact, Romania, 2009

From the analysis of the indicators presented in the first table there some very important aspects concerning the direct and indirect impact of the tourist activity of the economy, considered to be one of the most important priorities at overall level:

the contribution of Romanian tourism to create GDP is under the European and overall contribution, but the tendency is to grow;

- the Travel & Tourism Economy is expected to grow by 5,8 % per annum unreal terms between 2010 and 2019, while on the level of EU the Travel & Tourism Economy is expected to post average annualized gains of 2,7% between 2010 and 2019; Travel & Tourism is a high-growth activity, which is forecast to increase its total economic activity by 4% worldwide in real terms over the next ten years;

- Travel & Tourism Economy Employment is estimated in Romania at 6,8% of total employment, or 1 in every 14,6 jobs, by 2019 this should 7,9 % of total employment or 1 in every 12,6 jobs. T&T Direct Industry jobs account for 3,4% of total employment in 2009 and are forecast to 3,8%of the total by 2019, while on the level of EU is 3,9% of total employment, while the broader Travel & Tourism Economy generates in 2019 10,4 % of total employment. Travel & Tourism is human resource intensive, creating quality jobs across the full employment spectrum. Today there are 77,3 million Travel & Tourism Direct Industry jobs and 219,8 million jobs in the Travel & Tourism Economy, and these will rise to 97,8 million Travel & Tourism Direct Industry jobs and 275,7 million Travel & Tourism Economy jobs by 2019.

- Of Romania's total export Travel & Tourism generates 1,9% in 2009, increasing to 3,8% of total in 2019 while on the level of EU Travel & Tourism exports generates 6,1% of total exports in 2009 and at worldwide Travel & Tourism 6% of total exports.

- Travel & Tourism Capital Investments are of 7,3% of total investment in year 2009 and 7,7% of total in 2019 while on the level of EU are 9% of total region capital investment in 2009 and there are estimated for 2019 9,3% from overall. At overall level Travel & Tourism is a catalyst for construction and manufacturing. Capital investment is situate data level 9,4% in present and in the perspective of 2019.

- Government Travel & Tourism operating expenditures in Romania in 2009 are 4,4,% of total government spending while at European level is growing at 3,3% in present and 4% in the

perspective of 2019. Overall Travel & Tourism is both a generator and receiver of government funds. Globally, in 2019 is expected to garner of 4% of total government expenditure.

The major aims of policy in tourism in view of relaunching Romania in the international position should take account of:

- creating an image at intern level but also at external level for the advantages of Romania as a tourist destination and the image of its tourist brand;
- the awareness that tourism represents a key factor in the economy;
- the expansion of the collection, analysis and dissemination system of statistics and the market studies, to offer assistance in creating a Satellite Tourism Account for Romania;
- creating a centre network for tourist information coordinated in the major tourist places;
- developing the national transport system, the network of roads and track, of the infrastructure of airports and port;
- the expansion of the marking system of national interest landmarks according to the EU standards;
- introducing thematic tourist routes;
- supporting the ecotourism development from the Danube Delta, the national parks, the nature reserves and rural places;
- creating a data base of cultural events to facilitate the promotion of national culture elements (traditional festivals and folk events);
- identifying and delimitating the tourist places, calculating the capacity of accommodation;
- the elaboration of studies concerning the tourist demand in the main origin countries of the foreign tourists;
- shaping the cooperation framework between the private and public initiative, promoting and control actions;
- preparing the staff for the tourist industry;
- knowing and analyzing the experience of other countries in tourism branch;
- setting the policies for the competition in the branch of prices and hotel rates;
- the attraction of foreign capital for investments in hotel infrastructure, public alimentation, pleasure and treatment;
- the correlation of national, regional and local develop schedules, respecting the efficient usage conditions of tourist resources;
- a better concentration of business environment from tourism to create a common strategy in the Romanian tourist industry;
- the application in business environment of tourism agencies of a correct competition on strong collaboration bases and also with the help of National Association of Tourism Agencies for legislative initiatives that can balance and standardize the activity according to the European and international rules and also to group those more than 1000 big and small agencies to develop business basing on the increase of professional and managerial trainings at the highest level.

In the centre and East of Europe, Romania is gifted with wealth and various natural tourist resources created by human, real masterpieces that offer a big availability for tourism. Romanian tourism is an interference branch, of big interest that should estimate more accurately the chances of relaunch to become a component of an economic system more and more decentralized, that is hiring in an urgent restructuring.

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IMPROVING STRUCTURAL ORGANIZATION OF THE SALES FORCE

Professor Ph.D. Constantin DRĂGHICI, Professor Ph.D. Marian POPESCU,
Assistant Professor Ph.D. Mădălina BRUTU

University of Pitești, Faculty of Economic Sciences
ec_draghici2005@yahoo.com, popescu.marian@yahoo.com, madalinabrutu@yahoo.com

***Abstract:** the selling capacity is made up of a group of people who may or may not be the company's employers, but who stand for it in its contact with possible clients. On the one hand, the selling capacity task is to sell (the company's products), on the other hand, it has to make an effort in order that products may sell well (in this case the selling capacity does not make the selling itself). The work presents the possibilities for improving the structural organization, by analyzing two methods for dimensioning the sales personnel (The method of the sales potential and the Incremental Method) and by proposing a range of complex organization structures.*

***Keywords:** selling capacity, structural organization, rationalization, the method of the sales potential, the incremental method.*

1. SELLING AND SELLING CAPACITY

Selling¹ is an interpersonal activity which completes the marketing shift in terms of property transfer on goods or services. In a way, is the most representative among all the others marketing actions; there is no organization without clients, there is no client without selling.

Nowadays, selling means much more than striking a bargain (offering an economic good and getting a sum of money in return), it also has in view the **clients'satisfaction** and **their fidelity**. One actually deal with an attitude transfer from **a transaction to a relation-based one**.

The selling operations stand for the link between the company and its clients, its direct contact with them². These operations carry on in the core of economic activity and make up an income generating function of outstanding importance.

According to P.R. Smith³, **selling is an element of the communicative process**, alongside of *advertisement, the sales promotion, direct marketing, publicity, sponsorship, brand, packaging, points-of-sale and oral communication*.

However, the same author states that some companies choose to leave the sales and selling management out of the communicative field, **including the selling force in the distribution process**. This approach is adequate, considering that one of the greatest responsibilities of the selling force is represented by the already existing ways and the discovery of new ones.

¹ Hill E. & O'Sullivan T., *Marketing*, Anten Printing House, Oradea 1997, p. 243.

² Donaldson B., *Management of Sales*, CODECS Printing House, Romania, 1998, p. 3.

³ Smith P.R., *Marketing Communication*, Kogan Page Limited, London, 1993, p. 18.

Zig Ziglar, a former sales agent, wrote in his book “Selling is more than an ordinary job, it is a life-style. The most difficult and the best paid job in the world is selling, the easiest and the worst paid job in the world is selling again.”⁴

Therefore, the selling activity can offer you the most or the least satisfaction, but what really counts is choosing the first variant or indulging in the latter.

Razvan Zaharia defines the selling capacity as⁵ “The company selling capacity is the group that stand for the company and whose main task is to sell or make the products sell by direct contact with the purchasers, consumers or distributors”.

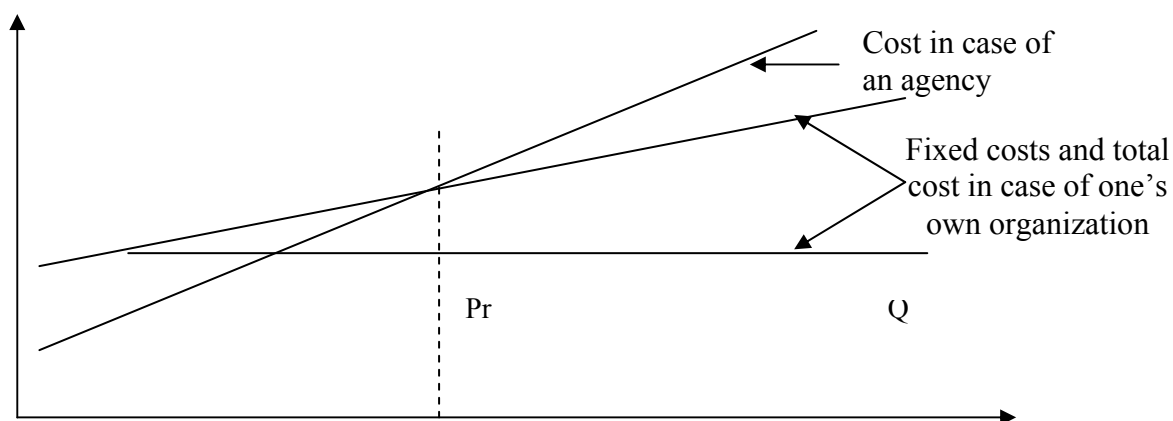
Therefore, the selling capacity is made up of a group of people who may or may not be the company’s employers, but who stand for it in its contact with possible clients. On the one hand, the selling capacity task is to sell (the company’s products), on the other hand, it has to make an effort in order that products may sell well (in this case the selling capacity does not make the selling itself).

The selling capacity is placed within the communicative process, as one of its important roles is transmitting information from the producer to the consumer, especially from the the consumer to the producer. The consumers feed-back promptly gets to the producing company by means of selling capacity.

The sales agent’s **role** is a complex one that amplifies incessantly in accordance with the new trends, whereas the selling capacity main **objectives** are: *prospecting, communication, selling, service, information gathering*.

The great dilemma of the sales activity consists in **choosing the services of certain sales agents exterior to the company or organizing one’s own service**. Sometimes we can even reach a compromise between these two variants, by using a combination of them. Optimization between the two variants can be made by evaluating each form of action. Evaluation can rely upon economic factors as well as upon factors which are determined by the company strategy and by its control possibilities.

a) **Economic factors**. These factors can be found in the costs of sales involved by the two variants. Based on these costs we can apply the critical point method and according to it we can determine the activity volumes that are in favour of one variant or another:



Picture 1. Setting the critical point.

⁴ Ziglar Z., *Art of Selling*, Amaleta Printing House, Bucharest, 2002, p. 15 and 25.

⁵ Zaharia R., *Administration of the Selling Force (course)*, A.S.E Printing House, Bucharest, 2001, p. 9.

The graph and the economic reality point out that in case of a small sales volume, one should appeal to sales agencies. The small sales volume and the low profit obtained from its valorisation would render inefficient the creation of one's own sales structure. As the sales volume increases, the efficiency of the organization of one's own sales structure also increases.

b) Factors depending on strategies and control activity. Agencies are not always able or do not wish to apply the company strategy in the sales field. These agencies are basically some companies that develop them too their own strategies. Although in practice the productive company strategy intersects with the sales agency strategy which obviously represents a significant disadvantage.

Concerning the control, the influence can be found especially in the possibility of a corrective action which can and must appear. As we know, the efficiency and effectiveness of the corrective actions is as high as the control is anticipative and reactive. In the case of sales agencies the reaction time is extended so the control is mainly based on effects and not on their anticipation.

Another improving possibility aims at the **correct dimensioning of the sales force**, as we know it is quite expensive. The specialty literature provides methods for dimensioning the personnel, methods which can prove their efficiency:

2. THE METHOD OF THE SALES POTENTIAL

Through this method we can carry out a sales forecast based on the management objectives and on the market share. Starting from the premise that all the sales agents accomplish the tasks mentioned in the job description, we can calculate the average level of individual productivity (by also taking into account the losses caused by holidays, approximately 10% each year). The formula for calculating the sales personnel dimensions is the following:

$$N = S/P + T(S/P) \text{ or: } N = S/P + (S)(T)/P \quad (1)$$

Which is equivalent to: $N = S/P (1+T)$, where: N – the number of sales agents; S – the sales forecast; P – the level of the individual productivity; T – the fluctuation of the sales personnel, in percentages. Supposing that $S = 20$ millions £, T is 10 %, and P is 500.000 £, dimensioning the sales personnel: $20/0,5 \times (1 + 0,10) = 40 \times 1,1 = 44$ people.

A minus of this method has in view the accuracy with which we can estimate each variable and especially P and T , under the conditions in which the necessary time for recruitment, the lost sales effect and the level of the estimated individual productivity are also variable. The method also supposes the presence on a relatively static market, the reality being often different.

3. THE INCREMENTAL METHOD

In order to go beyond the deficiencies of the other methods we proposed this new method. The presented formula is an extreme simplification of the economic factors related to the sale. We start from the hypotheses that the product mix is uniform, and the external factors in each covered area can be correctly estimated before. The costs related to the selection, recruitment or dismissal of the sales agents can be seldom estimated in an exact manner, and the forms of promotion (such as advertisements) can have effects that vary from one potential client to another. The simple formula, based on the direct relation between the sales volume and the commercial activity of each sales agent, under the conditions in which the other factors are constant is not valid. The market dynamics (correlated with the economic increase and decrease patterns) distort the calculations concerning the efficiency of the sales agents from the point of view of the sales function reaction speed. The season, cyclic and competition fluctuations create

a market uncertainty which leads to the risk of having an excessive sales personnel, a thing that may cause a deficiency from the point of view of costs.

These problems can be worsened by hiring additional salesmen during the periods when the profit is positive. These aspects are formalized in the following manner:

$S(P) - C > 0$, where:

S – sales volume; P – margin of profit resulting from sales; C – costs with the sales agencies.

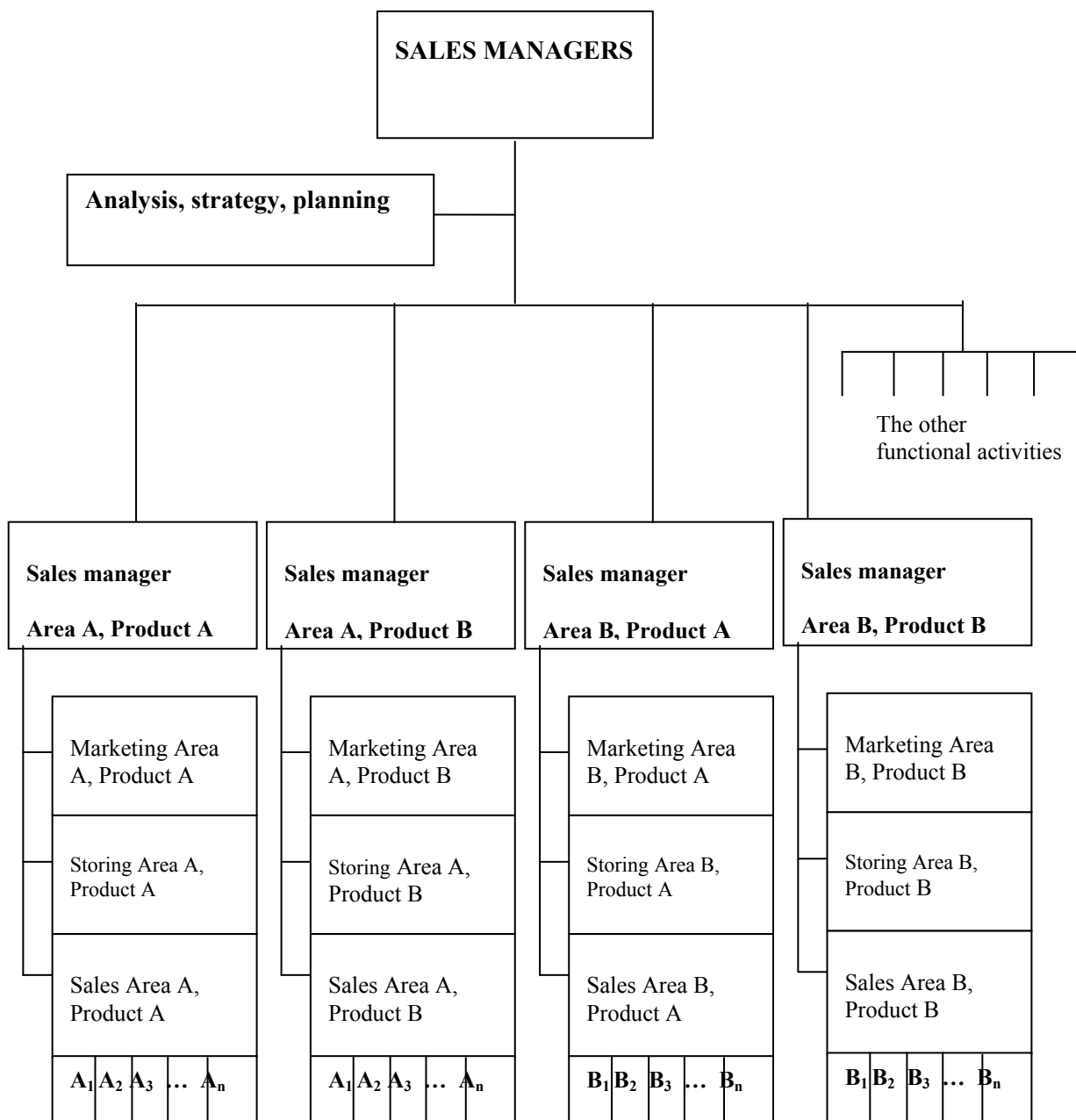
The major deficiency of this method consists in the fact that sales agents become sales dependant rather than sales creators.

The formula also does not take into account the effects of the differences in point of capacity, knowledge, skills and aptitudes of the sales agents.

These two forms do not represent perfect methods for determining the size of the sales personnel and the dynamics of the marketing environment increase the complexity of this issue. The two methods, even if they are not perfect, can be adapted and improved in practice, according to the specific nature of each company and of the sales. **The specialty theory shall never provide miraculous solutions that can be used in all the cases, but solutions that must be adapted to each single case. The mastership of the Sales System consists in adapting the theoretical concepts to the own sales system (which is always an unique system) in a rational and competitive manner.**

4. FORMS OF ORGANIZATION

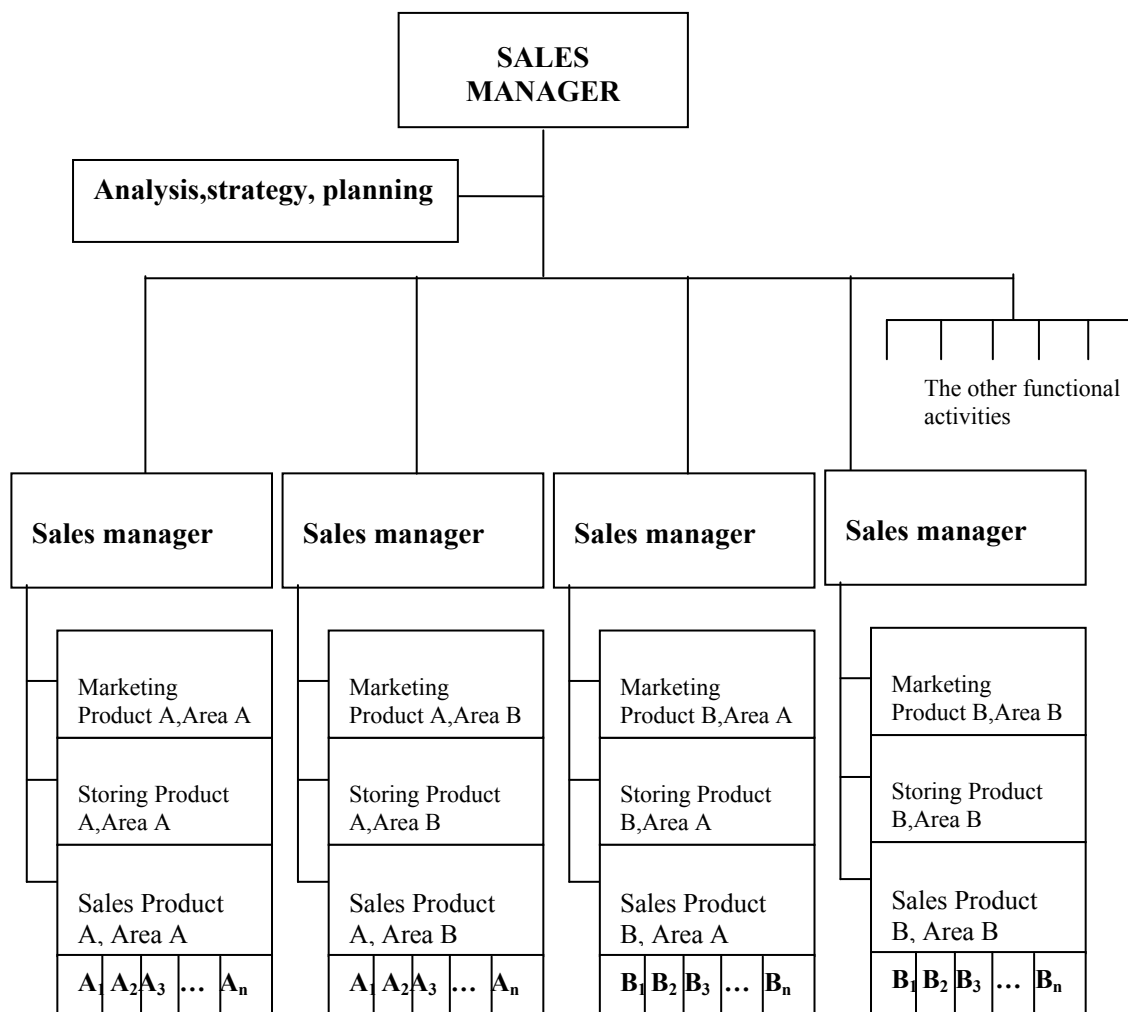
Implementation must be accomplished after we decided which would be the role of personal sale within the marketing mix. The sales manager, if he wishes that the activity he coordinates is a successful one must take into account the necessity of choosing an efficient form of structural organization. If the classical forms of the structural organization are not efficient for the activity that is performed, the sales manager can appeal to a combination of them which leads to the accomplishment of certain complex structures. Such a complex structure can be accomplished through the combination of the territorial one and on products. This form of organization is efficient when the company sells products of completely different categories in different areas.



Picture 2. Organization on areas and on products

Obviously, this is an extreme example since certain activities such as marketing and storing can remain centralized or can be common within the area of all the products. Especially, it is rational that the storing activity remains common within an area.

The combination can also be performed inversely: on product and on areas; under these conditions the organizational chart would look like this:



Picture 3. Organizational chart on Products and on areas

Other combination possibilities aims at areas and clients, clients and areas or areas, Products and clients, according to the needs, opportunities and type of the sales activities.

As a conclusion, rationalizing the structural organization of the sales activity represents an actual solution for improving the performances of the sales activity and of its management.

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DURABLE DEVELOPMENT OF TOURISM IN PITESTI AND ARGES COUNTY

Professor Ph.D. Mihaela DIACONU, Assistant Professor Ph.D. Bianca DABU
University of Pitesti, Faculty of Economic Sciences
diaconu_m2005@yahoo.com
biancadabu@yahoo.com

***Abstract:** Durable development is one of the main concerns of the contemporary period. The complex relationship between tourism, development and natural environment is an example of the changes that have taken place in this field of tourism considered an important polluter of the natural environment. Tourism is the key element of durable development having an important impact on the economy, being considered a source of economic growth. Romania has to find its way through the differences given by the need of development, the regulations imposed by the EU and the concerns related to the next generations' future. Tourism is an important component of the tertiary sector, a consequence and interface branch of national economy, and an industry without smoke that has an important contribution to the creation of the world gross product. An objective of the National Development Plan adopted in December 2005, component of the National Economy Development Strategy is the capitalization of the tourist and cultural potential and the growth of these fields' contribution to the regions' development, emphasizing the development of the infrastructure, diversifying and promoting the internal touristy offer, the increase of competitiveness*

***Keywords:** the Local Agenda 21, S.W.O.T. analysis of the tourist activity, strategic programs*

1. S.W.O.T. ANALYSIS OF THE TOURIST ACTIVITY IN PITESTI CITY

According to the Master Plan for National Tourism Development 2007 – 2026, tourism represents a means of accomplishing some strategic priorities. According to the plan, the development of a brand of national tourism will have a favorable impact on the foreign investments in Romania and on the balance of the current account.

The touristy activity is also part of the constant concerns of the local administration in Pitesti. Among the major actions undertaken in the last years that also aimed tourism we can count the Local Agenda 21, coordinated through the Program for Development of the United Nations (PDUN), and the National Center for Durable Development (NCDD) from Bucharest.

The Local Agenda 21 set as objective the drawing up of the strategy for applying the Local Plan of Pitesti Municipality for durable development.

From the evaluation of the business environment and of the economic activity the result was that tourism is weakly developed even though there are endowments with hotels, restaurants and recreation areas.

Starting from this state of fact it is mentioned within the strategy for durable development of the Municipality, as important objective, the development of tourism, assisting and encouraging the enterprisers in order to create modern tourism, as a complementary activity meant to lead to the sustained economic and social development of the area.

The strategic objectives for the development of tourism in Pitesti and in the surrounding areas are:

- capitalizing the opportunities specific to the area for cultural tourism, business, transit that overburden the favorable geographic area of the town;
- maintaining and promoting the cultural events and the national and international exhibitions in order to increase the events' tourism;
- developing some touristy programs in order to introduce the town, area and region in the national and international touristy circuit by capitalizing the local specific characteristics;
- improving and developing the communicational activity for tourism;
- involving the local economic agents in joint techniques of promoting the offer and the relational marketing;
- absorbing the economic agents in keeping the natural environment as the main element of the touristy offer;
- imposing some standards of superior quality for the offer and for the touristy services.

In order to establish the objectives in the touristy activity of Pitesti Municipality y started from the S.W.O.T. analysis to identify the opportunities of and the threats to the natural environment.

Strong points:

- developed general infrastructure;
- well-kept roads;
- preserving the traditions and the emergence of some events organized annually by Pitesti Municipality with full local, national and international participation;
- historical vestiges that recommend the city as an area with a rich historical background;
- human resources well represented in parks, and recreation areas;
- modern hotel units divided according to various classification categories;
- good geographical position that facilitates the formation of touristy circuits;
- getting closer to the valuable tourist areas that are to enter more actively the tourist circuit;
- the existence of a big number of small and medium economic agents who wish to carry out activities in crowded areas;
- intense economic activity that recommends the city as an area with important potential for the business environment;
- the existence of some solid relationships with various European cities and from other parts of the world as a result of Pitesti's fraternization with the Serbian city Kragujevac and the Italian city Caserto since the 70s, agreements renewed in 2000 with the Dutch city Tynaarlo since 1997, with the Swedish city Borlange since 2000, with Springfield, Ohio State, also since 2000. There have been contracts signed with Briansk city from the Russian Federation and Mohlyv Podilsky city from Ukraine and with communities from China, Angola, and Phillipine;
- objectives for important investments for tourism are stipulated in the Municipality's budget for 2007, such as the rehabilitation and modernization of the Olympic Swimming Pool, an artificial skating ring in Strand park, the establishment of a leisure area for various events in the Municipality;
- the existence of some projects of almost 750,000 euros financed by the local budget and European funds for the protection of verdure spots, for respecting the statute of the existing protected areas and of the proposed ones, and for the functioning of the Zoo in Pitesti, according to the European standards;
- the existence of a portfolio of prior projects financed from the local budget and European funds for the reconstruction of the central area of the city, for the extension and modernization of the artificial beach in Tudor Vladimirescu neighborhood, the rehabilitation of Trivale Park, for the permanent organization of the already-established cultural events.

Weak points:

- the lack of collective and partnership initiative on the local and regional level;
- a weak communicational activity; the touristy information is done only at the level of travel agencies and of the other tourism operators;
- the lack of a collective concern for durable local and regional development and through tourism;
- the non-inclusion of tourism in Arges in the regional development strategy;
- there is not a culture of collective initiative caused by the maintenance of the state of citizen assisted by the state, by the administration.

Opportunities:

- the existence of a regional and national development policy 2007-2013 that supports the development of tourism;
- the existence within the Arges County Council as the first priority of the National Development Plan 2007-2013 “The improvement of economic competitiveness and the development of knowledge-based economy” and of the strategic objectives that support it and that are also stipulated in the objective “The improvement of the competitiveness of Romania tourism,” with a concrete reference to the accomplishment of the national development program for winter mountain tourism “Super-ski in the Carpathians;”
- actions carried out at county level for facilitating the access towards the areas with potential in economic and tourist development with the help of the PHARE program 2004-2006, actions for setting up information and tourist promotion centers on Dâmbovița and Arges Valleys that will lead to the development of tourism in those areas, a project accomplished together with Dâmbovița County Council and through which a touristy route is developed regarding the visit of historical capitals of Muntenia region (Târgoviște, Câmpulung and Curtea de Arges);
- the possibility to use European funds with the help of the post-adhesion programs;
- the informational system based on the use of modern information systems that play a fundamental role in informing and supporting the emergence of new motivations for the modern tourism consumption;
- a prosperous business environment that encourages business and reunion tourism;
- getting closer to the capital, to the infrastructure that facilitates the foreign tourists’ circulation in Arges area.

Threats:

- the rich touristy offer from the neighboring regions Rucăr-Bran, Valea Oltului, Braşov;
- the industrial pollution that could affect the quality of the natural environment;
- the integration requirements of the EU.

The application of a durable post-adhesion tourist development involves the joint action of the local tourist agents, of the public local and central administration, the establishment of public-private partnership in order to create a favorable environment for promotion and inclusion in the national and international tourist circuit to attract the local and foreign resources and investors.

2. STRATEGIC PROGRAMS IN TOURISM

a) The establishment of an organizational structure as a committee or work group within local administration based on the public-private partnership. This organizational structure will generate certain capitalization actions of the tourist potential in the respective area, it will define the priorities, the objectives and it will organize the tourism-related activities in the city and region, it will identify the financing sources, it will efficiently administer the financial resources raised from the membership fees, publicity funds, it will efficiently administer the application of some rational

durable development policies by including the tourist resources into the national and international circuit. It will be made up of local public administration officials, tour-operators, transporters, local tourist associations or local branches of ANTREC, managers of reception units, PhD professors, representatives of a regional development agency;

b) The establishment of a tourist information office within the Public Relations Department of the City Hall with the purpose of disseminating tourist information materials, creating tourist information supports, such as: the tourist map of the city and of the county, brochures of the city's hotels and restaurants, a brochure with the main cultural-artistic and sports events organized annually by the City Hall, a guidebook with general information, a guidebook of the reception units, a calendar of the main events that should be distributed with the help of all the local tourism agents. Among the available financial resources there are: the bed fee that is charged from hotels according to the legislation in force since 1st January 2003, the marketing and promotion group membership fee that can include all the local and regional tourism actors and that can pay a membership fee according to the number of inhabitants, as percent from the gross annual revenue or a fixed minimum fee;

Another important activity is the design and distribution of the City Catalogue that should include: a presentation of the city's tourist attractions and of the surroundings accompanied by photographs, their brief description, information and photographs of the accommodation units and restaurants, examples of tourist arrangements for half a day, a day, two days designed for types and categories of consumers, the events' calendar, folk festivals, arts and trades fairs, and other activities that could enrich the visitors' experience.

c) The creation of a brand and of a website destined to the tourism of the development area Touristy Pitesti that should include the online travels agenda, links to other partners' websites in tourism. With its help one can keep in touch with other economic agents that perform tourist services in the respective area, with professional associations in tourism, one can conduct analyses regarding the categories of clients.

d) The creation of a database with the categories of tourists or excursionists that have consumed tourism or that will be attracted in the tourist circuit. One should not omit the fact that the residents of Pitesti city can form a very important segment that can consume recreation services and, generally speaking, tourism services, to the extent to which they are provided with a rich offer presented in an aggressive form. This involves the design of some tourist arrangements that should include the tourist objectives of the surrounding areas, already established as areas of special tourist interest.

e) The development of new opportunities of spending free time by the citizens of Pitesti and Arges taking into consideration the recreation functions of the city makes that the verdure spots and open-air spaces become one of the most important elements that determine the functional-territorial structure of the city and its surroundings. The studies conducted lead to the conclusion that the inhabitants of the city have spent most of their free time during the week in the vicinity of the city. In order to make a division on areas of the recreation space two factors must be taken into account: the time destined for resting and the resting time. On the city level the sphere situated within ten minutes of walking (the area of general accessibility) has been clearly outlined, designed for the daily rest and areas of far-reaching accessibility, situated within a distance of 10-30 minutes of travelling by public means of transportation. A special problem is represented by the need of extending the recreation area by creating "artificial recreation spots" (artificial lakes, parks). Among these we can mention:

- building an amusement park of the AQUA-LAND type in the area of the artificial beach from Tudor Vladimirescu;

- reconstructing the Summer Theatre from Strand Park and organizing traditional cultural events, fairs, shows and concerts in the open and building a location for the capitalization of the local creations;
- the modernization of Strand Park, the creation of a clean lake by obeying the natural environment legislation in force, the building of an attractive recreation area and the modernization of a playground, the organization of cultural and sports activities;
- the modernization of the recreation area of Trivale Park, rebuilding and turning the lake in the Grota area into an environment-friendly area, as well as the modernization of the front parts of the bridge in the same area, the building of a playground in the park;
- the continuation of the modernization activity of the artificial beach in Tudor Vladimirescu by decorating the banks of the Arges river, and by replacing the recreation boats;
- creating a children's camp near Trivale Park that could be also used by the pupils in Ptești during the academic year with the purpose of carrying out different cultural-educational activities.

Thanks to its characteristics, the Municipality of Pitesti has high capacities to develop tourism on three main axes: business tourism, historical/cultural tourism and transit tourism. This happens due to the geographical positioning that offers access to important national and European arterial highways, due to the city's historical characteristics and to the development of the economic, cultural and university sector.

In 2009 within the Arges tourism Strategy in the next 20 years there was made the Plan Master for tourist development of mountain places of Arges County with the help of some advisers from Alsace-Lorraine region from France, a place with a premountain and mountain relief similar with the Arges relief. These ones, for a year, together with specialists from Arges County Council and the Implementation of Develop Projects Agency of Arges County had inventoried about 160.000 hectares, and that means the mountain territory of its tourist development is wanted for the next 20 years.

In its general data, synthetically, the geographic situation of Arges county means: 6826 kmp, 576 communes, 95 villages, and a watercourse that borrowed the name or administrative territory, with a flow of 1,671 billion mc/year.

The major advantages for sustainable tourist development of mountain area are:

- altitude lakes;
- important reservations;
- caves;
- Fagaras, Iezer, Piatra-Craiului, Leaota Mountains;
- diversity of wildlife and flora;
- rural landscapes;
- fruit trees cultivations (apple, plum orchards etc.);
- protected areas (natural reservations and parks);
- sub-Carpathian areas with traditional agriculture.

Master Plan includes the aims that should be developed for the tourist activity:

- real estate investments for the extension of winter season; the ski slopes will be arranged like this: with green track –deb level, with blue track – average level, with red track – good level, black track – very good level; competition tracks;
- for Vidraru, Râusor, Pecineagu and Baciú mountain lakes there are identified the next develop possibilities: nautical bases and creating small attachment-ports or nautical halt, using the specialized staff and renting the nautical material ships equipped only with electric engines, small organized cruises, necessary decorations for rowing, nautical sports in the fast mountain waters;

- it is suggested possible investments in: Vlad Tepes castle (Poienari), Oratea castle (Dambovita Bridge), Vidraru lake, by generating a multi-modal approach of this tourist potential.
- the development of Iezer and Leaota Mountains areas.

The development of the intercommunity area in Pitesti and Arges county represents an immense opportunity to improve the collaboration capacity between the local public administration and the civil society, with a direct impact on the process of transparency of the decision-making act and of increasing the citizen's degree of involvement in solving the community's problems with the purpose of including Pitesti in the category of modern European cities.

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MARKETING COMMUNICATION IN THE CONTEXT OF ECONOMIC CRISIS: BAKERY INDUSTRY CASE

Professor Ph.D. Viorel BUCUR, Teaching Assistant, Ph.D. Candidate Olimpia OANCEA
University of Pitesti, Faculty of Economic Sciences
viorel.bucur@ulbsibiu.ro

***Abstract:** This year, the crisis still persists in all areas of business models in the market and its potential for growth, customer behaviour will change clearly. In this respect, the importance of efficiency will be materialized in the results and objectives. Cutting marketing budgets is not necessarily a solution for companies in this period. Romanian consumers are changing, and if it changes, and then business / SMEs must adapt and therefore communication must adapt. The purpose of this work is to highlight the importance to be given to a fair and consistent communication in time of crisis. This crisis could be an excellent opportunity for many companies who will be held successfully in the mind of the consumer. Therefore, any company must communicate more and better with its customers in time of crisis than in times of economic growth.*

Keywords: marketing communication, market segments, crisis, budget marketing, the bakery industry.

INTRODUCTION

This year, the crisis still persists in all areas of business models in the market and its potential for growth, customer behavior will change clearly. In this respect, the importance of efficiency will be materialized in the results and objectives.

Lately more companies have announced reductions in marketing budget, but at the same time argue that they remain as effective and efficient in dealing with customers. In principle, the "strategies" of these companies is related to communication channels cheapest (Internet instead of TV) or reduce the use of existing channels.

The question to ask is whether these strategies will be sufficient to successfully navigate through the current crisis. These strategies go on the idea of conducting activities as in previous years but with less money. Migration budgets communication channels to cheaper will not help significantly, because this strategy ignores one important thing.

Most markets in Romania were "seller markets" in which producers and traders did not have to apply concepts and strategies very sophisticated in order to stimulate sales. Demand grew from one year to another is determined primarily by increases and changes "uncontrolled" of consumer needs. This will not happen in 2009, consumers are not a homogeneous group to generate the same increase in demand as in previous years.

In particular companies that have a portfolio of complex and heterogeneous products or companies that sell the same products or services to multiple segments of customers should reconsider its strategy for sales and marketing.

The objective of such a strategy review is to find answers to the following questions:

- **Which of the segments that you serve should focus?**
- **What are the products that we should focus?**
- **What is the potential for sales by product and market segment?**
- **What product segments and should resign in 2009?**
- **On what products and segments should allocate marketing budgets?**
- **What should be the criteria for prioritization in the allocation of budgets?**
- **What are the sales and what to do for them?**

To find answers to these questions requires a clear segmentation of customers (in homogeneous groups according to specific criteria - age, consumption, region, industry, etc.) and structuring a portfolio of products. This will allow a more thorough and realistic performance of sales and marketing analysis and determination of indicators, for example the number of products sold on the product group and segment customers.

Such a structure usually involves harmonization of the various departments - sales, marketing, product management, top management - in terms of understanding and evaluating the market and clients. In many companies this internal harmonization doesn't exist. From the perspective of sales, the market is usually structured by types of customers, while usually marketing consider only channels of communication and promotion campaigns, product management and has a perspective-oriented products. In such situations we can speak of a market, but several non-aligned strategy: a communication, a sales and a product which implies an inefficient allocation of budgets.

Correct segmentation of the market / customers is a basic requirement to allocate marketing budgets in a way the company to carry out its market potential. The question that seeks to answer is: "How to set strategy, sales targets and budgets aligned to the marketing potential of the market in 2009 with fair market segmentation?"

1. Evaluation of a potential market segment. This assessment is based on the potential of unexplored market segment and by product, growth rate on the product and market segment, and the inherent potential for growth and product segment. Sources of data for the first two assessments will be an analysis of the external market, while the third indicator may be determined by means of online surveys involving experts from all sales of the company.

2. Evaluation of a competitive market segment. This assessment is based on analysis of their positions in a market segment compared to competition on the profitability by product and market segment analysis and "customer fit" (how well their products meet customer expectations). Assessment of position in a particular market segment can be addressed through surveys online sales teams. Profitability information is provided, usually the finance department, and evaluates "customer fit" can be done by conducting interviews or surveys with online clients.

Through this approach can identify four categories of market segments and products in terms of attractiveness and potential:

- **market segments and products with growth potential over the market;**
- **market segments and products with growth potential once the market;**
- **market segments and products improve or divest(do not focus on the activities of sales or marketing);**
- **market segments and products with potential.**

The potential of a product or segment is the basis for setting priorities in the promotion strategy and marketing objectives for the next period and resources required to achieve objectives. Such an approach ensures use in a way indeed effectively marketing budgets by targeting products and segments with the greatest growth potential.

In times of crisis, the struggle for resources and competition between companies grows. The trend is to reduce budgets consumption and investment, and those who have cash are negotiating power because they have lots of choices from which to choose can. In this context, questions that seek to answer are:

1. How consumers choose?

2. How they decide who to give all his money, fewer and therefore more valuable?

In the mind of every potential customer has a ranking of brands according to their notoriety and prestige. Therefore remain on the market, companies that have created a name, and forgetting is equivalent to death of the company. Therefore, any company must communicate more and better with its customers in times of crisis than in times of good growth. Also, all companies should remind consumers that there is a permanent market for himself and his desires.

It is when the strong companies survive and healthy financial and managerial weaknesses and companies that lose money are eliminated. So each is trying to pen a strategy for survival in the hope of a revival after the crisis. Therefore, the crisis and recession for some is a threat and an opportunity for others.

The best survival strategy for crisis combines the image on the market consolidation - through constant communication with customers, reducing profit margins - by controlling and optimizing costs and an aggressive sales policy. Moreover people who are investing in brand conscious brand that they "take on wave".

A good communicator will respond to consumer confidence and uncertainty conveying messages of safety, strength, stability and strength. Therefore, panic may be reduced with demoting rumors arguments, figures and statistics. Prudent consumer, who wants to make savings companies seeking effective, and a clear message, sent the firm and at the right time it will reassure the customer that it will be convinced that it will win more than it spent.

In times of recession, companies tend to reduce their marketing costs that depend on their sales that do not have instruments to measure the effectiveness of these investments. Thus, in this situation not only marketing and advertising sales, but satisfy consumer desires in terms of profitability for the company.

Cutting marketing budgets is not necessarily a solution for companies in this period. Romanian consumers are changing, and if it changes, and then business / SMEs must adapt and therefore communication must adapt.

In time of crisis, a correct and consistent communication is absolutely necessary. Moreover, marketing is not a question of falling profits, but a source of growth, which they transmit the idea of consumers increased value of the product.

This crisis could be an excellent opportunity for many companies who will be held successfully in the minds of the consumer. Building and brand development through the adoption of effective brand strategies, marketing plans consistent, are measures that are a "must" for companies.

If the communication concerns a specific target audience, then the choice is right and will generate a positive and favorable image among those consumers. According to the analysis "Optimizing the Marketing Budget in Recession" made by Ogilvy would be continued investment in marketing and communication for the post-recession business is solid. Some companies have succeeded during recession. They see the crisis as an opportunity to develop.

While competitors in panic, they make their point plan of growth through sustained investment. Optimizing budget marketing is just one of the problems that these companies face. Those who decide to continue to invest in marketing, benefit, usually for business development, even greater than in a normal period.

In time of crisis consumers are more careful in buying products. Therefore, it can be an opportunity to create effective products and brands. During the recession, companies have the opportunity to gain more market share "than in a normal period. If a company profitable, and would have spent the last cent to continue development. Companies that reduce costs will be difficult and will take longer to return to the pre-recession.

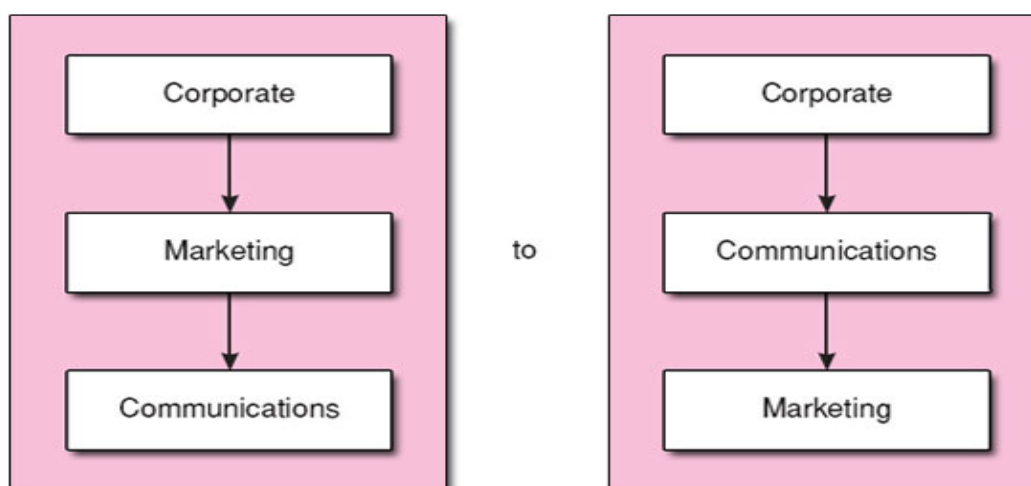
Companies that wish to recover costs in a year after the recession should spend about 60% more on marketing than the amount you have saved it and cut from the initial marketing. Competitors' weaknesses at a time when most consumers can still spend a good opportunity for new business, brands and ideas for companies.

I. MARKETING COMMUNICATIONS AS A STRATEGIC FUNCTION OF MARKETING

1.1. The changing role of communications

Butterfield (1997) argues that the hierarchical model of planning which has traditionally placed communications alongside the other variables of the marketing mix is due for a rethink. This model starts with corporate strategy, which translates into a number of functional strategies (including marketing). It sees marketing communications as a subset of marketing strategy. Butterfield suggests that, because of the increased importance of company-wide brand values in providing competitive advantage, marketing is becoming a way of delivering a communications strategy, rather than the other way round. As in Figure 1, in this "new" model, communications starts with the company, and marketing becomes part of the "delivery mechanism" for the communications strategy (Butterfield, 1997, p. 87).

Figure 1: Redefining the strategic position of marketing communications



Source: Butterfield, 1997, p. 87

This does not mean that all marketing communication is automatically elevated to a strategic role. There is still a distinction to be made between tactical communications in support of specific marketing initiatives and strategic communications which emanate from the highest levels of the corporation to inform all its activities. However, it does support the view that communication is qualitatively different from the other elements of the marketing mix, or, as

Butterfield puts it: “perhaps the classic marketing functions of product, price and distribution are today increasingly “hygiene factors” whereas communications is a higher order tool. Hygiene factors, according to Herzberg's classic theory of motivation, are what we take for granted in a situation. Their presence satisfies our basic needs, and we would notice their lack, but they do not have the power to motivate. As customers have become more sophisticated the competitive focus in marketing has moved upwards to benefits like image, self-expression and the assurance of quality. While the rest of the marketing mix needs to be securely in place to deliver these, effective communication of such benefits is becoming the key differentiator. This is particularly the case in companies with pervasive brand values, but it may mean a change in how all marketing departments see themselves: “Communications will stand above other elements of the marketing mix in these companies because it will define what the company stands for (its vision) and it is tasked with expressing that on behalf of the corporation: whether that be directly to stakeholders (employees, stakeholders, *et al.*), via PR, or through advertising etc. to customers. By contrast, marketing in those companies will be charged with physically delivering the corporate vision, via its products, to the end user...Marketing departments have got used to the idea of the tactical integration of communications messages *across* different media. Increasingly in the future they will have to embrace the idea of strategic *vertical* integration – speaking with one voice from the CEO's office right down to the supermarket shelf – even though such a realignment may eclipse their former pre-eminent role”(Butterfield, 1997, p. 88).

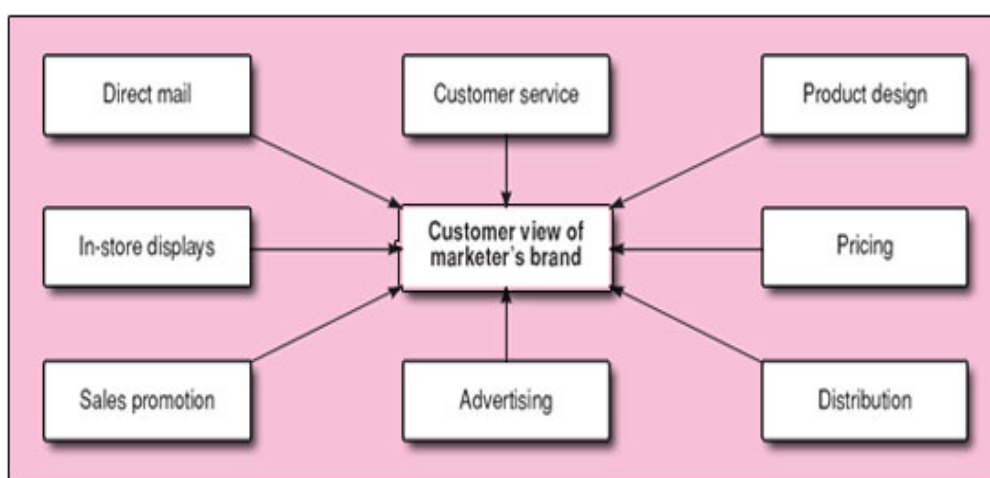
What are the implications of this vision of vertically-integrated marketing communications? An obvious one is the importance of integrating internal and external marketing communications. An organization's employees are highly credible ambassadors to its external publics – both in what they say to their communities and the service they provide to their customers. Both word of mouth and performance can be enhanced to the benefit of the organization by a sustained programme of internal marketing. A second implication of the strategic vertical integration envisaged by Butterfield is the importance of developing distribution channels as conduits of information as well as of goods and money. Marketing communications writers frequently differentiate between “push” and “pull” strategies. “Push” strategies (trade promotion and personal selling) offer incentives to distribution intermediaries to stock and actively merchandise products, pushing them towards the end user. “Pull” strategies, on the other hand, use consumer-directed techniques (e.g. advertising and sales promotion) to stimulate demand in order to pull the product, or service, through the channel. The “push” metaphor rankles with the accepted marketing wisdom of finding a need and satisfying it, rather than trying to impose what you have on a reluctant customer. Sustainable relationships between marketers and distribution intermediaries need to be based on mutual advantage, not power imbalance. It is likely, therefore, that a more vertically-integrated approach to communications will involve a blurring of the lines of demarcation between marketer and intermediary. Electronic data interchange (EDI) and the use of intranets are symptoms of this development in practice, as traditional distribution intermediaries are complemented, and in some cases replaced, by a new breed of ‘infomediaries’ connecting marketers to customers.

Push and pull strategies are not mutually exclusive. For example, an advertising campaign directed solely at the end user will be seen by intermediaries, bolstering their confidence in stocking the brand concerned. Fill (2002, p. 295) adds a further generic strategy: “profile”, which focuses on corporate image and reputation, internally, externally, or both. Techniques here include public relations, sponsorship and advertising aimed at developing a corporate brand. Again, this is hardly likely to be a watertight strategy in terms of what is received by the customer or intermediary. Yet, as Fill points out, the people responsible for each type of strategy (even if all three exist simultaneously) are likely to work independently of one another in most organizations. This situation is perhaps the major barrier to effective vertical integration of the

kind envisaged by Butterfield – just as the proper integration of external marketing communication across different media and techniques is threatened by the various interests and territories involved.

Schultz and Kitchen (2000) propose a number of useful concepts for analyzing and developing effective marketing communications strategy within the complexity of the contemporary market environment. As we have already observed, while it is necessary to operationally marketing communications strategy by combining a number of different disciplines and media, customers experience brands in their own terms. In order to communicate in a customer-centered way, organizations need to consider how their brand messages are received. Figure 2 suggests some of the ways in which customers establish a view of a brand.

Figure 2: How customers receive marketing communications



Source: Schultz and Kitchen, 2000, p. 110

The changing role of communications: customer preferences

Finding out how customers access marketing communications reveals their preferences in receiving information. As active recipients of brand messages, they can screen out the irrelevant and the inconvenient. Considering customer preferences makes communications more effective – and more economical. Failure to follow consumers changing media preferences can be expensive.

Schultz and Kitchen suggest that a further way of improving communications strategy is to think through the timing and context of messages from the point of view of the customer. When is the message most likely to be relevant? And where is the receiver most likely to be receptive of it? Understanding seasonal trends and purchasing cycles or usage patterns can help us maximize its relevance. But considering customer preferences through the brand contact audit can also indicate the points at which the customer is most receptive to the message.

II. ECONOMIC CRISIS AND ITS IMPACT ON THE BAKERY INDUSTRY IN ROMANIA

Agriculture is among the areas that were affected by the crisis, mainly due to the grain exchange crash. The price of wheat and maize was reduced significantly at the end of 2008, approximately 30% -40% less than the previous, much cheaper than a few months before. This was because there were significant reductions in both the stock exchange in Chicago and the European exchanges.

Players in agriculture are of the opinion that in Romania cereal prices are much lower than in European countries. In this respect, an example may be that the price of wheat in Austria and Hungary is 220-235 Euros / tone and in Romania, tone of wheat can reach 111 euros. In the case of maize, it is sold in Hungary with 130 Euro / tone in Austria with 135 Euro / tone, while in Romania at 85 Euro / tone. These price decreases will lead to the elimination of stocks of cereals and implicitly, to call on imports.

In early 2008, specialists in agriculture estimated wheat production of 7.6 million tones and maize at 8 million tons. However, drought and floods in the summer of 2007 changed goes to farmers who have received only 5.6 million tons of corn.

Although prices on international markets have fallen heavily, at that time, in our country they were well below those values, which led to export about 30% -40% of total production.

Financial crisis has already affected farmers who have turned to loans in recent years and changed the development plans of some, and most of them have dropped several projects that were to run in the next period. The players in industry have delayed modernization projects as requiring large loans, and this period is not advisable to use them. In Romania are around 9.4 million hectares of arable land, of which the greatest 50 players operate about 4% working in the agricultural sector.

Agriculture has felt the effects of the crisis in 2009. Nearly 15% of farmers in Romania are out of business in 2009 because they have failed to resist the market after the financial crisis. In November, the Federation Agrostar asked the Ministry of Labor and Ministry of Agriculture as 50,000 employees to get unemployment technical and investment in the bakery industry has been affected by the economic crisis because of the limitation of access to credit.

The internal milling and bakery reached in 2008, 2 billion euros, up 15% compared to 2007. Consumption of bread dropped in Romania in 2008 to 1.5 kilograms per capita. Meanwhile, with decreasing consumption of bread has been an increase in confectionery products. Economic crisis since the end of 2008, has affected investments in the bakery industry, estimated at 100 million euros for 2009. Many potential investors have had to resort to loans to make investments, a possible restriction or inability to obtain credit will lead to surrender to obtain them.

Another problem faced by the bakery industry, against the backdrop of economic crisis, is that the dealers who are granted merchandise credit; in the defense of problems in obtaining credit, they are unable to pay the freight and this strongly affects industry.

At the end of 2008 in Romania bread consumption has decreased by 1.5 kg, reaching 112 kilograms per capita per year. The tendency was to place us in the European context, where the average annual consumption of bread was about 80 kg per capita per year. The internal milling and bakery reached in 2008, two billion, up 15% over 2007.

CONCLUSIONS

This paper has examined marketing communications claims to strategic credentials. Historically there have been several barriers to this – the fragmented nature of development and execution in the absence of strategic co-ordination, rivalries between different communications disciplines, and short-terms in the marketing communications industry itself which has led to communications being seen as a tactical rather than strategic resource.

The best survival strategy for crisis combines the image on the market consolidation - through constant communication with customers, reducing profit margins - by controlling and optimizing costs and an aggressive sales policy.

A good communicator will respond to consumer confidence and uncertainty conveying messages of safety, strength, stability and strength. Therefore, panic may be reduced with demoting rumors arguments, figures and statistics.

In time of crisis, a correct and consistent communication is absolutely necessary. Moreover, marketing is not a question of falling profits, but a source of growth, which they transmit the idea of consumers increased value of the product.

As regards the impact on the bakery industry in our country, the effects were the reduction of investments; one of the reasons is that access to credit has become increasingly restricted. And bread consumption has decreased; the trend is that of our place in the European context, where the average is well below average in Romania.

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