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**Facultatea de Științe Economice**

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**CONTENTS**

<b>1. THE GLOBAL FINANCIAL CRISIS – THE CONSEQUENCES OF SINS OF THE (AMERICAN) FATHERS OR, THE TERRIBLE RESULTS OF A GOOD IDEA GONE BAD</b>	<b>5</b>
Woodrow SEARS, EdD .....	5
<b>2. THE IMPACT OF THE FINANCIAL CRISIS ON THE INTERNATIONAL COMMERCE ...</b>	<b>9</b>
Professor Ph.D. Ion CIUREA .....	9
Assistant professor Cornelia MIU .....	9
<b>3. THE DURABLE DEVELOPMENT OF FORESTS IN ROMANIA.....</b>	<b>16</b>
Professor Ph.D. Viorica PANĂ .....	16
Student Andreea Georgiana DEMENE.....	16
<b>4. THE IMPORTANCE OF THE STRUCTURAL FUNDS AND THE COHESION FUND TO REGIONAL DEVELOPMENT IN ROMANIA .....</b>	<b>23</b>
Lecturer Ph.D. Florentina MIU .....	23
<b>5. EVOLUTIONS IN WORLD TRADE – A PICTURE BEFORE THE CRISIS .....</b>	<b>29</b>
Lecturer Ph.D. Ramona Florina POPESCU.....	29
Lecturer Ph.D. Tiberiu AVRAMESCU .....	29
<b>6. CONSIDERATIONS REGARDING THE PRESENCE OF YOUNG PEOPLE ON THE LABOUR MARKET IN ROMANIA .....</b>	<b>35</b>
Lecturer Ph.D. Tiberiu Cristian AVRĂMESCU.....	35
Lecturer Ph.D. Ramona Florina POPESCU.....	35
<b>7. THE AUTOMOTIVE INDUSTRY AND ITS CRISIS.....</b>	<b>41</b>
Lecturer Ph.D. Smaranda SIMONI <sup>1</sup> .....	41
<b>8. COMPETITIVENESS OF THE POLISH ECONOMY COMPARED WITH THE ROMANIAN ONE.....</b>	<b>47</b>
Lecturer Ph.D. Wioletta WEREDA <sup>1</sup> .....	47
University Assistant Ph.D. Candidate Alina HAGIU <sup>2</sup> .....	47
<b>9. ASPECTS REGARDING WORLD POPULATION’S NUMBER, DISTRIBUTION, DENSITY AND VITAL STATISTICS.....</b>	<b>57</b>
Lecturer Ph.D. Smaranda SIMONI <sup>1</sup> .....	57
<b>10. ROMANIA'S TRADE POLICY IN INTERNATIONAL ORGANIZATIONS WITH UNIVERSAL VOCATION .....</b>	<b>65</b>
University Assistant Ph.D. Candidate Alina HAGIU .....	65
University Preparer Cerasela MĂGURĂ .....	65
<b>11. ECONOMIC CRISIS, ITS PROSPECTS AND CHALLENGES FOR ECONOMIC THEORY</b>	<b>73</b>
Assistant professor Ph.D. Slavica MANIC .....	73
<b>12. THE MONEY LAUNDERING PROCESS .....</b>	<b>79</b>
Senior lecturer Ph.D. Adrian ŞIMON .....	79
<b>13. THE COMPETITIVENESS THROUGH TAXES IN THE CENTRAL AND EASTERN EUROPEAN COUNTRIES.....</b>	<b>86</b>
Lecturer Ph.D. Daniela PÎRVU <sup>1</sup> .....	86
Lecturer PhD Martina ECKARDT <sup>2</sup> .....	86
<b>14. MONEY LAUNDERING METHODS.....</b>	<b>94</b>
Senior lecturer PhD Adrian ŞIMON .....	94
<b>15. INTERNATIONAL FINANCIAL CRISIS AND THE VULNERABILITIES OF THE ROMANIAN ECONOMY.....</b>	<b>99</b>
Ph.D. Student Ciprian Sebastian TURCAN <sup>1</sup> .....	99
<b>16. REFLECTIONS REGARDING TAX EVASION AND TAX FRAUD WITHIN THE CONTEXT OF THE INTERNATIONAL ECONOMIC CRISIS.....</b>	<b>107</b>
Ph.D. Student Bogdan STOIAN .....	107

<b>17. THE EXPERIENCE OF THE EUROPEAN UNION’S MEMBER STATES IN ATTRACTING FUNDS.....</b>	<b>117</b>
University Assistant, Candidate Ph.D. Daniela FLORESCU <sup>1</sup> , .....	117
Ph.D. Candidate Cătălina Carmen HUBA (Ștefănescu) <sup>2</sup> .....	117
<b>18. CHALLENGES OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) IN THE ISLAMIC ACCOUNTING WORLD, CASE OF MIDDLE EASTERN COUNTRIES... 122</b>	<b>122</b>
Ph.D. Candidate Amged Abd El Razik.....	122
<b>19. AN APPLICATION OF THE STOCHASTIC McSHANE’S EQUATION IN FINANCE .....</b>	<b>128</b>
Ph.D.Student Ovidiu ȘONTEA <sup>1</sup> .....	128
<b>20. THE EFFECTS OF THE CRISIS ON THE ROMANIAN CAPITAL MARKET .....</b>	<b>132</b>
Ph.D. Student Ciprian Sebastian TURCAN <sup>1</sup> ,.....	132
<b>21. THE INFLUENCE OF POLLUTION TAX ON CAR SALES.....</b>	<b>141</b>
University Preparer Cerasela MĂGURĂ.....	141
Professor Ph.D. Anton Florin BOȚA-MOISIN.....	141
<b>22. TWO IMPORTANT TRADITIONAL PRICES’ INDICES FOR THE MEASUREMENT OF INFLATION AND COST-OF-LIVING IN ROMANIA, DURING THE LAST CENTURY ... 145</b>	<b>145</b>
Senior lecturer Ph.D. Gheorghe SĂVOIU .....	145
<b>23. U.E. STATES ECONOMY COUNTRIES - ENGINE WITH 5 gears –.....</b>	<b>153</b>
Professor Ph.D. Ioan PANĂ.....	153
Professor Ph.D. Viorica PANĂ.....	153
<b>24. THE ACCOUNTING TREATMENT OF INTANGIBLE ASSETS IN THE KNOWLEDGE-BASED ECONOMY .....</b>	<b>159</b>
Senior Lecturer Ph.D. Victoria FIRESCU .....	159
<b>25. ACCOUNTING AND LEGAL ASPECTS OF FRANCHISE OPERATIONS .....</b>	<b>165</b>
Senior lecturer Ph.D. Claudia BURTESCU .....	165
<b>26. ACCOUNTING PROCESS IN THE CONTEXT OF ECONOMIC DEPRESSION .....</b>	<b>169</b>
Ph.D. Student Cristina - Lucia BABAN.....	169
<b>27. THE ROLE OF THE UNIVERSITY IN THE REFORMING OF THE ROMANIAN HIGHER EDUCATION SYSTEM.....</b>	<b>175</b>
Professor Ph.D. Mihaela DIACONU .....	175
<b>28. MAJOR MANAGERIAL RISKS FOR THE ROMANIAN COMPANIES .....</b>	<b>185</b>
Senior Lecturer Ph.D. Puiu GRĂDINARU.....	185
Senior Lecturer Ph.D. Doruleț GRĂDINARU.....	185
<b>29. THE PERFORMANCES OF THE ORGANISATION AND THE INFORMATIONAL SYSTEM IN THE CONTEXT OF THE ECONOMIC CRISES .....</b>	<b>189</b>
Ph.D. Student Ionica HOLBAN (ONCIOIU) <sup>1</sup> .....	189
Ph.D. Student Florin Razvan ONCIOIU <sup>2</sup> .....	189
<b>30. MANAGERIAL ASPECTS IN CONDITIONS OF CRISIS.....</b>	<b>193</b>
Senior lecturer Ph.D. Puiu GRĂDINARU .....	193
Senior lecturer Ph.D. Doruleț GRĂDINARU .....	193
<b>31. THE LOYALTY OF THE EMPLOYEES, AN ESSENTIAL ELEMENT IN ATTRACTING AND MAINTAINING THE CUSTOMERS.....</b>	<b>197</b>
Ph.D. Student Victoria Mihaela BRÎNZEĂ, .....	197
Ph.D. Student Olimpia OANCEA .....	197
<b>32. RISK-MANAGEMENT, PROTECTION FACTOR FOR ORGANIZATIONS IN THE CURRENT ECONOMICAL CONTEXT .....</b>	<b>205</b>
Ph.D. Candidate Petronella MATEI-NEACSU.....	205
Ph.D. Candidate Cristina Badea BOLCAS .....	205
Ph.D. Candidate Florica BADEA.....	205

<b>33. ANALYSIS OF TOURISM LABOUR MARKET .....</b>	<b>209</b>
University Assistant, Ph.D. Student Cristina MICU .....	209
<b>34. TRENDS REGARDING THE MAIN INDICATORS OF THE PENSION SYSTEM.....</b>	<b>215</b>
Lecturer, Ph.D. Student Loredana TUȚĂ .....	215
<b>35. IMPLEMENTATION THROUGH INTERNAL MARKETING .....</b>	<b>219</b>
Prof.univ.dr. Luigi DUMITRESCU <sup>1</sup> ,.....	219
<b>36. THE ECONOMIC CRISIS' IMPACT ON EUROPEAN TOURISM .....</b>	<b>227</b>
Lecturer Ph.D. Ruxandra Irina POPESCU.....	227
<b>37. MARKETING CHANNEL RESEARCH .....</b>	<b>235</b>
Lecturer Ph.D. Mădălina BRUTU.....	235
<b>38. THE CONSEQUENCES OF THE LACK OF CITIZENS' INFORMATION ON THE POLITICAL MARKET .....</b>	<b>241</b>
Ph.D. Candidate Simona BUȘOI <sup>1</sup> .....	241
<b>39. INTERNET MARKETING – A NEW METHOD FOR REACHING THE CLIENTS.....</b>	<b>247</b>
University Assistant Mircea FUCIU .....	247
<b>40. RISK MANAGEMENT IMPLICATIONS.....</b>	<b>251</b>
Lecturer Ph.D. Elena JIANU.....	251
Student Roxana CIOBOATA.....	251
<b>41. CRITICAL FACTORS ABLE TO STRENGTHEN THE ROMANIAN MEDIA MARKET THROUGH ECONOMIC CRISIS.....</b>	<b>258</b>
Ph.D. Candidate Nicolae DAMU.....	258
Ph.D. Candidate Andra TURCU .....	258
Ph.D. Candidate Sabin NICULAE.....	258
<b>42. SOME CONSIDERATIONS ON THE IMPACT OF THE INTRODUCTION ICT IN THE EDUCATIONAL SYSTEM .....</b>	<b>263</b>
Main Researcher II, Ph.D. Mariana NICOLAE-BĂLAN.....	263
<b>43. DATA CENTER VIRTUALIZATION AND ITS ECONOMIC IMPLICATIONS FOR THE COMPANIES .....</b>	<b>271</b>
Senior lecturer Ph.D. Logica BĂNICĂ.....	271
Professor Ph.D. Mariana JURIAN .....	271
University Assistant Cristian ȘTEFAN.....	271
<b>44. RISK MANAGEMENT IN RESTRICTIVE FINANCIAL CONDITIONS.....</b>	<b>279</b>
Senior lecturer Ph.D. Emil BURTESCU .....	279
<b>45. PRACTICAL SOLUTIONS FOR MANAGING BANKING RELATED RISKS .....</b>	<b>285</b>
Ph.D. Student Silviu Florin TEODORU .....	285
<b>46. THE CONCEPT OF INFORMATION SYSTEM OF THE TRADING COMPANY OR OF A COMPANY WHICH INFLUENCES LOGISTICS.....</b>	<b>295</b>
Ph.D. Candidate Nicolae ȘIMON .....	295
<b>47. INFORMATION SOCIETY &amp; KNOWLEDGE SOCIETY. APPROACHES AND CHARACTERISTICS.....</b>	<b>305</b>
Ph.D. Student Alin ISAC .....	305
<b>48. WEB APPLICATIONS MODELING USING RATIONAL UNIFIED PROCESS AND “4+1” VIEW MODEL OF SOFTWARE ARCHITECTURE.....</b>	<b>311</b>
Lecturer Ph.D. Candidate Sidonia Otilia VULTUR.....	311
<b>49. USING BLOGGING AND MICRO-BLOGGING PLATFORMS AS COST EFFICIENT NICHE MARKETING TOOLS .....</b>	<b>318</b>
Ph.D. Student Liviu LICĂ <sup>1</sup> .....	318

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## **THE GLOBAL FINANCIAL CRISIS – THE CONSEQUENCES OF SINS OF THE (AMERICAN) FATHERS OR, THE TERRIBLE RESULTS OF A GOOD IDEA GONE BAD**

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***Abstract:** It is generally acknowledged that the global financial crisis originated in the United States. As an American who has lived in Europe for a decade, I want to provide a perspective for your consideration. My opinion may be somewhat or a great deal in error, but I will share it with you in the belief that it is at least approximately accurate. It's a story of a good idea gone bad, a generous civic response to an on-going problem that was hijacked by white-collar criminals.*

**Key words:** Slavery; black families; minorities; sub-prime mortgages; red-lining; dishonest brokers; Community Reinvestment Act; Civil Rights Act of 1964; dishonest brokers.

### **1. INTRODUCTION**

My version of this story begins two and a half centuries ago when the engine of the U.S. economy was the slave trade. With a great deal of fertile land and a shortage of people to do the work, slave labor was an easy and affordable answer. It was such a reasonable solution that even otherwise thoughtful people (such as the American founding fathers) seem to have agreed that while slavery might be an ethical compromise, economic necessity made it possible to determine that Africans were somehow less than fully human. Even President Abraham Lincoln, remembered as “the Great Emancipator,” was not antagonistic to the idea of slavery. However, he had to confront the growing sentiment (and the devastating Civil War between the slave states and the free states) that slavery could not be sustained in “the land of the free and the home of the brave.”

### **2. A SMALL DOSE OF HISTORY**

After more than 100 years of struggles and deprivation, Africans and their descendents were granted fully-human status in the United States. But -- their distinctive pigmentation made them easily identifiable and led to generations of discrimination that was never fully addressed until President Lyndon Johnson signed the Civil Rights Act of 1964. In doing so, Johnson ended his political career. His supporters in the American south, the traditional home of Democrats, abandoned Lyndon Johnson and the Democratic party to reform the south as the new heartland of the GOP, the Republican party.

With the passage of that legislation, it became necessary to notice black people in America, and the extent to which they had been discriminated against in every way possible, from segregated drinking fountains in public places to segregated schools and, in some states, not being allowed to vote. Obviously, it follows that black people commonly lived in sub-standard housing, attended sub-standard schools, and were able to achieve only a sub-standard slice of the American dream. Of course, they were over-represented among the so-called urban poor, and were reported to get a disproportionate amount of public welfare money (which never was the

case). Still, the white establishment provided AFDC – Aid to Families with Dependent Children – which was essentially a payment to women with children under the age of 18. But the white establishment planted a destructive seed in this act of generosity – women who had a man in the home were not eligible to receive AFDC! This had at least four profoundly negative results:

First, it led to the unraveling of the black family.

Second, it rewarded women for having babies outside marriage (more babies, more aid).

Third, it created several generations of children who grew up poor and without fathers.

Fourth, it created negative role imagery for black men whose presence at home compromised the family's welfare payment.

These four negative forces have resulted in two remarkable current statistics: One American black man in three will spend time in prison; and although blacks are only one-third of the teenage population, black girls have two-thirds of the abortions in that age group.

Of course, these numbers mean that black men make up a disproportionately large percentage of the prison population, and black criminality is a major social problem. By the way, most crime by black men is committed against other black people, further compromising the stability of the black community and limiting economic opportunity.

Many researchers have observed that there is less crime in stable neighborhoods in which residents own their homes. However, banks had for years “red-lined” minority neighborhoods, restricting loans for home mortgages. Under the leadership of President Jimmy Carter, the Community Reinvestment Act of 1977 was passed to get banks to make more home loans to minorities on the premise that it is the ability to repay loans rather than ethnicity that is the important issue. Thus, the sub-prime mortgage was born. Then in 1993, President Bill Clinton asked for a revision of that Act to get banks to participate more fully to enable minority home ownership. This is where, some say, that the good idea went bad.

By 2000, pressure to strengthen the Act made it possible to lower lending standards – or necessary, so apologists allege. But the facts are that unscrupulous mortgage brokers and some banks set out to sell sub-prime mortgages to anyone who would accept them, often falsifying financial information on application forms. Sales persons were offered bonuses for generating sub-prime loans, and in many documented cases, brokers knew they were making loans to people who could not possibly repay them. Banks put together collections of these mortgages and sold them on to other banks at a discount. That allowed buying banks to prove they were serving the minority market. It seemed such a profitable deal that even international banks wanted some of the action as many of those loan packages were sold and resold many times.

Then the defaults began, and foreclosures, and banks began to run out of money to lend to businesses (including home builders). The building boom in America stopped and the price of homes began to fall, leaving many people – even those who did not get sub-prime mortgages -- finding themselves owing more than their houses were worth. That led even more people to default on their mortgage payments. The “Crisis” was launched as so many of those mortgages that banks bought proved to be worthless. Many people lost their savings, their homes, and for increasing numbers of others, their jobs. All around the world!



### 3. SIGNS OF THE TIMES

Along the way, Americans have learned recently that a nice old man named Bernard Madoff swindled investors out of an estimated 50 billion dollars – perhaps the most clever criminal of all time. Previously, there was the case of Enron, which devastated the economic lives of 21,000 employees in 40 countries and put a number of executives in prison. WorldCom executive Bernard Ebbers got a 25-year prison sentence for an 11 billion dollar swindle that bankrupted his company. Even Martha Stewart, America’s favorite homemaker, publisher, and TV celebrity spent 5 months in jail and another 5 months confined to her home -- for insider trading and lying to investigators. Most amazingly, the huge insurance company, AIG, racked-up the largest ever quarterly loss at the end of 2008 – 65 billion dollars -- and still wanted to reward its executives with multi-million-dollar bonuses!

There have always been swindlers and crooks, but it seems that in the U.S. over the past decade there has been an air of entitlement that encouraged powerful institutions and their executives to take advantage of a system that was not well regulated. Many think the regulators were essentially co-conspirators, given their casual oversight of the public’s interests.

In my mind, this makes a point that came clear to me in years of civil rights work, paraphrasing something Jesus was reported to have said: What you do to the least of these is being done to the many – but the many are too busy being caught up in their racism and relatively advantageous position to notice! Well, maybe now the many will see. The sub-prime loans, designed to support minority home ownership for qualified borrowers, made black and Hispanic communities the first targets of opportunity in this enormous miscarriage of economic opportunity. And the many have been victimized, too! Even in Iceland and Latvia.

You might wonder why I’m talking about America to a Romanian audience. It’s because I don’t know enough about Romania. I suppose I could speak of misdirection of resources in Lithuania, but then you would think I’m speaking about Romania since there are said to be so many similarities among the former Soviet republics. When I asked a member of the Lithuanian parliament what was going among the delegates, he said, “Do you remember the Borgia family of Italy, poisoning each other? These guys are scrapping among themselves to settle feuds a decade old, and for public assets that haven’t already been stolen!”

But from my perspective, as a management and human resource consultant, the news isn’t all bad. Now that companies and governments are in serious financial trouble, they might at last turn to their employees for help. Maybe I’m being optimistic, but I know that for the last decade, managers in this part of the world have had no interest in the participative approach to productivity. Evidence of this is seen/heard when I ask people if they like their jobs, admire their managers, look forward to going to work every morning, and they laugh. So then I follow with the question, Do you know *anyone* who feels that way about their jobs? More laughter.

Of course, that means they aren’t involved with their jobs or their managers or their organizations. The reason is that managers are invested in authority, in personal power, and in the social distance they believe 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.

And that raises the issue of what impact this crisis is going to have on the work we do and the jobs we have or hope to get? What does it mean for university and college students, and for

those of us who teach them? Are we giving them what they need to know and know how to do? Which of our disciplines is nearly or already obsolete? And what major revisions in curriculum offerings will we need to make to stay relevant to the career and life prospects of our students?

Maybe if we use some of these turbulent days to focus on what our students and societies need, and think less about our personal problems and inconveniences, we can catch a glimpse of the future that's upon us. Maybe then we can turn the adversity of the moment into creative responses. Maybe if nothing else I've said is true, you can count on this: More of the same old stuff will not result in different outcomes. We will continue to create again what we know, what we've done, and the dysfunctional results we have produced.

This use of the editorial "we" may be unfair, as some among us may not be compulsive consumers, driven to disadvantage others by our greed, distorting all the rules that should shape our behavior, thus allowing us to avoid taxes and to take ethical shortcuts. But if you look at the genesis of the current crisis and the questionable behaviors that were rewarded handsomely, and the fact that most of us didn't raise our voices in protest, maybe we all are just a little bit responsible. Remember, what we tolerate, we validate; what we accept must be okay.

### **3. CONCLUSIONS**

The past two decades have brought the opportunity for democracy to this part of the world. I don't refer to the American-style democracy that has produced such an economic embarrassment. Instead, I refer to the freedom to speak out, to organize protests with others who have the same concerns, and to make an effort to make a difference. If you and the people you know can catch that vision and act on it, maybe you will have found the gift that must be buried somewhere in this global economic crisis.

### **REFERENCES**

Dr. Sears is a lecturer at the College of Social Sciences in Vilnius, Lithuania. HRD Press in the U.S. published 6 of his books in 2007 and 2008, and a 13-part series of his articles is currently running in the business E-zine, *ExpertAccess* ([www.cincom.com/expertaccess](http://www.cincom.com/expertaccess)). For more information, see his website: <http://woodysears.googlepages.com>.

## THE IMPACT OF THE FINANCIAL CRISIS ON THE INTERNATIONAL COMMERCE

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***Abstract:** The world economy is experiencing its most severe downturn in many decades, notwithstanding decisive policy measures across the globe in response to the financial turmoil and its adverse consequences. Indicators signal a deeper and more synchronized downturn in the global economy. Emerging markets – a main pillar of global growth in recent years – also appear to be increasingly affected by the worsening global economic conditions. Global inflationary pressures have eased owing to the sharp decline in commodity prices and decelerating global demand. At the same time, volatility in many markets has soared, and global economic prospects are currently subject to a high degree of uncertainty. The spreading repercussions of the financial turmoil have recently precipitated a downturn in international trade transactions across the globe. This is evidenced by the sharp and broad-based fall in the global manufacturing Purchasing Managers' Index (PMI) to levels well below its contraction-expansion threshold, suggesting that global industries have continued to scale back activity.*

**Keywords:** crisis, financial, trade, import, export.

International trade statistics are used extensively by public and private sector decision-makers. For example, businesses can carry out market research and define their commercial strategy. They are also used extensively by public body decision makers at an international, EU and national level. In the case of Community authorities, international trade statistics help in the preparation of multilateral and bilateral trade negotiations, in defining and implementing anti-dumping policies, in evaluating the progress of the Single Market or the integration of European economies (1).

The current account of the BoP provides information not only on international trade in goods (generally the largest category), but also on international transactions in services, income (from employment and investment) and current transfers. For all these transactions, the BoP registers the value of exports (credits) and imports (debits), the difference of which is usually referred to as the balance (surplus or deficit).

Main players in world trade for goods are: EU-27, United States, China (excluding Hong Kong), Canada and Switzerland (Table 1 and Chart 1)<sup>1</sup>.

Trade integration of goods and services is measured as the average value of debits and credits (summed together and divided by two) expressed as a share of GDP. This indicator is

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<sup>1</sup> *External and intra-European trade. Statistical yearbook — Data 1958-2007:* This pocketbook provides an overview of the characteristics of the European Union's trade in goods. Data are provided for the European Union as a whole (EU-27), the euro area (EA-15) and the single Member States, with a breakdown by main partners and by major product groups, according to the Standard International Trade Classification (SITC). Trade flows for the 27 Member States are presented with both other EU countries (intra-EU trade) and non-EU partners (extra-EU trade). The source of these statistics is Comets, the Eurostat database containing detailed external trade data for the EU and its Member States.

calculated for both goods and services, based on BoP data; higher values indicate higher integration within the international economy. It is normal that smaller countries will display a higher recourse to international trade, as they are more likely to import a range of goods and services that are not produced within the domestic market.

The economy of the EU-27 was more integrated with the international economy in 2006 (in terms of the credits and debits as a share of GDP) than at any time in the previous five years. The average value of EU-27 trade flows of goods corresponded to 10.8 % of GDP in 2006, a much higher ratio than the relative low of 8.6 % in 2003, reflecting the broad upturn in economic activity. Although the volume of international trade in services is less than that for goods, the trade integration of services also rose from a relative low in 2003 to 3.6 % of GDP in 2006.

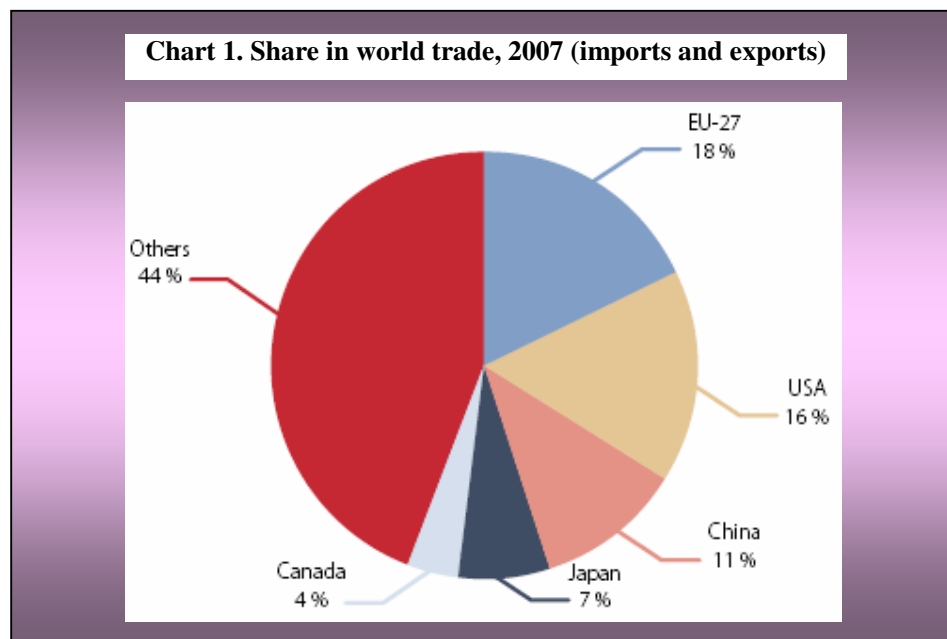
**Table 1. Main players in world trade for goods<sup>2</sup>**  
(EUR 1.000 million)

	Exports				Imports			
	1991	1996	2001	2006	1991	1996	2001	2006
<b>EU-27 (1)</b>	...	...	885	1.157	...	...	976	1.350
<b>EU-15 (2)</b>	403	626	986	1.310	472	581	1.028	1.430
<b>Norway</b>	27	39	66	97	21	27	37	51
<b>Switzerland</b>	50	63	92	118	54	62	94	113
<b>Canada</b>	102	159	291	306	95	134	247	279
<b>China (excluding Hong Kong)</b>	...	119	297	772	...	109	272	630
<b>Japan</b>	254	324	450	515	191	275	390	461
<b>United States</b>	340	490	816	826	411	644	1.318	1.528

(1) Extra EU-27

(2) Extra EU-27

Source: Eurostat (*ext.lt.intertrd*)

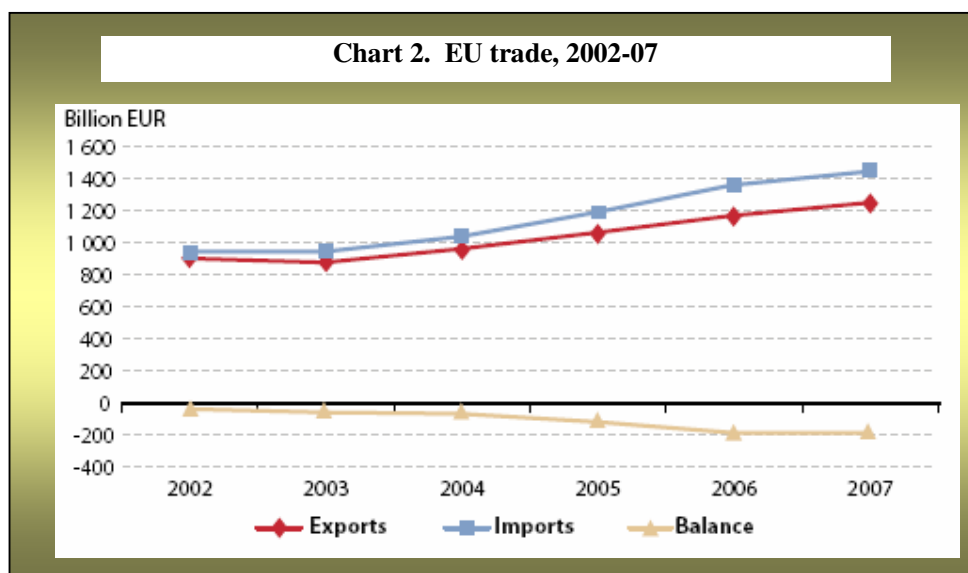


The value of world trade in goods, excluding intra-EU-27 trade, was about EUR 15.000 billion in 2007. The European Union is the leading trader, accounting for 18 % of total world trade. The USA was the second biggest trader with a share of 16 %, followed by China (11 %), Japan (7 %) and Canada (4 %). The EU is the biggest exporter and the second biggest importer in the world.

<sup>2</sup> Annuaire Eurostat 2008 – *L'EUROPE EN CHIFFRES. Cap.8 Le commerce international*, p. 363.

In 2007, the value of extra-EU-27 exports was EUR 1.241 billion and the value of imports EUR 1.434 billion. The USA is the biggest importer in the world. It also records the biggest trade deficit, almost EUR 624 billion in 2007. China has become a major global trader in recent years. In 2004, China overtook Japan as the third biggest trader in the world (5).

Starting from 2003, the European Union recorded a steady growth in both imports and exports. From 2003 to 2007, the average annual growth rate was more than 9 % for exports and more than 11 % for imports. EU trade is characterised by a permanent but generally limited trade deficit. In 2007, the deficit reached EUR 192 billion, which was slightly lower than in the previous year but more than four times higher than in 2002 (Chart 2).

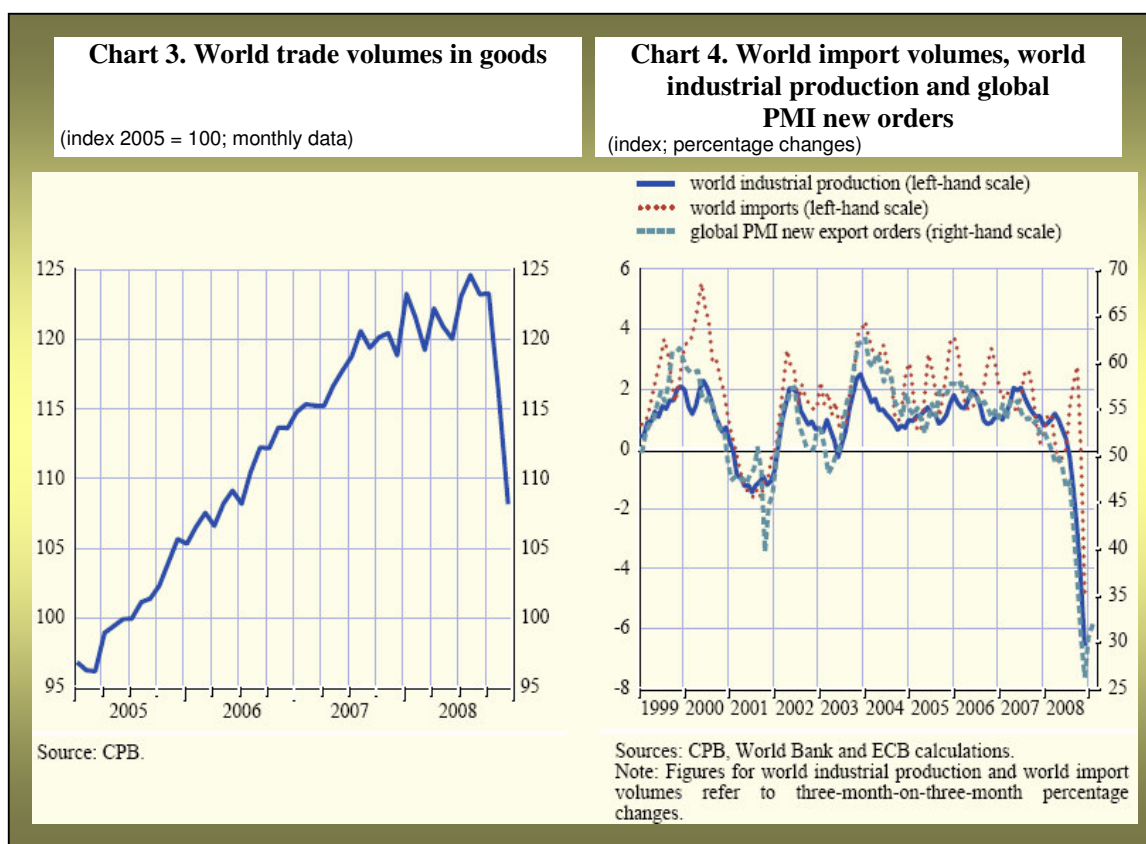


In 2007, over 40 % of EU imports came from Asian countries while the other European countries accounted for more than a quarter. The main destination of EU exports in 2007 was Asia with a 30 % share, followed by other European countries (28 %) and North America (24 %). The EU has a considerable deficit in trade with Asian countries, which more than doubled between 2002 and 2007. The largest surplus is recorded in trade with North America (5).

As regards the economic analysis, the world economy has weakened substantially in recent months reflecting the impact of the financial market turmoil, affecting increasingly also emerging market economies. In a climate of heightened uncertainty, a severe fall in world trade volumes has been accompanied by a pronounced decline in domestic demand. This is evidenced by the sharp and broad-based fall in the global manufacturing Purchasing Managers' Index (PMI) to levels well below its contraction-expansion threshold, suggesting that global industries have continued to scale back activity.

Following a period of strong growth, world trade was gradually affected by the general slowdown in global activity that began with the US recession at the end of 2007. After the failure of Lehman Brothers, the strong adverse feedback loop between the financial turmoil and real activity led to a sharp decline in world trade (10). The impact of the financial turmoil on wealth and confidence, together with the associated high level of uncertainty, prompted firms and households to reduce or postpone expenditures, as shown, for instance. The decline in demand for capital and consumer goods – especially durable goods – which have a relatively high import content, caused world output and trade to plummet in the final months of 2008.

The spreading repercussions of the financial turmoil have recently precipitated a downturn in international trade transactions across the globe. According to the latest data release, world trade volumes of goods contracted markedly in November and December 2008, by 5.3% and 7.0% month on month respectively (9). Overall, world trade declined by 6.0% quarter on quarter in the fourth quarter of 2008. According to this latest information, at the end of 2008 world trade had reverted to mid-2006 levels (Chart 3). Moreover, a further contraction is expected, as the February global PMI export orders index remained below its expansion-contraction threshold for the sixth consecutive month (Chart 4).



From a historical perspective, the link between the US business cycle and global economic developments remains strong, and US recessions have often been associated with downturns in world trade. Although this relationship does not necessarily imply any causality, it provides a useful benchmark for gauging current developments. Based on data collected since the late 1950, Chart C shows the average pattern of the change in world import volumes of goods and services during US recessions (with quarter “0” corresponding to the start of the US recession as dated by the National Bureau of Economic Research). In general, US economic recessions have been accompanied by a slowdown in the pace of expansion of world trade (on average, the rate of increase in world trade declines for around eight quarters after the start of a US recession).

Looking at the past US recessions individually, the recession in the early 1980 shows similarities with the current cycle. Both are characterised by significant adverse impacts on consumption, residential investment and imports. In addition, the recession in the early 1980 was associated with difficulties in the banking sector, as is the present cycle. The impacts of that recession on world trade were particularly strong, with trade remaining below its pre-recession levels for the next four years.

Developments in the current downturn in trade have so far been relatively similar to those in the early 1980. Therefore, using the latter as a rough benchmark, it seems legitimate to expect some further weakness in world trade for a period of time. Moreover, features particular to the current episode may give rise to downside risks to world trade prospects, such as limited access to trade credit or the emergence of global production chains that could intensify the synchronous decline in trade across the globe. However, these risks could be somewhat mitigated by the recent fall in oil prices, as the resulting decline in transportation costs might support a recovery in international trade activity (4).

The euro area economy is relatively open, particularly when compared with the world's two other leading economies: in 2006, the combined value of imports and exports of goods and services was equivalent to around 42% of GDP. The euro area also accounted for 18% of the value of world exports, compared with 10% for the ten largest oil exporting countries. Moreover, the trade openness of the euro area has increased noticeably since 1998 (by 11 percentage points), particularly as a result of rapidly growing trade with new EU members and China (2).

**Table 2. Imports of goods - total - Percentage change m/m-1 (SA)**

	2008 02	2008 03	2008 04	2008 05	2008 06	2008 07	2008 08	2008 09	2008 10	2008 11	2008 12	2009 01
<b>Imports of goods - total</b>	<b>-2.2</b>	<b>0.8</b>	<b>1.3</b>	<b>-1.2</b>	<b>2.5</b>	<b>3.0</b>	<b>-3.4</b>	<b>0.1</b>	<b>-2.8</b>	<b>-4.2</b>	<b>-5.5</b>	<b>-8.1</b>
Food, drink and tobacco	-4.1	-3.0	2.4	2.8	-1.6	-1.0	0.8	0.4	-2.8	-0.3	-0.9	-12.5
Raw materials	-0.2	0.3	0.2	1.1	0.8	3.6	0.3	3.1	-3.2	-3.5	-13.3	-26.4
Mineral fuels, lubricants and related materials	-2.5	4.6	-1.7	2.6	9.7	8.3	-11.6	-3.4	-8.6	-10.8	-10.1	-14.0
Chemicals and related prod	-2.2	4.0	-1.1	-2.5	0.1	5.2	0.5	0.9	-4.7	-0.8	-3.3	-5.3
Other manufactured goods	0.7	-3.7	1.4	-1.1	1.8	4.4	-1.4	2.4	-1.2	-11.6	-1.8	-1.4
Machinery and transport equipment	-1.7	-1.9	1.1	-3.6	0.1	4.6	-3.3	0.6	-3.9	-1.0	-4.7	-5.4

Following the onset of the turmoil and increased volatility in financial markets in early August 2007, which had been triggered by deterioration in the US sub-prime mortgage market and the reprising of risk, the outlook for economic activity in the euro area became clouded by unusually high uncertainty

**Table 3. Imports of goods - total - Percentage change m/m-12 (NSA)**

	2008 02	2008 03	2008 04	2008 05	2008 06	2008 07	2008 08	2008 09	2008 10	2008 11	2008 12	2009 01
<b>Imports of goods - total</b>	<b>9.0</b>	<b>4.7</b>	<b>16.1</b>	<b>8.6</b>	<b>13.7</b>	<b>17.3</b>	<b>7.6</b>	<b>15.8</b>	<b>4.2</b>	<b>-4.0</b>	<b>-5.7</b>	<b>-22.1</b>
Food, drink and tobacco	10.5	1.1	12.7	14.6	12.5	8.9	1.2	5.4	-5.4	-5.9	3.2	-20.8
Raw materials	5.7	-2.6	13.3	5.2	9.4	12.2	3.4	24.1	12.0	2.9	-2.8	-36.3
Mineral fuels, lubricants and related materials	34.0	45.5	46.2	41.0	57.6	60.7	45.0	44.3	19.9	-2.9	-18.1	-34.2
Chemicals and related prod	6.2	0.8	13.3	0.3	3.6	8.0	1.0	14.1	4.6	1.9	3.6	-12.6
Other manufactured goods	1.2	-13.0	2.4	-5.1	-3.2	1.4	-6.0	7.4	-0.4	-7.1	-2.8	-16.4
Machinery and transport equipment	-1.6	-3.5	7.4	-1.3	0.9	2.5	-7.4	3.0	-4.9	-6.9	-3.4	-19.6

As a result, demand for euro area goods and services has slowed. Euro area exports were flat in the second and third quarters of 2008 and slumped sharply in the final quarter of the year (falling by 7.3% quarter on quarter). This was one of the factors behind the very strong decline in industrial production observed in that period. Looking ahead, export orders remain at historically very low levels and business surveys point to another sharp fall in exports in the first quarter of 2009 and later in the year. Although exports may gain some impetus from the depreciation in the nominal effective exchange rate of the euro since the turn of the year, if it is sustained, near-term

prospects for the global economy remain bleak and it is unlikely that exports will provide strong support for euro area demand in the coming quarters (the tables 2 – 5)<sup>3</sup>.

**Table 4. Exports of goods - total - Percentage change m/m-1 (SA)**

time geo	2008 02	2008 03	2008 04	2008 05	2008 06	2008 07	2008 08	2008 09	2008 10	2008 11	2008 12	2009 01
<b>Imports of goods - total</b>	<b>2.0</b>	<b>-4.6</b>	<b>5.2</b>	<b>-4.0</b>	<b>0.6</b>	<b>3.6</b>	<b>-3.1</b>	<b>2.0</b>	<b>-2.5</b>	<b>-6.4</b>	<b>-0.6</b>	<b>-16.7</b>
Food, drink and tobacco	-0.9	0.6	2.7	-5.0	-1.9	6.0	-2.5	0.9	0.2	-5.6	0.6	-7.4
Raw materials	3.5	-1.2	6.3	-4.9	-1.3	4.4	-5.9	-1.1	-3.5	-23.5	0.7	-16.1
Mineral fuels, lubricants and related materials	6.6	-4.9	3.8	-2.5	20.7	-4.0	-0.5	0.1	-12.6	-21.1	-13.5	-14.2
Chemicals and related prod	-0.3	-3.1	1.8	-3.3	2.6	1.1	1.2	-4.7	0.0	-4.7	-0.2	-4.8
Other manufactured goods	2.1	-4.6	2.6	-3.1	-0.8	3.2	-0.5	-1.1	-1.2	-9.2	-2.9	-13.7
Machinery and transport equipment	3.0	-4.7	5.4	-7.0	-1.2	4.4	-2.5	1.3	-1.3	-6.4	1.2	-14.3

As final domestic demand has slowed, euro area imports have also tended to moderate over the past year. Following more robust growth in the third quarter of 2008, imports fell by 5.5% in the fourth quarter. However, with exports falling faster, the contribution of net trade to GDP growth was again negative in the fourth quarter.

**Table 5. Exports of goods - total - Percentage change m/m-12 (NSA)**

	2008 02	2008 03	2008 04	2008 05	2008 06	2008 07	2008 08	2008 09	2008 10	2008 11	2008 12	2009 01
<b>Imports of goods - total</b>	<b>16.1</b>	<b>-1.5</b>	<b>17.2</b>	<b>4.8</b>	<b>5.8</b>	<b>12.3</b>	<b>-1.5</b>	<b>11.9</b>	<b>2.8</b>	<b>-10.7</b>	<b>0.1</b>	<b>-24.8</b>
Food, drink and tobacco	14.4	1.7	29.6	7.7	9.0	16.1	-0.1	19.1	11.4	-3.0	9.7	-16.3
Raw materials	21.7	8.7	26.4	9.9	12.2	21.5	2.9	11.9	0.6	-26.2	-18.3	-40.0
Mineral fuels, lubricants and related materials	47.5	29.9	30.3	36.4	42.3	41.2	54.8	46.4	16.9	-12.5	-30.4	-39.4
Chemicals and related prod	10.6	-9.1	14.0	2.9	9.0	12.8	0.0	4.6	1.3	-11.0	7.9	-17.2
Other manufactured goods	13.9	-5.5	16.9	1.4	-1.2	7.5	-6.5	8.4	0.8	-11.8	-3.6	-30.6
Machinery and transport equipment	15.5	-1.0	17.2	3.7	3.5	10.8	-5.2	10.3	1.6	-10.3	3.4	-23.9

Following the onset of the turmoil and increased volatility in financial markets in early August 2007, which had been triggered by deterioration in the US sub-prime mortgage market and the reprising of risk, the outlook for economic activity in the euro area became clouded by unusually high uncertainty

In major emerging markets, the turmoil led temporarily to a rise in financial market volatility, but the capacity of most emerging markets to withstand this turbulence appeared to be stronger than in the past. In the largest central and eastern European EU countries, economic activity has weakened noticeably in recent months. In Hungary, the economy contracted by 1% quarter on quarter in the fourth quarter of 2008, following a decline of 0.1% in the third quarter. Real GDP growth decelerated slightly in the third quarter in the Czech Republic and Poland, to 0.9% and 1.2% respectively. Short-term indicators point to a very significant weakening of economic activity in both countries.

In Romania, real GDP growth was still strong in the third quarter of 2008, partly driven by good harvests in the agricultural sector, marked deceleration in recent months. The growth outlook has worsened markedly over the past few months in all four countries as a result of

<sup>3</sup> External trade statistics cover any movements of goods between the reporting country and the rest of the world. "Goods" means all movable property, including electrical current. The table indicates the seasonally adjusted values of the EU and euro-zone exports. Exports are valued FOB (Free on Board), i.e. only incidental expenses (freight, insurance) incurred in the part of journey located on the territory of the reporting country are included. The raw values of the Member States are adjusted according to the number of working days on the basis of each national calendar and then seasonally adjusted before being aggregated to provide the EU and euro-zone totals.



increased risk aversion towards the region, tighter financing conditions and weakening international trade (7).

In 2008, FOB exports amounted to € 33613.6 million, their value being with 25.2% higher than 2007, calculated based on the values expressed in lei, respectively 13.8% calculated based on the values expressed in euro.

In the structure of exports, three of the 10 sections of goods comprised in the Standard International Trade Classification (SITC Rev. 4) account for 74.2% of total exports as follows: machinery and transport equipment (36.2%), manufactured products mainly classified by raw material (19.5%) and miscellaneous manufactured articles (18.5%).

In 2008, CIF imports amounted to € 56134.4 million, their value being higher than 2007 with 20.3% based on the values expressed in lei, respectively 9.4% based on the values expressed in euro. In the structure of imports, four of the 10 sections of goods comprised in the Standard International Trade Classification (SITC Rev. 4) account for 81.2% of total imports, as follows: machinery and transport equipment (35.8%), manufactured products, mainly classified by raw material (21.9%), mineral fuels, lubricants and connected materials (12.6%) and chemicals and similar products not-elsewhere specified (10.9%).

The value of intra-community exchanges of goods in 2008 was lei 86946.7 million (€ 23657.1 million) for deliveries and lei 142448.5 million (€ 38734.7 million) for inputs, representing 70.5% of total exports and 69.1% of total imports.

In December 2008, FOB exports amounted 7527.5 million lei (1934.0 million euro), with 7.0% less compared with December 2007 at values expressed in lei (with 15.6% at values expressed in euro). In December 2008, CIF imports amounted to 13385.4 million lei (3437.4 million euro), less compared with December 2007 with 16.0% at values expressed in lei (23.8% at values expressed in euro) (8).

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## THE DURABLE DEVELOPMENT OF FORESTS IN ROMANIA

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***Abstract:** The durable development proposes a new philosophy for the development of the human society of which its transposition into practice must offer the conditions for life to continue on Terra, having the center of the preoccupations the HUMAN.*

*The actions that we forfeit today and in the future will have to lead to three crucial finalities: the distribution and the optimal utilization of the human resource, financial, but especially of the environment resources; the optimal distribution of the incomes from the economical activity in order to benefit equitably of all the factors that concur at the realization the results: human capital, natural capital and financial capital; the establish of some optimal proportions between the planetary are all necessary to the human society and the one necessary to the existence to other life forms (plants & animals). Anyone of the advertised actions has to keep account of the following principles: durability, equity, sufficiency, efficiency & transparency.*

*How any field has its own model of sustainable development and forests of Romania, as everywhere else in the world, should set the model to follow. Only on paper are all kinds of projects very well developed, but in fact the actions taken by different operators did not have any purpose other than obtaining a higher profit by exploiting the natural wealth that fell in the country.*

„The nature is huge, the human is small; he quality and the level of the human life, have always depended on the relation ship man-nature”... “By the passing of time, the primary concern of the man was life after death. Today, for the first time... we have to ask our, selves, if life, after death will exist.”... ”Whe is the human – being acting like a total idiot?”<sup>4</sup>

The man, hasn't been, and isn't an idiot, but he was overwhelmed by his temporary, well-being, forgetting that the well –being of nature has ensured its future to him and his children. That's how, from the Antiquity it disappeared: “the horn of abundance” under the sands between Tigris & Euphrat, Cartagena → the seeds of Antique Rome from the North of Africa, under the sands of Sahara, the forests from the Greek mountains for the construction of ships and fuel, in the Medieval Age the forests from Italy and the Iberic Peninsula, and today the tropical forests. The changes that happened by the human activity didn't stop here. They continued with the occupation, of the natural habitats of a lot of plants and animals that have disappeared, or are about to being extinct with piles of garbage produced by the big urban conglomerates, with the

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<sup>4</sup> Albert Szent-Györgyi, *Pleading for life*, The Collection Contemporary Ideas, The Politic Publishing House, Bucharest, 1981, pages 152-159.

gas etc., all of these contributing to the dramatic changes of the climate, diminishing the biodiversity and affecting in a serious way life on Earth/Terra.

The Planet Earth will disappear like any other planet in the Universe. But the question of Albert Szent-Györgyi becomes obsessive: “will there be life before death” to the planet Earth? Hard to believe, if the man remains obsessed by his temporary well-being! The idea that the human has a life, and that he must live it at full range, that he owns the nature and that he can do whatever he desires to ensure itself the well-being has reached to this moment, when the nature shows him how much he did wrong, and which will be the future effects of these mistakes.

The moment for changing his life’s philosophy not only did it come, but it seems it has already passed (faded-away). Very quickly, he must replace the way to produce-consume, having the hope that: “there will be life, before death”.

The urge to change brought in our attention, the concept of durable development. The new philosophy in implementing this concept must lead to the accomplishment of **three fundamental endings**:

- ☞ the distributions & optimum utilization of the human resources, financial but especially resources of the environment;

- ☞ the optimum distribution of the incomes from the economical activity so we can all benefit equitably all the factors that concur to the realization of the results: human interest, natural interest & financial interest;

- ☞ the establishment of an optimum proportion between the planetary area necessary to the human society, and the one necessary to the existence of other life forms (plants & animals).

**The ultimate purpose of these endings is to ensure the continuity of life on earth**, for the human being, or any other life form on earth.

The achieving of this purpose makes necessary to the identification and implementation a high number of objectives, which supposes the engaging of multiple actions, which the man can handle if he has the **power to acknowledge that the well-being of the planet is much more important than its own well-being**.

Any future action must take in consideration the following principles: sustainability, equity, sufficiency, efficiency & transparency.

**The Sustainability** of any action in the durable development can be done through an organization and a rigorous planning from local level to planetary level. The local communities know best the problems they have to solve in the spirit of durable development. But, there are a lot of problems of which solution is only possible, at a national level, and others at a worldwide level.

**The Equity** is maybe the principle with the most difficult transgression in practice. The man, through his life philosophy, even if he met him a long time ago, and evoked it in different situations, he almost never respected this principle. A moot is the social lair who is splattered between rich and poor, between developed countries, and countries in process development, if we refer to the social environment, on at big countries that consume environment resource, but offer us little to make the natural environment better.

**The Sufficiency** is also a principle hard to take in account at each action we initiate. After a post of the people have raised their life standard to unimaginable rates, for the majority of the population, it’s very hard now to accept that it is imperative to “eat in order to survive, not survive for eating”.

**The Efficiency.** It is a fundamental principle in the economy; every activity must be efficient, economically speaking. But, for over 50 years, along the economical efficiency, the specialized literature brought forth the social & ecological efficiency, from the need to oblige any economical action to regard also the effects in the social & ecological environments. The capitalist economy has put in the core of the economic system “the market”, which revealed with

no doubts the economic efficiency, but the market doesn't know, and doesn't reveal the poorness and the degradation of the natural environment. The economic efficiency was built, almost fully by eluding the social & ecological efficiency.

**The Transparency.** Any future action must be transparent, in order to be controlled. Then are various actions taking place under the generous umbrella of the durable development, but in reality they have nothing in common with accomplishing the ultimate goal and its finality.

The durable development can't be realized using model for all the domains of activity. Each section of activity, each territory, bizerar smolder has a certain specify and in consequence it's own pattern of development. The forest, like any other domains, has to propose itself a model of development. Also, in Romania there have been numerous search plans, only that the actions we engaged in didn't respect the purpose of durable development and especially its principles.

The pattern of durable development of the forests in Romania will have to answer to those three finalities, watching-out for the accomplishment of the purpose we have, and the actions initiated have to be realized in following with the principles of this new philosophy.

The forest, through its role & importance, has a special place in each of these three finalities (endings).

**The first finality.** The forest is one of the environment resources with a major contribution on supporting life on Terra. It produces oxygen, it's the most complex ecosystem, maintains a huge biodiversity, has a special contribution to maintain the climatic system, ensures stability to the soil besides rivers, reducing the possibility of floods, puts at the disposal of the economy a series of products from pure wood for diverse handlings, mushrooms, medicinal plants, biogenetic areoles etc. A special quality of the forest it's its capacity of regeneration, with the condition that it is exploited rationally.

But in Romania, the forest has been and is far from being treated like a major part of the environment resources, which we will enjoy for a long time.

At the begging of the second millennium the forest took over, over 64,3% from our country's territory, in the year 1750 it represented 40,5%, as for the year 1900 it reached to 23,8%.<sup>5</sup> The drastic reduction of the forester fund at the end of the XIX century determined P.S. Aurelian, the president of the Romanian Senate, to write "We think we've went too far with the cutting of the forests, and we're already being punished for this foolish move".<sup>6</sup> 50 years later one of the greatest savants of Romania, Gheorghe Ionescu-Sisesti wrote: "We don't notice or don't give the proper attention to the fact that the Romanian soil it's destroying itself year by year on thousands of hectares"... "All our mountain region and hill is empty by the erosion of the soil. There are lands in Mehedinti, Gorj, Valcea, Arges, Muscel, Buzau, Vrancea, that have become true cemeteries"... "We waste hundreds of millions on defending the homes from floods"... "but we continue to destroy the clothing and grass of the forests of the mountains and hills".<sup>7</sup> Do these warning ring a bell? Today we find these in all the papers and in all the magazines of specialty. The Romanian proverb "forest brother with the Romanian" has remained only in the songs from long ago, because for more than 150 years the forest continued to bring income to the Romanians, but they have become step brothers, exploiting merciless their brother.

Romania has today 6272,3<sup>8</sup> thousands of hectares of forest, representing 26,3% of the real-estate fund, a percent a lot smaller than other countries around us, and smaller then the European

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<sup>5</sup> Dumitru Teaci – The transformation of the natural landscape of Romania, The Scientific and Enciclopedic Publishing House, Bucharest, 1983, pages 35.

<sup>6</sup> P.S. Aurelian – Our Terra, economic sketches about Romania, The Romania Academy Publication, Bucharest, 1980, pages 115.

<sup>7</sup> Gh. Ionescu – Sisești – The development of the studies about the soil in Romania, Official Gazette, Bucharest, 1937, pages 20-21.

<sup>8</sup> \*\*\* The Statistic Yearbook of Romania, 2006.

average. If you take in account only the ecologically functional forests the rate of foresting is only 23%.<sup>9</sup>

Specialists affirm that the forest should occupy at least 30% from the territory of a country, others, like Lester Brawn propose even up to 45%.<sup>10</sup>

In the last 5 years we have cut over 80.000 (eighty thousand) hectares annually, but we've planted around 15.000 (fifty thousand) hectares. With a foresting rhythm like this, it's very hard to hope the foresters funds will be hole again.

**The second finality.** The economic theory has thought us that the production factors have the following cycle: to the capital it becomes the profit, to the force of labour the salary, and the nature collects the rent. The theory is true only for the capital and the force of labour, not for the nature as well. The nature is a very wide concept the embraces a lot of the components that become factors of productions: from the air, water, cultivable and forester lands, to all the others riches of the soil and subsoil attracted in the economic circuit. From all these composing elements of the nature, only the cultivable and forester lands can produce rents, and their owners, or their users, only in certain conditions can claim them. The existence or the non-existence of these conditions is one of the main causes that has lead in time to the irrational utilization to the environment factors.

The rent represents a supplementary net income that is produced in some conditions on a surface of terrain utilized in agriculture or forestry. If that terrain isn't used economically, it doesn't produce rent. It appears under a material form, representing the products obtained on that exact surface. The rent can be claimed by the participants at the process of production, when these products have an opening market, there is a request, there for the products are sold and bought. The mechanism of the market proves the apparition of this supplementary net in come.

The rent has two components: the absolut rent and the differentiate rent, each one being determined by specific conditions. The absolut rent is determined by the monopoly of the private property over the land and by the organic composition of the capital from foresty, less inferior to the other branches of the economy. The aparition of the differentiate rent is because of the different fertilies of the terrain in agriculture, in forestry the quality of the woods for different usage; putting the terrain war the centres of supply and sale; the transportation used; succesive suplimentary investitions on the same surface of terrain.

The absolut rent, is usually claimed by the land-lard, because he allowed the exploitation of his goods in the benefit of those that need the products of that surface. The differentiate rent is split between the participant sat the process of production, exploitation of the wood on a certain surface: are owner if in case, the enterprising, the salaries and the state.

The rent in forestry has a certain specificity. If agriculture can change the culture from one year to another to meet demand market place legitimize rent in forestry is profitable only when the exploitation of wood mass, which, depending on the species of trees may be at once 50 -70 - 100 years. So a forest area can not hope to obtain rents only when the forest is cut, even if in time he made all the necessary maintenance.

A crucial problem is to transform rental in additional net income depends crucial measure of the state policy in the forest. Legislative rules are those that enable the distribution of rents between the stakeholders in the exploitation of the forest: forest owners, entrepreneurs from the fields of mass use of wood, forest workers and not least the state interested in maintaining the forest as a resource of timber for various uses but especially with many national it's functions.

In Romania the state owns over 65% of the forests, the rest being in private ownership. Law restitution of forest was and is criticized by all specialists in the field, and not only because it

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<sup>9</sup> The National Strategy for Durable Development of Romania, 2008, pages 21.

<sup>10</sup> Victor Giurgiu, The condition of the forests in Romania, at the beggining of the third millenium, communication at the Academy of Agricultura land Silvicultural sciences, 28<sup>th</sup> october 2008.

allowed the exploitation of forest absolutely aberrant. Incomprehensible is that not only private owners have cut large areas without discerning where not needed, but also in state forests has been the same.

According to theory rents most of the additional net income came in the state budget, the more the price of wood on foot, regardless of the substance has reached the tender made by the state and to increase 4-5 times over the starting price. These revenues derived from exploitation of the forest would be enough to maintain the forest where all the rules forestry, including planting trees on land much higher than today. See job concerned that money were used entirely for purposes other than the normal. And then ask why they are flooding in Bucovina, on the Siret River tributaries, or in the Vrancea Mehedinți? Spend millions to repair damages caused by floods, but we cut wittingly the branch under his feet. It might not have life before death?

**The third finality.** In time and across our country have lost animals and plants, but not in other parts of the world, even Europe, where many of the large mammals disappeared. Romania can boast the Carpathian bear, the wolf, wild boar, chamois, etc. laughter. At least these animals in the future and more and what they will shelter in Romania there, provided they keep their living area.

Purpose of ensuring the forest is made on the basis of a complex of actions must take into account the principles of sustainable development.

**The principle of sustainability** implies the organization and planning of actions so as not to lose the forest, none of its functions, neither now nor in future. How are things in Romania? Bodies have initiated many actions such as, "National Strategy for Sustainable Development of Romania, 2013-2020-2030 Horizons", in 2008, or, policy and strategy of forestry development in Romania (2001-2010), where entered the forest heritage, the actions to be taken in future periods and even budget for each action, but implementation is far from being achieved as purpose.

**The principle of fairness.** It is hard to talk about with this principle, when all examples of actions before it elude completely. How to talk about fairness when the state takes over most of the revenues derived from forest exploitation, but does almost nothing for the forest. The frost of action is brought more to television to make political campaign, not to solve an urgent problem.

**The principle of sufficient.** First question would be sufficient for whom? for an owner who has a hectare of forest and recover part of the timber because it is his sole source of income, or who cut magnates parks and forests around large cities to make houses and villas for holiday as happened to the Baneasa forest and in Mangalia, which are the most media. This shows most clearly who is guilty of destroying the environment. Welfare of some of us is more important than the good condition of social and ecological environment.

**The principle of efficiency.** Long efficiency was only economic, given the ultimate objective of any business - profit. And the forest was ever a profitable activity. Immediately after the reform of the 1864 forest or state property or private property than had been: "Forest decline is explained on the one hand by the need ground - plot new to agriculture and pasture for cattle, on the other hand - and especially - the desire for high earnings and rapid capitalist societies exploitation of forests"<sup>11</sup>. The same irrational exploitation of forests takes place after the crisis of 1929-1933, when the state had need of money and turned to the export table wood, the dimensions that outraged everyone. "There is not a bit exaggerated assertion that no country in the world have operated in the forests as onerous as to us. If you find a convincing figure in a 1935 production of 800 000 000, has been profitable capital of 3 billion half. Here's what a win it is not no holdings of African colonies, where the wood does not pay"<sup>12</sup>.

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<sup>11</sup> C.C. Giurăscu - History Forest Romanian ancient times until today, Ceres Publishing House, Bucharest, 1976, Issue II, pages 111.

<sup>12</sup> Marin Popescu - Spineni, Forest economy of Romania, Bucharest, 1938, pages 10.

Same attitude towards the forest and recorded after 1990, when the cuts in the forest has reached 70.6 thousand ha<sup>13</sup>, and wooded area for the past 16 na ha. Interesting is that the harvested timber would have to exceed 18 million cubic meters listing date of the law. In reality, only the quantity of wood exported exceeds several times that figure and the surface cut illegally in 2006 is 100,000 ha<sup>14</sup>. World Bank estimates that the amount of wood illegally cut in Romania amount to 1.5 billion dollars<sup>15</sup>. Where to cut the led to major flooding, affecting thousands of households, and the wood left behind mountains of sawdust, pollution soil, water, because every rain more sawdust is spreading everywhere, unfunded rivers, ditches and causing flooding.

**The principle of transparency.** Many economic actors initiate actions in the spirit of the philosophy of sustainable development. But most of the action, even if held in daylight, is not transparent, because the real goal is to obtain a higher profit, not achieving sustainable development.

A prime example. European Bank for Reconstruction and Development is that praise is the first who has proposed that the entire business customer should be made based on the philosophy of sustainable development and its principles. But one is intent and translates it into another practice. Some foreign investors have taken loans from the EBRD to build factories in Romania wood. The factories were located in the north of Moldova, where he found large amounts of standing timber prices relatively low. Until the entry into service factories but conditions have changed. Romania's EU accession has led to changes in legislation on the environment, floods in the north of the country have forced the authorities to take more stringent measures on the cutting of forests on versions, the price of standing wood, etc. has increased. New conditions have reduced the profits of factories and wood processing capacity of investors to pay debts by the EBRD. Interesting is that the EBRD has financed a grant made by an Austrian firm whose goal was the establishment of opportunities for investment in forest holdings by European firms, first Austrian. Conclusions of the study were drugs for Romanian specialists, because Romania showed that the rate may increase the cutting of forests to 25-28 million cubic meters. To support this proposal came the EBRD in Romania, in Sinaia in February 2008, met with representatives of the Ministry of Agriculture and Rural Development, Romsilva Academy of Agricultural Sciences and Forest, forest owners associations, NGOs, seeking demonstrate the need to ensure broad timber for existing foreign investors and for those who will set up factories in the future also<sup>16</sup>.

It is easy to understand that the EBRD has subscribed to the philosophy of sustainable development need not convinced of its transposition into practice, but that was a laudable way in which able to rounds and profits. If such practices are used by the EU, which declares the bearer fight for sustainable development, what can say about private investors?

Another example. In many mountain areas have been established community of people who say owners of the forest, but no documents have to try this. Courts have declared the legal community, even if the acts of reason not to file such decision. If things would stop there would have been very serious. Only in these many areas, landlords "who constituted council began operating a wild forest, with trees down on thousands of hectares. Natural question is: who has the interest to form the community of people who can not prove that forest belongs to them, why the courts have not made the debt, who are the real beneficiaries of the exploitation of forests,

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<sup>13\*\*\*</sup> The Statistic Yearbook of Romania, 2007.

<sup>14</sup> Ilie Șerbănescu, Ceasing the export of wood, economic and environmental imperative, 31 June 2007, World Forest.

<sup>15</sup> Newspaper, "Day", 22 June 2007

<sup>16</sup> Robert Veress - EBRD Romania wants to cut more forests, the newspaper, thought "16 February 2008; \*\*\* behest of the EU: Cut forests, 14 February 2008; Neculai Rosca - EBRD cuts requires accelerating forest, paper, Objective "Suceava, 12 February 2008

and questions would continue. The newspapers are full of such news and surveys that show no or little behind these practices is influential people in business or local government and central.

The conclusion of this study is clear: no man generally behaving like an idiot with Earth, but a small portion of people who put their personal welfare state before the good of the planet.

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## THE IMPORTANCE OF THE STRUCTURAL FUNDS AND THE COHESION FUND TO REGIONAL DEVELOPMENT IN ROMANIA

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**Abstract:** *The regional development policy of the European Union is based on the financial solidarity of all Member States with the less-favoured areas, with the areas dealing with specific problems and with the sensitive groups in the great community society. Structural Funds (ERDF, ESF, EAGGF, FIFG) and the Cohesion Fund constitute the economic and financial expression of the European solidarity that aims at achieving the priority objectives of the regional development and of the economic and social cohesion in the European Union. Currently, Romanian economy is up against structural problems that are quite serious and it needs coherent and unitary strategies that aim at programming, prioritising and pursuing the national development policies.*

**Key words:** pre-accession instruments, Structural Funds, European Social Fund, European Employment Strategy.

In order to recover the years lost in a system that planned the economy, freedom and development in a different way and with a view to asserting itself within the European Union as a health, prosperous, educate, free and honourable nation, Romania's post-accession process must be deemed to be a process that contributes to the economic development with a view to participating in the internal market of the European Union in a competitive way that highlights its performance.

For the purpose of guaranteeing the funds necessary to implementing coherent and unitary strategies, Romania, acting in its capacity as Member State of the European Union has benefited from the financial support thereof by means of pre-accession instruments – namely the PHARE, ISPA and SAPARD programmes<sup>1</sup>. The main objectives considered by the European Union upon granting non-reimbursable financial assistance through these programmes focused on:

- institutional development;
- investments for the purpose of supporting the application of the community legislation;
- investments in the economic and social cohesion.

All these objectives have contributed on a permanent basis to achieving the economic and social cohesion, to preparing the implementation of the *acquis communautaire* and to preparing the institutional mechanism for the purpose of enforcing the policies of the European Union. With a view to meeting the objectives measures that are focused on the operation of the market economy and on the ability to cope with competitive pressures and with the forces of the market inside the European Union are implemented<sup>2</sup>.

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<sup>1</sup> Antonescu Daniela ,, *Dezvoltarea regională în România*” Editura Oscar Print București 2003 p.70-71;

<sup>2</sup>. Miu Florentina , Simoni Smaranda ,,*Geografia Economică* „Editura Universității din Pitești , 2007 p.42 ;

**Structural Funds** have specific fields of action and through them the multiannual development programmes are financed, given the fact that they are drawn up to the benefit of all the regions in the European Union. They are the main economic and financial instruments of the regional development policy of the European Union and they are supported by means of contributions of the Member States carried out proportionally with their level of economic development and subsequently redistributed to regions and states left behind from the point of view of their development

These funds are:

- **European Regional Development Fund (ERDF)** was created in 1975 and it finances the infrastructure, the investments performed for the purpose of creating new workplaces, of developing local projects. It is known as the most important instrument of the regional development policy.

With a view to promoting regional development, the ERDF finances the following measures:

- investments in production that supports the creation of safe and durable workplaces;
- investments in infrastructure that contributes to the development, the structural adjustment, the creation and the preservation of workplaces or to the diversification, the revitalisation, the improvement of access and the regeneration of declining economic and industrial areas, of depreciated areas and neighbourhoods, of rural areas and of areas dependent on fishing. For the regions the investments may be directed to developing the European transport, telecommunication and energy networks.
- development of local potential through measures that support the local development and the employment initiatives, as well as the activities carried out by the small and medium-sized enterprises.
- health and education investments.

The ERDF also finances a series of novel measures that aim at:

- improving the quality of the ERDF assistance;
  - strengthening the partnership between the public and the private sectors;
  - creating synergies between the regional policy and other policies of the Community;
  - performing exchanges between regions through measures of comparison and dissemination of best practices.
- **European Social Fund (ESF)** was created in 1958 and it aims at supporting the professional training, the requalification of the working staff and the employment of young people.

The European Social Fund, created through the Regulation EC Number 1784/99 aims at supporting the European Employment Strategy for the purpose of preventing and fighting against unemployment and at strengthening social integration. The Regulation includes provisions regarding the granting of assistance in five different key-fields:

- the development of active policies within the labour market in order to fight against and to prevent unemployment, the avoidance of long-term unemployment, the support with a view to performing the integration of young people into the labour market or of people who return after an extended absence on the labour market;
- the promotion of equal opportunities in the sense of the access to the labour market by giving attention to persons who run the risk of being socially excluded;
- the promotion and improvement of professional instruction, education and counseling;
- the promotion of flexible labour, professionally trained and adaptable to new forms of organisation;

- the specific improvement measures of access and active participation of women in the labour market.

Moreover, the ESF is focused on three horizontal issues:

- the promotion of local labour employment initiatives;
- the employment of labour into the information society;
- the equal opportunities given to both women and men.

The ESF grants assistance based on national priorities established in the national action plans for labour employment drawn up by the Member States. In order that the ESF measures have more efficiency, its assistance must focus on the most ardent problems in a region.

- **European Agricultural Guidance and Guarantee Fund (EAGGF)** was created in 1964 and it is the tool by means of which the improvement programmes of production and marketing conditions in agriculture are supported. Currently it finances rural development within the common agricultural policy.

The European Agricultural Guidance and Guarantee Fund was set up through the Regulation Number 25/1962, amended and completed by the Regulation Number 728/70 and Number 1258/99 of the EC, on the financing of the common agricultural policy (CAP) and it uses a significant part of the European Union budget. The Guarantee Section of the fund finances especially expenditure on the agricultural market organisations, on rural development measures that accompany the support granted to the development of agricultural markets and on rural measures, as well as certain expenditures on veterinary purposes and information measures with respect to the CAP. The Guidance Section finances other expenditures on rural development that are not covered by the Guarantee Section; The Fund is administered by the Commission and by the Member States, cooperating within the EAGGF Committee. The Member States designate the authorities and bodies empowered to incur expenditures, that are subsequently communicated to the Commission. The actions undertaken by the EAGGF are paid in advance from the funds of the Member States and are subsequently reimbursed. The Member States forward to the Commission the expenditure budget on an annual basis.

- **Financial Instrument for Fisheries Guidance (FIFG)** was created in 1993 and it supports the restructuring and the development of the fishery industry.

The objective of the Financial Instrument for Fisheries Guidance, laid down on the basis of the Regulation (EC) Number 1263/99 resides with contributing to the creation of a balance between the fish resources and the exploitation thereof, with increasing the competitiveness of structures and with the feasible development of enterprises in this sector, with revitalising the areas dependent on fishing. As during the previous programming period, the purpose of the FIFG lies in supporting the measures in the fishing and aquaculture field, in the processing and product marketing field with a view to promoting the restructuring of the sector through the creation of favourable conditions for the development and modernisation thereof, by contributing at the same time to the achievement of objectives corresponding to the common policy in the fishing field. Assistance is granted for:

- the renewal of the fleet and the modernisation of the fishing ships; this type of assistance must be consistent with the fishing multi-annual guidance programmes;
- the performance of adjustments of fishing capacities;
- the social and economic measures;
- the protection of marine resources;
- the aquaculture;
- the port fishing facilities;

- the processing and marketing of fish and aquaculture products;
- the novel actions;
- the technical assistance.

The setting up of the **Cohesion Fund** was decided on through the Treaty of Maastricht (1993) and it became operational in 1994. The Cohesion Fund was created with a view to supporting four Member States (Spain, Greece, Ireland and Portugal) through the direct financing of major projects in the transport and environmental field; it has its own identity and it operates on the basis of three fundamental principles:

- **Limited sphere of action**, given the fact that from this fund a financial support is granted only to Member States that have a Gross Domestic Product / inhabitant smaller than 90 % of the community average and not to regions of the entire territory of the European Union.
- **Financial support is limited** to the co-financing of projects in the environmental protection field and the trans-European transport networks field.
- **Financial support** is granted to those states who have drawn up programmes by means of which the conditions regarding the limits of the budget deficit are accepted; the connection between this fund and the objective of achieving the economic and monetary union is taken into consideration.

The Cohesion Fund may also contribute to preliminary studies of projects that implement technical measures such as comparative studies, impact studies, monitoring studies, publicity studies and information campaigns. The projects must be consistent with the policies of the European Union, especially with those regarding the environment, the transport, the trans-European networks, the competition. The eligibility is restricted to those Member States whose Gross Domestic Product is smaller than 90% of the Community average (Greece, Ireland, Portugal and Spain) and that have a budget deficit reduction programme (pursuant to the provisions of article 104 of the Treaty establishing the European Community). The Cohesion Fund contributes 80 – 85% of the expenditures, according to the forecast income with respect to the projects that generate income and contributes 100% for preliminary studies or support measures. For the projects that receive assistance from several funds, it may not exceed 90% of the total expenditures laid down in the project.

All the objectives of the National Development Plan regarding the increase of competitiveness, the development of economy based on knowledge, the development and modernisation of transport infrastructure, the development of the rural economy and the reduction of development disparities between regions of the country, achieved with the help of the structural instruments and correlated with the objectives laid down in the Lisbon Agenda may contribute to the local and regional economic and social development. Through these European funds, projects that contribute to the development of less advanced areas are financed, by means of investments carried out for the economic and social cohesion in key fields such as the development of human resources, the development of local and regional infrastructure, the social and tourism services. The purpose of these investments lies in creating new employment, in increasing the level of competitiveness, in providing equal opportunities and improving the quality of life of the inhabitants living in the regions concerned. Moreover, where massive investments are involved, the European programmes may play a catalysing role in mobilising co-financing together with the Romanian State and the international financial institutions (EBRD, EIB, WB). The objectives pursued through the financing of projects from these funds mainly aim at promoting a sustainable, balanced and harmonious development of the economic and social

ensemble of the European Union in order to guarantee the improvement of the standard of living of the European Union citizens<sup>19</sup>.

An important aspect resides with the fact that these financing possibilities by using the European funds will be more significant than until now important. According to the financial programming, during the period comprised between 2009 and 2013, Romania will benefit from non-reimbursable funds approximately 4 times larger than in the pre-accession period.

Taking this into consideration, it is necessary that the experience acquired so far with respect to the use of pre-accession programmes is used as starting point for the development of management of these structural instruments. Moreover, we must follow the experiences of the Eastern European countries that dealt with problems in the management and implementation of programmes financed through structural funds.

Romania needs structural programmes in order to make up for the discrepancy that exists in comparison with the Member States of the European Union and to achieve a sustainable development.

The structural funds that will finance the regional policy measures must be managed and guided so that they allow the elimination of discrepancies between the regions, not to render them deeper.

Through the National Development Plan the recovery instrument of social and economic development discrepancies of Romania in comparison with the European Union, the priorities corresponding to the structural instrumental objectives are guided.

In our opinion, within the current European Union post-accession context and within the regionalisation context according to economic criteria, the conceptual approach of the Lisbon Strategy must take into account the economic and social standing of Romania and the regional features.

Also, after having carried out the analysis of the current economic standing and of the short and medium-term perspectives, we believe that among the main lines of action in the regional and local development field corresponding to the subsequent period we must mention the following:

1. the guarantee of the macroeconomic stability by complying with the convergence criteria, within the European Union post-accession process of Romania;
2. the guarantee of coherence and complementarity of economic policies, especially of regional development policy, by forming a series of cluster-type poles of competitiveness and development;
3. the increase of the degree of absorption of the European funds, for the purpose of achieving economic and social cohesion objectives and of reducing the inter and intra-regional discrepancies and the discrepancies that separate our country from the developed countries, Member States of the European Union;
4. the development and modernisation of national and transnational transport infrastructure, of the environmental, energy and research and development infrastructure;
5. the encouragement of vocational retraining of disadvantaged categories or of categories affected by restructuring and the support of in-service training.

Within this context, the European funds may be used for the purpose of creating competitiveness poles, by supporting incubator unit in order to develop small and medium-sized

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<sup>19</sup> Centrul e Resurse Juridice ,, *Politica regională și coordonarea elementelor structurale* ,, București 2004 ,p 68.

enterprises (access to the European market, increasing competitiveness) and to attract investors. Taking into consideration the fact that regional diversity regarding the distribution of industries is quite large, the approach with respect to such competitiveness poles must be carried out distinctly from one region to another.

The use of the Structural Funds and of the Cohesion Fund is based on four important principles:

- **Concentration** – is a principle that sets forth that the allotment of financial resources must be carried out only to those regions left behind from the point of view of their development or that have specific development problems;
- **Programming** – refers to the multiannual approach and to the monitoring at the level of each Member State that imposed this principle with respect to the resources that cannot be allotted and used by means thereof. Based on this principle, the European Union keeps track on a permanent basis of the use of its own financial resources.
- **Additionality** – is a principle through which the financial resources of the European Union are allotted in addition to the resources allotted by the national, regional or local authorities.
- **Partnership** – this principle is followed along the entire regional support and development process and it constitutes a guarantee of the efficiency of allotting the financial resources.

The allotting of structural funds to the regions (especially the European Regional Development Fund) will take into account the specific of the region concerned, the competitive advantage of existing industries and will encourage the development of competitiveness poles. Therefore, it is necessary to provide such unitary approach through all levers that are available for the state through the efficient allotment of resources and through the establishment of priorities.

Among the main challenges of the current government, we may mention the challenge of guaranteeing the maximal efficiency in policy correlation through the minimal intervention of the state in economy, by taking into consideration the regional and national specific. One of the opportunities of the economic policies lies in identifying the competitive and comparative advantages based on regional and national social and economic analyses, therefore any instrument will be used in order to lead to the profitable valuation of these advantages.

Regarding the structural and cohesion funds granted to Romania by the European Union, it is necessary to have a unitary overview of the entire social and economic development aspect of the country and to improve the management of these funds by means of a potential structural adjustment or by a reprioritisation of the allotment thereof, as the case may be.

In conclusion, the development and the modernisation of infrastructure (transport, environment, energy, etc.) must be encountered among the priorities corresponding to the subsequent period. It is necessary to carry out the priority allotment of budget resources in order to guarantee the co-financing for major infrastructure projects, for regional and European interest projects, for pan-European corridors (highways, railways, oleoducts and natural gas pipes), projects that may be financed from future structural instruments.

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## EVOLUTIONS IN WORLD TRADE – A PICTURE BEFORE THE CRISIS

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***Abstract:** WTO observes very carefully not only the way that countries understand to apply and respect the agreements concluded under its care, but also the evolution of the world trade. This paper tries to make a suggestive comparison of the trade developments in the last three years (2005, 2006, 2007), tracking the evolutions of real merchandise, nominal merchandise and commercial services trade, by region and by country. The accent is put especially on the recent evolutions of the trade of Eastern European Countries. Finally, the authors formulate a conclusion regarding the evolution of the world trade since the present financial crisis begun.*

***Key words:** WTO, real merchandise trade, nominal merchandise trade, commercial services trade, eastern european countries*

### 1. INTRODUCTION

Among the various functions of the WTO, some are regarded by analysts as the most important: the implementation oversee, administration and operation of the covered agreements, and the providence of a forum for negotiations and for settling disputes. Additionally, it is the WTO's duty to review the national trade policies and to ensure the coherence and transparency of trade policies through surveillance in global economic policy-making. Another priority of the WTO is the assistance of developing, least-developed and low-income countries in transition to adjust to WTO rules and disciplines through technical cooperation and training.

The WTO is also a center of economic research and analysis, regular assessments of the global trade picture in its annual publications and research reports on specific topics are produced by the organization. The organization's annual reports were taken into consideration when drawing up this article, as mirrors for the latest evolutions in the world trade.

### 2. EVOLUTIONS IN REAL MERCHANDISE TRADE, BY REGION

Europe's real merchandise exports recorded a strong annual growth since 2000, exceeding import growth (estimated at 7%) but continued to lag behind the global rate of trade expansion.

2005 was not such a good year, because Europe's trade growth was sharply reduced, despite the depreciation of the euro, the British pound and the Swiss franc, which improved somewhat the price competitiveness of European exporters in markets outside Europe. Still, the expansion of real merchandise exports was limited to 3.5% in 2005, after 7% in 2004. The year 2006 marks a new rebound at 7%, the performers being countries like Finland and the Baltic States in the North and Turkey in the South, which registered double-digit export growth rates.

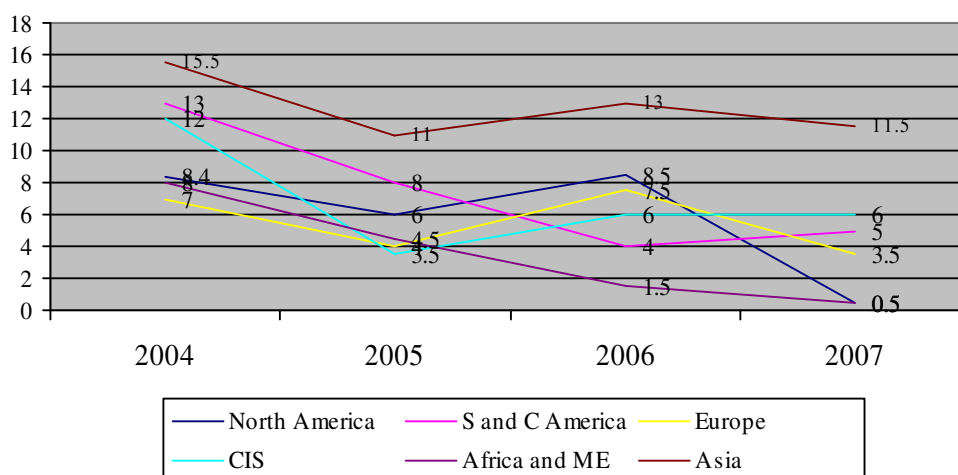
Speaking about the export growth rate it can be easily seen that Europe occupies only the 5<sup>th</sup> rank (2004 and 2005) and the 3<sup>rd</sup> rank (2006) among the six regions taken into consideration (with only half of Asia's growth rate). The import growth rate was the lowest of all regions in

2004 and 2005, and in 2006 only North America had a lower import growth rate (6.5% compared to 7%).

At country levels, Germany and the United Kingdom recorded export and import growth well above the European average, while real trade growth was sluggish in Italy and Spain and stagnated in France and Ireland.

Asia registered in the last three years the biggest export growth rates (15.5% in 2004, 11% in 2005, 13% in 2006 and 11.5% in 2007) and sat on the 3<sup>rd</sup> or 4<sup>th</sup> positions at import growth rates (14.5% in 2004, 8% in 2005, 8.5% in 2006 and 8.5% in 2007). The differences between export and import growth rates are due to China, India and Japan's contribution, the biggest traders in Asia (for example, it is estimated that in 2005 China's exports expanded by one-quarter in real terms, more than two times faster than Asia's total exports or its own import growth).

In North America region, the United States had the most significant evolution, with an export growth rate of 8.5% in 2006, the biggest one since 1997, (while its import growth rate was only of 5.5%), due to a weaker domestic demand, but only 5.5% growth rate in 2007. This evolution is even better if we think that in 2004 the United States recorded an import growth rate of 11%, compared to 8.5% growth rate for exports. Mexico recorded in 2006 double-digit growth rates both for imports and exports, but it came after a period when its imports grew much faster than its exports. Unfortunately, in 2007 the growth rate rose up only to 5.5%.



**Figure 1. Evolution of real merchandise export growth rates by region (2004-2007) - annual percentage change**

Source: interpretation of WTO data.

After a period when South and Central America's merchandise exports and imports were among the most dynamic trade flows (8.5% and 8% export growth rates and 11% and 6% import growth rates in 2004 and 2005), 2006 came with an important fall in export rate - 4%, and an acceleration in import rate - 15%. A similar evolution recorded Africa and the Middle East, with a decrease of the export growth rate from 8% in 2004 at 1.5% in 2006 and of the import rate from 14.5% to 6.5%. In 2007 the evolution continued the trend and sat an export growth rate of 0.5% , but established an import rate of 12.5%.

The Commonwealth of Independent States (CIS) is taken into consideration separately in the WTO reports, and trade statistics prove a dramatic situation: it is the region with the most



significant increase of import growth rates (16% in 2004 and 21.5% in 2006) and with the most significant deceleration of the export growth rate (from 12% in 2004 to 3.5% in 2006), despite the fact that it recorded one of the strongest economic growth of all regions in the last three years. A change appears in 2007 when the export rate kept itself at 6% and the import growth rate decreased to 18%.

### **3. EVOLUTIONS IN NOMINAL MERCHANDISE AND COMMERCIAL SERVICES TRADE, BY REGION**

The merchandise trade evaluated in US dollars is strongly affected by price evolutions around the world. However, in 2006, contrary to developments between 2002 and 2004, the average annual exchange rate change between the US dollar and the euro and the British pound had been rather moderate as divergent developments in the course of 2005 and 2006 balanced each other. While a weaker yen might have contributed to weaker dollar export prices of Japan, the appreciation of the Canadian dollar and the currencies of several Asian traders had the opposite effect.

Europe's merchandise exports recorded in 2005 and 2006 the lowest regional growth rates (9% and 13%) and 10% and 14% import growth rates, with the Baltic States and the Balkan states as recorders, with over 20% growth rates. Still, Europe remains the biggest trader among the world's regions, with a 42% share.

Merchandise exports of the Asian region expanded by 24% in 2004, slightly less than imports, but still faster than global trade (21%) and faster than in the preceding year (18%). In 2005 there was a sharp deceleration in Asia's nominal merchandise export and import growth but the expansion rate remained at 15% and 12% respectively. Asia's merchandise exports and imports continued to expand faster than world trade in 2006, with 17% for exports and 14% for imports, and in 2007 with 19% (exports) and 17% (imports).

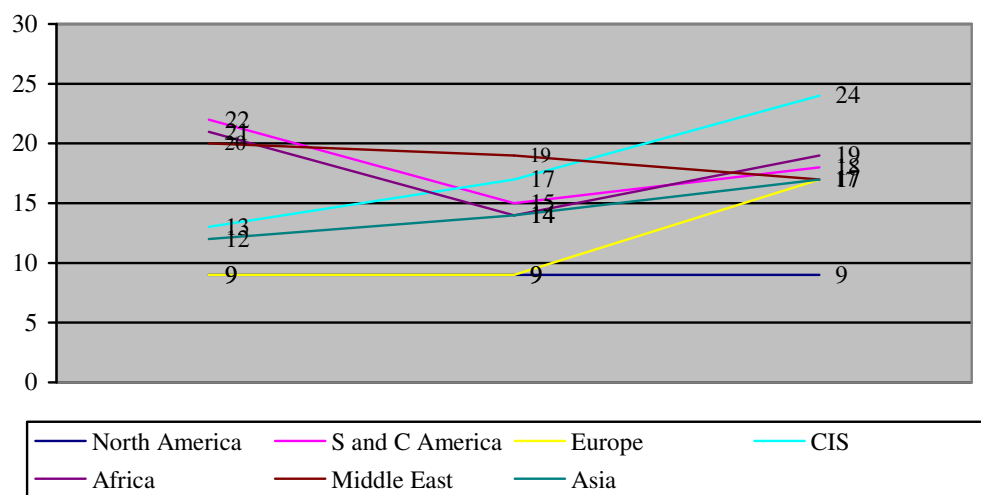
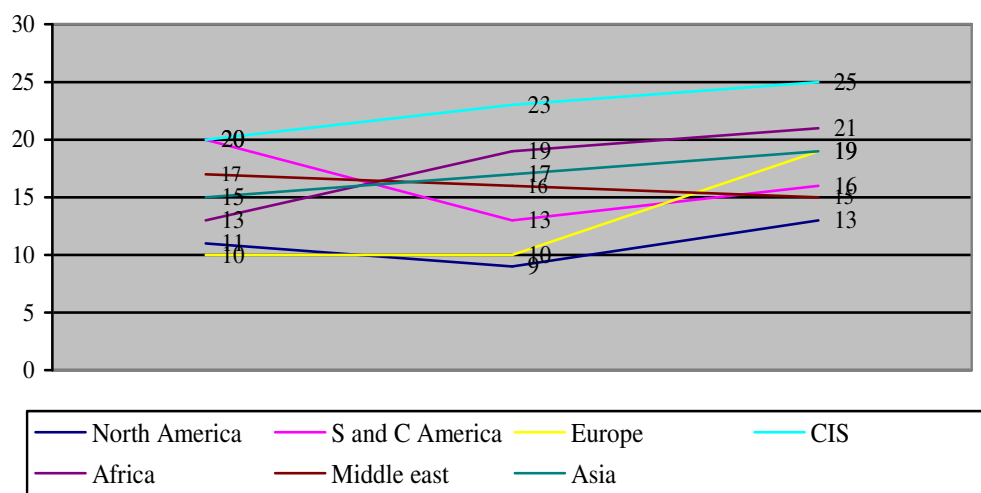
In 2006, China continued to record the highest export and import growth and its export growth continued to exceed its import growth so that its trade surplus widened further as the momentum in the export expansion was maintained while nominal import growth slackened. Since 2004, China has replaced Japan as the third world's largest exporter and as leading trader in the region; it has reported in 2005 an export growth of 28% and accounted for the first time for more than one-quarter of Asia's merchandise exports. (The date was unavailable for 2007).

In 2004 North America's merchandise exports and imports rose faster than in the preceding year (14% for exports and 17% for imports), but the tendency didn't last in the next three years (11%, 9%, 13% and 11%, 11%, 16% respectively). In 2007, the United States reported a good annual export growth performance (14%), almost the best in the last decade, and although US export growth exceeded its import growth (9%), the merchandise trade deficit had grown already so large that it continued to grow in 2007.

For the Middle East, the tendency for both exports and imports is the deceleration of growth rates in the last three years. For South and Central America, CIS and Africa the tendency shows generally an increase.

The evolution of world commercial services trade by region in the last three years is illustrated in Figure 2.

The most significant evolution until 2006 recorded Europe, with the sharpest reduction of growth rates both for imports and exports, in a context of global reduction. In 2006, the exception is Asia, which recorded an improvement, with 17% export growth rate (compared to 15% in 2005) and 14% import growth rate (compared to 12% in 2005). Year 2007 reversed the situation for Europe and confirmed Asia's trends.



**Figure 2. Evolutions of world commercial services trade by region (2005-2007) – exports (up) and imports (down) – annual percentage change**

Source: interpretation of WTO data.

#### 4. TRADE EVOLUTIONS IN CENTRAL AND EASTERN EUROPEAN COUNTRIES

The Central and Eastern European Countries (CEE Countries) are not performers in international trade, but some of them may be found among the first fifty exporters and importers of the world (in statistics that include intra EU trade). In 2006, Poland, Czech Republic, Turkey, Hungary and the Slovak Republic are ranked (in this order) from 30 to 48 in the list of first 50 exporters in world merchandise trade (with shares from 0,9% to 0,3%). In the list of importers, Turkey, Poland, Czech Republic, Hungary, Romania, Slovak Republic and Ukraine are ranked from 22 to 45 (with shares from 1,1% to 0,4%).

The statistics that exclude intra EU (25) trade are somewhat different because here there can be found countries like Turkey, Ukraine, Romania and Bulgaria ranked from 22 to 47, with shares between 0,9% to 0,2% of world exports in 2006. In the list of importers, Turkey,

Romania, Bulgaria, Croatia and Serbia are ranked from 15 to 50, with shares between 1,5% and 0,1% of total imports value.

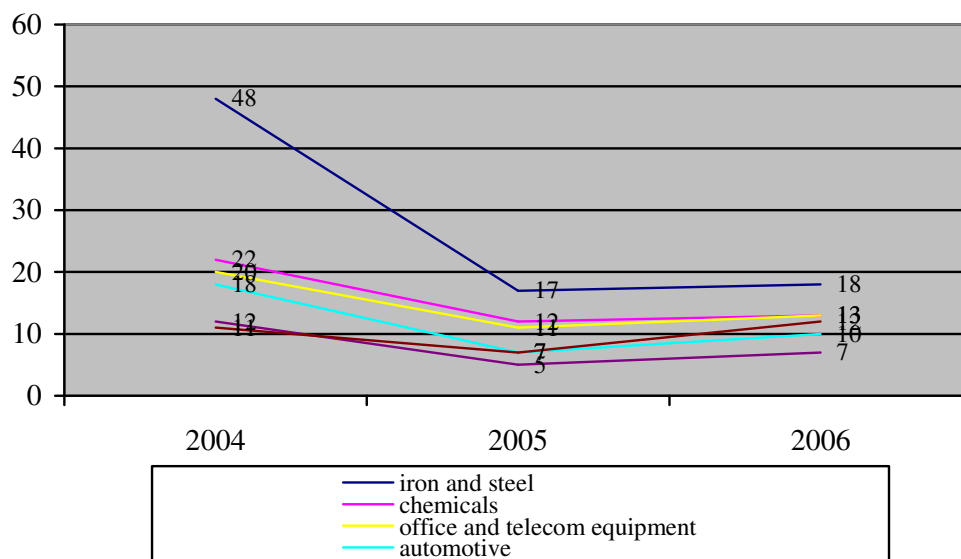
The same countries may be found as important exporters and importers of commercial services in 2006.

It is important to analyze the annual percentage change of CEE Countries trade because the conclusions are quite encouraging: most of them record higher percentages than the world average (in some cases, they even double the world average).

## 5. EVOLUTIONS IN WORLD'S TRADE BY PRODUCT

WTO's statistics divide merchandise into three major categories of goods: agricultural products, fuels and mining products and manufactures. The manufactures are sub-divided into six categories of goods: iron and steel, chemicals, office and telecom equipment, automotive products, textiles and clothing.

Analyzing the evolution of *agricultural products*, it can be noticed that it was the less dynamic category: in 2004 the trade rose by 14%, more than the 2000-2006 average (9%) but the rhythm was lost in 2005 (with a trade growth of 8%) and in 2006 (11% of growth). The most dynamic category was the one of fuels and mining products, with annual percentage change of 35 in 2005 and 27 in 2006, based differently on the contribution of fuels trade (with 43% of growth in 2005 and 23% in 2006).



**Figure 3. Evolution of manufactures (2004-2006) – annual percentage change**

Source: interpretation of WTO data.

The *manufactures* recorded a decline of the annual percentage change, from 20% in 2004 to 13% in 2006. The most dynamic sub-category was the one of iron and steel, with 48% of trade growth in 2004 and 18% in 2006. The less dynamic sub-category was textiles, with 5% of growth in 2005 and 7% in 2006 (see Figure 3).

None of the CEE Countries can be found among the first 15 importers or exporters of agricultural products in 2006. Turkey is the only CEE Country placed among the first 15 importers and exporters of manufactures in 2006 (rank 15).

## 6. CONCLUSION

In the past year, world trade has started to decelerate sharply, weakening its role as a major engine of global economic growth in recent years. Growth in the volume of trade is estimated to have slowed to 4.4 per cent in 2008, nearly half of the average annual growth of 8.6 per cent during the period 2004-2007. This trend is expected to continue in 2009, with the volume of world exports anticipated to slow further to about 2 per cent on the heels of the global economic recession. The value of trade flows has increased significantly over 2008, but unlike a similar rise in 2004 which took place because of robust volume growth; this increase is largely due to extraordinary rises in the prices of oil and most commodities during the first half of the year.

At this critical juncture, as policymakers seek a stable and efficient system for global finance, it is important that it not be separated from the goal of a fair and inclusive system for international trade which allows for the full participation of developing countries in line with their development objectives and potential. Devising a coherent, rule-based and authentically multilateral international system requires an integrated approach.

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## CONSIDERATIONS REGARDING THE PRESENCE OF YOUNG PEOPLE ON THE LABOUR MARKET IN ROMANIA

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***Abstract:** The deep changes undergone by the Romanian labour market as a result of the economic transformations and the accession to the European Union create new opportunities and new challenges for young people. If, a few years ago, many young people were affected by unemployment, in the present they benefit from the fact that employers look for young persons to occupy these jobs and from the fact that it is difficult for them to find employees having the necessary abilities for the jobs existing on the contemporary market. Apart from this, the accession to the European Union offers young people the opportunity to choose jobs abroad.*

**Key words:** labour market, efficiency, salary, economic integration, occupation.

One of the major social-economic problems that all the countries of the contemporary world face is the creating of proper conditions so that the work factor manifest in an active and creative way. The labour market is the economic space in which the work users (capital holders) are traded freely as buyers and holders of the work resources, as sellers. It is the economic space in which, by means the work price mechanism, of the free competition among companies, of the specific mechanisms, the work offer and demand are adjusted.

The efficiency of the entire economy is influenced by all the markets up to a large or little extent, the labour market playing an important part.

Therefore, the labour market requires a more complex approach, especially if we have in view the fact that the object of the labour market is man. The life of people, of families that assure the reproduction of the labour force, the intertwining of the immediate interest with the long-term one are seen in the best way in the labour market field.

The labour market in Romania has been subjected to deep changes generated by the economic reforms. Direct influences on the quality of the human factor have also been induced. The social conditions have reduced the natural demographic increase and accelerated the final migration, which, in their turn, generated the constant decrease of the population, and, implicitly, of the active population involved in economy.

The changes undergone by Romania lately, especially the adhesion to the European Union, have a direct influence on the labour market. The ratio between the work offer –demand has unbalanced in the favour of the demand. The increase of the demand has been generated, on the one hand, by the economic growth and, on the other hand, by the integration in the European Union. The economic growth and the optimistic forecasts about the next period attract more and more investors, therefore new businesses, and generate a development of the already existing ones.

The signing of the accession to the European Union treaty in 2005 and the accession on the 1<sup>st</sup> of January 2007 have significantly changed the way Romanians consider a work place.

The young people, that always adapt to changes easily and are the most dynamic category of the population, have tried to make use of all the advantages obtained after the accession and many of them have succeeded. How can we account for this success? A possible answer can be the fact that the young people trained themselves during the studies years, preparing for the moment when they will come on the work market. Or, can it be a matter of favourable circumstances they benefit from?

Even if in the present there are still some restrictions, the accession to the European Union facilitates the access of the Romanians to the labour markets of other countries that are members of the European Union. There is a large number of Romanians that work abroad. It is difficult to say what their number is. This is the main reason for which in Romania there is no alarming degree of unemployment. The governments that have ruled Romania did not offer long-term jobs, therefore encouraging the migration of the Romanians indirectly. Therefore, even if such a solution was not stipulated in any of the governing programs, they solved the unemployment matter very originally. It can be asserted the fact that the migration of the Romanian persons reduced the unemployment, because, if there was a shortage of work places, these persons would have become unemployed. But, a lack of labour force will appear when the Romanian economy passes to a new stage, that of economic growth. This is a bad piece of news for the national economy especially that in the case of the Romanian population one can speak about the ageing phenomenon.

A significant part of those that left abroad to work are young people. That is that part of the population that could contribute most to develop the Romanian economy. The negative effects of this type of approach have effects in the present, and the regrets of those that govern Romania are useless. In the present, because many Romanians have chosen to leave abroad to work, in many areas of the country there is a lack of work offer and the specialists in human resources face difficulties in recruiting the staff the firms need.

The most part of the people that have left abroad are young. After 1990, the deadlock in the economic and social development of Romania, the low living standard, the lack of perspectives, the temptation of a large income, made many young people to try to make careers in more developed countries. In order to stay abroad, the young people have resorted to: undergoing specialized practical training, scholarships, probation periods, etc. This phenomenon is worrying for Romania because we can talk about a real brain-drain abroad in the conditions in which the persons well prepared from the theoretical point of view and having professional experience leave abroad.

The fact that Romania signed the Treaty of Accession to the European Union in 2005 attracted many investments in Romania, a country with great potential of economic development, but which, for a long time, was characterized by economic and social instability. After these problems had been solved, the investors showed up, many of the operating capacities in Western Europe were brought to Romania and started the activity from zero, hiring Romanian labour force. As compared with the previous years, when Romania faced the possibility of unemployment, in the present our country faces a totally different problem, that is the lack of the labour force, especially the young labour force. The young people are in great demand on the work market; especially the multinational companies want them, which have understood that the long-term investment in the human capital is the main way to a stable and profitable business.

Because of the lack of the work offer, especially the young one, the companies face a series of problems. One problem is the following one: because of the lack of the labour force, the companies have to pay increasingly large salaries. Especially the young people are the one that have spotted this opportunity and ask large salaries. From this point of view, something has

changed in the young people's mentality. A few years ago, a young graduate was happy to find a job, the problem of the salary being secondary. In the present, the most important thing for a young man that wants to get a job is the salary and other possible advantages that can be obtained. Most of the time, the candidate for a certain job is not interested in the conditions of the respective job or in the opportunities that he/she can benefit from if he/she belongs to a certain organization, but only in the salary. From my point of view, this is an entirely mistaken approach, even if I agree that the salary must be an important element in the decision of any person that wants a job.

Because for the employees the salary is, many times, the only element that matters, generates an important fluctuation of personal, because the employees often leave their jobs because another employer offer them a better paid job. In the present, there is a competition among the firms to attract well-prepared labour force, and the recruitment firms resort to real "hunting" of specialists. This fluctuation of labour force generates large costs for employers, many of them investing very large sums of money in training their own employees. These costs are added to the increasingly large expenses with the salaries for the labour force, caused by the increasingly small number of persons that require jobs, many young people (the category that is most required on the work market) preferring to look for jobs abroad or to have their own business.

There is a category of companies that, taking advantage of the mobility of the young labour force, use as a main way of employment the "hunting" of employees from the opponents. This method is used in some fields that are developing in the present, such is the case of the banking field or IT. Later on, these organizations face other problems, because they crate a work environment in which people come and go only depending on the salary they get. This fluctuation generates an increase of the salaries. In such companies, the professional development programs are missing, there is a low interest for their own employees which, apart from this, become less motivated because of the fact that the good jobs are given to those coming from outside the respective organization. My opinion is that, as long as the firms do not have as goal to use young people, to help them become better and reach the level of performance wanted, there will always be the fluctuation problem.

If the fluctuation of the labour force is a bad piece of news for most of the employers, an even worrying piece of news refers to the tendencies existing on the Romanian labour force. Romania is a country that has bad habits; it has got used with not very high quality labour force, very badly paid and abundant. This type of work market is on the verge of extinction, and in some fields it has already disappeared; this already takes place in the case of the top professions. After all, this fluctuation of the labour force is normal and the Romanian companies have to get used with it.

Certainly, the main cause of the fluctuation of the labour force is not the salary, but the economic growth. Of course, it must be combined with the continuous preoccupation of many firms to hire young people, professionals, with great perspectives, to motivate and keep them.

Apart from the fact that this fluctuation is normal, it is a phenomenon that can have both positive and negative causes. The strong development of economy and the new companies that attract an active, already hired population, have positive effects because they contribute to the development of these employees from the professional and experience point of view. At the same time, there are employees that quit their present jobs to look for a job where to be indeed appreciated, where they can identify with the management of the respective company, where they can evolve from the professional point of view.

Another difficulty the companies are faced with consists in finding well-prepared labour force. There arises the following problem: on the one hand, the salary requests are important, and, on the other hand, the professional qualities do not correspond to the salary requests. Many

of the recent graduates, most of them with no experience, have exaggerated salary requirements. In spite of this, the firms offer, in most of the cases, the required salaries because they do not have another solution to solve the staff crisis.

The attempt to stop the increase of the salaries can even lead to reducing the quality of goods and services and even to the bankruptcy of certain companies. Maybe it is a better idea that the companies think how to make their employees to work harder for more money.

On the Romanian labour market there are several situations from the point of view of the young people's position on this market. On the one hand, there is the case of the best graduates of our faculties. Many of them decide to leave their native country to look for a job in a country that belongs to the European Union. They are highly appreciated there and get very well paid jobs. Unfortunately, very few of them will come back in Romania, in the best case, as representatives or managers of the foreign firms. On the other hand, there is the case of the best graduates of our universities that decide to stay in Romania. The firms fight among them to get them, because, unfortunately, there are fewer and fewer well-trained graduates. This later category will be offered well paid jobs and jobs capable to offer it satisfaction in work.

The solution for the staff shortage that most of the big companies complain about can be the motivation of the young people when they are still in faculty. Most of the young people that graduate a university do not know what carrier to choose. That is why, the firms should involve in the educational system and motivate the young with scholarships or probation periods to convince them to hire at the respective firms after graduation.

There are more and more young people that choose to study abroad. Many foreign universities, especially those in France, send representatives to Romania to recruit the best graduates of high schools or the best students in the first years at universities. These foreign universities are focused mainly on the technical fields, this explaining the shortage of engineers in Romania. Unfortunately, these young people (most of them) will not come back in Romania and will no contribute with their huge potential to the economic development of Romania.

We can add the fact that the young graduates of universities are an unstable category. Although there are many young people that have potential to be recruited, most of the graduates want to occupy positions in middle-management or even in top management in a very short time. They can not realize the fact that their plans are not realistic of two reasons: the exception formed by the 2-3% out of the young graduates that have succeeded to occupy such positions because of favourable circumstances and the educational system that prevents the students from facing the ever day reality at the work place from the period they are still students.

There is one more category of the university graduates that prefer to have a job that has nothing to do with their intellectual status, because in this way they can get much money. My opinion is that this kind of people has long-term disadvantages and, apart from this, the national economy loses valuable resources which could have been used much more efficient in other activities. In my opinion, this situation is a drawback of the labour market in Romania.

Mention can be made of the fact that the young want challenges at the work place, even if this would imply an increased level of stress. Such a desire, which can be accounted for the desire of professional success, illustrates the fact that in Romania the human potential of creation has not diminished and sustains the assertion that our country has a high human potential.

Therefore, there is in the present in Romania a shortage of highly qualified labour force which will deepen in the following period and will create big problems to firms. The competition in all fields has made the employers more selective as regards the human capital. In these circumstances, it has become more and more difficult to find persons that have the necessary skills to efficiently play their parts on the contemporary market. The people must understand the fact that the abilities that they have acquired in order to use them on the labour market will not be enough throughout their career. The development and training of abilities, as well as the



permanent learning, must become essential words for the young that enter on the labour market. They must take advantages of every training and requalification opportunity that is offered to them.

Mention can be made of the fact that there is a shortage of labour force in Romania not only in the case of the highly qualified jobs. There is a shortage of workers in Romania, not only for qualified workers but even for the unqualified ones, because many of them, not satisfied by the low level of salaries in our country, choose to work abroad, even to accept jobs that are inferior to their qualification. At the same time, many of the Romanians that choose to stay here, prefer to accept the seasonal jobs in the buildings field or agriculture, where they can earn much money, where they can work illegally and can get social security and unemployment benefits from the State at the same time than to work in a productive company permanently, but with a smaller monthly salary. Thus, in some periods (especially in the cold period of the year) the companies face an excess of work offer whereas in the other periods (most part of the year) face a lack of labour force. This generates a fluctuation of staff, with negative effects on the efficiency and the economic-financial results of the firms.

The lack of qualified staff and of that with medium level studies because of the deficiencies existing in the educational system (the lack of some vocational schools), the lack of some decent salaries on this market, the existence of some difficult procedures for the employers to obtain the right for qualification at the work place. Thus, many of the young Romanians have been made to work illegally or to leave the country.

Apart from the difficulties an employer is faced with in their attempt to find the right people, the problem is of national interest. It is about the disequilibrium situation: there are fewer and fewer people with the right competences, in the right places. The lack of talents could endanger the economic growth in Romania.

The decline of employment is accompanied by phenomena that deepen it, among which mention can be made of phenomena of discouraging and social elimination and, thus, of reducing the number of those that, by their activity, generate income, sustain the global demand and create new work places. To these global tendencies, other processes that influence in a negative way the human capital can be added, such as the reduction of the human capital and decrease of the professional quality of the training as a result of the compression of the secondary education demand, including vocational education, the failure to include in schools a certain number of people, school dropout, illiteracy, etc.

So far, we have discussed especially about the opportunities the young people can have on the work market. But, on the other hand, the young people have suffered a lot from transition. Let's not forget the fact that the young people face an above average poverty rate, that a part of the young people that are not financially independent, depending on their parents' income, that many of them face bad dwelling conditions. One of the most frustrating aspects the young population is faced with is the employment: the unemployment rate in the case of the young is higher than the average rate of unemployment. And this is a reason for which many young people are tempted to find in emigration a solution to the problems they face, especially those that come from areas in which some companies have been restructured. The degradation of the education situation of the young because their families lack the resources to support financially the studies, especially in the case of the young people living in the countryside and of the disadvantaged segments of the population, have negative effects on the employment for these categories of persons. Abandoning school during the first four years of studies or after graduating them as well as the lack of qualification can all contribute to eliminate the young that find themselves in one of these cases from the labour market. Of course, a great number out of the low-skilled people are young. After graduating studies, many people are unemployed for a

while. They work illegally and do not have the rights that other employed people have. In many cases, the vocational programs do not correspond to the demands existing on the labour market.

The young people living in the countryside face great problems. They work in farms, in most of the cases it is their parents; farm, do not own land, have only a few chances for qualification and training in new, modern professions, they do not have the chance to learn foreign languages, remain unqualified and, in this way, can not hire. The graduates of vocational schools or high-schools in the countryside do not succeed in getting jobs in towns, do not have facilities to spend their free time and have fewer opportunities to take part in the social and political lives.

Therefore, the entering and reinsertion on the labour market is a problem for some young people, generated, on the one hand, by the education level, and, on the other hand, by the restructuring of some economic sectors.

In Romania, the passing from school to the work place must take into account the necessity of compensating the qualification or experience deficit. Therefore, especially the technical and vocational education must be improved, together with the encouraging of the apprenticeship at the work place. Apart from this, in order to facilitate the access of the young people on the labour market, the companies that hire young people have been fiscally motivated, by changing the unemployment insurance system ...and stimulating the employment, by granting tax-free hiring bonuses. Campaigns for informing the pupils and the students in the last years of studies must be made, to offer them information regarding the hiring opportunities and the risks existing on the labour market. In order to achieve the socio-professional integration of the young people, a specialized staff must advise them professionally, intermediate and find jobs for them. At the same time, the young people coming from social welfare institution face huge difficulties in finding a work place; they are subjected to a high risk, that of becoming criminals. They do not have families to protect them or, those of them that have families cannot rely on them.

We can conclude that there is a huge need of young people on the labour market in Romania. This is because of the evolutions in the technological and globalization fields, the work world changes very rapidly and the young can easily adapt themselves to an economic environment that is continuously changing. The tendencies are not going to last more than 5 or 10 years till they become reality, and the changes are very rapid. Not such a long time ago, people believed that the abilities, qualifications and experiences they had and seemed to offer them key roles in organization, would allow them to keep their positions for a long time. But, the fact that the technological and entrepreneurial changes occur very rapidly could make some jobs lose their attractiveness and necessity.

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## THE AUTOMOTIVE INDUSTRY AND ITS CRISIS

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**Abstract:** *The world motor vehicle production has increased continuously during the last century, reaching 73.1 million vehicles in 2007, out of which 53 million cars. The car production is concentrated in a few countries: Japan, China, Germany, the U.S.A., South Korea, France, Brazil, Spain, India, the U.K. The largest automobile manufacturers are: General Motors, Toyota, Volkswagen, Ford, Honda, PSA Peugeot Citröen, Nissan, Fiat, Renault-Dacia-Samsung, Hyundai-Kia.*

*The automotive industry crisis began during the latter half of 2008 and was primarily felt by the North American manufacturers, then the European and Japanese ones. There are many causes for the automotive industry crisis, starting with the 2003-2008 oil crisis and ending with the 2008 global financial crisis. The motor vehicle sales drastically decreased in 2008 and an important drop is expected in 2009, resulting in plant closures, layoffs or temporary production cuts. The new strategies refer to launching cars that meet the environment protection standards: fuel-efficient cars, regular hybrids, plug-in hybrids and even battery electric vehicles. Because the automotive industry is an important component of the respective countries' economy, the large automobile manufacturers received or will receive governmental aids to cope with their financial difficulties.*

*Despite the automotive industry crisis, the company Dacia-Renault has recorded high domestic and foreign sales.*

**Key words:** automotive industry, production by country, automobile manufacturers, financial crisis

### 1. THE AUTOMOTIVE INDUSTRY IN THE WORLD

The world motor vehicle production has increased continuously during the last century, especially after 1980 (table 1), reaching now 73.1 million vehicles. The largest automobile manufacturers (in 2007) in descending order are: General Motors, Toyota, Volkswagen, Ford, Honda, PSA Peugeot Citröen, Nissan, Fiat, Renault-Dacia-Samsung, Hyundai-Kia, Suzuki, DaimlerChrysler, BMW, Mitsubishi (table 2).

**Table 1. The world motor vehicle production for the period 1938-2007 (million vehicles)**

	1938	1940	1970	1980	1989	1992	2000	2006	2007
Global production	4.0	6.6	29.4	40.0	48.9	50.1	56.5	69.2	73.1
Cars	3.0	4.6	22.6	30.0	35.5	34.7	40.9	49.9	53.0

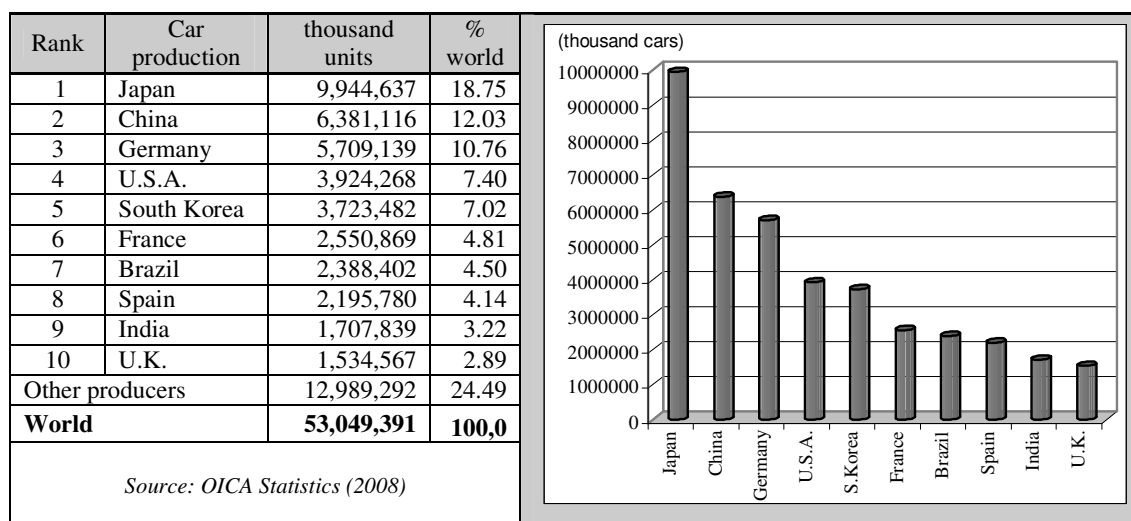
Source: National Statistics Committee, *Quid*, 2002 (quoted by S.Neguț, 2003) and OICA Statistics (2008)

**Table 2. World ranking of motor vehicle manufacturers in 2007 (units)**

Rank	Group	Cars	Light commercial vehicles (LCV)	Heavy commercial vehicles (HCV)	Heavy buses	Total
1	<b>General Motors (Opel-Vauxhall- GM Daewoo)</b>	6,259,520	3,055,575	33,042	1,681	<b>9,349,818</b>
2	<b>Toyota</b>	7,211,474	1,108,333	129,107	85,776	<b>8,534,690</b>
3	<b>Volkswagen Group</b>	5,964,004	256,777	39,600	7,510	<b>6,267,891</b>
4	<b>Ford (Jaguar-Volvo cars)</b>	3,565,626	2,586,284	95,596	0	<b>6,247,506</b>
5	<b>Honda</b>	3,868,546	43,268	0	0	<b>3,911,814</b>
6	<b>PSA Peugeot Citroën</b>	3,024,863	432,522	0	0	<b>3,457,385</b>
7	<b>Nissan</b>	2,650,813	641,734	131,429	7,422	<b>3,431,398</b>
8	<b>Fiat-Iveco-Irisbus</b>	1,990,715	536,578	127,542	24,616	<b>2,679,451</b>
9	<b>Renault-Dacia-Samsung</b>	2,276,044	392,996	0	0	<b>2,669,040</b>
10	<b>Hyundai</b>	2,292,075	67,003	159,237	99,410	<b>2,617,725</b>
11	<b>Suzuki-Maruti</b>	2,284,139	312,177	0	0	<b>2,596,316</b>
12	<b>Chrysler</b>	754,855	1,779,269	4,500	0	<b>2,538,316</b>
13	<b>Daimler</b>	1,335,226	257,350	438,954	65,447	<b>2,096,977</b>
14	<b>BMW</b>	1,541,503	0	0	0	<b>1,541,503</b>
15	<b>Mitsubishi</b>	1,100,528	304,273	7,174	0	<b>1,411,975</b>
16	<b>Kia</b>	1,286,299	81,040	0	1,991	<b>1,369,330</b>
17	<b>Mazda</b>	1,165,660	117,779	3,291	0	<b>1,286,730</b>
18	<b>Daihatsu</b>	711,595	130,968	13,608	0	<b>856,171</b>
19	<b>Avtovaz</b>	735,897	0	0	0	<b>735,897</b>
20	<b>First Automotive Works</b>	690,712	0	0	0	<b>690,712</b>

Source: OICA Statistics (2008)

The world car production reached 55.8 million units in 2008, then it dropped to 50 millions in 2006 and 53 millions in 2007 (the value for 2008 is unavailable yet). The car production is concentrated in a few countries: Japan (18.7 %), China (12 %), Germany (10.7 %), the U.S.A. (7.4 %), South Korea (7 %), France, Brazil, Spain, India, the U.K., Canada, Russia, Mexico, the Czech Republic and Italy (figure 1).

**Figure 1. World ranking of car producers in 2007**

Japan is the greatest motor vehicle (11.5 millions in 2007) and car (9.9 millions in 2007) producer in the world. The world-renowned Japanese companies are: Toyota (the greatest car producer in the world, with headquarters in the homonymous city), Nissan (with headquarters in Yokohama), Honda (with headquarters in Hamamatsu), Mitsubishi (with headquarters in

Okayama), Subaru, Suzuki, Mazda, Isuzu. Toyota and Nissan made partnerships with different car manufacturers from France (Renault), China (First Automotive Works, Dongfeng) and Thailand, turning into the most profitable car manufacturers in the world. Toyota produces cars in all continents, in many countries of the world.

The U.S.A. is the second large motor vehicle producer (10.7 million vehicles in 2007), but showed a significant production drop during the latest years, occupying the fourth position in the world ranking of car producers (3.9 million cars in 2007). The largest centers of the automotive industry are located in the Great Lakes area: Detroit, Cleveland, Buffalo, Toledo, Chicago, Milwaukee, Pontiac, Cincinnati, Arkon, Flint. Other plants are situated in the central part of the U.S.A. at Indianapolis, St. Louis, Kansas City, in the south at la Atlanta, Dallas, Memphis, or in California at Los Angeles. The main characteristics of the U.S. automotive industry are: the financial concentration in three corporations (the “big three”: General Motors, Ford and Chrysler); the production of large, fuel-inefficient and expensive cars; the competition with the foreign manufacturers, especially the Japanese ones (Toyota, Nissan, Honda) that built plants in North America and gained important market shares.

General Motors, the largest multinational motor vehicle manufacturer company in the world, produces different makes (Chevrolet, Pontiac, Buick, Cadillac, Saturn) and also heavy buses, trucks, and military vehicles. General Motors also produces the makes Daewoo in South Korea, Opel in Germany, Saab in Sweden, Vauxhall in the U.K., as well as others in many countries from Latin America, Asia and Australia. The GM motor vehicle global production reached 9.3 million units in 2007.

Ford Motor Corporation, with headquarters in Detroit, is the oldest automaker in the U.S.A. and produces the makes Ford, Lincoln and Mercury. Ford Group produces also the following makes in Europe: Ford in Germany and Spain, Aston Martin, Jaguar and Land Rover in the U.K. (until 2008), Ford and Volvo in Belgium, Volvo in Sweden. Ford has also plants in other countries worldwide: Argentina, Brazil, Canada, Mexico, China, India, Malaysia, Taiwan, Thailand, Turkey and Australia.

The American company Chrysler merged with the German company Daimler and they produce the following makes: Chrysler, Dodge, Jeep (in the U.S.A.), Mercedes-Benz, Maybach and Smart (in Germany).

Germany is the first European car producer and the third producer in the world with more than 5.7 million cars manufactured in 2007 and 4 large groups: Volkswagen-Audi, Opel (General Motors), ChryslerDaimler and BMW.

The group Volkswagen-Audi is the first European car manufacturer, produces the makes Audi and Volkswagen, and has the most important plants in Hanovra (Wolfburg), Salzgitter, Kassel and many others in Europe: the Czech Republic (Skoda), Spain and Portugal (Seat, Volkswagen), the U.K. (Volkswagen), Italy (Lamborghini), France (Volkswagen), Belgium (Audi, Volkswagen), Hungary (Audi), Poland (Volkswagen), Slovakia (Audi, Volkswagen). Volkswagen cars are also produced in other countries of the world: Argentina, Brazil, Mexico, South Africa and China.

The group General Motors produces Opel cars, and has the headquarters in Russelheim and plants in Kaiserlautern and Bochum. ChryslerDaimler has plants in Stuttgart, Benz, Ludwigshafen, Mannheim (the makes Mercedes-Benz, Maybach and Smart), Düsseldorf and Karlsruhe (trucks). The group BMW produces the make BMW in Germany and the makes Mini and Rolls-Royce in the U.K.

France is the second European car producer and the sixth producer in the world with 2.5 million cars manufactured in 2007 (a decreasing production compared to the previous years). The famous French companies Renault (with plants in Paris suburbs) and PSA Peugeot Citroën (with plants in Lille, St. Etienne, Mulhouse, Dijon) have assembly lines in many countries

(Belgium, Spain, Slovenia, Romania, Portugal, Ireland, Russia, Turkey and also Argentina, Brazil, Columbia, Mexico, Australia, Morocco, South Africa, Malaysia, India, Iran, South Korea).

Other important motor vehicle manufacturers are: South Korea (the companies Hyundai-Kia, Renault Samsung Motors, General Motors-Daewoo), China, Spain (the companies Volkswagen and Renault), Canada (with the centers Windsor, Hamilton, Toronto, Ingersoll, Aliston and the companies General Motors, Suzuki and Honda), the U.K. (the companies General Motors, Ford, Volkswagen, BMW and Tata Motors produce different car makes: Vauxhall, Aston Martin, Jaguar, Land Rover, Mini, Rolls-Royce), Mexico, Italy (the company Fiat produces the makes Fiat, Ferrari, Alfa-Romeo, Lancia, Maserati and has many assembly lines in other countries), Sweden (Ford Motor with Volvo, General Motors with Saab and partnerships with other manufacturers for heavy vehicles), the Czech Republic (the cars Skoda made in Prague by the company Volkswagen and the trucks and motor coaches Tatra produced in Plzeň), Hungary (the motor coaches Ikarus manufactured in Csepel), Russia (with large manufacturing plants in Moscow, Uilanovsk, Zaporozje, Nijni-Novgorod), Poland (the cars Fiat and Daewoo manufactured in Warsaw, Lublin, Wielcz) and Romania.

## **2. THE AUTOMOTIVE INDUSTRY CRISIS**

The automotive industry crisis began during the latter half of 2008 and was primarily felt by the North American manufacturers, namely the three large companies General Motors, Ford and Chrysler.

There are many causes for the American automotive industry crisis, starting with the 2003-2008 oil crisis and ending with the 2008 global financial crisis. The North American manufacturers were specialized in large sport utility vehicles (SUVs) and large pickups that brought higher profits compared to smaller cars, but they were fuel-inefficient. Also the generous salary package, the unions and the dense network of dealers generated higher labor costs and high price cars (compared to the Asian producers with a cost advantage of \$350 US to \$500 US per vehicle). Meantime, the Asian car manufacturers (especially the Japanese ones) specialized in smaller, cheaper and fuel-efficient cars and emerged on the North American (especially Toyota and Honda) and European markets. Therefore the “big three” American companies’ market share declined from 70 % in 1998 to 53 % in 2008 due to imports and foreign companies that operate in the U.S.A. The American automotive industry is an important component of the U.S. economy that ensures more than 4.5 million jobs. In order to avoid bankruptcy and layoffs, the three large American companies received governmental loans at the end of 2008, meant to change the production strategies. These strategies refer to launching cars that meet the environment protection standards: fuel-efficient cars, regular hybrids, plug-in hybrids and even battery electric vehicles.

The financial crisis also affected other motor vehicle manufacturers, especially those in Europe and Japan. In Europe, the car sales drastically decreased in 2008 and a 10-20 % drop is expected in 2009, resulting in plant closures, layoffs or temporary production cuts. In consequence, the large European automobile manufacturers (Peugeot-Citröen, Tata Motors, Volvo, Saab, Fiat, Nissan) received or will receive governmental aids to cope with their financial difficulties.

The Japanese automobile manufacturers (Toyota, Honda, Nissan, Suzuki) have also registered a sale decline in 2008 (including on the American and European markets) and therefore they will reduce production by a few thousand units in 2009 and focus on fuel-efficient cars.

On the other hand, the South Korean automobile manufacturers recorded important sale increase in 2008, despite the global financial crisis. This is the case of Hyundai-Kia that climbed eight rankings in the top of the largest automobile manufacturers. Nevertheless, the South Korean automakers have reduced production in the plants located in other countries.

### 3. THE AUTOMOTIVE INDUSTRY IN ROMANIA

Romania has tradition in motor vehicle production, starting with the first trucks manufactured in Braşov after 1950 and the first off-road vehicles manufactured by ARO plants in Câmpulung-Muscel. They were followed by the factories „Dacia” in Colibaşi (Piteşti) and „Oltcit” in Craiova. Production decreased immediately after 1989, and the two factories were privatized; the investors were the famous companies Renault (for Dacia) and Daewoo (for Craiova factory). The situation in Craiova became uncertain a few years ago, while the factory manufactured only the model Matiz. At present, the factory in Craiova belongs to the company Ford that intends to launch a small car in 2010-2011. On the other hand, the latest Dacia and Dacia-Renault models (SuperNova, Solenza and especially Logan and Sandero) have been successful on both domestic and foreign markets.

**Table 3. Dacia sale evolution in the period 2002-2007**

Dacia sales by model in Romania					
Model	2002	2003	2004	2005	2007
Berlina and Break	15,653	13,830	8,134	-	-
SuperNova	25,127	3,892	-	-	-
Solenza	-	23,279	31,362	4,809	-
Logan berlina	-	-	-	88,275	76,785
Utility vehicles	11,862	16,873	20,243	20,192	-
Logan MCV	-	-	-	-	18,427
Logan VAN	-	-	-	-	6,850
<b>Total</b>	<b>52,742</b>	<b>57,874</b>	<b>80,013</b>	<b>113,276</b>	<b>102,062</b>
Dacia foreign sales by model					
Model	2002	2003	2004	2005	2007
Berlina and Break	6	-	-	-	-
SuperNova	3,975	1,652	1	-	-
Solenza	-	7,506	11,010	3,545	-
Logan	-	-	2,594	46,612**	65,053**
Utility vehicles	958	2,134	2,683	466	-
Logan MCV	-	-	-	-	62,824**
Logan VAN	-	-	-	-	534**
<b>Total</b>	<b>4,939</b>	<b>11,292</b>	<b>16,306</b>	<b>50,623</b>	<b>128,411</b>
Dacia domestic and foreign sales by model					
Model	2002	2003	2004	2005	2007
Berlina and Break	15,659	13,830	8,134	-	-
SuperNova	29,102	5,544	1	-	-
Solenza	-	30,785	42,372	8,354	-
Logan	-	-	22,868	134,887	141,838
Utility vehicles	12,820	19,007	22,926	220,658	-
Logan MCV	-	-	-	-	81,251
Logan VAN	-	-	-	-	7,384
<b>Total</b>	<b>57,581</b>	<b>69,166</b>	<b>96,319</b>	<b>163,899</b>	<b>230,473</b>

\* the SuperNova sales in 2001 include 52 Nova sales

\*\* the Logan export sales in 2005 include 2509 vehicles produced in Morocco by Dacia

Source: Auto Statistics – APIA (2008)

The company Dacia-Renault has registered record domestic and foreign sales since 2004. For example, the company sold 163,899 vehicles in 2005: 50,623 units on the foreign markets (table 3), and 113,276 units on the domestic market, out of which 93,084 cars and 20,192 utility vehicles (gaining the largest market share in Romania, 44.2%). Dacia sales increased in 2007 (230,473 units) on both domestic (102,062 units) and foreign (128,411 units) markets, where Logan models were appreciated for the favorable ratio price/ quality (table 4). The model Sandero was launched in June 2008 and its sales together with Logan (phase II) are high, despite the automotive industry crisis. At the beginning of 2009, the main markets of Dacia Sandero and Dacia Logan are Germany, France and Romania.

**Table 4. Top 10 Dacia export destinations**

2005				2007		
Rank	Country	Units (total)	Units (Logan)	Rank	Country	Units (Logan)
1	France	9,798	9,798	1	France	32,688
2	Turkey	8,726	8,334	2	Germany	17,301
3	Serbia	5,835	5,552	3	Ukraine	9,350
4	Algeria	4,710	2,819	4	Algeria	9,089
5	Morocco	2,771	2,509	5	Turkey	8,907
6	Hungary	2,639	3,639	6	Spain	7,734
7	Czech R.	2,539	2,508	7	Italy	4,971
8	Poland	2,405	2,405	8	Bulgaria	3,037
9	Germany	2,052	2,052	9	Serbia	2,200
10	Syria	1,761	833	10	Belgium	2,000

Source: Auto Statistics – APIA (2007, 2008)

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## COMPETITIVENESS OF THE POLISH ECONOMY COMPARED WITH THE ROMANIAN ONE

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***Abstract:** Generally, competitiveness of the economy defines importance of the national economy in the world market. It is a very complex notion assessed by various institutions using different indicators which actually reflect only selected aspects, such as prospects for economic development, technological progress, quality of public institutions, quality of the national business environment, quality of business legislation, level of prices as well as technical infrastructure.*

***Key words:** competitiveness, performance, development, ranking.*

### 1. INTRODUCTION

The economic theory emphasizes two assessment sizes of the competitiveness's level such as: the microeconomic one and the macroeconomic one. At microeconomic level, competitiveness, on one hand, is an attribute of some individuals professionally trained and motivated to perform economic activities (individually or in teams or groups) efficiently on the base of some performances a bound to inventiveness, adaptability, resistance, team work). On the other hand, microeconomic competitiveness of an organization (enterprises, holdings, groups, Non-Government Organizations etc) reflects its capacity to offer products to the market and/or services at the best ratio price-quality-environment impact, in relation to intern or international competition.

The main features of competitiveness at microeconomic level are: innovation, research-development, eco-management, quality, and citizen's safety, all of them having effect in the product's or service price.

At macroeconomic level competitiveness is an attribute of some places, regions, countries or groups potential to offer to the market qualitative products/services that include the application of the newest or the most efficient technologies available to the most advantageous prices, with a minimum impact on the environment, to cope with the competition of the similar products and services from other geographical regions.

As a result of the membership to the European Union, the Polish and the Romanian cooperative environment, as well as the one of the other member states, suffered structural transformations and only those companies capable to identify potential risks and to realize necessary modifications will be able to face the unique European market conditions and will benefit of the opportunities brought by them.

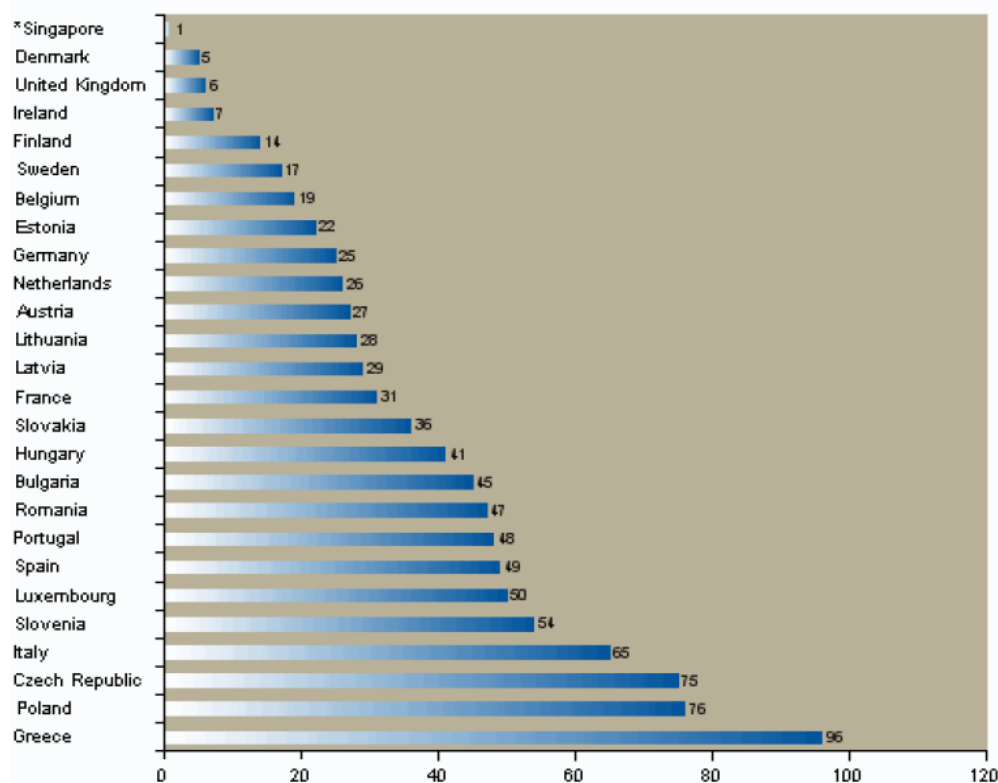
On such a market, as the Unique European Market the assurance of competitiveness represents a primordial strategic objective, being a fundamental concept in strategy and strategic

analyze. It can't be reached a competitive activity without an adequate activity which implies mutations in structures, activities and management.

## 2. POLAND'S AND ROMANIA'S INTERNATIONAL COMPETITIVENESS RANKINGS

In the light of international competitiveness comparisons and rankings, both Polish and Romanian economy is ranked rather low. According to the majority of rankings Poland and Romania have one of the lowest ranks among the EU Member States. However, it should be stressed that the rankings reflect the situation from 1-2 years preceding their publication.

Figure no. 1 European Union - Aggregate rankings



Source: [www.doingbusiness.org](http://www.doingbusiness.org)

The most important rankings and reports showing the competitive position of the Polish and Romanian economy compared to the other countries are presented below.

According to a synthetic evaluation of the ease of doing business, in 2008, Poland ranked 76 out of 181 countries assessed, which means a drop by 6 places, while Romania ranked 47, which means that it went up with 24 places since 2006.

As for sub-rankings, Poland was given the lowest score in "starting a business" category (145 rank). Despite a relative improvement of sub-indices (reduction of the starting up business cost from 21.2% to 18.8% of GDP per capita and the level of capital required from 196.8% to 168.8% of GDP per capita), other countries reformed this area faster. In consequence, this meant a drop by 11 places as compared to the previous ranking. Regarding Romania in "starting a business" category, it ranked 26 meaning a relative improvement of this indices.

**Table no.1 Ease of...**

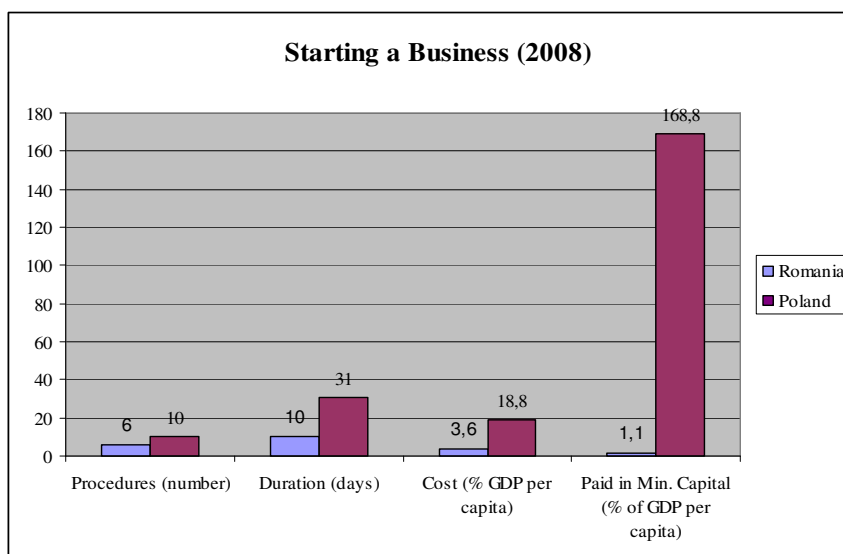
Ease of... (2008)	Poland	Romania
Doing Business	76	47
Starting a Business	145	26
Dealing with Construction Permits	158	88
Employing Workers	82	143
Registering Property	84	114
Getting Credit	28	12
Protecting Investors	38	38
Paying Taxes	142	146
Trading Across Borders	41	40
Enforcing Contracts	68	31
Closing a Business	82	85

Source: [www.doingbusiness.org](http://www.doingbusiness.org)

As in the previous years, access to licenses and concessions in Poland was rated exceptionally low. According to report's authors these procedures are very time-consuming (322 days), formalized (30 formalities were counted) and costly (159.8% of GDP per capita). In consequence Poland occupies a rather shameful position, i.e. 156 (drop by 2 places). Among the EU States Denmark perfumed the best (6th place), and Estonia is the frontrunner (14) among the EU-12.

In 2008 Romania registered an increase in "Efficiency in Business", going up from the 50 place in 2007, to 47 in 2008, ranking better than countries such as Bulgaria, Russia, Poland and Croatia. Regarding the "economic performance" we have maintained constant occupying the place 35, being before countries such Finland, Bulgaria, Hungary, Croatia, Portugal, Italy, Greece, Russia, Ukraine, and Turkey.

**Figure no. 2 Starting a business**



Source: made by the author based on the dates from [www.doingbusiness.org](http://www.doingbusiness.org)

Poland ranked equally low as regards tax paying easiness. In sub-ranking Poland was ranked 125 and dropped by 5 places. According to the estimates of the report's authors, an entrepreneur, who would like to meet all Polish tax requirements, should have to make 41 payments absorbing cumulatively 38.4% of gross profit and should spend 418 hours annually for this purpose. The highest rank among the Central-East European countries is that of Latvia (20). It is worth noting that the Slovak Republic (122) had poor assessment in this respect because of, among other things, the high total tax (50.5% of gross profit), according to the report's authors.

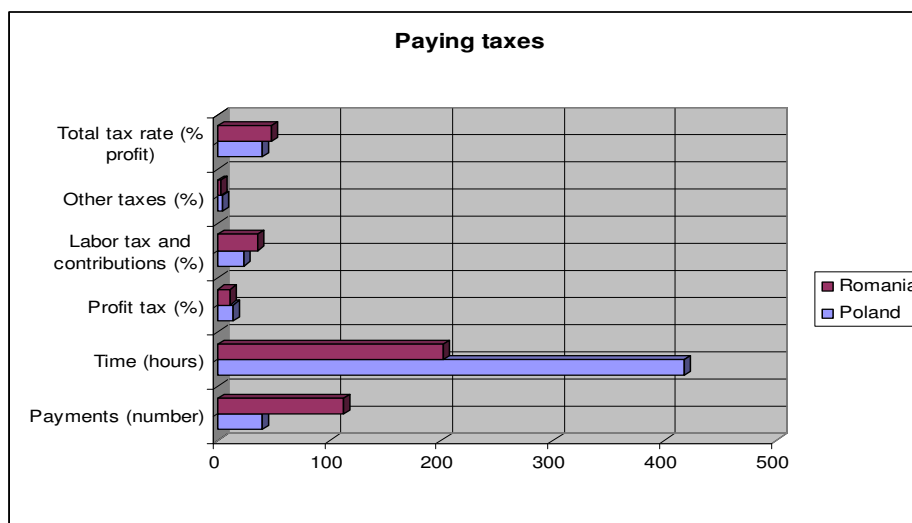
Romania applies 17 taxes to the case study company, seven of which are labor taxes. The number of labor tax payments in the year is 84 out of a total of 113 tax payments. Labor taxes make up 74 percent of the TTR, account for 74 percent of the tax payments and 54 percent of the hours to comply in Romania. The 17 taxes that give rise to the total number of tax payments of 113 comprise corporate income and capital gains tax, two property taxes, seven labor taxes, and six other taxes ranging from environmental taxes to vehicle tax.

**Table no.2 Paying Taxes**

Economy	Payments (number)	Time (hours)	Profit tax (%)	Labor tax and contributions (%)	Other taxes (%)	Total tax rate (% profit)
Poland	40	418	13,0	23,5	3,7	40,2
Romania	113	202	10,4	35,5	2,1	48,0

Source: [www.doingbusiness.org](http://www.doingbusiness.org)

**Figure no.3 Paying taxes**



Source: made by the author based on the dates from [www.doingbusiness.org](http://www.doingbusiness.org)

The ranking authors pointed out at the improvement in field of the enforcement of contracts in Poland.

Due to the limited possibilities of mutual claims and elimination of the necessity to carry out separate enforcement proceedings, the time of seeking contracts receivables shortened from 980

to 830 days. Consequently Poland moved up by 6 places and currently is ranked 68. In this respect Latvia was ranked highest (3 place) among countries of the region.

In terms of the easiness of real property registration Poland was classified 81, which means an improvement by 5 places. The main underlying reason is the time-consuming registration process (197 days), although a significant drop in registration costs - from 1.6 to 0.5% of real property value - was noted. In Lithuania, which scored the highest rank among the EU-27 Member States (4), all relevant procedures take 3 days to complete. Romania ranks better on – duration (3 days) but is far off in what concerns the number of procedures (8) and the cost of real property value (2.4).

**Table no.3 Registering Property**

<b>Economy</b>	<b>Procedures (number)</b>	<b>Duration (days)</b>	<b>Cost (% of property value)</b>
Poland	6	197	0.5
Romania	8	83	2.4

Source: [www.doingbusiness.org](http://www.doingbusiness.org)

Different studies show that the presence of legal and regulatory protections for investors explains up to 73% of the decision to invest. In contrast, company characteristics explain only between 4% and 22%\*. Good protections for minority shareholders are associated with larger and more active stock markets. Thus both governments and businesses have an interest in reforms strengthening investor protections.

It is worth stressing that Poland and Romania ranks equal (38), in the area of corporate governance ("protecting investors' category).

**Table no.4 Protecting Investors**

<b>Economy</b>	<b>Disclosure Index</b>	<b>Director Liability Index</b>	<b>Shareholder Suits Index</b>	<b>Investor Protection Index</b>
Poland	7	2	9	6.0
Romania	9	5	4	6.0

Source: [www.doingbusiness.org](http://www.doingbusiness.org)

In the other categories Poland took the following ranks: credit availability (68), employment of workers (78), business liquidation (88), while Romania, at the same categories, ranks (12), (143), (85).

Firms consistently rate access to credit as among the greatest barriers to their operation and growth. In realizing this ranking, we took into consideration two sets of indicators of how well credit markets function: one on credit registries and the other on legal rights of borrowers and lenders.

**Table no.5 Getting Credit**

<b>Economy</b>	<b>Legal Rights Index</b>	<b>Credit Information Index</b>	<b>Public registry coverage (% adults)</b>	<b>Private bureau coverage (% adults)</b>
Poland	8	4	0.0	50.0
Romania	8	5	4.5	24.7

Source: [www.doingbusiness.org](http://www.doingbusiness.org)

The difficulties of the hiring companies from Romania concerning the hiring procedures or firing procedure, are expressed by the indices presented below, for the year 2008 (each of them takes values from 0 to 100), and the higher values require an illiberal settlement; the index of the company's rigidity is constituted as an arithmetical rate of the previous three indices.

Economies worldwide have established a system of laws and institutions intended to protect workers and guarantee a minimum standard of living for its population. This system generally encompasses four bodies of law: employment, industrial relations, social security and occupational health and safety laws.

**Table no.6 Employing Workers**

<b>Economy</b>	<b>Difficulty of Hiring Index</b>	<b>Rigidity of Hours Index</b>	<b>Difficulty of Firing Index</b>	<b>Rigidity of Employment Index</b>	<b>Firing costs (weeks of salary)</b>
Poland	11	60	40	37	13
Romania	67	80	40	62	8

Source: [www.doingbusiness.org](http://www.doingbusiness.org)

The economic crises of the 1990s in emerging markets raised concerns about the design of bankruptcy systems and the ability of such systems to help reorganize viable companies and close down unviable ones. In countries where bankruptcy is inefficient, unviable businesses linger for years, keeping assets and human capital from being reallocated to more productive uses.

In countries where bankruptcy laws are inefficient, this is a strong deterrent to investment. Access to credit shrinks, and nonperforming loans and financial risk grow because creditors cannot recover overdue loans. Conversely, efficient bankruptcy laws can encourage entrepreneurs. The freedom to fail, and to do so through an efficient process, puts people and capital to their most effective use. The result is more productive businesses and more jobs.

**Table no.7 Closing a Business**

<b>Economy</b>	<b>Time (years)</b>	<b>Cost (% of estate)</b>	<b>Recovery rate (cents on the dollar)</b>
Poland	3.0	20	29.8
Romania	3.3	9	29.5

Source: [www.doingbusiness.org](http://www.doingbusiness.org)

To recapitulate, Poland was not included into the group of reformer states and with its summative rank for ease of doing business Poland comes only before Greece, out of the EU-27 Member States. Regarding Romania, it occupies a better place than Poland, 17, among the European Union member states.

#### **4. POLAND COMPARED TO EU MEMBER STATES**

Structural indicators are an important instrument for assessing the progress made by EU states in the Lisbon Strategy implementation, i.e. also the competitiveness of their economies. The list adopted by the European Commission in 2005 includes 14 base structural indicator grouped into 5 main problem categories. Table 8 shows the values of structural indicators for Poland compared to the EU-27, EU-25 and EU-15.

Good economic performance in last few years has been reflected in the macroeconomic and labor market indicators improvement. However, a number of indicators illustrating the structural changes differ in minus from the EU average.

**Table no.8 Structural indicators of the EU - Poland compared to the EU**

	Year	Poland	Indicator value*		
			EU-27	EU-25	EU-15
Overall economic situation					
1. GDP per capita according to the PPS	<b>2006</b>	<b>52.4</b>	100.0	103.9	112.1
	<b>2007</b>	<b>53.6</b>	100.0	103.8	111.6
2. Labor productivity per 1 worker	<b>2006</b>	<b>66.3</b>	100.0	103.8	110.4
	<b>2007</b>	<b>65.8 m</b>	100.0	103.8	110.2
	Employment				
3. Employment rate	<b>2006</b>	<b>54.5</b>	64.5	64.8	66.2
	<b>2007</b>	<b>57.0</b>	65.4	65.8	66.9
4. Employment rate of older persons	<b>2006</b>	<b>28.ian</b>	43.5	43.7	45.3
	<b>2007</b>	<b>29.iul</b>	44.7	44.9	46.6
	Innovation and research				
5. Youth educational attainment	<b>2006</b>	<b>91.7</b>	77.9	77.9	75.0
	<b>2007</b>	<b>91.6</b>	78.1	78.0	75.2
	<b>2005</b>	<b>0.57</b>	1.84 <sup>(s)</sup>	no data	1.90 <sup>(s)</sup>
6. Domestic expenditure on R&D	<b>2006</b>	<b>0.56</b>	1.84 (s)	no data	1.91 (s)
	Economic reforms				
7. Comparative price levels	<b>2006</b>	<b>62.1</b>	100.0	101.1	104.9
	<b>2007</b>	<b>63.4</b>	100.0	101.0	104.7
	<b>2006</b>	<b>15.9</b>	17.8	17.8	17.8
8. Business investment	<b>2007</b>	<b>18.2</b>	18.3	18.2	18.2
	Social Cohesion				
9. At risk-of-poverty rate	<b>2005</b>	21	no data	<b>16</b>	<b>16</b>
	<b>2006</b>	19	no data	<b>16</b>	<b>16</b>
10. Long-term unemployment rate	<b>2006</b>	7.8	<b>3.7</b>	<b>03.iul</b>	<b>03.feb</b>
	<b>2007</b>	4.9	<b>3.0</b>	<b>3.0</b>	<b>02.aug</b>
9. Dispersion of regional employment rates	<b>2005</b>	5.6	<b>11.9</b>	no data	no data
	<b>2006</b>	5.1	<b>11.4</b>	no data	no data
	Environment				
12. Green house gas emissions	<b>2004</b>	67.6	<b>92.8</b>	no data	<b>98.8</b>
	<b>2005</b>	68.0	<b>92.1</b>	no data	<b>98.0</b>
	<b>target</b>	94.0	no data	no data	<b>92.0</b>
13. Energy intensiveness of economy	<b>2004</b>	596.35	<b>211.07</b>	<b>204.89</b>	<b>187.65</b>
	<b>2005</b>	584.70	<b>208.05</b>	no data	<b>184.85</b>
14. Volume of freight transport relative to GDP	<b>2005</b>	89.0	<b>105.4</b>	<b>104.6</b>	<b>104.6 a</b>
	<b>2006</b>	94.2	<b>106.7</b>	<b>106.2</b>	<b>105.0</b>

## 5. EUROPEAN UNION'S PROGRESS IN THE REFORM AREA IN 2008

Table 9 shows this year's rankings and scores of the 27 EU member countries, as well as their 2006 rankings for comparison. The scores are on a scale from one to seven, with larger values indicating stronger performance.

The table shows that the Nordic members continue to hold the top three spots, with Sweden overtaking Denmark and Finland, to be ranked first this year. The countries constituting the ranking's top 10 also remain the same, although there has been some movement within the ranks. Austria, Luxembourg and France have moved up slightly in the rankings, to 5th, 7th and 8th places respectively.

On the other hand, Germany and the United Kingdom have declined in the rankings to 6th and 9th respectively. The drop of three places by the United Kingdom is particularly notable and mainly due to a worsening assessment of the state of the country's financial services, as discussed below.

Among the original EU15 members that are ranked outside the top 10, the only changes in rank since the 2006 assessment, are slight declines experienced by Portugal and Spain, to 14th and 17th places, respectively, echoing the present economic downturn in the Iberian Peninsula, particularly in Spain. Nevertheless, and despite the current crisis, Ireland, Spain and Portugal continue to do comparatively well, placing in the top half of European countries, while Greece and Italy continue to round out the bottom of the rankings, grouped together with the least competitive accession countries.

The accession countries register more notable changes in performance. Most striking is Cyprus (13th), which moves up by eight places, due to improvements registered across all areas, especially efforts to develop an information society, improve social inclusion and sustainable development. Five other accession countries improve by one rank, namely Slovenia (15th), Malta (18th), Lithuania (19th), Latvia (21st) and Romania (25th), demonstrating that they are moving in the right direction in some areas, albeit some from a rather low base. On the other hand, the largest decline in rank out of all 27 countries is registered by Hungary, falling five places to 22nd place, linked in particular to poorer assessments of the country's financial services and efforts towards increased social inclusion. In addition, both the Czech Republic (16th) and the Slovak Republic (20th) decline by two ranks, while the largest of the accession countries, Poland, falls one more rank, displaced by Romania, and is now second to last at 26th place, only ahead of Bulgaria. At the other end of the spectrum is Estonia, which continues to be the highest-placed accession country, just outside the top 10 and right behind Ireland at 12th. The varied performance of the accession countries shows that their reform efforts are meeting with mixed success.

The three lowest ranked countries, Romania, Poland and Bulgaria, show poor performance across all areas, with Bulgaria in particular ranked last in five dimensions: innovation and R&D, liberalization, financial services, social inclusion and sustainable development.



**Table 9: Rankings and Scores of EU Countries – 2008 and 2006**

Economy	Rank 2008	Score	Rank 2006
Sweden	1	5.71	3
Denmark	2	5.64	1
Finland	3	5.64	2
Netherlands	4	5.44	4
Austria	5	5.34	7
Germany	6	5.34	5
Luxembourg	7	5.22	8
France	8	5.12	9
United Kingdom	9	5.12	6
Belgium	10	5.11	10
Ireland	11	5.03	11
Estonia	12	5.02	12
Cyprus	13	4.68	21
Portugal	14	4.61	13
Slovenia	15	4.58	16
Czech Republic	16	4.53	14
Spain	17	4.52	15
Malta	18	4.43	19
Lithuania	19	4.39	20
Slovak Republic	20	4.34	18
Latvia	21	4.25	22
Hungary	22	4.18	17
Greece	23	4.10	23
Italy	24	4.05	24
Romania	25	3.84	26
Poland	26	3.76	25
Bulgaria	27	3.68	27
EU27 average		4.73	
United States		5.44	
East Asia		5.26	

Source: World Economic Forum

## CONCLUSIONS

According to the majority of international rankings the competitiveness of Polish economy does not perform particularly well, no matter what criteria and indicators are adopted. The weaknesses of the Polish economy primarily include ineffective public expenditure, low labor market flexibility, low quality of public institutions, ineffective judiciary with respect to economic matters, unfavorable conditions for starting up business as well as poorly developed infrastructure. Low position of Poland, which is worse than the actual condition of Polish businesses and the dynamic development of foreign investments in Poland, is also a result of certain competitiveness rankings that are several years old.

The strengths of the Polish economy include favorable macroeconomic results: high economic growth, a low level of inflation, low labor costs in industry, dynamic development of export and the country's attractiveness to foreign investors. The reports pointed out that Poland had a high innovation potential because of the well-educated workforce.

Romania recorded an improvement of the quality of business environment, as a result of the decrease of the direct physicality applied to the firms and the simplification of the procedures

concerning the creation of a firm. One of the problems refers to the existence of a job market with a rigidity high level of occupancy, relative for the countries from European Union.

Providing the flexibility of the job market represents the main condition of the adaptation of an economy to the global impacts that can affect it; moreover, it represents a way of economy regulation in the conditions of renunciation to the possibility of using the instrument of the change course, as a result of the extern shocks will be felt for a longer period of time, and the correlation of the business cycles will be lower. In such situation, rate of unemployment will increase and the common currency politics will generate lop-sided impacts, which will emphasize the initial evolution.

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## ASPECTS REGARDING WORLD POPULATION'S NUMBER, DISTRIBUTION, DENSITY AND VITAL STATISTICS

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**Abstract:** *The significant population growth within short periods of time, and world population stabilization are important problems of our time. The present world population of 6.7 billion persons is unequally distributed by continents or countries. The average density of the world population is 48 inhabitants per sq. km, but varies from continent to continent or from state to state. This paper also deals with the most important demographic indicators of vital statistics (birth rate, total fertility rate, death rate, infant mortality rate, natural increase, and life expectancy at birth): average and extreme values, and the reasons of these variations that usually reflect the differences between the more, less or least developed countries.*

**Key words:** world population, population distribution, population density, birth rate, total fertility rate, death rate, infant mortality rate, natural increase, life expectancy at birth

### 1. WORLD POPULATION NUMBER

The numeric evolution of the world population depended on the world economic history, as the population growth stages were directly proportional to the stages of economic progress. Thus, the first billion persons was reached in 1830, the second billion in 1930, the third billion in 1960, and the fourth billion in 1974 (just 14 years after). The population recorded 5 billion persons in 1987, 6 billions in 1999 and 6.5 billions in 2005. The estimated figure for 2008 is 6.7 billion inhabitants (table 1).

The significant population growth within short periods of time and world population stabilization are important problems of our time, especially when it is about providing food, house and other essential needs for more and more people. The estimates show that the demographic growth will cease only on the latter half of the 21<sup>st</sup> century, when the world population will record 9.2 billions.

**Table 1. World population growth for the period 1750-2050**

Rank	Year	World population (thousands)	Rank	Year	World population (thousands)
1	1750	750,000	10	1995	5,719,045
2	1800	950,000	11	2000	6,124,123
3	1850	1,250,000	12	<b>2005</b>	<b>6,514,751</b>
4	1900	1,650,000	13	<b>2008 (est.)</b>	<b>6,706,993</b>
5	1950	2,535,093	14	2010 (est.)	6,906,558
6	1965	3,342,771	15	2015 (est.)	7,295,135
7	1975	4,074,080	16	2025 (est.)	8,010,509
8	1985	4,855,264	17	2045 (est.)	9,025,982
9	1990	5,294,879	18	2050 (est.)	9,191,287

Sources: *World Population Prospects, the 2006 Revision; The World Factbook, 2007-2008, CIA*

## 2. WORLD POPULATION'S DISTRIBUTION AND DENSITY

Only one third of total land area of 136 million sq. km (149 million sq. km including Antarctica) is permanently inhabited, and the regions with high population density alternate with those weakly inhabited or almost uninhabited. 90 % of world population lives in the Northern hemisphere, especially between 20° and 60° North latitude (the causes are geographic, climatic and historical).

Europe and Asia concentrate almost three quarters of the world population, Asia has 60% of the world population, compared to Africa with 15%, America with 14%, and Europe with 11%. In other words, Asia is 5 times more populated than Africa, 6 times than Europe and 7 times than Latin America (table 2, figure 1).

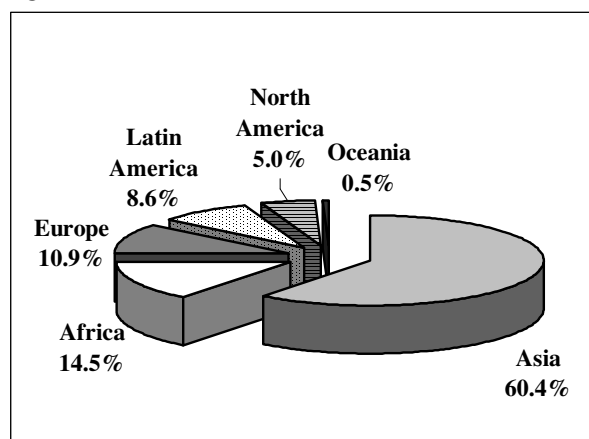


Figure 1. World population shares by continent (2008)

Table 2. World population distribution and density by continent (2008 est.)

Continent/ region	Population (mil.inh.)	Area (sq. km)	Density (pop./sq.km)	% of world population	% land surface
Asia	4,053,868,076	4,4311,110	91.49	60.44	32.55
Africa	972,752,377	3,0288,064	32.12	14.50	22.25
Europe	731,682,934	1,0521,476	69.54	10.91	7.73
Latin America	579,285,804	1,7846,017	32.46	8.64	13.11
North America	337,168,480	2,4196,507	13.93	5.03	17.77
Oceania	34,375,093	8,945,664	3.84	0.51	6.57
World	6,706,993,152	136,108,838	49.28	100.00	100.00

Source: *The World Factbook, 2007-2008, CIA*

There 2,000 small and large nations on the political world map, grouped into 266 states, dependent territories and other entities (out of which 194 independent states). More than 99 % of world population falls into the nations that count more than 5 million persons. According to the number of inhabitants, the countries that exceed 5 millions may be classified into:

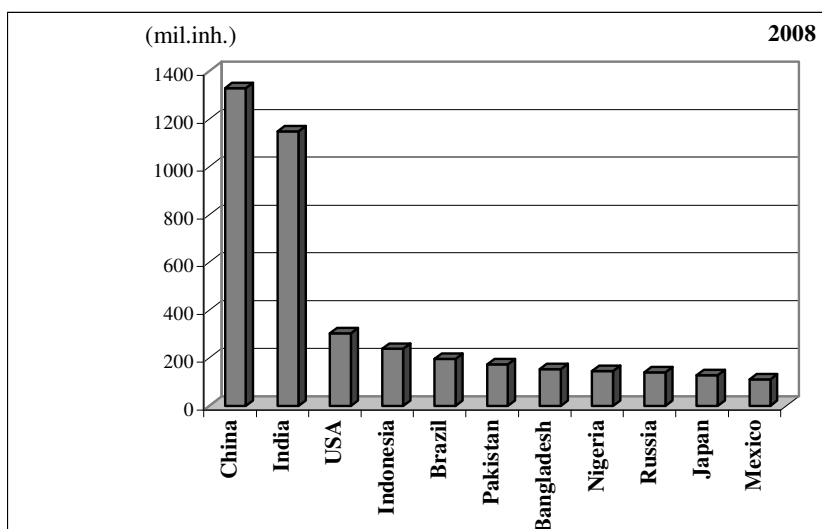
- countries with more than 1 billion inhabitants: China (1.330 billion), India (1.147 billion);
- countries with 100.1–500 million inhabitants (table 3, figure 2): the U.S.A. (303.8 mil.), Indonesia (237.5 mil.), Brazil (196.3 mil.), Pakistan (172.8 mil.), Bangladesh (153.5 mil.), Nigeria (146.2 mil.), Russia (140.7 mil.), Japan (127.2 mil.), Mexico (109.9 mil.);
- countries with 50.1–100 million inhabitants: Philippines (96 mil.), Vietnam (86.1 mil.), Germany (82.3 mil.);
- countries with 20.1–50 million inhabitants: South Africa (48.7 mil.), Spain (40.4 mil.), Poland (38.5 mil.), Canada (33.2 mil.);

- countries with 10.1–20 million inhabitants: Netherlands, Kazakhstan, Ecuador, Niger, Greece, Tunisia;
- 31 countries with 5.1–10 million inhabitants, among which: Portugal, Zambia, Somalia, Finland, Denmark;
- 153 countries with less than 5 million inhabitants: U.A.E., Croatia, Moldova, New Zealand, Ireland, Lebanon, Albania, Lithuania, Mongolia, Jamaica, etc.

**Table 3. The 11 largest countries by population – more than 100 million inhabitants in 2008 (population, area, density, share of total world population, yearly population growth rate)**

Rank	Country	Population	Area (sq. km)	Density (pop./sq.km)	% of world population	Yearly population growth rate %
1	<b>China</b>	1,330,044,544	9,596,960	138.59	19.83	0.63
2	<b>India</b>	1,147,995,904	3,287,590	349.19	17.12	1.58
3	<b>U.S.A.</b>	303,824,640	9,826,630	30.92	4.53	0.88
4	<b>Indonesia</b>	237,512,352	1,919,440	123.74	3.54	1.18
5	<b>Brazil</b>	196,342,592	8,511,965	23.07	2.93	1.23
6	<b>Pakistan</b>	172,800,048	803,940	214.94	2.58	2.00
7	<b>Bangladesh</b>	153,546,896	144,000	1066.30	2.29	2.02
8	<b>Nigeria</b>	146,255,312	923,768	158.32	2.18	2.03
9	<b>Russia</b>	140,702,096	17,075,200	8.24	2.10	-0.47
10	<b>Japan</b>	127,288,416	377,835	336.89	1.90	-0.14
11	<b>Mexico</b>	109,955,400	1,972,550	55.74	1.64	1.14

Source: The World Factbook, 2007-2008, CIA



**Figure 2. The demographic size of the 11 largest countries**

The average **density** of the world population registered 48 inhabitants per sq. km in 2008, and the estimated value for 2008 is 49 inhabitants per sq. km. Population density vary from continent to continent or from state to state. Certain regions have a small population compared to their area, the causes being mainly climatic (cold or dry regions):

- population density of 1-2 inhabitants/ sq. km is specific to Australia, Libya, Mauritania, Botswana, Island;
- population density of 0.5-1 inhabitants/ sq. km is specific to Mongolia, Namibia;
- population density of 0.01 inhabitants/ sq. km characterizes Greenland.

High and very high population densities (table 4) are specific to:

- South Korea, Lebanon, Belgium, Japan, India, Israel, the U.K., Vietnam, Germany (200-500 inhabitants/ sq. km);
- Bangladesh, Taiwan (600-1,100 inhabitants/ sq. km);
- the islands Maldives, Malta, Bermuda and the countries Bahrain, Vatican (1,000-2,000 inhabitants/ sq. km);
- the territories Macao, Monaco, Singapore and Hong Kong have extremely high population densities (between 6,000 and 20,000 inhabitants/ sq. km) because they are small areas, entirely urbanized and economically dynamic.

**Table 4. The largest countries/ territories by population density (2008)**

<i>Countries with more than 5,000 sq. km</i>				
<i>Rank</i>	<i>Country</i>	<i>Density (pop./sq.km)</i>	<i>Population</i>	<i>Area (sq. km)</i>
1	Bangladesh	1,066	153,546,896	144,000
2	Taiwan	637	22,920,946	35,980
3	South Korea	491	48,379,392	98,480
4	Netherlands	401	16,645,313	41,526
5	Rwanda	387	10,186,063	26,338
6	Lebanon	382	3,971,341	10,400
7	India	349	1,147,995,904	3,287,590
8	Israel	342	7,112,359	20,770
9	Belgium	341	10,403,951	30,528
10	Japan	337	127,288,416	377,835
<i>Countries/ territories with small areas</i>				
<i>Rank</i>	<i>Country</i>	<i>Density (pop./sq.km)</i>	<i>Population</i>	<i>Area (sq. km)</i>
1	Macao	19,350	545,674	28.20
2	Monaco	16,818	32,796	1.95
3	Singapore	6,652	4,608,167	692.70
4	Hong Kong	6,427	7,018,636	1092.00
5	Gibraltar	4,308	28,002	6.50
6	Vatican	1,873	824	0.44
7	Maldives	1,286	385,925	300.00
8	Malta	1,277	403,532	316.00
9	Bermuda	1,248	66,536	53.30
10	Bahrain	1,080	718,306	665.00

*Source: The World Factbook 2007-2008, CIA*

### 3. POPULATION VITAL STATISTICS

The population number of a country or region is the result of two dynamic components: the vital statistics (the time evolution of births and deaths) and the migration. Births and immigrations increase the population number, while deaths and emigrations decline it. The most important demographic indicators in vital statistics are: birth rate, total fertility rate, death rate, infant mortality rate, natural increase, and life expectancy at birth.

The **birth rate** represents the birth frequency within a certain population. The birth rate is calculated as the ratio between total live births and 1,000 population ( $\text{‰}$ ). Birth rate values vary depending on different factors as: the general level of economic development, the standard of living, the demographic policies, the woman statute in society, the religion and the general psychological climate.

The world average birth rate records  $20\text{‰}$  at present. Birth rate varies by continent, between the developed and least developed regions. Africa shows the highest birth rate of  $38\text{‰}$ ,

followed by Asia and Latin America with 25 ‰. Europe has the lowest birth rate of 11 ‰ (even 10.25 ‰ for the European Union).

The highest birth rates (40-50 ‰) are recorded in the least developed countries of Africa and South-West Asia: Niger, Mali, Uganda, Afghanistan, Sierra Leone, Burkina Faso, Somalia, Angola, Ethiopia, D.R. Congo, Liberia, Yemen. The lowest birth rates (7-10 ‰) are specific to the more developed countries: most European countries (Germany, Italy, Austria, the Czech Republic, Slovenia, Ukraine, Hungary, Switzerland, etc.), and Hong Kong, Japan, Taiwan, South Korea, also (table 5).

**Table 5. The extreme values of birth rate (2008)**

<i>Maximum values of birth rate</i>			<i>Minimum values of birth rate</i>		
<i>Rank</i>	<i>Country</i>	<i>Birth rate (‰)</i>	<i>Rank</i>	<i>Country</i>	<i>Birth rate (‰)</i>
1	Niger	49.62	1	Hong Kong	7.37
2	Mali	49.38	2	Japan	7.87
3	Uganda	48.15	3	Germany	8.18
4	Afghanistan	45.82	4	Italia	8.36
5	Sierra Leone	48.08	5	Austria	8.66
6	Burkina Faso	44.68	6	Macao	8.69
7	Somalia	44.12	7	Bosnia-Herzegovina	8.82
8	Angola	44.09	8	Czech Republic	8.89
9	Ethiopia	43.97	9	Singapore	8.99
10	D.R. Congo	43.00	10	Taiwan	8.99

*Source: The World Factbook 2007-2008, CIA*

**Fertility** refers to that part of female population that participates directly in the reproduction process (aged 15-49 years). The world average fertility is 2.6 children per woman, but that are significant differences between the more developed and least developed countries (table 6).

**Table 6. The extreme values of fertility (2008)**

<i>Maximum values of fertility</i>			<i>Minimum values of fertility</i>		
<i>Rank</i>	<i>Country</i>	<i>Fertility (children/woman)</i>	<i>Rank</i>	<i>Country</i>	<i>Fertility (children/woman)</i>
1	Mali	7.34	1	Macao	0.90
2	Niger	7.29	2	Hong Kong	1.00
3	Uganda	6.81	3	Singapore	1.08
4	Somalia	6.60	4	Taiwan	1.13
5	Afghanistan	6.58	5	South Korea	1.20
6	Yemen	6.41	6	Japan	1.22
7	Burundi	6.40	7	Lithuania	1.22
8	Burkina Faso	6.34	8	Czech Republic	1.23
9	D.R. Congo	6.28	9	Belarus	1.23
10	Angola	6.20	10	Bosnia-Herzegovina	1.24

*Source: The World Factbook 2007-2008, CIA*

Fertility is high (5-7 children per woman) in the least developed countries (Africa, South and South-West Asia), and the reasons are the African woman statute in society (low level of education) or religion (in Muslim countries). The more developed countries show a fertility of 1.5 children per woman; for example, the average fertility of 1.5 children per woman in the European Union does not ensure the replacement of generations.

The **death rate** represents total deaths within a population. The death rate is calculated as the ratio between total deaths and 1,000 population (‰). The death rate has different values as it is influenced by many factors, among which the socio-economic ones are the most important: the general level of economic development, the medical system, the general level of education, the population structure by age and gender.

The world average death rate is 8.23 ‰, and varies from 2-3 ‰ in U.A.E., Kuwait, Qatar and 20-24 ‰ in the poorest African countries Angola, Lesotho, Sierra Leone (maximum 30 ‰ in Swaziland) - table 7.

**Table 7. The extreme values of death rate (2008)**

<i>Maximum values of death rate</i>			<i>Minimum values of death rate</i>		
<i>Rank</i>	<i>Country</i>	<i>Death rate (‰)</i>	<i>Rank</i>	<i>Country</i>	<i>Death rate (‰)</i>
1	Swaziland	30.70	1	U.A.E.	2.13
2	Angola	24.44	2	Kuwait	2.37
3	Lesotho	22.33	3	Qatar	2.47
4	Sierra Leone	22.26	4	Saudi Arabia	2.49
5	Liberia	21.45	5	Jordan	2.72
6	Zambia	21.35	6	Brunei	3.28
7	Mozambique	20.29	7	Macao	3.43
8	Niger	20.26	8	Libya	3.46
9	Afghanistan	19.56	9	Maldives	3.66
10	Djibouti	19.16	10	Oman	3.68

*Source: The World Factbook 2007-2008, CIA*

The different death rates in the world do not necessarily reflect the differences between the more developed and least developed countries. Africa records the highest death rate of 14 ‰ (with lower values in the north and south of the continent); America has a low general death rate (7.5 ‰). Asia has a average death rate of 8.4 ‰, with moderate values in East Asia (China 7.03 ‰, Japan 9.26 ‰) and lower values in South and South-West Asia (India 6.4 ‰, Bangladesh 8 ‰, Israel 5.41 ‰, Saudi Arabia 2.49 ‰). Europe, with a death rate of 10-11 ‰ (10.39 ‰ for the European Union) exceeds the world average value due to its ageing population.

A higher male death rate characterizes the developed countries, while a higher female death rate is specific to the Muslim and African countries with traditional agricultural civilizations.

The **infant mortality rate** represents the infant deaths (younger than one year) per 1,000 live births. This demographic indicator has declined continuously due to medicine and hygiene progress, but there are significant differences between the more developed and the least developed countries. The world average infant mortality rate is 42 ‰ (45 ‰ for males and 39 ‰ for females).

**Table 8. The extreme values of infant mortality rate (2008)**

<i>Maximum values of infant mortality rate</i>			<i>Minimum values of infant mortality rate</i>		
<i>Rank</i>	<i>Country</i>	<i>Infant mortality rate (‰)</i>	<i>Rank</i>	<i>Country</i>	<i>Infant mortality rate (‰)</i>
1	Angola	182.31	1	Singapore	2.30
2	Sierra Leone	156.48	2	Sweden	2.72
3	Afghanistan	154.67	3	Japan	2.80
4	Liberia	143.89	4	Hong Kong	2.93
5	Nigeria	115.42	5	Macao	3.23
6	Somalia	110.97	6	Island	3.25
7	Mozambique	107.84	7	France	3.36
8	Mali	103.83	8	Finland	3.50
9	Guinea-Bissau	101.64	9	Norway	3.61
10	Zambia	100.96	10	Andorra	3.68

*Source: The World Factbook 2007-2008, CIA*

The minimum infant mortality rate is 2.3 ‰ in Singapore, and the maximum value is 182.31 ‰ in Angola (table 8). The infant mortality rate in the European Union was 6.38 ‰ (7.23 ‰ male and 5.49 ‰ female) in 2008.

The **natural increase** represents the difference between the birth rate and the death rate and may be:



- positive, when the birth rate is higher than the death rate and population grows (natural population growth);
- negative, when the birth rate is lower than the death rate and population decreases (natural deficit or natural decline);
- 0, when the birth rate and the death rate are almost equal and the number of population remains unchanged (from the vital statistics point of view).

The world natural increase is 11.95 ‰, and the population growth rate is 1.18 % in 2008 (a small decline compared to the period 2000-2005). According to the yearly population growth rate, one may separate 5 stages of demographic evolution (after Erdeli, 2001; The World Factbook 2007-2008, CIA):

1) *Relative stagnation or depopulation* – when the yearly population growth rate is negative or equals 0. Many European countries face this situation: Montenegro (-0.93 %), Bulgaria (-0.81 %), Ukraine (-0.65 %), Estonia (-0.63 %), Latvia (-0.63 %), Belarus (-0.39 %), Lithuania (-0.28 %), Hungary (-0.25 %), Romania (-0.14 %), Moldova (-0.09 %), the Czech Republic (-0.08 %), Poland (-0.05 %), Croatia (-0.04 %), Germany (-0.04 %), Italia (-0.02 %); add Trinidad-Tobago (-0.89 %), Russia (-0.47 %), Swaziland (-0.41 %), Georgia (-0.33 %), Japan (-0.14 %), Micronesia (-0.19 %), Armenia (-0.08 %),.

2) *Slow demographic growth* – when the yearly population growth is between 0.1 % and 1 %: Canada, S.U.A., China (where fertility is controlled), Hong Kong, Taiwan, Thailand, Iran, Island, Norway, Sweden, Netherlands, the U.K., Greece, Cyprus, Cuba, Ecuador, Chile, Namibia, New Zealand, etc.

3) *Advanced demographic transition* – when the yearly population growth is between 1.1 % and 2 %: India, Indonesia, Mongolia, Singapore, Malaysia, Philippines, Turkey, Lebanon, Israel, Saudi Arabia, Bahrain, Mexico, Brazil, Argentina, Columbia, Peru, Costa Rica, Egypt, Algeria, Morocco, Botswana, Ghana, Mozambique, Australia, Ireland, Luxemburg.

4) *Late demographic transition* – is specific to many African countries (Angola, Kenya, Somalia, Tanzania, Niger, Nigeria, Libya, Mali, Malawi, Mauritania, Gambia, Guinea, Guinea-Bissau, etc.), some Muslim countries (Afghanistan, Pakistan, Iraq, Jordan) and some countries from Latin America, where the yearly population growth is between 2 % and 3 %.

5) *Explosive growth* – the yearly population growth exceeds 3 %, specific to some African countries (Ethiopia, D.R. Congo, Liberia, Uganda, Madagascar, Benin, Burundi) and some countries in the Middle East (Yemen, Kuwait, Oman, U.A.E.).

**Life expectancy at birth** or the average duration of life is another important demographic indicator. Its world average value is 66.12 years, or in other words, an inhabitant of the planet generally lives about 66 years. Life expectancy at birth is higher for the females (68 years) compared to the males (64 years), the explanation being the same as in the case of death rate.

The values of this indicator vary significantly worldwide (table 9), especially between the more and least developed regions. According to life expectancy at birth, one may classify the countries into three categories:

- the more developed countries with a life expectancy at birth higher than 80 years: Japan, Hong Kong, Australia, Canada, France, Sweden, Switzerland, etc.;
- the developed or less developed countries with a life expectancy at birth of 60-80 years: most countries of the world, including most European Union's members (with an average of 77.32 years, among which Romania with 72.18 years);
- the least developed countries with a life expectancy at birth lower than 50-60 years and minimum values of 40-50 years, even below 40 years): 43 countries, most African countries (Swaziland, Angola, Zambia, Lesotho, Sierra Leone, Mozambique, Liberia, etc.) and some Muslim countries (Afghanistan).

The economic and medical progress led to a higher standard of living, some disease eradication and consequently to the increase of life expectancy at birth during the last century. In the least developed countries, there are complex causes of the low life expectancy at birth: poverty, hunger, drought or other natural hazards, military and civil conflicts, poor medical system (including the impact of HIV/AIDS).

**Table 9. The extreme values of life expectancy at birth (2008)**

<i>Highest life expectancy at birth</i>		<i>Lowest life expectancy at birth</i>	
<i>Country</i>	<i>Life expectancy at birth (years)</i>	<i>Country</i>	<i>Life expectancy at birth (years)</i>
Macao	84.33	Swaziland	31.99
Andorra	82.67	Angola	37.92
Japan	82.07	Zambia	38.59
Singapore	81.89	Lesotho	40.17
San Marino	81.88	Sierra Leone	40.93
Hong Kong	81.77	Mozambique	41.04
Australia	81.53	Liberia	41.13
Canada	81.16	Djibouti	43.31
France	80.87	Malawi	43.45
Sweden	80.74	Afghanistan	44.21
Switzerland	80.74	Central African Rep.	44.22
Israel	80.61	Zimbabwe	44.28
Island	80.55	Niger	44.28
New Zealand	80.84	Nigeria	46.53
Italy	80.07	Chad	47.43

Source: *The World Factbook 2007-2008*, CIA

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## ROMANIA'S TRADE POLICY IN INTERNATIONAL ORGANIZATIONS WITH UNIVERSAL VOCATION

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***Abstract:** Through this paper we try, in a comprehensive and systemic approach, to bring into question the theoretical basis of contemporary trade policy. We take into account firstly the development and the implementation of some coherent policies for the development of Romania's external trade in the integration period into the European Union, after the accession, and secondly - the processes of Romania's external trade policy reform, in the context of trade policy multilateral negotiations in the interior of the World Trade Organization and of the United Nations Conference on Trade and Development. Implementation of these policies stimulates European integration, which ensures competitiveness increase, now a powerful economic force in the context of transition from a developing country to a developed country such as the European countries. Differences between national policies regarding foreign trade, which promotes export efficiency by implementing advanced technologies, advances in quality standards, cost reduction, are considered important in the ability of firms to compete at regional and global levels. The world states are wearers of specific national interests, fact which highlights in the promotion of certain economic policies on internal level and in relations with external partners. Such policies are adopted by each state independently and unilaterally, but the effect of these policies can be harmonized with the policies of other states.*

***Key words:** trade policy, advantages, obligations, World Trade Organization, United Nations Conference on Trade and Development.*

### INTRODUCTION

The multilateral trading system covers all commercial relations between member states of the United Nations, and trade relations between different economic groups of countries. In the broader sense of the word, in the multilateral trading system are included international economic relations of any kind, as well as the entire arsenal of trade, financial, banking, insurance, transport organizations etc., with international character, established within the UN or outside this organization, which contributes to the promotion of international trade.

The main international organizations that constitute the institutional structure of the international trading system are: the General Agreement on Tariffs and Trade, United Nations Conference on Trade and Development, regional economic groupings, the International Monetary Fund, International Bank for Reconstruction and Development, European Bank for Reconstruction and Development.

The trend towards multilateral system is determined by the evolution of deeper international economic processes, of interdependences in the production and circulation of goods within the international division of labor, and under the impact of scientific and technical progress. In these circumstances, trade policies promoted by various states acquire forms, sizes and new values.

The using of the multilateral trade policy negotiations frame, presents particular importance, especially for small and medium-sized countries, which in this context, have the possibility to find many allies to promote their specific economic interests.

### **ROMANIA'S PARTICIPATION IN THE ACTIVITY OF THE WORLD TRADE ORGANIZATION**

Romania participated in the activity of both the GATT<sup>20</sup>/WTO<sup>21</sup> and UNCTAD<sup>22</sup>. Romania has expressed interest in the work of GATT many years ago, attending as an observer to the GATT since 1957, at the invitation of the GATT Secretariat. From July 1966 was established a link between the technical center of GATT International Trade Center and the Chamber of Commerce and Industry of Romania. In July 1968, Romania sent the official application to join the GATT as a member with full rights. In November 1968, the GATT Council of Representatives considered the request of Romania, and decided to create a group that has negotiated with our country the conditions for the membership. In October 1971, the GATT Council of Representatives unanimously adopted the report of the working group and agreed the protocol of accession. According to usual practice of the GATT, the Protocol of Accession of Romania has undergone vote of the contracting parties by correspondence and adopted. This Protocol was signed by Romania (15 October 1971) and thus our country has become a full member of GATT.

Being a member with full rights of GATT, Romania began to receive some benefits, with positive implications on our commercial exchanges. Among these *advantages* we mention:

- ✓ Achieved through multilateral way the “most-favored nation clause” from the member countries (except U.S., which gives this clause only bilaterally and from whom obtained it in 1975), thus benefiting from the tariff concessions negotiated under the GATT, concessions that can not be withdrawn unilaterally by the Contracting Parties;

- ✓ Have been gradually eliminated discriminatory quantitative restrictions on export of Romanian products in member countries;

- ✓ Was entitled to invoke the stipulations of GATT and use the mechanism of bi and multilateral consultations from GATT to defend its commercial interests in the event that certain measures of commercial policy of partners in the GATT would bring prejudice;

- ✓ Could participate directly in all trade negotiations held under GATT;

- ✓ Has widened possibilities for information on actions of member countries in trade policy, which has enabled it to take appropriate action when appropriate to defend its interests, without prejudice GATT’s stipulations;

- ✓ As a developing country, had the opportunity to benefit from the special measures taken by Contracting Parties to this group of countries according to Part Four of the General Agreement on Tariffs and Trade.

In exchange for these benefits, in the Protocol has been entered a number of *obligations* which have returned to our country:

- ✓ To increase and to diversify imports of goods from member countries of GATT in the same rhythm which will increase the total imports;

- ✓ To comply with the General Agreement, to keep the partners in the GATT informed about the rules on foreign trade of our country, evolution of external trade, of the balance of

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<sup>20</sup> General Agreement on Tariffs and Trade

<sup>21</sup> World Trade Organization

<sup>22</sup> United Nations Conference on Trade and Development

trade and of payments and to contribute to the GATT, paying a contribution determined in proportionally to share that each country has in world trade.

Romania's accession to the GATT in 1971 was not conducted on the basis of tariff concessions, not having at the time a customs import tariff, which to be accepted as a tool of tariff negotiation at international level.

As a contracting party, Romania participated in the seventh round of multilateral trade negotiations (Tokyo Round, 1973-1979) and joined the vast majority of agreements and arrangements agreed in this round of negotiations.

The economic system existing at the time in our country did not allow Romania to sign and adhere to the Code on Subsidies and the Code on Government Procurement.

As a contribution to the Tokyo Round of negotiations, Romania has consolidated a list of tariff concessions for 167 items from the nomenclature of the Customs Cooperation Council. This has as objective the acceptance by the contracting parties of the Romanian customs tariff as an instrument of negotiation in the GATT.

Since 1986, Romania participated in the Uruguay Round (launched on September 19, 1986 by the Ministerial Declaration of Punta del Este).

Using at maximum the agreed facilities for developing countries, Romania has achieved the following results in the Uruguay Round (materialized in commitments to the WTO):

☞ In industrial products area, of the customs duties at levels up to 35% (with some exceptions that exceed this level);

☞ In agricultural products area, 100% duty consolidation, customs duty levels between 6% and 375%, with a commitment of reduction in average, with 24% of customs duties over a period of 10 years.

On the multilateral plane, Romania has sought to use to maximum the benefits of participation, as a member of World Trade Organization in multilateral trade negotiations triggered by the fourth Ministerial Conference in Doha (Qatar), from 9-14 November 2001. They materialized in negotiations on the reduction of import duties for industrial products, obtaining opening markets for services to which Romanian producers have comparative advantages on third markets, incentives for providers of medicines, particularly for the generic ones, ranking the interpretation multilateral trade rules, etc..

Given the main areas of multilateral trade negotiations, triggered by the development program adopted at the WTO Ministerial Conference at Doha, as well as the need to permanent adjust and flexible adapt of Romania position in the multilateral framework, with the European Union one, have been identified the following eight priorities for action at the multilateral level:

- ***Market access for industrial products***

Romania will be able to negotiate the reduction of import duties for industrial products, taking into account the interests of domestic industry sectors, on the loss of invoking some stipulations regarding flexibility given to the developing countries. For our country is very important that negotiations start from the consolidated duties under the Uruguay Round, which only led to a balance of concessions.

- ***Trade with services***

In this area particularly important for developing the national economy, Romania has negotiated commitments for liberalization of its domestic market in exchange for obtaining some new openings of new markets for Romanian producers and service that have comparative advantages. On trade with services area, under the guidelines agreed on 30 June 2002, has circulated requests for proposals, and until 31 March 2003 initial offers have moved, Romania received several requests from the U.S., Canada, Japan, Switzerland, Norway, Egypt, India.

- ***Agriculture***

Romania has sought in these negotiations to maintain the benefits achieved in the Uruguay Round, the continuation of national programs to support domestic producers and export promotion, while reducing by the main user state of export subventions and domestic support measures with distorted character. Our country could initiate and introduce measures, in line with those used by the European Union, responding to non commercial concerns related to trade reform in agricultural products to support development and preserve its national interests in agriculture.

- ***Agreement on Trade-Related Aspects of Intellectual Property Rights***

Romania was one of supporters of launching by the Ministerial Declaration at Doha, of negotiations for the establishment of a multilateral register of geographical indications. This item has considered the current concerns of improving methods of knowledge of various protected rights, especially those related to the names and origins of products important to international trade. Romania has sought to benefit from facilities that are granted to suppliers of medicines, particularly for the generic ones.

Ministerial Declaration on intellectual property and access to drugs was a compromise accepted for resolving issues of how Member States, particularly developing and less advanced ones, can take measures to prevent and combat the major problems of public health (AIDS, tuberculosis, malaria). The solution found takes into account concerns of developing countries to have increased access to generic drugs in favorable financial terms, but also those of developed countries to protect and preserve the intellectual property rights of companies producing medicines.

- ***Multilateral trade rules***

Romania was one of promoters of finishing by 1 January 2005 negotiations on clarifying the rules of multilateral trade (for regional agreements, anti-dumping measures, subsidies and countervailing measures).

It was started from the grounds that these explanations may contribute directly, on the one hand, to facilitate the promotion of regional relations, as a complement to multilateral relations, and on the other hand, can facilitate better access of Romanian products on the partner markets. In terms of regional agreements, our country supports also, that the results of negotiations in this area to be applied only to agreements which will be completed in the future, not to those who were concluded before the Ministerial Conference in Doha.

Clarify and improve rules on anti-dumping measures and subsidies and countervailing measures would contribute to ensuring a more equitable treatment of producers, especially in developing countries, provided objective, otherwise in the Ministerial Declaration at Doha.

- ***"Singapore Area "***

Romania has sought to introduce clear, transparent and predictable rules to make possible create prerequisites for attracting foreign investors, ensuring fair competition on the market, use more correct and effective use of financial resources for public acquisitions and streamline customs proxies.

This was expected to achieve in the negotiations for "Singapore Areas" (name so because appears in the WTO Ministerial Declaration at Singapore - 1996), which concerns the link between trade and investment, trade and competition, transparency in public acquisitions and trade facilitation. In these areas, the actual negotiations were set to be launched at conference in Cancun (Mexico), following that up, then to clarify the substance and modalities of negotiation for each of these areas. But it wasn't reached an agreement in this regard.

- ***Trade and environment***

Romania has sought to clarify issues such as the effects of measures taken on environmental grounds on market access, application of relevant provisions of the TRIPS Agreement as well as the field of labeling for environmental protection, and therefore the possibility to ensure equitable access of Romanian products on third markets.

Until 1 January 2005 had to complete negotiations to clarify the relationship between WTO rules and trade obligations in multilateral environmental agreements, establishing procedures for the exchange of information, reducing or eliminating customs duties and tariff barriers for goods and services with impact on environment. This deadline couldn't be respected meet.

- ***The correlation of the multilateral plan with the Community acquis***

Given the overlap of multilateral negotiations with the EU accession ones, it was necessary to have a permanent correlation, and flexible adaptation of the positions of our country in the multilateral framework, with the European Union ones, to ensure full compliance and compatibility of commitments assumed by Romania in the WTO with the community acquis.

*At the Ministerial Conference in Hong - Kong (2005)*, Romania supported the continued liberalization of world trade by a set of measures to ensure a balance between the efforts of all participants and general economic benefits.

Meanwhile, Romania supports the adoption of a significant package of measures focusing on the poorest countries in terms of access to export products of these countries on other markets without customs duties and quantitative restrictions, and also in what concerns the increasing of the technical assistance, given by the industrialized countries and international institutions for strengthen their trade infrastructure.

Romania, which at that time, still advocate from the position of a developing country, harmonized its position with the European Union one. It must be noted that the European Union claimed that the needs of the poorest countries are important. The European Union has proposed a complete development package for talks in Hong Kong, which should include more assistance in the field of trade, greater flexibility regarding the poorer countries, which should ensure that all developed countries provide free access of customs duties and quantitative restrictions to products of the least developed countries (as does the European Union).

Other major issues were left for further negotiation to be completed by the end of 2006. The July 2006 talks in Geneva failed to reach an agreement about reducing farming subsidies and lowering import taxes, and continuation of the negotiations will take months to resume.

In June 2007, negotiations within the Doha round broke down at a conference in [Potsdam](#), as a major impasse occurred between the US, the EU, India and Brazil. The main disagreement was over opening up agricultural and industrial markets in various countries and also how to cut rich nation farm subsidies.

## **ROMANIA'S PARTICIPATION IN THE ACTIVITY OF THE UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT**

*The eleven sessions of UNCTAD* have entered into the wider frame of actions taken by the UN in the five decades of development, in which the fundamental problem was to find means by which developed countries from the economic point of view, to support developing countries to boost their economic growth and decrease the gap that separates the two groups of countries.

A very large number of countries participating in UNCTAD meetings attest the interest of the international community towards the economic development problems, in general, and the development of "third world", especially towards the problems of world trade and international economic cooperation.

Romania participated since the *first session of UNCTAD* (Geneva, 1964), proposing, regarding international trade with manufactured products, that one of the methods designed to contribute to the development and diversification of industrial production in developing countries to be the supplies of industrial equipment on credit, repayable by rate of production obtained in the industrial objectives built with these equipments or other goods agreed.

In September 1978 took place in Buenos-Aires, United Nations Conference on technical cooperation between developing countries involving delegates from 145 countries, including Romania. This conference approved by consensus the "Plan of Action from Buenos-Aires", which expresses on the one hand, the position of developing countries face to issues of cooperation between them, and on the other hand, the view of participants on how must be understood and applied in practice, the technical cooperation with developed countries. The adopted document provided an active participation of the industrialized countries to the development program of the "third world", as well as special measures in favor of less advanced countries

Problems of economic cooperation between developing countries had the attention of those countries also at the Ministerial Meeting of the "Group of 77" from Buenos-Aires, and also at the *VI session of UNCTAD* in Belgrade. Romania supported requirements of the "Group of 77", stating in the favor of initiation of constructive activities to which to take part and all developed countries which to come effectively in support of developing countries less advanced countries.

Our country participated in the *seventh session of UNCTAD* (Geneva, 1987) and the eighth session of UNCTAD (Cartagena, Colombia, 1992), the delegation of Romania, acting in accordance with the interests of our country in transition towards market economy, and in the same time as developing country. It participated directly in the two groups drafting the final document of the Conference and in the restraint group for defining UNCTAD institutional reform. Romania's proposals have been reflected in the documents adopted.

At the *ninth session of UNCTAD* (Midrand, South Africa, 1996), Romania participated, as above, with the status of a developing country (and as EU associated). Romania's contribution to this session was assessed as positive and constructive.

Firstly, the delegation of Romania informed the Conference participants on progress registered on the transition towards market economy, focusing on macroeconomic stability and prospects of development of the Romanian economy.

Secondly, the delegation of Romania called for improving UNCTAD efficiency and pragmatism and for its increasing involvement in supporting economic reform in transitional countries for to strengthen its technical assistance activities on trade and development area of these countries, from which to benefit also Romania.

Thirdly, our delegation has worked closely with representatives of Western countries, and mainly with the European Union ones, but also worked closely with the other countries in transition, as well as with the "Group of 77". In the framework of this cooperation, the delegation of Romania emphasized the role of UNCTAD in achieving consensus on strategies and policies necessary for sustainable development worldwide.

At the *tenth session of UNCTAD* (Bangkok, Thailand, 2000), the head of our delegation outlined the following action in the organization next stage:

- ✓ UNCTAD should militate to ensure the optimal allocation of resources, and directing attention to areas that have a real comparative advantage relative to other organizations;
- ✓ Along with its analysis and deliberations activities, UNCTAD should intensify its technical assistance activity in favor of developing countries and of those in transition towards market economy;



✓ UNCTAD should deepen the integration between the activities of analysis and its deliberations on the one hand, and technical assistance activities on the other hand, in order to achieve complementarity and to avoid duplication of activities and the competition between different organizations;

✓ UNCTAD should intensify its efforts to attract civil society and private sector to organization life, which would strengthen the impact of its activities.

Romania, as a country in transition, in the process of accession to the European Union, participated and acted under the Eleventh Session of UNCTAD (São Paulo, 2004) in close cooperation with EU, aiming the strengthening the link between national and international efforts to promote economic growth and sustainable development.

Given the continuous increase of economic interdependences between nations Romania supported the "Consensus of Sao Paulo" between members of UNCTAD regarding the implementation of those development strategies that maximize the benefits of globalization and minimize the risks that the process involves.

As a developing country, Romania, up to the EU accession, has received worldwide an important number of facilities. Thus, Romanian products obtained on various markets a series of reductions or exemptions from customs duty, by virtue of customs preferences which operates in the world, to which participated until January 2007:

☞ Generalized System of Customs Preferences (SOF), under which developed countries have given Romania reductions or exemptions from customs duties on imports of certain products originating in Romania. Developed countries that have unilaterally granted preferences Romania were also: USA, Canada, Austria, New Zealand, Japan and the Russian Federation;

☞ Global System of trade preferences among developing countries (SGPC), negotiated under the auspices of UNCTAD, under which Romania give was granted a series of tariff concessions for products that are the objective of trade between certain developing countries;

☞ The "Protocol of the 16", negotiated under the WTO, with the objective of granting custom preferences in the trade between the developing states of this preferential system.

## CONCLUSIONS

In the past 10 years, the process of examination of the Romanian trade policy proved that Romania entirely respected the engagements assumed toward the World Trade Organization.

Presently, Romania remains an active member of World Trade Organization. Since the last trade policy review, Romania's delegation participated actively to the ministerial conferences from Doha, Cancun and Hong Kong.

Romania's firmly engagement toward the multilateral trade system was emphasized by the active role these played in coordinating the different commissions. Following the principle of an open economy, Romania always sustained the process of liberalization of the World Trade Organization.

Examination of national trade policies represents an extremely important activity in the frame of World Trade Organization. This is centered on the policy and economic and trade practices of each member in the areas covered by the multilateral agreements which constitutes the system of World Trade Organization rules and disciplines.

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## ECONOMIC CRISIS, ITS PROSPECTS AND CHALLENGES FOR ECONOMIC THEORY

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***Abstract:** Actual crisis which originated from USA quickly spread throughout the world economy. Although at the beginning it was labeled as exclusively financial one, after its second wave (in 2008) everything became much clear. Finally we all became aware of its overwhelming influence on both financial and real spheres of national economies as well as global economic system. Being interested in what is obvious at the moment, in the first part of this paper we are going to describe (as much concisely as it's possible) reaction of economists to its emerging and further developing, focusing primary on short-term measures and policy responses to crisis. Second part of the paper is devoted to more fundamental questions of economic science: Was this crisis predictable? Which type of crisis it represents? Is the crisis itself capable of jeopardizing mainstream dominance?*

**Key words:** economic crisis, economic theory

### 1. INSTEAD OF ORDINARY INTRODUCTION

Like many times before, world economy happened to be somehow caught in a trap by events that represented first symptoms of global crisis. So, it took for a while that economists recognize crisis' potential. According to recent reports (UNCTAD, 2008), world economy notes a fall in growth of output since second half of 2007. In 2007 that rate was 3.8%, last year it was 2.5%, and prognosis say that for this year (even for those who are optimistic) more than 1.6% can not be expected. Judging by measures for easing and overcoming of the crisis, it seems to have the following key characteristics: first, the crisis has spread throughout financial, as well as the real sector (slowing down of industrial production, export and GDP), so it is impossible to be overcome without state intervention; second, taking into consideration its actual and potential consequences, the crisis will demand deeper, fundamental, structural changes; third, according to the prognosis and expectations, it will be most troubling for those economies that experienced excessive indebtedness and constantly present budget deficit.

### 2. WHAT TYPE OF CRISIS WE ARE FACING WITH?

In order to see implications of economic as well as political aspects of global crisis, it is necessary to answer the question concerning the kind of the crisis. Generally, there are three types of crisis (D Arcy, 2008). First, and least dangerous, is crisis caused by interaction of bad events such as external shocks (for example increase of prices in a world market) and imbalances on the level of national economies (when spending falls behind production). This leads to the decline of GDP and rise of unemployment. Strategy for a fight against such kind of crisis is different for each country: although expansive fiscal policy has been more often chosen, there is also a possibility to decide on so-called „not doing anything“, when an economy is left to the „mercy“ of the market mechanism.

Far more serious is the structural crisis in which a certain way of organizing production becomes out of date; in this situation fundamentally economic changes are necessary in order to return the economy to development path. Like it was in the period of Great Depression (1929-1933) when the concept of Keynesian restructuring has enabled going through structural crisis, and in period of stagflation (in the 1970's) when neo-liberal ideas did the same thing.

The biggest threat is represented by so-called systemic crisis in which an economy is facing with problems that have no solutions inside of an existing production system.

Current crisis is far from „ordinary“ crisis of the first type; having in mind the warnings from economists that the modern capitalism (which is built on a foundation of stimulating private spending) has become structurally unstable (Stanford, 2008), it seems that this kind of diagnostics implicate that we are dealing with a structural crisis. Will it grow to systemic one, depends strictly on inner options the system has at the disposal “for restructuring itself to restore profitability and growth” (D’Arcy, 2008).

In response to current financial crisis, developed countries started to apply bundle of measures focused on securing the liquidity. Besides, programmes supporting banks as well as other financial institutions have instantly been initiated. These are extremely complicated measures, and every country is free to choose the combination of measures appropriate for conditions it is facing with. Even though they can postpone or prevent the collapse of financial system, those measures give a small hope for achieving long-term, real recovery.

Given that this crisis has shown the limits of existing regulatory and supervision frameworks on national and world level, new rules and institutions (which would be directed to reducing of the systemic risk) are also necessary. This means that, apart from measures meant for resolving insolvency problems of financial institutions, some additional, reform steps should be undertaken. In that sense, one of the most important tasks is re-regulation of financial markets (Stiglitz, 2009) which at least partially will contribute to general economic stability. However, it will not be enough if fiscal part “of the story” is further neglected. Besides, nobody for sure can predict what consequences may produce this “concentration of financial capital via completing the integration of commercial and investment banking” (Panitch and Gindin, 2008).<sup>23</sup>

### **3. HOW THE CRISIS MAY AFFECT AN ECONOMY (CASE OF SERBIA)?**

What was Serbia’s reaction to the announcement of economic crisis? Obviously, it did not represent one exception from the rule – unexpectedly and with surprise it accepted the news about economic “quakes” around the world. The fact that the degree of our integration in European and international economic flows is still on unenviable level is treated as quite justified reason for not becoming worried. We were constantly persuaded by government representatives that, owing to the above-mentioned fact, Serbia has some sort of „protective belt“, so the crisis will pass right by us. Even if we assume that this kind of reactions were made in order not to cause a mass panic,<sup>24</sup> there may be another (and more appropriate) explanation: “local” economic analysts seem not to be well “equipped” (no matter whether theoretically or practically) for dealing with such problem.

Second, in conditions of global crisis, economic policy in Serbia is not exposed only to usual difficulties – continuation of market reforms, restructuring of economy, and attempts in achieving macroeconomic stability. It is well known how high of a price transitional economies have already paid in the form of transformational recession (while transferring from one

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<sup>23</sup> They warn that such solution for “bridging” the insolvencies of investment bankers is quite the opposite to the solution offered during the crisis of 1930’s.

<sup>24</sup> Cycles can be treated as a kind of epidemic, which is characterized by either optimistic or pessimistic expectations.

institutional arrangement to another). Reduction of global economic activity, rapid fall of investments, bankruptcy of firms around the world etc., can not pass by Serbia: quite the contrary – it is evident and certain that the world economic crisis will sharpen existing problems and create new ones.

And that is just one more pressure point which will question measures designed and proposed with the aim to soften (minimize) the consequences of crisis. For less developed countries like Serbia, following things are very important: foreign financing will be more difficult and much more expensive than so far;<sup>25</sup> exporting of goods and services will be sluggish because of contraction of world economy growth.

If we look at the “channels” that the world financial crisis is being transferred through, the banking sector seems to be protected from negative “overspills” (it was not involved in trading with risky securities, nor have the banks been exposed to contaminated *sub-prime* credits). Since the growth of Serbia’s key exporting markets is reducing, even with the share of export in GDP being relatively low (around 30%), this decreasing demand will certainly have an unfavourable influence on our economic activities.

The thing that is the most problematic for our economy is the fact that global contraction of credit activity is causing a standstill of capital inflows (loans and foreign investments), which will consequently lead to slowing down of growth rate.<sup>26</sup> From October 2008 to January 2009 industrial production was reduced for almost 25%, whereas the export fell on the half of previous level.<sup>27</sup> These are obvious and significant signs of crisis, which can not be neglected any longer. Besides, the EU is also affected by current crisis.<sup>28</sup> Keeping in mind that (with the exception of countries from Western Balkan) member states of the EU are at the same time most important trade partners and main investors for Serbia, through these two “channels” further deepening of crisis is more than a certain.

#### 4. HOW THE CRISIS MAY AFFECT ECONOMIC THEORY?

Every crisis encroaches on relations and structure of current order. The word crisis is implying that the breaking point (possibly a turning point or a major change) is about to appear in the development of certain event. In medicine a crisis is “questioning” the capability of organism to return to the state of normal functioning (with appropriate therapy). Metaphorically speaking, this can be applied to the example of any economy: above all, economic crisis is about good diagnostics of the problem, as well as testing of potential of one economy to “heal” itself, and challenging the experts in that area.

In the context of actual economic crisis the thesis that it simultaneously represents the signal for existence of crisis in economic theory and/or economic science in general has been revitalized. That is why the question of responsibility of economic science for that crisis is also more often mentioned. In that sense few different interpretations of responsibility can be distinguished.

Some consider that the dominant paradigm (neoclassical orthodoxy) as a starting point of economic policy should be blamed for existing crisis. Others are more inclined to idea of “dispersion of guilty” on economic science in general, since its predictability failed once again

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<sup>25</sup> Due to high risk-premium, financing of Eastern Europe is now the most expensive at the global market. (Global Financial Stability Report, 2008, p. 44).

<sup>26</sup> About consequences caused by capital inflows and outflows, i.e. about their influence on macroeconomic variables, see: Reinhart and Reinhart (2008).

<sup>27</sup> Even though it may look like an unpleasant incident in August last year, after few months it turned out to be a decreasing tendency after three years of stable growth.

<sup>28</sup> Some important data concerning budget deficit, unemployment rate, national debt and economic contraction for every member of the EU were published on February 2009 at: <http://www.nrc.nl/>

(in other words, it didn't manage to foresee the coming crisis). The third group of opinions claim that the responsibility of economic science can be checked indirectly – through testing the efficiency of proposed/applied measures meant for overcoming the crisis. Having in mind that economists have always been better in explaining the past than predicting the future, economic science seems to be (as usual) able to analyse the crisis and draw some conclusions from it.

It is true that proper conclusions can be valuable starting point in case of future crisis. But, what economists always forget is the following (and very important) fact: every new crisis is outstanding one; that is why economic science will certainly find itself “stunned” once again.<sup>29</sup>

Economic history has registered existence of economic crisis a long time ago, although they started to repeat periodically (on somehow recognizable way) during liberal capitalism (since then they have been known as crisis of hyper production). With the exception of Great Depression (dated from 1929 to 1933), the first half of the last century was characterized by “distorted” rhythm of crisis. That led to belief that capitalistic system, thanks to Keynes' measures of economic policy, finally got rid of any crisis (since that crisis suffered ultimate defeat). At the time Keynes was declared as the „saviour of capitalism“, and the economic science was proud of achieved consensus (personified in the sentence “we are all Keynesians“). In 1973 the energetic crisis, caused by “oil shock” was actually the first meaningful economic crisis after the Second World War. Since then, the Keynesian theory loses its impact, and its position was taken over by monetarist (neo-liberal) conception (Heilbroner and Milberg, 1997). Great opponents of state intervention (like Friedman) suggest measures of deregulation and re-privatization in the function of revitalizing economies. And actually, the mentioned measures have been successful in solving the stagflation as the most troubling problem of that time. However, exactly due to deregulation, it has been generated financial crisis in USA (in the middle of 2007), which then spread throughout the world.

Innovativeness of neo-liberalism has culminated in creating so-called “shadow banking system” (Gupta, 2008). Since it has contained a lot of non-transparent, complicated instruments, involving different processes or aspects, it was difficult to be understood, let alone to be dealt with. That's why it evaded existing regulations with ease. On top of everything, the Federal Reserve did not make any constructive effort to prevent worsening of the situation. Therefore, by not interrupting illegal chain of activities, it was actually acting as an accomplice to the biggest financial crime in new history.

Officially, every country has taken *drastic economic measures* designed to lift the economy out of recession. As it was expected, they began on side of monetary policy – by pumping cash into the banking sector (Stanford, 2008). This was quite the opposite from Keynes' ideas.<sup>30</sup> What did they need? Speaking about the above-mentioned, re-regulation could be helpful – to prevent another similar crisis and to create safe and sound financial system.<sup>31</sup> It would probably (and just temporary) slow down creation of financial “novelties”, which are supposed to be “must have” in global race; from the other side, it would at least postpone if not prevent the next crisis.

Judging by Keynes' opinion – a fiscal policy could be more appropriate, but not any kind of such a policy. Proposed solutions directed to stimulate new cycle of investments *via* cutting of taxes were almost useless – most of them went to savings.<sup>32</sup> Great economists of our time completely agree that global crisis demands global solutions – like coordinated fiscal policy; at the same

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<sup>29</sup> “Economic theory learns nothing from economic history, and economic history is as much corrupted as enriched by economic theory.” (Solow, 1985, p. 328)

<sup>30</sup> Precisely, treating financial institutions as the means to an end, and not the end itself, he had not believed in efficiency of such type of measures during heavy crisis.

<sup>31</sup> However, it should not be reduced only to modestly strengthen regulations insisting exclusively on transparency without significant, substantial changes which can prevent any future crisis.

<sup>32</sup> Exactly the same happened in the USA and Great Britain when such an idea occurred to neo-liberals.

time, they are skeptical about “feasibility” of such a policy since change of the course from neo-liberalism to Keynesian-ism may not be revolutionary – i.e. those better prepared will not miss the opportunity to “use” the moment of crisis for their own purposes, which can be even more profitable for them than under market fundamentalism (Stiglitz, 2008; Krugman, 2009).

From the point of view of economic science, moment for questioning the dominant neoclassic paradigm has come.<sup>33</sup> Besides, actual crisis will probably reaffirm some of the unfairly repressed ideas. Therefore, in the conditions of exponentiation of economic regulations and managing which relies on changing rules of the “game”, we can expect comeback of Keynesian ideas as well as opening of additional “room” for conception of institutionalisms.

What is the key word and common denominator of most of the explanations concerning the crisis? The right answer is: greed. That is why we would like to emphasize that the main point does not refer to complete discredit of well known philosophy that markets are self-correcting (Krugman, 2009; Stiglitz, 2008). “Pure” market economy (in Adam Smith’s sense of the word) takes into account ethical considerations and is more inclined to right regulation than to deregulation. And what we nowadays practice is its distorted version, an “anarchic economy” (Lampe, 2008). In other words, a bundle of contradictions that arose and flourished within that system are more responsible for crisis than neo-liberal ideology itself (Panitch and Gindin, 2008).<sup>34</sup>

In confrontation of different theoretical concepts, the best prospects for victory has the one that succeeds to incorporate in its theoretical model the parameters that describe the real economic system (in other words, the one that has the best “communication” with the economic reality).

Why is it, in spite of the fact that the crisis are immanent in every economy, so hard for economic science to predict and eliminate them? Economic dynamic are consisted of two types of changes: a) cyclic (repeatable) and b) evolutionary ones (not repeatable). If the crisis can be characterized only by the cyclic kind of changes, it would be realistic to expect that economic science has learned something from previous experiences, so it can cope with them successfully. Far bigger “bite” is represented by evolutionary changes that make it impossible for economies to go back to the same position in which they were in the time of the previous cycle.<sup>35</sup>

Unfortunately, paradigms and economic theories that successfully prove their superiority, express the tendency towards conservation (i.e. they became somehow robust). On the other hand, real economic life is constantly changing, which broaden the gap between rigid theory and real economic system. Also, since the rules of the game are not questioned, they are not in accordance with economic practice.<sup>36</sup> In that way we can spot and follow the cycle of paradigm and/or theories shifting. Two biggest economic crises that have shaken the world during the last century were characterized by the following features: from all of the given *answers* to the *challenge* of those crises, accepted was the one that represented the best possible solution for that given situation.

Of course, as the time passed by, the “right answer” loses its pragmatism. That is why previously perspective theoretical concept is no longer capable to communicate with newly created changes in real economic system; this is an intro to new crisis.

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<sup>33</sup> For more details about unchangeable and exclusive nature of this paradigm see: Hodgson, 2000.

<sup>34</sup> Panitch and Gindin distinguished neo-liberalism as “ideology” (meant to divorce market and state) from neo-liberalism as “materially-driven form of social rule”. Role of ideological component is now undermined; however, as a social rule calling for more regulation, it can be more dangerous.

<sup>35</sup> According to the principle of pedomorphosis (which has been known in biology), «evolution may, as it were, retrace its steps, to make a new start from an earlier point» (Hodgson, 2001, p. 345). This principle can be applicable to different «evolutions», even in economic science.

<sup>36</sup> Keeping in mind all of the complexness, dynamic and stochastic nature of economic system it is obvious that market “game” can not count on stable and long term rules.

## 5. CONCLUDING REMARKS

Concerning short-term policy responses, it seems that economists almost exhausted ideas they have at the disposal. Also, they explained and described in details rise, developing and culmination of the crisis. Yes, they noticed one by one almost every symptom which emerged in the meantime. They realized that we have many sick “persons” (number of which has been increasing), suffering from common as well as diverse “pains” at the same time. Surely, they were aware of the possibility that “illness” was becoming epidemic by nature and huge by its dimension.

What they did not do? They certainly cured the above-mentioned symptoms in the order of appearance, being no capable either to determine what really was wrong or how to make right diagnosis and prescribe the remedy. Although pointing at many imperfections of capitalist system in general, their critiques were not that constructive. Precisely, they offered *neither vision* of alternative system *nor strategy* how that more egalitarian (yet imaginary) system can be established.

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## THE MONEY LAUNDERING PROCESS

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***Abstract:** Money laundering happens in almost every country in the world, and a single scheme typically involves transferring money through several countries in order to obscure its origins. Money laundering typically involves transferring money through several countries in order to obscure its origins.*

***Key words:** money laundering, tax evasion, underground economy, illegal economy*

### 1. MONEY LAUNDERING BASICS

Money laundering, at its simplest, is the act of making money that comes from Source A look like it comes from Source B. In practice, criminals are trying to disguise the origins of money obtained through illegal activities so it looks like it was obtained from legal sources. Otherwise, they can't use the money because it would connect them to the criminal activity, and law-enforcement officials would seize it.

The most common types of criminals who need to launder money are drug traffickers, embezzlers, corrupt politicians and public officials, mobsters, terrorists and con artists. Drug traffickers are in serious need of good laundering systems because they deal almost exclusively in cash, which causes all sorts of logistics problems. Not only does cash draw the attention of law-enforcement officials, but it's also really heavy.

#### 1. 1. Brief History

Since necessity is the master of all inventions, man has devised a deceptive scheme to cover-up his wrong doings. In the early 17<sup>th</sup> century, the Catholic Church decreed against the imposition of usurious rates and considered it as a mortal sin compelling merchants and moneylenders to engage in a variety of practices that eventually become the precursors or models of modern techniques for hiding, moving and washing criminal money. The main objective was to make interests disappear or appear to be something other than what they were. <http://www.pctc.gov.ph/papers/moneylaundering.htm> - <sup>ftn4</sup> One way was to artificially inflate the exchange rates to compensate for the supposed interest, or imposed additional premiums for the business risks or as penalties for late payments.

Along the course of history, the evolution of money laundering activities could be traced to the era when pirates preyed on European traders crossing the Atlantic sea and thereafter seek financial havens in which they can luxuriously make use of the fruits of their criminal trade. They sought for financial havens where they could be welcomed to spend their money, particularly when time has come for them to retire. Mediterranean city-states competed to have the pirates as adopted residence of their domain. The pirates' money boosted their commerce and trade and provided additional income to their national coffer. In other instances, their loot was sometimes used to buy pardons to permit them to return home. By the year 1612, the world witnessed the first modern amnesty to criminal money when England offered pirates who abandoned their trade, both full pardon and the right to keep their proceeds. Three and a half

centuries later, the similar deals were requested by prominent drug barons from Latin America like Columbia, Mexico and Italy. <http://www.pctc.gov.ph/papers/moneylaundering.htm> - [ftn5](#)

Under the common law tradition of England, measures were already made anticipating our modern laws today. Freezing and confiscation were then imposed on criminally derived income. This was justified as necessary for deterring other subjects and as a good source of revenue for the Crown. Still, the idea of money laundering has not yet found its niche in the statutes.

It is only in 1920's <http://www.pctc.gov.ph/papers/moneylaundering.htm> - [ftn6](#) that the term money laundering emerged to have been coined in the United States, when street gangs sought a seemingly legitimate explanation for the origins of their racket money. They tried to find a way on how to hide their criminal money by venturing on car wash services, vending machines and laundry services. It is in this context that the term "money-laundering" may have been coined. Literally, the idea is to clean the "dirty money" and make it appear to have been sourced from a legitimate business.

The traditional focus was to go after the underlying offense generating the criminal money. The penalty of seizure was imposed only as a punishment for the underlying crime committed. Law enforcement and prosecution stop there and do not bother to pierce beyond the veil of the money laundering process. Today, the trend is to criminalize the act of laundering money and to make the act of laundering completely independent of the underlying offense. It started in the United States in 1986 and is progressing rapidly around the world, though recognition of this phenomenon has not yet touched the awareness of some sovereign states. One reason for delays and hesitations in some states in classifying money laundering as a crime is the difficulty in convincing and demonstrating the harmful and wide-ranging effects of this new criminal dimension.

## 1.2. Stages in the money laundering process

The basic money laundering process has three steps:

**1.2.1. Placement** - At this stage, the launderer inserts the dirty money into a legitimate financial institution. This is often in the form of cash bank deposits. This is the riskiest stage of the laundering process because large amounts of cash are pretty conspicuous, and banks are required to report high-value transactions.

The process of placement can be carried out through many processes including:

- *Currency Smuggling* – This is the physical illegal movement of currency and monetary instruments out of a country. The various methods of transport do not leave a discernible audit trail.
- *Bank Complicity* – This is when a financial institution, such as banks, is owned or controlled by unscrupulous individuals suspected of conniving with drug dealers and other organized crime groups. This makes the process easy for launderers. The complete liberalization of the financial sector without adequate checks also provides leeway for laundering.
- *Currency Exchanges* – In a number of transitional economies the liberalization of foreign exchange markets provides room for currency movements and as such laundering schemes can benefit from such policies.
- *Securities Brokers* – Brokers can facilitate the process of money laundering through structuring large deposits of cash in a way that disguises the original source of the funds.
- *Blending of Funds* – The best place to hide cash is with a lot of other cash. Therefore, financial institutions may be vehicles for laundering. The alternative is to use the money from illicit activities to set up front companies. This enables the funds from illicit activities to be obscured in legal transactions.

- *Asset Purchase* – The purchase of assets with cash is a classic money laundering method. The major purpose is to change the form of the proceeds from conspicuous bulk cash to some equally valuable but less conspicuous form.

**1.2.2. Layering** - Layering involves sending the money through various financial transactions to change its form and make it difficult to follow. Layering may consist of several bank-to-bank transfers, wire transfers between different accounts in different names in different countries, making deposits and withdrawals to continually vary the amount of money in the accounts, changing the money's currency, and purchasing high-value items (boats, houses, cars, and diamonds) to change the form of the money. This is the most complex step in any laundering scheme, and it's all about making the original dirty money as hard to trace as possible.

The known methods are:

- *Cash converted into Monetary Instruments* – Once the placement is successful within the financial system by way of a bank or financial institution, the proceeds can then be converted into monetary instruments. This involves the use of banker's drafts and money orders.
- *Material assets bought with cash then sold* – Assets that are bought through illicit funds can be resold locally or abroad and in such a case the assets become more difficult to trace and thus seize.

**1.2.3. Integration** - At the integration stage, the money re-enters the mainstream Economy in legitimate-looking form - it appears to come from a legal transaction. This may involve a final bank transfer into the account of a local business in which the launderer is "investing" in exchange for a cut of the profits, the sale of a yacht bought during the layering stage or the purchase of a \$10 million screwdriver from a company owned by the launderer. At this point, the criminal can use the money without getting caught. It's very difficult to catch a launderer during the integration stage if there is no documentation during the previous stages.

The known methods used are:

- *Property Dealing* – The sale of property to integrate laundered money back into the economy is a common practice amongst criminals. For instance, many criminal groups use shell companies to buy property; hence proceeds from the sale would be considered legitimate.
- *Front Companies and False Loans* – Front companies that are incorporated in countries with corporate secrecy laws, in which criminals lend themselves their own laundered proceeds in an apparently legitimate transaction.
- *Foreign Bank Complicity* – Money laundering using known foreign banks represents a higher order of sophistication and presents a very difficult target for law enforcement. The willing assistance of the foreign banks is frequently protected against law enforcement scrutiny. This is not only through criminals, but also by banking laws and regulations of other sovereign countries.
- *False Import/Export Invoices* – The use of false invoices by import/export companies has proven to be a very effective way of integrating illicit proceeds back into the economy. This involves the overvaluation of entry documents to justify the funds later deposited in domestic banks and/or the value of funds received from exports.

Money laundering is a crucial step in the success of drug trafficking and terrorist activities, not to mention white collar crime, and there are countless organizations trying to get a

handle on the problem. In the United States, the Department of Justice, the State Department, the Federal Bureau of Investigation, the Internal Revenue Service and the Drug Enforcement Agency all have divisions investigating money laundering and the underlying financial structures that make it work. State and local police also investigate cases that fall under their jurisdiction. Because global financial systems play a major role in most high-level laundering schemes, the international community is fighting money laundering through various means, including the Financial Action Task Force on Money Laundering (FATF), which as of 2005 has 33 member states and organizations. The United Nations, the World Bank and the International Monetary Fund also have anti-money-laundering divisions.

## **2. MONEY LAUNDERING AND TAX EVASION**

### **2.1. Money laundering as tax evasion**

**Tax avoidance** is the arrangement of one's legal affairs in such a way so as to minimize one's tax liability, within the law. By contrast **tax evasion** is the general term for efforts to not pay taxes by *illegal* means

This is a hotly debated topic relating to whether money-laundering laws do or even should relate to tax crimes. The issue here revolves around two main issues. The first of which is whether tax offences are a predicate crime within any particular jurisdiction. In many areas of the world, governments do not raise tax revenue through income tax; hence evasion of income tax cannot be a crime. This is exemplified by the island of Jersey. Secondly, a basic principle of international law is that one country cannot enforce the tax laws of another. The former is not applicable to the EU as all the governments of the EU do raise tax revenue through charging income tax. The latter does pose a problem, though the question of whether tax laws are a predicate offence for the purposes of money laundering laws is a question of the express position of the anti-money laundering laws, or the interpretation of those laws by the Court. In most countries, including the EU, that have 'all crimes' anti-money laundering laws, it is almost certain that tax crimes fall within the catchall provisions.

Tax offences fall on the border of what is and is not considered as laundering, this is owed to the fact that money a person lawfully receives cannot be laundered.

Tax evasion is an important problem for tax-evading funds are idle and non-productive. Their injection, however surreptitiously into the economy transforms them into a productive source of capital. However, with organized crime syndicates the matter and numbers are slightly different. They have to partake in money laundering, otherwise they would be questioned as to how they came by such vast sums of money and if they cannot prove it was legally obtained, then they risk imprisonment or at the very least a fine.

### **2.2. Tax evasion and the underground economy**

There is wide spread of definitions for underground economy, such as: shadow economy, informal economy, black economy, unregistered economy, hidden economy, clandestine economy etc... Underground economy can be defined shortly as, unrecorded and therefore uncontrolled activities by government officials. In other aspect underground economy is economic activities which cannot be predicted by the national accounts estimation techniques. (Derdiyok, 1993: s.54). In the concept of taxation, underground economy is the economic activities which have been kept secret from government by the motivation of tax evasion or tax avoidance.

There are three main schools of thought regarding the relationship between the formal and informal economies:

- **The dualists:** the informal economy is a separate marginal economy not directly linked to the formal economy, providing income or a safety net for the poor.
- **The structuralisms:** the informal economy is subordinated to the formal economy. In order to reduce costs, privileged capitalists seek to subordinate petty producers and traders.
- **The legalists:** informal work arrangements are a rational response by micro-entrepreneurs to over-regulation by government bureaucracies.

### 2.2.1. Relationship between Underground Economy and Illegal Economy

Illegal economic activities are the government-restricted activities which seen by society as harmful and immoral. Naturally, activities which are forbidden to run as registered economical activities are unregistered activities as well. Thus undergrounding of some economic activities with various reasons causes undergrounding of taxable resources.

Earned money from illegal economic activities is called “black money” and the legalization of this money represents money laundering.

### 2.2.2. Types of Underground Activities

Underground activities can be grouped into four main categories:

- Economic activity yielding income that is not reported to the tax authorities.
- Economic production that violates one or several other mandates, such as compulsory government licensing and rate making, inspection and label laws, labor laws, government regulations of agriculture, export and import controls, government control over money and banking, governmental control of energy production and distribution, and countless others. Violators may or may not evade taxes, but they all work illegally, hiding from swarms of government inspectors.
- Productive activity by transfer beneficiaries who draw Social Security benefits or receive public assistance. Their freedom to work is severely restricted.
- Productive activity by illegal aliens without residence status. They may pay income taxes and other taxes, but must remain underground for fear of deportation.

### 2.3. Consequences of tax evasion and the underground economy

The underground economy entails negative consequences on many levels.

- **The government sustains enormous revenue losses** that directly affect its debt level and jeopardize its capacity to provide services and fund programs that meet the needs of our ever-changing society.
- **Some people have to pay for others** - People who comply with the law shoulder a heavier tax burden than they should because they must compensate for others who participate in the underground economy.
- **Workers have no coverage under social programs** - Workers in the underground economy do not receive any of the benefits
- **Businesses face unfair competition** - Businesses that fulfill their tax obligations face unfair competition from those that do not.

### 3. MONEY LAUNDERING AND TAX HAVENS

Money laundering can occur anywhere in the world: however, criminals will generally seek out areas like offshore tax havens where there is a perceived low risk of detection due to weak and ineffective government legislation or find a 'friend' somewhere on the inside of a bank/financial institution who is willing to help them.

Offshore tax havens then were seen as the perfect place to launder ill-gotten gains. Apart from minimal controls, the popularity of tax havens rested on two things:

- ♦ Bank secrecy laws mean that *financial information requested from governments abroad was often rejected*. And on the occasions when information was forthcoming, tracking down a stolen money trail often ended up with little or no joy as investigators found that companies they were investigating had been set up and registered without revealing shareholders, directors or owners.
- ♦ Tax havens *don't normally tax interest on the bank accounts of non-residents* leaving the accountholders with the decision of whether or not to declare it to their own tax authorities.

Tax havens come in many shapes and forms and they are found all over the world. It might be surprising that that U K is responsible for several dependent states which operate offshore banking centers. Apart from Guernsey, the Isle of Man and Jersey, the U K Treasury is responsible for Anguilla, Bermuda, British Virgin Islands, Cayman Islands, Falkland Isles, Gibraltar, Montserrat, Pitcairn Island, St. Helena and the Turks and Caicos Islands. And the Cayman Islands have been so successful in attracting funds that it is now the 5th largest financial centre in the world after London, New York, Tokyo and Zurich.

Another offshore centre, in the middle of the Pacific Ocean, is the island of Nauru. There, if you have a spare \$25,000 (£12,500) you can set up your own bank and enjoy life with little or no regulation. It is even estimated that almost 400 banks operate there from the same government mailbox. And it was in Nauru in 1998 that according to the Russian Central Bank \$70bn (£35bn) vanished never to be seen again.

In total, in 1998, it was estimated that there were 4,000 offshore banks licensed by nearly 60 offshore jurisdictions controlling an estimated \$5 trillion (£2.5 trillion) in assets.

In 1989, the Organization for Economic Co-operation and Development felt that action was needed to counter money laundering by international criminals. To this end they set up the *Financial Action Task Force (FATF)* based in Paris. It was charged with drawing up a set of universal standards covering law enforcement, financial regulation and international co-operation. This list eventually ran to 40 recommendations that will result in the following:

- ♦ no longer will anonymously numbered bank accounts be tolerated
- ♦ all OECD countries will have a common interpretation of 'dirty' money
- ♦ Requests for information from one OECD government to another will be dealt with expeditiously.

These guidelines also mean that banks must now become policemen and are in the forefront of tackling crime. They must Know Your Customer (KYC) which includes finding out the purpose of any account and then monitoring the expected profile of it. And any suspicious transactions must be reported immediately to the Financial Intelligence Unit (FIU).

But it is not just banks that can be used to 'clean' money - lawyers, accountants, betting shops, casinos, car dealers, real estate agents, dealers in precious metals, insurance companies and securities houses can all be involved. In total, throughout the world, the IMF estimates that \$1 trillion (\$1,000,000,000,000) is laundered annually equivalent to 3% of global GNP.

After 9/11 international financial regulations and co-operation took on greater force. Draconian measures to impound terrorist assets were introduced and the U S threatened immediate sanctions against countries and institutions that failed to co-operate. As a result,

hundreds of bank accounts were frozen and the search for the origin of their funds given top priority. This brought to light the fact that it was not always money laundering was the source of the terrorist groups' funds, but often they received financing from legitimate sources.

However, three countries, Andorra, Liechtenstein and Monaco, are still giving concern to the OECD over their lack of commitment to transparency and the effective exchange of information. Strong pressure is now being exerted on these 3 countries and if they continue not to comply, sanctions could be imposed.

All banks now have access to lists of Politically Exposed Persons (PEP) which contain the names of all government ministers in all countries of the world. Surely it would not be difficult to go backwards and produce a 'Who was who' in past governments. And armed with this FATF investigators could search anywhere for personal accounts and 'dig' down through front companies and client fund accounts to look for money that may have been stolen in the past. In this way, for example, money embezzled by ministers in the governments of Marcos of the Philippines and Mobutu of Zaire could possibly be traced and then if proved to have been stolen sent back to the country of origin. In this way perpetrators of financial crimes in the past as well as the present will never be able to rest thinking they have beaten the system. And at the same time offshore centers will take on added respectability.

However, the OECD has its own internal problems as Switzerland, which has an estimated 1/3rd of the 'offshore' money of wealthy people and Luxembourg and Austria are refusing to sign up declaring a breach of banking confidentiality and fear of competition from new money centers like Singapore. These three countries would prefer to continue with the present system of withholding tax on non-resident savings income instead of exchanging information. And because of this disagreement the OECD is unlikely to obtain any worldwide uniformity in tax matters for some time.

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## THE COMPETITIVENESS THROUGH TAXES IN THE CENTRAL AND EASTERN EUROPEAN COUNTRIES

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***Abstract:** In the last few years, many countries Central and Eastern European countries have reduced their corporate income tax rates with the purpose of attracting multinational companies. Various studies indicate the fact that the level of the corporate income tax represents an important advantage that drives the decisions to place foreign direct investments. Many European Union member states have initiated corporate income tax reforms, in order to generate the increase in the competitiveness of national economies. In the case of the Central and Eastern European countries, where the decrease in the corporate income taxes was higher, these reforms brought profound changes in the economic environment.*

**Key words:** competitiveness, corporate income taxes, foreign direct investments

### 1. INTRODUCTION

In the literature specializing in foreign direct investments we can notice that there are many studies focused on the role of the factors that influence the flow of foreign direct investments. Taking into account the main reasons of multinational companies for the internationalization of their assets (financial and monetary advantages, comparative and competitive advantages and advantages resulted from the market imperfections), specialists' attention has usually been focused on the following decisive reasons in attracting foreign direct investments: the size of the internal market, the trend of the exchange rate, the cost of labour and the economic integration. The role of taxation in attracting foreign direct investments within integrated economies was rather neglected up to the moment when it was noticed that the relaxed fiscal policy adopted by the Irish authorities after the adhesion to the European Economic Community in 1973 soon generated the attraction of an important volume of foreign investments and a significant increase in prosperity as compared to other countries (Greece, Portugal and Spain) that, in the moment of their adhesion, had a similar level of economic development. Currently, all the authors of empiric studies concerning the impact of taxation on capital movements admit that the level of taxation influence the decisions related to the localization investments made by multinational companies and capital flows, with an important impact on inter-affiliate profit transfers. However, the opinions related to the sensitivity of foreign direct investments to the level of taxation vary. A number of studies on the evolution foreign direct investments in the European countries (K. Edmiston, S. Mudd and N. Valev, 2003 or K. Carstensen and F. Toubal, 2004) suggest the fact that taxation has a relatively low impact on foreign direct investments, due to the reduced influence of taxes on relocation costs. Other authors (M. Leibrecht and C. Bellak, 2005) argue that a high level of corporate income taxes discourage the inflows of foreign direct investments even if other factors, among which the volume and quality of public goods and services, would favour the attraction of foreign direct investments. The two authors analyzed the



flows of foreign direct investments among 7 countries of origin of multinational companies (Austria, Germany, France, Italy, the Netherlands, Great Britain and the United States) and 8 host countries (Bulgaria, Croatia, Czech Republic, Hungary, Poland, Slovakia, Slovenia and Romania) in the period 1995-2003. The results of the study indicate the fact that the level of corporate income taxes represents a decisive factor for the decisions of localization made by foreign companies, being almost as important as the labour cost factor. A decrease by a certain percentage in the effective corporate income tax rate may lead to a maximum increase in the inflows of foreign direct investments of 4.5%. Following the analysis performed by R. A. DeMooij and S. Ederveen (2003) concerning the impact of taxation on capital movements, an elasticity of -2.4% was assessed. Consequently, the decrease by 1 percentage point of the tax will generate an increase of capital flows by 2.4%.

Agnès Bénassy-Quéré, Lionel Fontagné and Amina Lahrèche-Révil (2003) have studied the sensitivity of foreign direct investments to the differences in the level of taxation among 11 OECD member countries, in the period 1984-2000, reaching the conclusion that the level of corporate income tax rate plays a significant role in the localisation foreign direct investments. Thus, while the low level of the tax rate has a significant contribution in attracting foreign direct investments, a high taxation discourages the inflows of foreign direct investments. On the other hand, the positive impact of the differences in the level of taxation is not the same in all the countries that choose to decrease tax rates with the purpose of attracting foreign capital. The flows of foreign direct investments are directly proportional with the differences among the levels of taxation in various countries.

There are intense debates concerning the importance of corporate income tax effects on the localization of foreign direct investments, given the fact that many of the empirical studies concerning the elasticity of foreign direct investments in relation to the corporate income taxes have been focused exclusively on the issue of taxation, ignoring the possible effect of the business environment of the host countries. These studies have also ignored the possibility that flows of foreign direct investments might also be driven not only by fiscal policies and by the bilateral agreements between the countries of origin and the host countries, but also by the fiscal policies of the countries that may represent alternatives for the localization foreign direct investments (Hajkova, D., Nicoletti G., Vartia L., Kwang-Yeol Yoo, 2006).

## **2. THE ROLE OF CORPORATE INCOME TAXES ON FOREIGN DIRECT INVESTMENTS IN THE EUROPEAN UNION**

Due to the elimination fiscal advantages for foreign investors, many countries in the Central and Eastern Europe, who became member states chose to reduce their level of taxation both for foreign investors as well as for the local ones in the attempt of maintaining the attractiveness of their economies. Consequently, the level of taxation, and especially the level of the corporate income tax rate have been included in the complex formula that describes national competitiveness.

In order to emphasize the role of the corporate income taxes on foreign direct investments we need to present a few implications of taxation on the decision of external implantation made by multinational companies.

In their choice among several countries in which they could establish new affiliates, multinational companies will prefer locations that generate the highest after-tax profit. Consequently, the impact of the corporate income taxes on foreign direct investments may be assessed by comparing the before-tax profit with the after-tax profit. The proportion of the before-tax profit taken over by taxation is measured through the effective level of the tax rate. This level depends on the manner in which the taxable profit is determined and on the level of

the legal profit tax rate. In some cases, the level of the effective tax rate is influenced by the fiscal treatment of the repatriated profit. Multinational companies can “delocalize profits”, by financial or commercial transactions within the group with the purpose of decreasing total tax liabilities. A simple way of transferring profit from countries with a high level of taxation to countries with a low level of taxation is represented by inter-affiliate loans granted among the affiliates of a multinational company, given the fact that payments made by a company are usually tax exempt, whilst collections are taxable. Another possibility is represented by the manipulation of the inter-affiliate transfer product prices: if an affiliate in a country with a high level of taxation manufactures intermediary goods used by affiliates located in countries with low levels of taxation, the price used for the inter-affiliate transfer of these goods may be set at a very low level, thus generating the diminution of the profit in the countries with a high level of taxation.

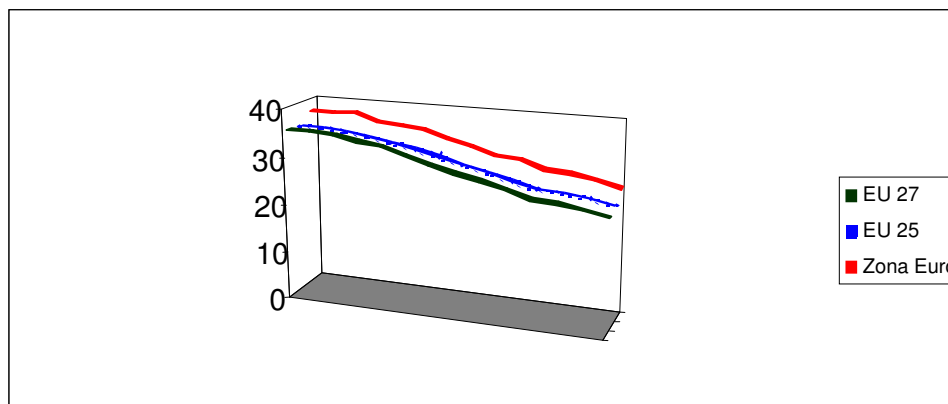
Consequently, from the fiscal point of view, the external implantation decision of multinational companies depends both on the level of the corporate income tax rate, as well as on other provisions of the law that can prevent the transfer of profits among countries.

A simple comparative observation of the evolution of the corporate income tax rate with the inflows of foreign direct investments in the European Union countries (see table 1) allows us to draw the conclusion that the diminution of the corporate income tax rates in the new member states was one of the causes of the migration of investments towards the areas with a low level of taxation. The net taxpayers to the budget of the European Union (Germany, France, Italy) took a stand against this situation, stating that the new member states should increase taxes so that they should not generate unfair competition to countries with high levels of taxation. This proposal was, of course, contested by the states counting on a relaxed fiscal policy in their attempt of attracting investments and, due to the fact that the income tax policy is still an instrument that can be used by the governments of the member states to influence national economies, we can currently witness a real “race for the reduction of business taxation”. For example, in 2008 as compared to 2006, in Germany, the corporate income tax rate was decreased by 8.9 percentage points, from 38.7% to 29.8%, in Spain by 5 percentage points, from 35% to 30%, in Italy by 5.9 percentage points, from 37.3% to 31.4%, and there are some other examples that can be mentioned.

Between 1995 and 2008 the average level of the corporate income tax rate recorded in the 27 member states of the European Union decreased from 35.3% to 23.6%, and in the countries of the Euro Area from 37.45 to 26.5%. Due to the fact that this phenomenon has increased with the expansion of the European Union, as can be seen in figure 1, we can argue that the mobility of capital makes governments reduce corporate income taxes in the attempt of attracting foreign capital.

In the analysis of the impact of taxation on foreign direct investments it is useful to underline the role played by corporate income taxes on decisions of placing investments made by multinational companies. The decision of establishing the location for an investment can be influenced by:

- The level of the effective tax rate (for which fiscal advantages such as, for example, the recognition of the depreciation of buildings and amortization of fixed assets are taken into account);
- The net profit distribution and fiscal treatment policy applied by the authorities of the country where the investment is to be localized to the benefits transferred into the country of origin of the company.



**Figure no. 1 Average level of rate of corporate income tax in 1995-2008**

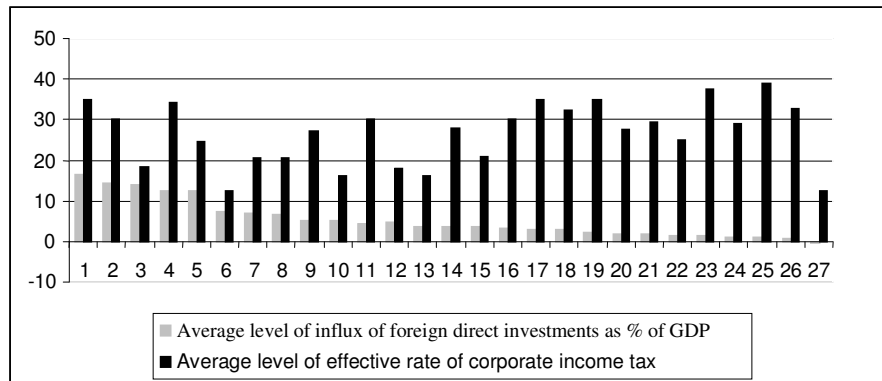
*Source: Taxation trends in the European Union, 2008, p. 88*

On the background of a low level of the corporate income taxes and benefiting by the advantage of membership of future membership into the European Union, the Central and Eastern European countries became an important target for foreign direct investments in the last few years. With a total population of over 100 million inhabitants, EEC – 10 (Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia) attracted 174.1 billion \$ through foreign direct investments between 2001 and 2006. In the same period, Brazil (with a population of 186 inhabitants) received 99.8 billion \$ from foreign direct investments, Russia (142 million inhabitants) 65.7 billion \$ and India (1.1 billion inhabitants) 37.1 billion \$.

Due to the fact that the positive evolutions of foreign direct investments attracted in the emergent countries are influenced by a combination of factors, besides the level of corporate income taxes (the progress made in the integration into the European structures, economic growth, the exchange rate, etc) we have made an analysis of the inflows of foreign investments within certain groups of European Union member states with a similar level of economic development. Based on the average level of the gross domestic product per inhabitant recorded in the period 2003-2006 we have identified 6 sampling intervals of the 27 European Union member states. Romania is part of the group of countries with the least developed economy, together with Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, and Slovakia (between 3337.5-16088.3 U.S. dollars/inhabitant). With an average level of the gross internal product per inhabitant of 16877.25 U.S. dollars in the period 2003-2006, Slovenia is the only country in the former block of socialist states that does not fit the profile of the above-mentioned group of countries.

By comparing the evolution of the corporate income tax rate with the inflows of foreign direct investments as percentage in GDP, we can estimate that there is a connection between fiscal competitiveness and the attraction of foreign direct investments. Whilst the reduced level of tax rates contributes to the attraction of foreign direct investments, high taxes discourage inflows of foreign direct investments (see fig. no. 2).

**Figure no 2. Influx of foreign direct investments and effective rate of corporate income tax, among 2003-2006**



Legend: 1-Malta, 2-Luxembourg, 3-Bulgaria, 4-Belgium, 5-Estonia, 6-Cyprus, 7-România, 8-Slovakia, 9- Czech Republic, 10-Latvia, 11-United Kingdom, 12-Hungary, 13-Lithuania, 14-Sweden, 15-Poland, 16- Portugal, 17-France, 18-Netherlandns, 19-Spain, 20-Finland, 21-Austria, 22-Slovenia, 23-Italy, 24- Denmark, 25-Germany, 26 - Greece, 27-Ireland

Source: UNCTAD handbook of statistics, 2008, p. 346 și p. 395 and Eurostat Statistical books, Taxation trends in the European Union, 2008, p. 88

For example, Bulgaria and Romania successfully attracted an average volume of foreign direct investments representing 15%, and respectively 8% of GDP with a corporate income tax rate of 15% and 16%. Hungary and Slovakia managed to attract an average volume of foreign direct investments representing 6% of GDP with a corporate income tax rate of 17.5%, and respectively 19%. On the other hand, in the countries that applied high corporate income tax rates (Spain, Germany, Italy, and France) inflows of foreign direct investments, as percentage in GDP, were modest. A few exceptions from this rule are represented by Cyprus, Luxemburg, Malta and Belgium, countries that currently have characteristics specific to tax heavens and that have managed to attract foreign capitals through other instruments than the low level of the corporate income tax rate (for example, the possibility of establishing “off-shore” companies, income tax exemption for companies that invest in high technology, dividend tax exemptions and others).

On average, the group of countries with the least developed economies, designated A (excluding Malta), managed to attract, in the period 2003-2004, foreign direct investments representing 7% of GDP, by applying an average corporate income tax rate of 20.3%. The other groups of countries, with a higher level of economic development, successfully attracted, in the same period, a much lower volume of foreign direct investments (2% of GDP, and respectively 2.5% of GDP), by applying an average corporate income tax rate higher by approximately 10 percentage points.

Insofar as the reduction of the corporate income tax rate generates very low levels (for example, levels of 15% in Bulgaria, 16% in Romania, 15% in Latvia, applied in the year 2006), the dynamics of the inflows of foreign direct investments will be higher. The low level of the corporate income tax rate in Bulgaria generated the highest increase in the inflows of foreign direct investments as a percentage in GDP in the period 2003-2006, even if the increase in the GDP/inhabitant of 2006 as compared to 2003 (43.48%) was lower than the one recorded in other countries with a similar level of economic development (87.15% in Romania, 65.12% in Latvia, 53.13% in Estonia and 51.85% in Slovakia)<sup>37</sup>. Consequently, the diminution of the corporate

<sup>37</sup> Calculated based on the Yearbook of Statistics of Romania, International Statistics, 2007

income tax rate can be considered an efficient measure within the strategy of attracting foreign direct investments insofar as it succeeds in reaching very low levels of this rate.

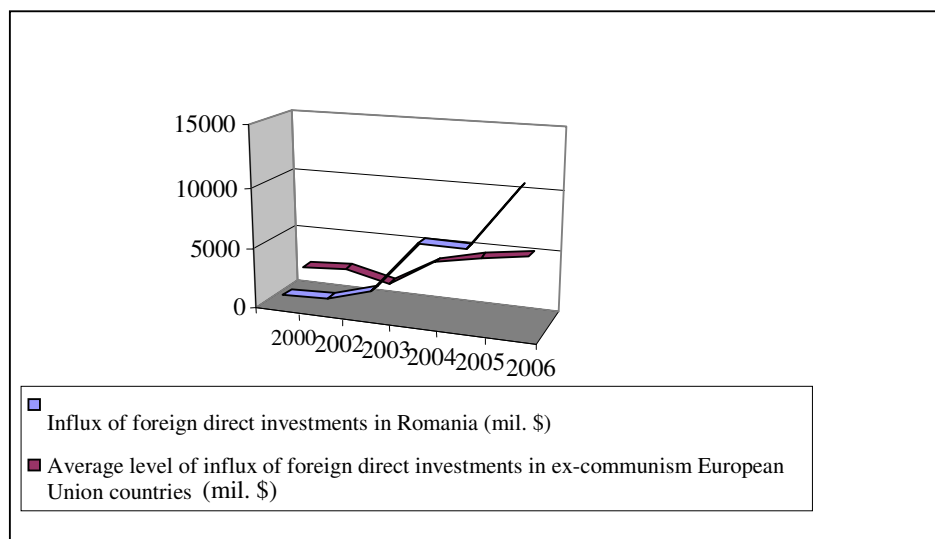
### 3. THE ROLE OF CORPORATE INCOME TAXES ON ROMANIA'S COMPETITIVENESS

In the current period, the official Romanian government officials' stand towards foreign direct investments may be viewed as a conventional one. For example, an idea is stated according to which the international movement of entrepreneurial capital contributes to the Romanian economy growth, which in its turn, is a source of social progress and of improvement of human condition, if there is a fair distribution of the welfare increase generated through foreign direct investments between investing companies and host countries.

The policy of attracting direct foreign investments represents an important part of the development strategy in Romania. By increasing the degree of attractiveness for foreign investors, conditions are created for the increase in the number of jobs, in the level of incomes, as well as for the intensification of transfers of technologies and knowledge. The attraction of foreign direct investments in Romania was stimulated by tax subsidies granted until the moment of the adhesion of our country to the European Union. The important increase in the GDP after the year 2000, the geographical position of Romania, the foreign companies' possibility to access cheap material and human resources and the transparent and largely stable and predictable operational institutional and legislative framework have been the advantages of the Romanian economy in attracting foreign direct investments.

According to the macroeconomic context that characterized Romania after 1990, the evolution of the foreign direct investments flows has been highly variable up to now. Starting with 2000, we can notice an increase in the inflows of foreign direct investments, the value of which was, however, in the first years, below the average of those recorded in the economies of the European Union countries in the former socialist block, and then higher than this average (see figure no. 3).

**Figure no 3 Influx of foreign direct investments in Romania and in ex-communism European Union countries among 2000-2006**



Source: UNCTAD handbook of statistics, 2008, p. 346

Foreign direct investments made in Romania were mainly localized in the processing industry, the proportion of which gradually decreased from 2003, when it accounted for 51% of

the total, until 2007 (32.9% of the total) in favour of financial intermediations and insurances that represented 23.3% in 2007. On average, in the period 2003-2007, the appropriation of the net profit gained from the incomes from foreign direct investments was 57% and the distributed dividends were 39%.

The evolution of the distribution of foreign direct investments in Romania on countries of origin, a distribution made function of the country of the immediate holder of at least 10% of the social capital of the resident direct investment companies, is as follows:

**Table no 1 The evolution of the distribution of foreign direct investments in Romania on countries of origin in 2003-2007**

	2003 as % of FDI	2004 as % of FDI	2006 as % of FDI	2006 as % of FDI	2007 as % of FDI
Netherlands	18,9	16,3	19,5	17,1	16,3
Greece	11,1	8,2	8,5	7,8	7,5
France	10,3	10,3	8,4	8,0	8,8
Italy	8,3	4,8	6,9	6,7	6,1
Germany	7,3	8,6	10,7	10,1	11,7
Austria	6,4	15,7	15,4	23,0	21,4
Sweden	-	1,8	1,4	1,0	0,9
Belgium	-	1,4	1,3	0,9	1,1
Spain	-	-	0,6	0,8	1,1
Luxembourg	-	-	1,0	1,2	1,5
United Kingdom	-	-	-	1,0	0,9
Cyprus	4,2	4,0	3,7	4,8	4,7
Hungary	-	1,8	1,9	1,9	1,7
Czech Republic	-	-	1,3	0,9	0,8
Switzerland	3,3	3,0	7,1	6,9	5,1
Netherlands Antilles	7,5	8,8			
United States	3,4	4,3	2,6	1,8	1,4
Turkey	-	1,5	1,9	1,3	1,9
Israel	-	-	-	0,6	0,4
Canada	-	-	-	0,3	0,6

Source: Statistical information regarding the foreign direct investments in Romania, Romanian National Bank

During the analysed period, we can notice the increase in the number of countries the investment of which exceeds 100 million Euros in Romania. For example, in 2007 the number of the countries the investments of which exceeds 100 million Euros in Romania increased to 23 as compared to 11 countries recorded in 2003.

We can see that the most important source of foreign direct investments attracted in Romania is represented by the countries with developed economies in the European Union, located at less than 2000 kilometres away from our country (Greece, Austria, Germany, and Italy). The increase in the distance between the country in which the parent company is located and the host country (Romania) is accompanied by the diminution of the percentage of the investment made by the respective company in the total of foreign direct investments.

It is by no mere coincidence that, in the countries that have accounted for most of the investments made in our country, the level of the corporate income tax rate is above the average level recorded in the European Union: 32.5% in the Netherlands, 38.95 in Germany, 29.5% in Austria, 32.75% in Greece, 35% in France.

#### 4. CONCLUSIONS

Multinational companies represent the main vectors of fiscal competition. They can modify the geographic distribution of their profits through two mechanisms that do not exclude each other:

- multinational companies are confronted, on one hand, with the national taxation systems that have different characteristics. The fiscal optimisation strategies allow them to avoid becoming subject to the taxation of the country in which some of their activities are located. In this case, we can talk about the “delocalization of profits”, which is made by financial or commercial transactions within the group;
- on the other hand, multinational companies can compare various systems when they decide where to locate production investments. In this case, we can talk about the “delocalization of activities”. The criteria involved in this choice can be related to either the fiscal aspect in itself, or to other aspects (the quality of the infrastructure, the education and qualification of labour, etc).

By comparing, in some the European Union countries, the evolution of the corporate income tax rate and the level of taxation with the flows of foreign direct investments, we can argue that there is a direct relation between fiscal competitiveness and the attraction of foreign direct investments. Whilst the low level of tax rates contributes to the attraction of foreign direct investments, high taxes discourage inflows of foreign direct investments. The significant differences between the level of corporate income tax rates applied in various European Union states lead to distortions related to the distribution of investments.

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## MONEY LAUNDERING METHODS

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***Abstract:** Money launderers often send money through various "offshore accounts" in countries that have bank secrecy laws, meaning that for all intents and purposes, these countries allow anonymous banking. A complex scheme can involve hundreds of bank transfers to and from offshore banks. Launderers sometimes place dirty money in otherwise legitimate businesses to clean it. Most money-laundering schemes involve a combination of two methods: the launderer can combine his dirty money with the company's clean revenues or the launderer can simply hide his dirty money in the company's legitimate bank accounts in the hopes that authorities won't compare the bank balance to the company's financial statements.*

*The variety of tools available to launderers makes this a difficult crime to stop, but authorities do catch the bad guys every now and then. On the socio-cultural end of the spectrum, successfully laundering money means that criminal activity actually does pay off. Some problems on a more local scale relate to taxation and small-business competition. Laundered money is usually untaxed, meaning the rest of us ultimately have to make up the loss in tax revenue.*

**Key words:** laundering process, smurfing, socio-cultural effects, economic effects

### 1. INTRODUCTION

In 1996, Harvard-educated economist Franklin Jurado went to prison for cleaning \$36 million for Colombian drug Lord Jose Santacruz-Londono. People with a whole lot of dirty money typically hire financial experts to handle the laundering process. It's complex by necessity. The whole idea is to make it impossible for authorities to trace the dirty money while it's cleaned.

There are lots of money-laundering techniques that authorities know about and probably countless others that have yet to be uncovered. Here are some of the more popular ones.

#### **Black Market Colombian Peso Exchange**

This system, also called the "largest drug money-laundering mechanism in the Western Hemisphere", came to light in the 1990s. A Colombian official sat down with people in the U.S. Treasury Department to discuss the problem of U.S. goods being illegally imported into Colombia using the black market. When they considered the issue alongside the drug-money-laundering problem, U.S. and Colombian officials put two and two together and discovered that the same mechanism was achieving both ends.

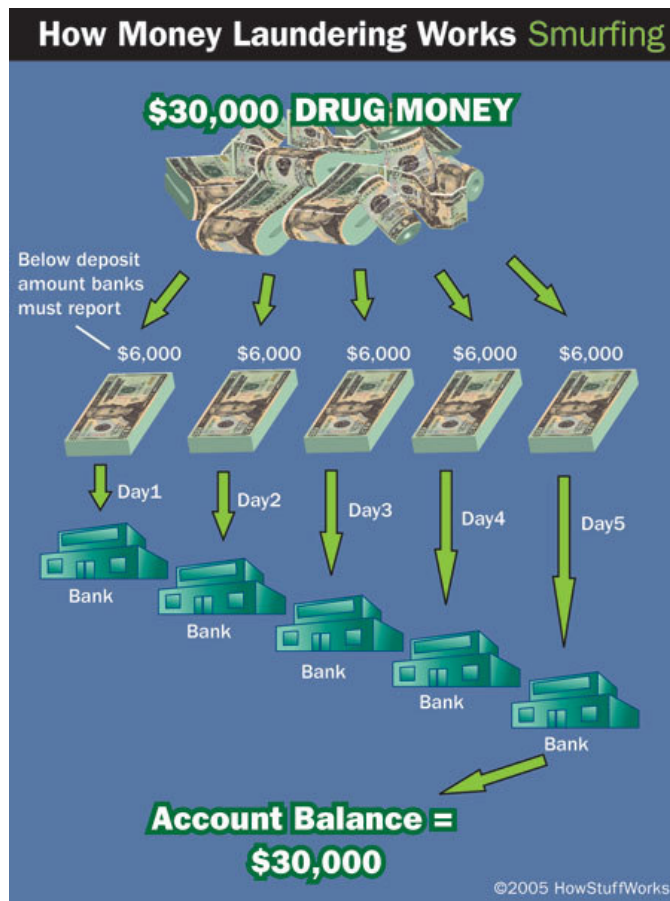
This complex setup relies on the fact that there are business people in Colombia --typically importers of international goods - who need U.S. dollars in order to conduct business. To avoid the Colombian government's taxes on the money exchange from pesos to dollars and the tariffs on imported goods, these businessmen can go to black market "peso brokers" who charge a lower fee to conduct the transaction outside of government intervention.



That's the illegal importing side of the scheme. The money-laundering side goes like this: A drug trafficker turns over dirty U.S. dollars to a peso broker in Colombia. The peso broker then uses those drug dollars to purchase goods in the United States for Colombian importers. When the importers receive those goods (below government radar) and sell them for pesos in Colombia, they pay back the peso broker from the proceeds. The peso broker then gives the drug trafficker the equivalent in pesos (minus a commission) of the original, dirty U.S. dollars that began the process.

### 1.2 Structuring deposits

Also known as **smurfing**, this method entails breaking up large amounts of money into smaller, less-suspicious amounts. In the United States, this smaller amount has to be below \$10,000 -- the dollar amount at which U.S. banks have to report the transaction to the government. The money is then deposited into one or more bank accounts either by multiple people (smurfs) or by a single person over an extended period of time.



### 1.3 Overseas banks

Money launderers often send money through various "offshore accounts" in countries that have bank secrecy laws, meaning that for all intents and purposes, these countries allow anonymous banking. A complex scheme can involve hundreds of bank transfers to and from offshore banks. According to the International Monetary Fund, "major offshore centers" include the Bahamas, Bahrain, the Cayman Islands, Hong Kong, Antilles, Panama and Singapore.

#### **1.4 Underground/alternative banking**

Some countries in Asia have well-established, legal alternative banking systems that allow for undocumented deposits, withdrawals and transfers. These are trust-based systems, often with ancient roots, that leave no paper trail and operate outside of government control. This includes the **hawala** system in Pakistan and India and the **fi e chen** system in China.

#### **1.5 Shell Companies**

These are fake companies that exist for no other reason than to launder money. They take in dirty money as "payment" for supposed goods or services but actually provide no goods or services; they simply create the appearance of legitimate transactions through fake invoices and balance sheets.

#### **1.6 Investing in legitimate business**

Launderers sometimes place dirty money in otherwise legitimate businesses to clean it. They may use large business like brokerage firms or casinos that deal in so much money it's easy for the dirty stuff to blend in, or they may use small, cash-intensive businesses like bars, car washes, strip clubs or check-cashing stores. These businesses may be "front companies" that actually do provide a good or service but whose real purpose is to clean the launderer's money.

This method typically works in one of two ways:

- The launderer can combine his dirty money with the company's clean revenues - in this case, the company reports higher revenues from its legitimate business than it's really earning;
- The launderer can simply hide his dirty money in the company's legitimate bank accounts in the hopes that authorities won't compare the bank balance to the company's financial statements.

Most money-laundering schemes involve some combination of these methods, although the Black Market Peso Exchange is pretty much a one-stop-shopping system once someone smuggles the cash to the peso broker. The variety of tools available to launderers makes this a difficult crime to stop, but authorities do catch the bad guys every now and then.

#### **1.7 Currency of Choice**

For decades, the U.S. dollar has been the most popular currency for launders to use. Its popularity is due to its wide acceptance and the volume of worldwide transactions that use the currency -- a few million extra dollars changing hands doesn't attract attention. However, the euro has slowly gained a foothold in the laundering industry since its introduction into common use in 2002. As far as money laundering goes, the euro could be the perfect currency: It is the main legal tender of more than a dozen countries, meaning it circulates in tremendous volume and moves regularly across borders without any notice at all.

The Euro is not quite as new a concept as some would have you believe. It is, at its most simple, an extension of a series of unsuccessful measures to stabilize currency movements, and harmonize (some would say homogenize) economies, within Europe. Seen from the perspective of the UK, it is a drastic step. But across Europe - in the context of history, a single currency is a logical progression from the vast array of local currencies that were in use until quite recently, even within countries. The Euro is the latest in a long line of currency measures including "The Snake", the European Exchange Rate Mechanism and others.

The difference between the previous measures and the Euro is that to join it is (in practical terms) irrevocable.

Some have suggested that the adoption of the Euro will create ideal conditions for money laundering.

It is recognized that the most convincing currency forgeries are often produced in the UK and, indeed, in mid 2000, the UK police found a major counterfeiting operation producing high quality Euro notes in readiness for the introduction of the physical currency.

## **2. THE EFFECTS OF MONEY LAUNDERING**

Depending on which international agency you ask, criminals launder anywhere between \$500 billion and \$1 trillion worldwide every year. The global effect is staggering in social, economic and security terms.

### **2.1. Socio-cultural effects**

On the socio-cultural end of the spectrum, successfully laundering money means that criminal activity actually does pay off. This success encourages criminals to continue their illicit schemes because they get to spend the profit with no repercussions. This means more fraud, more corporate embezzling (which means more workers losing their pensions when the corporation collapses), more drugs on the streets, more drug-related crime, law-enforcement resources stretched beyond their means and a general loss of morale on the part of legitimate business people who don't break the law and don't make nearly the profits that the criminals do.

### **2.2. Economic effects**

The economic effects are on a broader scale. Developing countries often bear the brunt of modern money laundering because the governments are still in the process of establishing regulations for their newly privatized financial sectors. This makes them a prime target. In the 1990s, numerous banks in the developing Baltic States ended up with huge, widely rumored deposits of dirty money. Bank patrons proceeded to withdraw their own clean money for fear of losing it if the banks came under investigation and lost their insurance. The banks collapsed as a result. Other major issues facing the world's economies include errors in economic policy resulting from artificially inflated financial sectors. Massive influxes of dirty cash into particular areas of the economy that are desirable to money launderers create false demand, and officials act on this new demand by adjusting economic policy.

When the laundering processes reaches a certain point or if law-enforcement officials start to show interest, all of that money that will suddenly disappear without any predictable economic cause and that financial sector falls apart.

Also, legitimate small businesses can't compete with money-laundering front businesses that can afford to sell a product for cheaper because their primary purpose is to clean money, not turn a profit. They have so much cash coming in that they might even sell a product or service below cost.

### **2.3. Fiscal Effects**

The majority of global investigations focus on two prime money-laundering industries: Drug trafficking and terrorist organizations. The effect of successfully cleaning drug money is clear: More drugs, more crime, and more violence.

The connection between money laundering and terrorism may be a bit more complex, but it plays a crucial role in the sustainability of terrorist organizations.

Most people who financially support terrorist organizations do not simply write a personal check and hand it over to a member of the terrorist group. They send the money in roundabout ways that allow them to fund terrorism while maintaining anonymity.

And on the other end, terrorists do not use credit cards and checks to purchase the weapons, plane tickets and civilian assistance they need to carry out a plot. They launder the money so authorities can't trace it back to them and foil their planned attack. Interrupting the laundering process can cut off funding and resources to terrorist groups.

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## INTERNATIONAL FINANCIAL CRISIS AND THE VULNERABILITIES OF THE ROMANIAN ECONOMY

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***Abstract:** The main thesis of this paper represents the macroeconomic effects of the global financial crisis and economic slowdown in Romania. For the last two years, the world is facing a severe financial crisis and a dramatic economic slowdown. Romanian emerging economy is also affected, especially after the Lehman Brother's failure. In the first part of the paper, are succinctly presented the main causes of the financial crisis over the world, the contagion of emerging markets and the recent solutions and progress that has been made. In the second part of the paper I briefly presented the macroeconomic situation, the direct and indirect effects of the crisis related to Romania, and the possible measures and solutions that might be taken by the government, NBR and other global financial institutions in order to decrease the effects of Romania's macroeconomic vulnerabilities.*

**Key words:** financial crisis, global imbalances, emerging economies, economic slowdown, vulnerabilities, deficits, roll-over debts, exchange rate risks, FDI, financing gap

### 1. INTRODUCTION

The today's world is facing one of the most severe global recession determined by a deep financial crisis. The current financial crisis began in August 2007, when Federal Reserve's concern replaced inflation with financial stability. The causes reside in the financial sector vulnerabilities: mismatches between assets and liabilities (held by financial institutions or by the non financial sector), currency mismatches, excessive leverage, adverse market conditions or insufficient assets to cover liabilities, fraudulent management activities and too much leverage presented in the off-balance sheet financial institutions.

The root causes of the current financial crisis are both macro and micro economic level. Mark Jickling, a specialist in financial Economics, (CRS Report for Congress – Jan 2009) determined multiple causes:

- Global imbalances – some countries with big surpluses and others with large deficits
- Asset bubble – easy money policies (interest rates at one percent in US and almost zero percent in Japan, China's fixed exchange rate, the accumulation of reserves in Sovereign Wealth funds, determined the filling with liquidity to overflowing in the real estate and financial markets.
- Securitization – dispersing the ownership of mortgage backed securities, causing repercussions all over the world. Securitization made lending imprudent, lending standards relaxed, so many people could buy houses and overvalued assets, that normally they couldn't afford. When reversal, the prices began to fall, loans started to default just like a domino.

- Rating agencies – conflicts of interest and less effective regulation made possible that previous AAA rating mortgage backed securities to be downgraded to junk directly.
- Mark to market accounting – in distressed market conditions, the current price of an asset may fall well below the long term fundamental values.
- Shadow banking system – the most risky activities migrated to so called “shadow banking system” (Structured Investment Vehicles etc) - unregulated financial institutions that could borrow short and lend long. With the shadow banking system, financial companies could hold less capital and the investors could not understand the true financial positions because many of the complex structure (off balance sheet).
- Risk Management systems, complexity and bad financial models – the management risk was not appropriate because of complexity of financial instruments and because of the new financial instruments developed and short history data, the financial models did not work.
- Credit Default Swap, OTC Derivatives and lack of trust – financial engineering made possible that the amount of CDS to be overwhelming and some of them insufficient regulated because of limited information to market participants. All those increased systemic risk for entire financial sector.
- Short term bonuses – for managers and traders. They were paid for the short term profit without paying to much attention to the medium and long term strategy and risks.
- High level of concentration – there are a few large financial institutions which provide the greatest part of the volume and liquidity in the financial markets.
- Excessive leverage – because of the low interest rates and generous capital funds available, many investors borrowed money to in order to maximize their profits. The deleveraging process caused the asset prices to fall like a domino.

The crisis determined also an important change in the global economic and political governance, as the international group for discussions has developed from Group of Seven (G7) to the Group of Twenty (G20) – April 2009, London. Some of the London G20's priorities should be: stimulating aggregate demand, getting credit flowing, committing to open trade, improve global financial regulation, reform the international financial architecture and confront the global imbalances. One of the main risks of those meetings is overloading the summit agenda and failing to respond right away to the threats.

## **2. EASTERN EUROPE**

The crisis in Eastern Europe may be caused not only by financial contagion of the globalised markets, but also because almost all Eastern European countries have been recording large current account deficits. In some countries there are deficits that are no longer sustainable because they are even double digit percentages. During the last decade, large amounts of capital flew into the emerging financial markets (Eastern Europe in particularly). The exchange rates tended to appreciate, asset prices and commodities bubbled and the wages rose rapidly. All the capital flows improved national fiscal indicators and encouraged intern credit expansion. Because the emerging economies could not be entirely structured, the weaknesses and the deficits exacerbated. Because of the great profit potential in these markets, the European banks overbought local banks and provided great liquidity.

On the other hand, when the optimistic investors' sentiment got worse, the flows reversed or even suddenly stopped, and the asset prices gave back their gains, forcing hard landing adjustments on the economy and on local financial markets.

The exposure of the western European banking sector to Eastern Europe seems to be a serious concern. European Banks could refuse to roll over credit lines that come due or to extend further credit to their subsidiaries, but this would only increase their own losses, because of the hard landing adjustment in Eastern European economies.

The main risks for banks could be:

- Risk of default rates – will bring credit higher costs for the banks with refinancing
- Risk of exchange rates – a large amount of credits has been paid in foreign currency (EUR, USD and CHF). Because of the eastern countries deficits and macroeconomic imbalances, the volatility of exchange rates could make paying the debts more difficult.
- More than half of the banking system in Eastern Europe is owned by West European banks and they have already their own problems and commitment at the moment.

Taking in consideration the vulnerabilities to the current financial crisis, eastern countries where financial institutions and nonfinancial companies borrowed a lot offshore short and invested long, will be under pressure to refinance. This could affect dramatically the domestic growth and the account deficits may be getting bigger and bigger. A possible solution could be the government funding injections through complex fiscal stimulus programs, stimulating constructions and investments in infrastructure, in order to boost internal absorption of funds in the region.

There has been made progress regarding rescues plans for the emerging European economies. In this global crisis, is essential to support each other with all the possible measures that they have. A recent agreement (gentleman agreement) has been signed between Romania and the main nine European banks that have important claims on Romanian banking system (Wien, March 2009).

According to the Bank for International Settlements, the claims for BIS Reporting Banks on Central, Eastern and Southeastern Europe – as % of GDP of the recipient country – sept 2007

**Table 1. Claims for BIS Reporting Banks on Central, Eastern and Southeastern Europe**

	AT	DE	IT	FR	NL	SE	BE	UK	EU	US	Japan
CESEE	8.8	6.8	6.5	4.6	2.6	2.9	3.7	1.7	44.5	2.2	0.7
Bulgaria	12.3	4.0	17.6	5.2	1.4	0.0	0.5	0.3	70.6	1.0	0.2
Czech Republic	28.7	5.3	9.6	17.5	3.4	0.0	24.6	..	93.7	3.1	0.6
Hungary	24.3	23.1	18.4	4.9	3.6	0.2	11.8	..	93.7	2.2	1.6
Poland	3.5	9.8	12.5	3.3	5.7	1.2	4.5	0.4	51.3	2.8	1.2
Romania	27.6	14.1	6.8	11.6	4.7	0.1	0.6	0.1	80.1	1.2	0.1
Slovakia	40.8	5.4	26.9	2.2	6.1	0.1	9.9	..	93.7	2.5	0.1
Slovenia	28.0	14.2	13.8	5.7	1.6	0.0	6.2	0.5	73.7	1.1	0.9
Ukraine	8.2	2.9	1.5	6.4	2.1	1.2	0.4	0.5	28.7	0.9	0.6
Russia	1.6	4.0	1.6	2.4	1.6	0.4	0.5	..	15.1	1.5	0.8
Turkey	0.4	3.0	..	2.4	1.3	0.1	2.3	..	18.8	2.9	0.5

Source: BIS, Eurostat, Financial Stability Report no 16, pg 15 – Oesterreichische National Bank

The regional exposure on the residential mortgage markets can be seen below:

**Table 2. Overview of EU residential mortgage markets**

2007	Value of Mortgage Debt, million	Growth in Mortgage Debt	Residential Debt to GDP Ratio	Per Capita Mortgage Debt, thousand
Bulgaria	2,868	64.4%	9.9%	0.37
Czech Republic	19,554	45.1%	15.3%	1.89
Estonia	5,625	31.5%	36.3%	4.19
Greece	69,363	21.4%	30.2%	6.21
Latvia	6,726	43.9%	33.7%	2.96
Lithuania	4,849	61.8%	17.5%	1.44
Hungary	12,535	16.3%	12.4%	1.25
Austria	65,070	7.1%	23.9%	7.82
Poland	35,966	57.8%	11.7%	0.94
Romania	4,253	86.8%	3.5%	0.20
Slovenia	2,670	36.5%	8.0%	1.32
Slovakia	6,529	55.0%	11.9%	1.21
EU27	6,146,672	7.4%	50.1%	11.25
Albania	536	84.9%	6.7%	0.17
Iceland	17,710	80.2%	121.0%	56.58
Russia	15,900	N/A	1.9%	0.11
Serbia	1,275	96.2%	4.2%	0.17
Ukraine	8,285	92.6%	8.6%	0.18

*Source: European Mortgage Federation – Statistics, Key figures 2007*

### 3. ROMANIA – PARTY IS OVER

Romania's annual GDP growth averaging 6 % for the last 5 years has triggered sound external imbalances. The rapid expansion of financial intermediation, together with continuing increase of income expectations, has fuelled an intern demand boom, for both consumption and investment, leading to a rapid increase in imports and a gap between income and payments balance.

Since the last year, 2008, the Romanian Economy has shown signs of overheating (GDP growth reached 8.8% in the Q1 of 2008) and the economic growth is forecast to slow rapidly (even negative growth due to some external forecasts), in 2009, because of a tight global capital flow backdrop. Current account deficit decreased from 13.5% of GDP in 2007 to 12.4% of GDP in 2008. For the first time, in the last years, the reversal trend has been seen, and is expected to retract even more in the next years to come (due to the global financial and economic crisis). The important YoY in December 2008 decreased by 24% while exports only by 16%, making possible an improvement in the foreign trade deficit for 2008. The deceleration of exports was related to the dramatically fall of commodity prices and in the compression of the external demand, while imports (cars, consumer appliances etc) reduced because of the credit severely contraction during the second half of 2008. The compression of imports and exports culminated in November in December, after the Lehman Brothers episode.

Romania has suffered from the credit crunch progressively worse as moved through 2008. The main turning point was when Lehman Brothers failed. In October 2008 there has been a panic in local financial markets and needed the central bank intervention to prevent the problems



spiraling even further out of control (speculative exchange rate attacks on RON and some rumors regarding a local bank that might have some liquidity problems). Romania's vulnerabilities and indirect exposure to the global financial crisis became clearer after October 2008. With the economy slowing, the unemployment will pick up and the profitability of the corporate sector will tend to reduce, which will add unemployment (in order to save costs) and put another upper limit on the average wage growth.

In Romania, according to NBR, there are not direct effects of exposure to the global financial crisis, at least not exposure to "toxic assets" from abroad. In Romania, the banking system is not very sophisticated and a reason for being like that was probably the high profitability of Romanian traditional banking products and the paradigm that surrounded the investor's sentiment that "buy and hold" is the most appropriate way to make profit in Romania. Because of the great yields comparing to other assets abroad, the investors did not need to sophisticate and invest in complex assets, derivatives or other financial engineering products.

#### 4. DOMESTIC VULNERABILITIES

Yet the indirect effects are important because they conducted to Romania's vulnerabilities:

- Increased volatility of exchange rate – does not augur well for the private sector whose exposure to exchange risk has increased
- Despite an improving current account deficit, the external financing gap will remain probably the major concern because of the decline in the volume of FDI inflows and the dependency on foreign capital has been growing, and could create a foreign exchange reserves drain.
- Increased cost and constrains of external financing
- Increased interest rates and greater selectivity of local banks when financing real economy. The last 12 months RON depreciation determined a positive effect on the current account deficit (from more than 13% of GDP in 2007), mostly because of rising import prices that put a brake on import oriented consumption.
- Risk of profit repatriation and non-rollover existent credit facilities
- Decreasing foreign demand affecting exports
- Increasing retail and corporate credit defaults. Nonperforming loans accounted for as much as 262 million euro (483.000 debtors) in January 2009 (according to NBR). Approximately 73% of the non performing loans portfolio represents loans granted in RON (most of them consumer loans with no asset backed)
- Domestic and external demand adjustments – imports will decelerate as a consequence of disinvesting and repatriating profits and exports will decelerate also as the external demand will record lower levels.
- Current account to improve soundly, but financing the gap may be the main concern
- The rise of unemployment – will boost the retail credit defaults and will decrease the residual excessive wage demands.
- Decreasing revenue collection - there is the risk to have a fiscal budgetary deficit of more than 3 %, in 2008 and 2009.
- Pro cyclical economic policies have boosted the current account deficit and spurred inflation
- Tensions with the unions in order to raise the budgetary wages.
- The private sector debt is increasing alertly.
- The public budget is based on relatively optimistic GDP (quite unrealistic) and budget revenue growth assumptions

- NBR affirms that in spite of the decelerating economic activity in 2009, inflationary pressures will persist because there is still excess demand fueled by the recent increased wages. The recent increased incomes (wages and pensions) will inflame the budget deficit because the decelerating economic activity will also affect revenues collection (General Government Deficit reported to GDP is forecasted by NBR to be around 4.1%).

Romania reported at the end of October a medium and long term debt of nearly 49.1 billion Euros, more than 27% compared to end of 2007, due to the non-public on guaranteed external debt. The non public guaranteed external debt was 32.4 billion Euros (Oct 2008), 29.5% higher than 2007. The public and public guaranteed external debt was 10.7 billion Euros, accounting more than 20% of medium and long term external debt.

According to NBR, at the end of March 2009, Romanian international reserves stood at 25,12 billions EUR, compared to 25,92 billion the previous month, and consist of assets denominated in EUR (65%), USD (27.5%), GBP (7%) and other currencies (0.5%).

FDI inflows remained sound in 2008, aprox. 8.8 billion EUR in 2008 (of which almost 900 million were from privatizations). Despite the good FDI inflows level in 2008 and Q4 2008 (1.8 billion, more than 30% higher than Q4 2007), the levels for the next two years is expected to get worse.

In January 2009, according to NBR, the balance of payments current account posted a deficit of 525 million EUR, 54,6% lower than in January 2008, due largely to the narrower trade deficit of 385 million EUR, 66,4% lower.

Although the Parliament approved a 2% of GDP budget deficit for 2009, there are very small chances that the goal could be effective. It is much probable (according at least to the market expectations) that a deficit around 4-4.5 % of GDP is soundly more realistic.

Monthly inflation rate was 1.24% mom in January 2009, above the market expectations. The annual rate inflation rate increased from 6.3% yoy in December 2008 to 6.7% in January 2009. According to the February 2009 inflation report, NBR expects the inflation to decrease toward 4.5% yoy at the end of 2009, well above the inflation target rate of 3,5%.

As the table presented below, the Romanian banking system is currently sound, but the perspectives and the future evolution is worrying in the context of global financial and economic crisis. NBR presented the development of own funds and capital adequacy indicators in the last Financial Stability Report issued in the second half of the year 2008:

**Table 3. Development of own funds and capital adequacy indicators – Romanian banking system**

Indicator	- percent -		
	31.12.2005	31.12.2006	31.12.2007
Share of total own funds	100	100	100
Tier 1 capital	77.7	74.3	76.8
Equity capital	49.2	46.5	49.9
Current Profit	14.0	11.4	12.5
Solvency ratio (8%)	21.1	18.1	12.7
Ratio of Tier 1 capital to risk weighted assets	16	13	10

Source: NBR – Financial Stability Report 2008, pg 26

In order to respond for the vulnerabilities, National Bank of Romania, has taken some actions such as:

- NBR initiated raised gradually its key policy rate seven times from 7% (Nov 2007) to 10.25% (July 2008) in order to temperate lending and limit the risk of overheating economy. The reversal trend signal, was given in Feb 2009 when NBR cut 25bp but had no relevant impact in the money market.
- Increasing the confidence in the banking system – starting 15 Oct 2008, the minimum amount guaranteed for the bank deposits, increased from 20.000 EUR to 50.000 EUR (per individual and per credit institution)
- In order to boost liquidity in the markets, in its meeting of March 31, 2009, the Board of the National Bank of Romania approved to cut the minimum reserve ration on foreign denominated liabilities with residual maturities of over two years to zero from 40 percent at present, starting with May 2009.
- In march 2009, the state took out a foreign loan (19.95 billion EUR) from several international institutions (the European Commission, the International Monetary Fund, and EBRD) to sustain the net outflows capital in the private sector. With the IMF Loan (12.95 billion EUR), NBR will replace part of the currency reserves borrowed from domestic commercial banks, in order to boost liquidity to the markets. To be sure that the banks will not repatriate funds abroad, representatives of the NBR Board met in Vienna (March 2009) in attempt to sign a gentleman agreement with the top 9 foreign banks present with subsidiaries in Romania, to continue to provide support and financing and not to repatriate the facilities granted to local subsidiaries.

## 5. SOLUTIONS AND MEASURES TO BE DONE

Given the risk aversion from global financial markets and the negative perception regarding the Romanian economy (non investment grade country rating), the cost financing sources are expected to be very high in 2009 and 2010. In this case, Romania should consider to increase her inflows from various sources:

- FDI inflows from intra-group private companies credits for the existing ongoing investment.
- Roll-over for the short and medium term debt of the private sector (large non financial companies and financial institutions). NBR's governor expects for 2009 to be
- Rolled over more than 90% of the short term debt in the case of Romanian banking system and more than half of them in case of the other financial and non financial companies.
- Increasing trade credits and encouraging with fiscal and non-fiscal stimulus the FDI inflows (see the last measure of NBR – reduction to zero of MRR's with maturities of over two years).
- Net transfers from EU (Sapard, Ispa, and other communitarian development programs) and other global financial institutions (IMF, BERD, IFC).
- Because the external private financing gap is greater than the public gap, there is need to find solutions how money obtained from international financial institutions, money from public sector, can be directed to the private sector. The most vehiculated idea of transferring money indirectly was that NBR could reduce the MRR's and indirectly increase the capacity of the banks to lend the real economy.

Taking in consideration the systemic and macro stability risk that the volatility of the exchange rate can cause, worsening the out-standing non government credit, the risk of a local credit crunch, NBR should inject gradually liquidity in the market, in a manner that may not boost the volatility of the exchange rates. So quantitative easing should be done gradually, as the risk of depreciation the local currency decreases, the inflows from IFM get in, and the measures taken by the government regarding reducing the budget deficits would be seen effective. The stability of the exchange rate is vital for the national economy, as more than half of the total domestic loans are in foreign currencies, mainly denominated in EUR.

Fiscal policy is a key role in the crisis context. Presenting a credible long and medium term fiscal consolidation would shore up investors confidence. The actual fiscal position and the external deficits may not permit implementing an expansionary fiscal policy. One of the key factors in succeeding this is that government will not pay attention to the unions' pressings. Predictable fiscal decisions, and urging the absorption of EU structural funds should be another main goals for the next few years. Fiscal policy should focus on public investment and on increasing the efficiency of public spending.

Structural and political reforms, improving regulatory environment, increasing the administrative capacity and continuing the reform in education, pension and labor systems, in line with the commitments signed with European Union's institutions.

Boost productivity and stimulate external competitiveness.

As the NBR's Governor says, an emotional approach of the crisis may lead to inadequate measure giving rise to an unwarranted stimulus to domestic demand, and a massive drop in foreign capital inflows including the reduction in international reserves and the loss of international credibility.

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## REFLECTIONS REGARDING TAX EVASION AND TAX FRAUD WITHIN THE CONTEXT OF THE INTERNATIONAL ECONOMIC CRISIS

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***Abstract:** Tax evasion is the manner in which economic subjects respond to tax pressure when it exceeds a certain threshold deemed to be necessary in order to initiate, maintain and develop a business or any other lucrative activity, as well as in connection with their wealth and current income.*

*The techniques of tax evasion depend on a multitude of factors: nature of the activity carried out by the organisation, size of the organisation, capacity of the government to perform efficient tax controls, size of tax pressure, organisational culture, etc.*

*European Union legislation deems the prevention of and fight against tax evasion as a distinct section of the taxation chapter. Pursuant to the Directive 77/799/EEC, competent authorities of the Member States exchange any kind of information that may allow them perform a correct assessment of income taxes and capital taxes.*

**Key words:** tax evasion, tax fraud, European Union, economic crises

### 1. TAX EVASION

Tax evasion is the manner in which economic subjects respond to tax pressure when it exceeds a certain threshold deemed to be necessary in order to initiate, maintain and develop a business or any other lucrative activity, as well as in connection with their wealth and current income. Although tax evasion encompasses connotations that enter the semantic sphere of underground economy, it is not a component of underground economy, but rather it lies at the inherent interference point of underground and official economy.

Tax evasion behaviour is generated by two critical factors:

- a) a natural factor, derived from the free rider instinct;
- b) an institutional factor, derived from the implementation of tax pressure (as dimension and as structure and dynamic as well).

The importance of tax evasion analysis derives both from its impact on the budget balance, as well as from the implications it carries on the general architecture of economic behaviour.

### 2. CONCEPT OF TAX EVASION

As mentioned before, from a semantic point of view tax evasion constitutes a circumvention of payment of legal obligations owed to the state.

Thus, tax evasion is an actual or potential behaviour of economic (individual or collective, as the case may be) subjects meant to lead to payment avoidance of legal obligations owed to the state. Therefore, not any circumvention of legal obligation payment is tax evasion, but only circumvention of payment of legal obligations owed to the state. This is only logical given that

tax obligations are established by each state to the use of the state. Consequently, circumvention of contractual obligations or even circumvention of legal obligations owed to the private sector do not constitute tax evasion, as they fall into other categories of law infringement, namely contract breach.

Legally, tax evasion is defined by Law number 241/2005: "*circumvention, by any means, in total or in part, of payment of taxes, duties and any other amounts owed to the state budget, local budgets, state social security budget and extra budget special funds by Romanian and foreign natural and legal persons, called taxpayers.....*"

One of the most delicate issues regarding tax evasion refers to the delimitation between legal (licit) tax evasion and illegal (illicit) tax evasion. Although such delimitation seems superfluous, because once incriminated any tax evasion means law infringement, therefore it is illicit, from a theoretical standpoint such a distinction may be argued. Consequently, *legal tax evasion* should be deemed to be such tax evasion that manages to avoid payment of budget obligations (in total or in part) by exploiting certain "loopholes" of law.

Avoiding payment of budget obligations by means of exploiting such "loopholes" leads to the reduction of collections in favour of the state, but at the same time does not constitute a law infringement: it means that we are faced with tax evasion, but the same did not occur following law infringement, but following law observance.

It seems that legal tax evasion (that, therefore, is not incriminated) is due to the conjunction between competence (taxpayer's competence to opt for the most advantageous solution laid down by law) and incompetence (lawmaker's incompetence who failed to notice the above-mentioned loopholes).

The situation in which it may be proved that the lawmaker "designed" the tax evasion loopholes on the basis of legal texts under the pressure of economic interest groups (lobby) and to the detriment of the state interest does not automatically fall into the illegal tax evasion category, because the taxpayer used a legal text that he or she did not infringe, but it may lead to other qualification such as, for example, the qualification as corruption act.

Therefore, although legal tax evasion is not directly incriminated, if it occurs as an effect of a corruption act produced at the lawmaker's level, then the latter is the incriminated act.

Consequently, corruption may be at the basis of creating legislative conditions for the existence of legal tax evasion.

Regarding *illegal tax evasion*, things are obvious: any infringement of tax regulation likely to cause prejudice to financial interests of the state must be qualified as representing illegal tax evasion.

By synthesizing the entire discussion indicated above, we consider that the following assertions may be made with respect to the concept of tax evasion:

a) *legal tax evasion* is a tax evasion that does not aim at the effectiveness of causing prejudice to financial interests of the state, but at the potentiality of such prejudice. Indeed, if tax evasion occurs without infringing the law, it logically results that the schedule of budgetary income did not take into account budgetary income that may not be collected following the provisions of tax law. Under these circumstances, it results that the financial interests of the state were not actually harmed. In other words, we consider that tax evasion does not exist in the actual sense of the term. Within this context we propose that the so-called legal tax evasion be deemed to represent the underassessment or undercollection of potential budgetary income. Consequently, there are two kinds of legal tax evasion:

- underassessment of budgetary income by the lawmaker by leaving "loopholes" that allow potential public income be siphoned away, namely through the incompetence or negligence in work (when corruption cannot be proved);

- undercollection of budgetary income by the administrator, through incompetence of negligence in work (also when corruption cannot be proved). On the basis of the above-mentioned facts, the so-called legal tax evasion may be a contradiction in terms: on the one hand, the concept of tax evasion refers to law infringement, therefore to a lawless situation and on the other hand tax evasion may be legal. Anyway, it clearly results that if legal tax evasion is voluntarily (deliberately) committed, we are faced with a circumvention of public income (to the interest of whom is of no significance whatsoever, it matters only that the circumvention was carried out to the detriment of financial interests of the state), consequently we are faced with tax evasion as it is defined by Law number 87/1994, and if tax evasion is involuntarily committed, then we are not faced with tax evasion in the sense laid down by Law number 87/1994, but with other offences (negligence in work, for instance). In such situation, in our opinion, the concept of legal tax evasion is a concept that is not denoted (has no correspondent in a real circumstance), therefore it represents an artificial semantic construction that should be discarded;

b) *illegal tax evasion* is the only kind of actual tax evasion, because it is perpetrated by infringing tax law. In this sense, the syntagm “illegal tax evasion” is a pleonasm, given that tax evasion is illegal by definition.

In conclusion, according to all the above-mentioned arguments, there is only one kind of tax evasion (the tax evasion pleonastically called illegal tax evasion), while legal tax evasion does not exist (the syntagm constituted a logical contradiction at the level of terms).

### 3. INTERNATIONAL TAX EVASION

#### *Concept of tax heaven*

Tax heaven means a territory (usually a country) where economic and financial activities are carried out under the following conditions:

- a) medium taxation level (medium tax pressure) below the international taxation;
- b) regulations with respect to the operation authorisation of economic agents are minimal;
- c) secrecy of banking and trade operations is guaranteed by law;
- d) there are no limitations whatsoever of monetary transactions.

A “genuine” tax heaven may even set as ambition not imposing any type of collections of taxes or duties (according to the normal meaning of the term), given that the operation of public institutions and authorities, as well as the obtaining of average income per inhabitant is derived by collecting some fees.

A tax heaven does not have, per se, anything illegal, given that all procedures, exemptions, confidentialities, etc. are laid down by law. The reprehensible aspect (in the extended sense of the term) is the impact that the existence and use of tax heavens have on rendering (laundering) certain amounts of money of criminal origin honourable through sophisticated financial engineering schemes. These schemes manage to extract huge benefits from the apparent observance of all the regulations they use.

It is estimated that currently there are 40 regions in the world considered to be tax heavens. They are located either in archipelagos (for example, the British Virgin Islands, or they are island republics (for example, the Republic of Nauru), or are small countries (for example, Panama).

“Accessing” a tax heaven is based also on the economic rationale. The parties interested in using tax heavens perform an economic calculation called *option price*. This, of course, refers to the determination of the opportunity cost of using/not using a tax heaven. If the avoidance of tax heaven creates bigger losses than its use, then one will proceed to the accession and use thereof.

As we will further see, each such tax heaven has its facilities or, more precisely, its own emphases laid on certain facilities or other facilities (referring to either the income tax rates, or to the degree of transparency of operations or the bank secrecy, etc).

The idea is to design financial engineering schemes that exploit, in a procedural chain, the maximum advantages of each tax heaven, so that at the end of the process the monetary advantage is maximal. In this sense, a *screen* of companies is built and it exploits these very specific facilities.

“The art” of financial engineering that uses tax heavens lies in conjugating several such tax heavens, so that each of them solves a certain evasion issue through a certain specialised company. The value added by each tax heaven to the end benefit is thus maximised.

The main *screen* companies used in exploiting facilities offered by tax heavens are:

a) holding-type companies: companies that control a group of companies through the block of shares (shares of capital); they are used in order to cover up the real identity of capital owners. The implantation of holding-type companies depends on the existence of tax treaties concluded between the source-country of profits, the transfer country thereof and the final destination country of such profits;

b) captive insurance companies: insurance companies that no longer face the problem of tax non-deductibility of provisions constituted in order to cover risks. This leads to a huge increase of profits of insurance companies concerned because the higher the provisions constituted to cover risks, the lower the taxable profit;

c) captive banks: banking companies that have non-resident status and that consequently are no longer subject to profit taxation or to monetary regulations of the country where they operate. This way, the performance of fraudulent transactions is facilitated (letters of bank guarantee, international transfers, client portfolio management, etc.);

d) trusts: occur as a result of the need to be protected against country risk (especially against political risk). Trusts do not involve publicity or auditing of financial statements, favouring the assets and management transfer. The most frequent are the discretionary trusts – they allow the identity protection of beneficiaries of trusts’ income;

e) international trade companies: companies whose role is to extract the profits resulted following international trading transactions for the purpose of manipulating the amount of tax obligations owed – the mechanism is the transfer of tax base and of taxation right from the product supplying country to the tax heaven (which is the intermediate beneficiary of the products);

f) real estate business companies: companies used to obtain tax advantages regarding taxation of gains from inheritances or from the transfer of ownership right.

### ***International tax heavens***

In general, tax facilities offered by various states or territories may be classified as follows:

1. countries that do no tax income (zero states-heavens): Cayman, Turks, Caicos, Bermuda Islands;
2. countries that tax income on the territorial principle (for income obtained outside the national territory they do not collect taxes): Panama, Venezuela, Costa Rica, Liberia, Philippines;
3. countries with a relatively reduced tax rate (sometimes established on the basis of tax treaties): Dutch Antilles, Guernesey, Jersey;
4. countries that offer preferential tax treatment to holding-type companies: Singapore.



Selection criteria of a tax heaven may be synthesised as follows:

- a) general factors: geographical location, legal status of the state concerned, political and economic stability, quality of life, level of education and instruction, currency stability, chances of profit transfer, bank and tax secret;
- b) particular factors: conditions of obtaining tax residence of domicile, possibilities of capital transfer, existence of tax shelter, secret of operations, existence of tax agreements (treaties);
- c) specific factors: facilities granted to investors, derogatory tax regime, possibilities to obtain larger profits than in the state of origin.

In this paragraph we briefly review some international tax heavens and their basic characteristics.

### ***1. Cyprus***

Cyprus concluded double taxation avoidance agreements with a series of countries in Europe and North America. The main features of the Cypriot tax heaven are as follows:

- 4.25% tax on profit of off-shore company if the company management or company control is carried out in Cyprus;
- non-taxation of profit of off-shore company if the company management or company control is not in Cyprus;
- non-taxation of an off-shore person company if the partners are not residents of Cyprus and the company carries out its activity outside the Cyprus territory;
- operation regime of a Cypriot company is quasi-transparent, but it is no longer deemed to be an off-shore company, but a community one and the tax applied amounts to 10% (provided that any expense is tax deductible);
- high level of development of fiduciary industry (blank contracts between owners and fiduciaries, while the latter do not know the true identity of the owners);

### ***2. Cayman Islands***

- in the Cayman Islands there is no unemployment;
- there is no obligation to keep financial and accounting records;
- there is no obligation to state the identity of the companies' owners;
- there is no taxation or control on transfers;

### ***3. Turks and Caicos Islands***

- same permissiveness as in the Cayman Islands;
- there still are some restrictions (companies may not own land properties and may not carry out activities on the island territory);
- no activities are allowed in the banking field or the insurance field;
- the registered office of companies must be mentioned with the address of the authorised management company;
- it is not necessary for the company's chief executive or secretary to be residents of the islands;

### ***4. New Zealand***

- offers complete tax exemption, under the following conditions:
- at least one resident of the New Zealand territory acts as shareholder;
- the management is provided by a natural person resident of New Zealand;
- the company does not carry out activities on New Zealand territory (therefore it does not have the obligation to keep accounting records)
- offers 100% confidentiality.

#### 4. TAX FRAUD

##### *Concept of tax fraud*

As mentioned before, tax fraud is the so-called illegal (illicit) tax evasion. In our opinion the concept or the phenomenon of legal (licit) tax evasion does not exist because there is no law infringement and no prejudice has been created with respect to the scheduled budgetary income. Therefore, tax fraud is equivalent to tax evasion. Tax fraud is closely connected to underground economy, to tax corruption and immorality.

But in our opinion a distinction may still be made between tax evasion and tax fraud (but also at the level of illicit tax evasion) and namely from the perspective of intentionality/subjectivity of the phenomenon. In this sense, there may be two distinct situations that, although do not eliminate tax evasion, suggest some indications regarding its “sustainability,” its extension to which it is produced, regarding its impact on tax behaviour in general or regarding budgetary balance.

1. first of all, it is possible, for example, that a certain taxpayer perform accounting records that may lead to the circumvention of payment of certain budget obligations, out of negligence or incompetence. We deem that in this case it is appropriate that the same be called subjective incapacity, where the taxpayer may be accused of tax evasion (the taxpayer infringed the law and caused monetary prejudices to the state with respect to the scheduled budgetary income of the latter). But if those records are deliberately carried out (therefore not out of incompetence or negligence), we are faced with a case of tax fraud. A question occurs: how do we distinguish whether we are faced with a negligence or incompetence or, on the contrary, whether we are faced with a deliberate behaviour? Probably a good selection criterion would be the repeatability of the phenomenon: if we are faced with singularity (a case not exactly repeated) we may decide that a case of tax evasion is involved, but if the case is exactly repeated, we may decide that a deliberate behaviour is involved, namely that we are faced with tax fraud.

2. secondly, a distinct situation may be produced, that may be called objective incapacity. Let us suppose that we are faced with monetary arrears between two companies. The company that has outstanding debts with respect to another company may not pay (at least not upon deadline) its budget obligations. But this incapacity does not belong to it, it is neither deliberate, nor the result of negligence or incompetence it is responsible for. In our opinion, we are now faced with a case of tax evasion (the company that owes certain amounts to the state budget has prejudiced the financial interests of the latter by infringing the tax law) but we are not faced with a case of tax fraud. Yet, if it may be proved that the company that deals with the above-mentioned monetary arrear is related to the debtor company in the sense that there is an agreement that the company does not pay the monetary debt for the very purpose that is may not pay its budget debts, we return to the tax fraud case.

Therefore, although in principle we deem that tax evasion is equivalent to tax fraud, when intentionality (namely the deliberate nature of the case) is not or may not be proved, we admit that we are faced with a case of tax evasion, otherwise tax fraud is concerned. Although the law does not discriminate between the two situations (given that it is possibly up to the governmental inspector to do the same, we consider that it would be useful to discriminate, especially from the point of view of the penal feature, between the two situations, thus contributing to the formation of a tax ethics, as mentioned before.

## 5. TECHNIQUES OF TAX EVASION AND TAX FRAUD

The techniques of tax evasion depend on a multitude of factors: nature of the activity carried out by the organisation, size of the organisation, capacity of the government to perform efficient tax controls, size of tax pressure, organisational culture, etc.

The main categories of techniques (methods) of tax evasion may be synthesised as follows:

*1. in the case of tax evasion with respect to income tax:*

- reduction of tax base by including some expenses into costs, without supporting documents or without a legal basis (fines, penalties, etc.);
- recording some oversized expenses or exceeding the limit legally admitted (redemptions, social and cultural expenses, travel expenses, protocol expenses, etc);
- deducting personal expenses of partners or interests on loans granted by owners to their own organisations;
- failure to fully record incomes yielded, either by failure to draw up primary accounting records, or by recording in documents delivery prices that are below the actual prices;
- transfer of taxable income to newly-created organisations (companies) belonging to the same group (holding), which are in the period of exemption from payment of income tax, simultaneously with the experiencing of losses by the parent-company;
- determination of income tax by inappropriately applying legal provisions (for example, if reinvested income would be non-taxable);
- non-profit organisations' failure to calculate the tax corresponding to economic activities carried out according to the law;
- failure to record in accounting documents the differences established through the tax control acts;
- failure to record in accounting documents the budget obligations regarding the income tax owed;

*2. in the case of tax evasion with respect to value added tax (VAT):*

- erroneous application of deduction regime (VAT deduction on the basis of documents whose VAT value is not recorded or even deductions without supporting documents or with illegal documents, double deductions following repeated recording of some invoices in the purchase journal, deductions performed on the basis of documents belonging to other organisation, deduction of VAT corresponding to operations recorded and that are not entitled to deduction);
- failure to include in the calculation base some operations that enter the VAT sphere or failure to include in the calculation base the VAT corresponding to all invoices;
- failure to record and to transfer the VAT corresponding to advance payments made by clients;
- failure to perform the necessary registration, as VAT payer, upon exceeding the minimum threshold that stood at the basis of non-registration as VAT payer;
- circumvention of payment of VAT corresponding to goods import, by presenting to the customs bodies falsified donation documents from external partners instead of purchase documents;
- failure to include in disbursement accounts the VAT corresponding to the payment made to customs bodies;
- issuing tax receipts and invoices with VAT without the organisation concerned being a VAT payer and therefore without recording in accounting documents and transferring the corresponding VAT;

- failure to use or the inappropriate use of forms, with incomplete recordings in the purchase journal or with repeated recordings in these journals; the “loss” of invoices, the postponement of drawing up tax invoice for the purpose of postponing VAT payment, failure to include in the calculation base of the VAT all the elements stated in the invoice (packages, costs of carriage, etc.);
- false statements with respect to imports as being temporary (therefore not subject to VAT payment);
- various deliberate “calculation errors” aimed at reducing budget obligations with respect to VAT;

*3. in the case of tax evasion with respect to wage tax:*

- failure to tax the amounts paid to employees as wage income (money or in-kind benefits, other in-kind rights, bonuses, amounts representing employees’ participation in profit, various incentives, etc.);
- incorrect application of wage right tax table;
- failure to withhold and transfer the wage tax owed for persons employed on the basis of temporary work contracts or for day labourers ;
- failure to cumulate for tax purposes all wage incomes;
- failure to record in accounting documents the payment obligations of wage tax;
- failure to comply with the legislation on the establishment of wage right tax base (plurality of position, exemptions or tax deductions, etc.);
- creation of fictitious expenses for wages paid to certain persons (payments of the nature of dividends covered up under the form of wage rights);
- creation of facilities for employees, which do not enter the taxation sphere of wage rights;
- use of micro-undertakings in order to cover up budget obligations with respect to wage tax (consultancy contracts, etc.);
- obtaining by employees of documents that attest their right to exemption from payment of wage tax: revolutionary certificate, handicapped certificate, etc.;

*4. in the case of tax evasion with respect to excise duties:*

- failure to include in the tax base all the amounts taxable according to excise duties;
- decrease of tax base by underassessing the imported products before the customs bodies, by using double (parallel) documents;
- failure to calculate and failure to record in accounting documents the excise duties corresponding to the modification of alcoholic concentration;
- failure to include excise duties in the sale price of products for which excises are owed;
- failure to render evident in accounting documents the payment obligation of excise duties owed;
- circumvention of payment of excise duties by changing the name of products to which excise duties are applied and their record in the category of products to which excise duties are not applied or to which reduced rates of excise duties are applied (mineral oils, alcohol, etc.);

*5. in the case of tax evasion with respect to other budget obligations*

- recording in accounting documents certain buildings according to values lower than the real (actual) value;
- failure to submit to tax bodies the declarations regarding the buildings that are part of

- the patrimony, the means of transport that the organisation has in its possession and the land held by or under the administration of the organisation;
- declaring erroneous, not updated or false data regarding the tax applied on buildings, the duty applied on means of transport, the duty applied on the use of state-owned lands, etc.;
  - failure to constitute and transfer the dividend tax, erroneous calculation thereof;
  - failure to withhold the dividend tax corresponding to advance payments made during the year that, following the yielding of profit and the approval of the balance sheet, were given the destination of dividends;
  - failure to declare the income yielded by the legal persons from various activities (tutoring, income yielded from rentals, sale of products through consignments, “yard” sale of products, etc.);
  - infringement of legal provisions regarding the way to carry out and tax the taxicab activity performed by licensed persons by failure to appear before tax bodies for the purpose of reading the meters or by altering the information provided by these persons with respect to the activity concerned.

Tax evasion perpetrated according to the techniques briefly presented above (and, of course, according to various such techniques) is somewhat benign in the sense that it may be ascertained by the competent tax control bodies. The issue becomes more serious when evaded amounts are the subject of laundering, which makes the fraudulent origin of the amounts concerned become lost and render the amounts in question “honourable.”

## **6. ACQUIS COMMUNAUTAIRE IN THE TAX EVASION AND TAX FRAUD FIELD**

European Union legislation deems the prevention of and fight against tax evasion as a distinct section of the taxation chapter. Pursuant to the Directive 77/799/EEC, competent authorities of the Member States exchange any kind of information that may allow them perform a correct assessment of income taxes and capital taxes.

This exchange of information may be carried out upon request, automatically, on a regular basis or spontaneously. European legislation specifies the cases in which information exchange in the matter of tax evasion must take place spontaneously.

For the purpose of protecting financial interests of the Community, by means of the Regulation (EC) number 2185/1996, the European Commission may carry out on-spot controls and inspection within the Member States under the following circumstances:

- in order to detect serious or cross-national infringements, to detect infringements that may involve economic agents that perform their activity in several Member States;
- in the case when in order to detect serious infringements, the situation within a Member State requires the strengthening of controls and inspections;
- upon the request of the Member State concerned.

We must specify the fact that the inspectors of the European Commission have to have access under the same conditions as the national administrative inspectors and according to the national legislation of the Member State, to all the information and documents regarding the operations and transactions aimed at.

In order to protect the financial interests of the European Union, a special structure was set up, the European Anti-Fraud Office (OLAF), on first June 1999. The Office performs an independent activity, but it is included into the structure of the European Union and it is subordinate to the European Commissioner for budget.

In 2005, through the Government Resolution number 793, the National Anti-Fraud Strategy was approved with a view to protecting the financial interests of the European Union in Romania, aiming at preventing the fraud of community funds by means of communication actions and public relations, public financial control, tax control, investigation and pursuit of fraud cases, recovery of prejudice and coordination of anti-fraud fight.

The strategy has an action plan in the field of tax control that includes especially:

- a. developing an appropriate coordination capacity and guaranteeing the calculation, collection, payment and control of own resources, as well as reporting to the European Union;
- b. creating a legislative framework for the collection and control of production duties;
- c. drawing up normative documents necessary with a view to ensuring the conformity with community regulations in the field of collecting and controlling own resources.

## CONCLUSIONS

In crisis conditions, underground economy strengthens, the problem aggravates when the escapist amounts are the object of money laundering, which makes the fraudulent origin of the amounts in question to disappear and they to become "honorable".

In the mechanism of money laundering, an essential role returns to banks and other financial institutions which through specific techniques and procedures need to stop this bad phenomenon.

International financial organizations, in crisis conditions are required to harmonize legislation at both European and worldwide level, especially to eliminate tax heaven.

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## THE EXPERIENCE OF THE EUROPEAN UNION'S MEMBER STATES IN ATTRACTING FUNDS

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***Abstract:** The European funds do not represent an inward purpose, but instruments in reaching the objectives established at the level of the European Union, of the EU member state, based on the implementation documents. This research work displays diverse aspects concerning the irredeemable funds absorptive capacity, that EU member states have confronted with or they still do; starting, on one side, from the comprehension of the spirit, philosophy and reasoning of the European Union objectives, and on the other hand, from the definition and general characteristics of any program destined to engaging such funds.*

***Key words:** structural funds, irredeemable financing, management authorities, regional operation programs, convergence.*

Inspired by the will of the Europe's states and citizens to build a commune future, the European Union, in its actual shape, is the result of some ample processes of economic and political cooperation and integration started on April 18th, 1951, when the Treaty concerning the „European coal and steel community” was signed. The six initial members (Belgium, Germany, France, Italy, Luxembourg and Netherlands), were joined, in five adhesion waves along a period of almost four decades, by another twenty one new members. These integration and cooperation processes are not considered closed at present since the European Union is opened to all those European states who respect its values and undertake to commonly promote them.

One of the fundamental objectives of the European Union is the strengthen of the economic – cohesion by reducing the regional disparities. This is also the reason why the member states participate to a European regional policy financed from European funds, which confers a concrete and immediate meaning for the communitarian solidarity.

After 1987, when the programming approaches was introduced, the Member States whit advanced governing systems Great Britain, the Netherlands, the Scandinavian countries have an important advantage, as they had already got used to this kind of planning technique. The strategic planning model extended to the use of structural funds with certain difficulty, mainly generated by overlapping and lacks in coordination between the regional development programs and other regional programs, like the Local Action Plans for Environment, Rural Development Strategies.

In Italy for example, in the first programming cycle (1988–1993), only 72% of the allocated funds were used. In the second programming cycle (1994–1999), the funds allocated for regional operational programs, representing half of the total allocation, had to be redirected to national programs, because the regions proved to be unable to use the funds. The situation change for the better only in 1997 after the establishment of DPS (Dipartimento per politiche di sviluppo e coesione - The Department for the Development and Cohesion Policy). DPS used European policies to promote the reform of domestic public policies and drafted the programmes for 2000 – 2006 cycle, reshaping the development policy for Southern Italy.

The development policy for the South designed by DPS started from the observation that local natural resources, as well as the development and growth opportunities of local SMEs had not been used. The growth plans must be developed by local actors rather than imposed from outside. Those, aim at stimulating the development of partnership, called coalitions, in a certain territory, and promoting common projects involving various public: municipalities and provinces, enterprises, trade unions, banks. Each member has a certain task to accomplish within the project. For instance, the administration must develop the necessary procedures and regulatory framework, enterprises must ensure the know-how, the necessary workforce and other specific inputs, the trade unions must ensure the interface for the work relations and the banks must facilitate the necessary loans. By 2001, 130 Pacts had been signed, with the participation of 2000 municipal authorities, covering 40% of the territory of Italy and one third of the country's population. Today 85% of the local authorities are trained in these programs.

Ireland, after 20 years of dependence on community assistance, within 2006 will cease to be a major recipient of structural funds. In this case, the structural funds did not come to fill a gap, but they were directed to support the different public investment plans already existing. The programming of the structural funds, which required the drawing up of the NPD and of the Operational Programmes, had the merit of joining all the plans under a common logic and of setting up a system for the priorities for investment, as these were showing the need.

The Irish institutions in charge to ensure the implementation of the programmes, mostly governmental agencies or public organizations, with offices and access points all over the country and working mostly with permanent staff, had a practical experience in managing programmes, offering grants and providing assistance. The expanding of financial resources, created by the structural and cohesion funds, highly raised the number of programmes that had to be implemented. The supplementary effort was dealt with by hiring more persons and by subcontracting. The experienced staff was further on responsible for the assessment and selection of the projects that were to be financed. Special departments have been set up, playing the role of the current Managing Authorities, one for each Operational Programme. The management and implementation system has been led by two major criteria, coherence and economy. The Department of Finance, a powerful and respected authority in the Irish administrative system, has assumed the function of general coordination for the structural funds and that of Payment Authority. The Payment Authority was integrated in the existing internal audit system, in order to shorten the circuit for the payment documents.

It was essential in the economy of the system created in Ireland that there never existed a parallel administration dealing only with structural and cohesion funds. The respective functions were taken over as much as possible by the existing required a special authorization, special departments were created in the ministries.

The Department of Finance, the coordinator of the structural assistance in Ireland, has planned to use at the highest level possible the European funds and to diminish accordingly the pressure on the national budget. To this purpose, a principle was adopted, according to which no



public expenditure eligible for the structural and cohesion funds could have been financed exclusively from national sources. The governmental departments carrying out investment projects that could be financed from the European funds were obliged to take into consideration the co-financing component. The rule was relatively easy to enforce, because, The Department of Finance had the right to refuse financing the investment concerned, if the project didn't obey the rule. The principle functioned until 2002, when the Irish public finances became sufficiently strong to be able to assume on their own some part of the financial burden for some public investments.

The Irish system is the opposite of the solutions used in Greece and Portugal, and more recently, in all the new Member States, where the structures for managing and implementing the structural assistance practically create parallel mini-administrations, with rules and procedures different from the national ones. Thus, incompatibilities, miss coordination and delays appeared frequently, notably in the financial management. The parallel system is more expensive, due to the important number of civil servants employed in addition.

Spain, together with Portugal, Greece and Ireland is one of the big beneficiaries of structural and cohesion funds under Objective 1.

In the 1994-1999 programming period, the funds generated an additional increase of the economic indicators as: employment, amount of private investments for the regions assisted. The difference represented an annual increase of one percent, due to the structural assistance. For the entire programming period 1994-1999, the additional increase represents six percentage points higher than the one recorded in the rest of Spain. Employment increased by 27.000 new jobs on a yearly basis, with a total of 300.000 new jobs in the same period. Eventually, the differences between the income per capita in the assisted regions and the rest of Spain lowered with 20% until the end of the period.

The structural assistance was spent on three major fields: infrastructure, in average 45% of the total funds allocated, human capital development, in average 34% of the total funds and business support, with an average on regions of 21%.

In spite of very optimistic forecasts, the ten Member States, who acceded to the European Union in 2004, had serious problems regarding the European funds absorption allocated to them for 2004-2006. Similar to Romania's case, for the countries from the Central and Eastern Europe area, the first year after the adhesion was the most difficult year from the standpoint of accessing community funds. The estimations made by international consultants regarding the funds absorption amount of these states were optimistic, much higher than their real capacities.

Otherwise, in the concrete mode, according to 2006 an EU study, 45% of the 20 million of small and middle sized enterprises in Europe had knowledge about the EU structural funds, but only 4% have actually stand for financing. From the latter category, only 25% - representing 1% of the total number - received the money.

Slovakia seconded by Czech Republic and Poland are the champions of calculation errors concerning the absorption of European funds. All three have forecasted a European funds absorption degree three times higher than the real one. More specifically, Slovakia hoped for a funds absorption four times higher than the one obtained at the end of the period 2004-2006. For the period 2005, the Slovaks were hoping to draw Euro 426 million, while the actual payment value was of only Euro 112 million, and the Polish, who were hoping to attract Euro 2 billion, only managed to absorb Euro 766 million.

There are multiple reasons for this situation. According to specialists, the difficulties have been justified by the lack of experience of these states in the administration of the European funds, but also by the complex requirements enforced by the European Commission. Further, the reasons are found in the slow ongoing of the specialized institutions in the project analysis, excessive and

over centralized bureaucracy, but also the slow training of the staff specialized in the structural funds problems.

If we consider the case of Romania's three neighbour states, Hungary, the Czech Republic and Poland, as we can see above, the absorption process started off difficult, normalizing only in the following years, and the benefits of the fund allocation were felt differently, depending on every states economical particularities.

In Czech, the system of managing and implementing the structural assistance was bound to a request resembling that of Ireland, namely to the motto „never miss an opportunity”. However, the quantitative, as well as the opinions of some specialists, seem to indicate that the final results and the benefits cannot be compared with Ireland's results. As regards the results during the implementation, the degree of using the structural assistance is modest enough so far. A cause of the low absorption of the funds was represented by the limited number of mature project enough prepared (project pipeline). Due to this fact, the major projects have generally started in the second year, as the first year was used for drawing up the projects and for preparing the implementation. The estimations for the 2007-2013 programming period indicate a similar spending distribution, with a greater increase from 2009 and a peak during 2012-2013.

Hungary confronted problems regarding the European funds absorption capacity, in the first years after adhering. One of the most serious problems was the regional disparity. In spite of the national development plan afferent to the years 2004-2006, adopted by the local authorities, the life quality in the poorest regions has not been improved, more than that the difference between more developed regions and less developed regions has become larger. Most of the funds have been absorbed by Budapest and the neighbouring regions, while the eastern part of Hungary has been left behind.

From all the experiences, the case of Poland is most related to Romania. In both states agriculture has a significant part within the national economy. Although agriculturists have large areas of land, they produce more for personal consumption and less for the market. According to the European Commission, Poland has bettered its fund attraction mechanism, attracting, in 2006, 816 million Euros. The rural development plan adopted by this country led to increase of profitability for small farms, which have later become viable agriculture units and competitive for the European market, respecting the agricultural standards of the European Union.

Which to concern the structural assistance allocated to the Member States from the EU27 for 2007-2013 is of 308 billion euro, which represents 35% of the EU budget of an 862 billion euro value. The amounts allocated to the new Member States for the 2007-2013 period are significantly larger than in the first exercise. For the EU8 plus Romania and Bulgaria, the total amount allocated is of 175 billion euro, representing more than half of the entire budget allocated for the cohesion.

Therefore, it can be estimated that there is a set of terms which beneficiaries of this type of financing must accomplish, in order to have a good absorption rate. Among the first terms is programming the public investments programs as effective as possible, which would allow a full integration of structural funds in the public finance systems. Furthermore, the existence of a strong institutional structure, capable to ensure the formulation and application of public policies, to keep the coordination processes inside ministries going, the implementation of national programs, increasing the application capacity of partnerships between local administrations, is absolutely necessary. The second conclusion which can be drawn out of the experience of the states is related to the partnerships which the local administrations have to fulfil with the representatives of the civil society. Mostly, in these regions, the local administration has a limited capacity and partnerships with non-governmental subjects allow co-

financing the projects and implicitly generates the rising of the level of accessing structural funds.

A major challenge of the subsequent period is represented by the internalization of the evaluation and monitoring capacity, in order to decrease the dependence of the external Technical Assistance, very expensive, which does not allow for too high accumulations of institutional memory. A first step is the training, particularly training at the work place, not the theoretical training, necessary as well. The second step is the gradual internalization towards autochthon research–evaluation–monitoring institutions. This step must not be seen as abatement from quality, but it must be thought as a normal progress towards independent evaluation and monitoring capacities, located in the private sector or the ONG type non-governmental sector.

For instance, although there are diverse econometric methods to evaluate the impact of the projects financed from din community funds, so far, it has not been proven scientifically whether the European funds are good or bad for the regions or domains where they were used. More likely, the real problem would be whether those investments for which the financing from European funds was requested was vital or, on the contrary, more adequate solutions could have been identified in order to offer viable alternatives for the beneficiaries needs.

There is a joke circulating among macro-economists saying that, the smaller the absorptive capacity, the better for the macro-economic balances. Of course that a massive injection of funds shall have effects that cannot be neglected upon the aggregate request, which may generate pressures upon the inflation, the exchange rate, the commercial balance and the current account.

However, the use of Structural Funds can only be auspicious, the amount of absorbed quantities being less important than the value of the processes they cause. The European ideas are powerful enough, but they can be put into action only if there are appropriate local people and a domestic context ready for a change.

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## CHALLENGES OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) IN THE ISLAMIC ACCOUNTING WORLD, CASE OF MIDDLE EASTERN COUNTRIES

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***Abstract:** This paper presents the case of representing the Middle Eastern countries on the International Accounting Standards Board (IASB). It can give MEC countries the chance to participate in setting up the IFRS that go along with their economic environments and Islamic rules rather than just apply what other world regions agree on. It shows the benefits of the region to the world and the main different in culture, economic and accounting system.*

***Key words:** International financial reporting standards (IFRS), IASB, MEC*

### 1. INTRODUCTION

While 15 out of the 21 Middle Eastern Countries – which information is available- require or allow companies under their financial authorities to use the globally known international financial reporting standards (IFRS), only three countries – out of the 21 countries - have developed their national generally accepted accounting principles (GAAP), are still asking companies under their financial authorities to follow them, and are not allowing any company to use other standards.

In addition, 2/3 of the Arab countries are members of the international federation of accountants.

**Table 1. IFRS in MEC**

Country	Membership of IFAC	Accounting principles used	Notes
Morocco	Yes	National GAAP	IFRS are permitted
Tunisia	Yes	National GAAP	IFRS are permitted
Algeria	No	National GAAP	IFRS are permitted
Libya	Yes	National GAAP	IFRS are permitted
Egypt	Yes	IFRS	
Jordan	Yes	IFRS	
Israel	Yes	National GAAP	IFRS are not permitted
Lebanon	Yes	IFRS	
West Bank and Gaza	No	IFRS	
Syria	Yes	National GAAP	IFRS are not permitted
Iraq	Yes	No Information	
Saudi Arabia	Yes	IFRS	

Oman	No	IFRS	
Yemen	No	No Information	
UAE	No	IFRS	
Qatar	No	IFRS	
Bahrain	Yes	IFRS	
Kuwait	Yes	IFRS	
Iran	Yes	IFRS	IFRS are not permitted

In spite the positive relationship between IASB and the Middle Eastern countries, they still don't have any role or present or special consideration as any other country or region, within the agenda and the timetable of the IASB as well as during any standard setting process engaged by it. The current regional representatives are mainly from EU, NA, Japan, Australia and South Africa.

The Middle Eastern countries heading that, their region should take more concern in order to achieve better convergence while understanding and enforcing accounting standards around the globe.

According to the Chairman of the IFRIC, Robert Garnett "with oil revenues being directed into large investments, the region is increasingly being seen as a potential partner".

Taking into consideration the rule the middle east countries play over the whole world policy, investments, capital market which shows how important for IFRS to adapt because the totally different environmental factors that are considered by the IASB while setting IFRS. The decision of which standards to choose, for a nation, usually depends on the culture (Askary, 2006), legal system, taxation, business organizations and ownership, as well as on the accounting profession within a country or a region. Previous researches have proved that all these factors are indeed significantly different between the Middle East countries and the whole other world. Thus, if the IASB is talking about global convergence of accounting standards, it needs to understand that there are vibrant and evolving markets in other parts of the world, other than Europe and North America, which have special features which need to be addressed.

IASB main duties are preparing, generating, reviewing and exposing IAS and IFRS. The goal of IASB is attached to the idea of globalization and is simply a hope that the whole business world will follow one set of accounting standards. It is also important to notice that each standard must be approved by at least 8 members of the IASB, out of the IASB 14's members, in order to be considered for issuance.

The accounting professionals and experts of the MEC (Middle Eastern Countries) can point to various cultural factors as well as to key interests at stake and international concerns while discussing their right of being represented on the IASB.

## 2. CULTURAL FACTORS

### 2.1 ISLAM AND EMERGENCE OF ISLAMIC FINANCE

First, Islam's role in the world is becoming much more influential. 1.6 billion people, currently representing 25% of the world total population, are Muslims (According to CIA fact sheet and [www.islamicpopulation.com](http://www.islamicpopulation.com)). Second, among the 18 oil producing countries, ten are Muslims countries and provide 40% of the aggregate world oil production. Third, in addition to the role of Muslims countries in the international trade, Islamic Finance is emerging as a major force in the banking and investment world and is still in its growth stage. The Islamic bank of Britain, Amana Mutual Funds Trust, American Finance House- LARIBA Bank, MSI financial

services corporation and Manzail are just few examples of the various finance institutions that are engaged in this field of finance. Furthermore, MEC are members of the World Bank, UN, WTO, and most other international organizations. These organizations are giving special attention in their periodic reports to Islam as a religion and to its followers' needs and demands because of their belief about their current and prospective potential. However, we find that MEC was represented by 2 members only in the Standard Advisory Council (SAC) from 2001 till 2005, among 49 members of the SAC of the IASB, recently the MEC are not represented at all by any member!

In 2001 there were two members representing the middle East, Mr Adir Inbar (Israel) and Mr. Rifaat Ahmed Abdel Karim ( Bahrain) taking into consideration that Israel don't represent any of the Muslim population and the fact that all the Arab countries-except two- don't have any direct connections with Israel, which means one of the two members representing middle east.

## **2.2 RELATIONSHIP OF THE MEC WITH ISLAMIC FINANCIAL INSTITUTIONS**

Currently, Islamic financial institutions are represented on the SAC by an Islamic services Board (IFSB) member, without any consideration for the MEC and the accounting and Auditing organizations for Islamic financial institutions (AAOIFI).

Both of them – the AAOIFI and the IFSB- should be represented, this is because, in reality, while the IFSB is concerned with finance issues related to Islamic financial institutions, the AAOIFI deals with the accounting standards issues related to these institutions.

As long as most of the members of IFSB and AAOIFI are from the ME countries, Thus, IASB should consider the accounting policies, practices, and concerns of the MEC while reviewing, merging and interpreting the previously issued IAS or establishing the new (updated) ones.

## **2.3 EFFECT OF CULTURE ON ACCOUNTING STANDARD SETTING PROCESS**

Accounting standards-IFRS or any National GAAP- are influenced by the surrounding culture to a great extent, after 1972, the main concern of the accounting world's professionals has been to reduce the differences between the different accounting principles among the different countries. The IASCF and IASB were created for this purpose.

MEC and any other country, regardless of its representation status on the IASB, should have the right to bring up its concerns and discuss them with one of the IASB affiliates ( mainly IASCF, IFRIC, and SAC). Definitely, the IASB will remain the only body, and final decision maker, that decide which financial reporting standard to issue and recognize. This opinion is being mentioned because the MEC are facing many significant regulatory difficulties in the current situation. They consider they can bring these difficulties to the attention of IASB in case they are represented.

These difficulties may include the IAS 24 that requires all the transactions with "close family members of a related party" to be disclosed. Differences in cultures and type of family bonds make it more challenging for MEC accountants to adopt such standards. This fact is not fact is not very obvious to the current IASB team of representatives because close family ties and similar levels are not the same in all over the world, they differ from region to another. At the same time, the IASB does not consider these facts because no one can, or will, bring this type of concerns to their agenda if those who are influenced by them and concerned are not represented, following up, or attending the IASB meetings on a regular basis.

A presentation of this type of cultural differences by MEC accountants professionals, will lead IASB to be more convinced with the idea of inviting a MEC representative to its structure because such action will enhance the degree of understanding of new standards and make them more relevant to the interested users.

### **3. ECONOMIC FACTORS**

#### **3.1 ECONOMIC SIGNIFICANCE OF MEC COUNTRIES**

The MEC region is known for its economic diversity, it has resource-rich and resource scarce countries. In aggregate, all of them- as a group- are doing well. Internationally, Growth in the Middle East and North Africa was robust in 2006, with real GDP rising 6.3% (2007). This extraordinary growth- the strongest in more than 10 years-occurred despite the difficult conditions affected many countries, particularly the conflict-affected areas of Iraq, Lebanon and the west bank and Gaza. Strong oil revenues and the ongoing European recovery provided the momentum for growth, allowing per capita GDP to rise 4.2 % despite large increase in the population.

According to the World Bank annual report real GDP of Middle east and North Africa reach 5.3%, depending on the oil revenues, the region is enjoying large trade and current account surpluses. The current account surpluses as a share of GDP rose from 9.1 % in 2004 to 16.8 % in 2006. This all means that the region is within the range of the economic expectations, regarding the increase in the rate of population- which fell from 2.5 % annual to 2 %, still higher than the international rate 0.5 %. Unemployment dropped from more than 15 percent in 2000 to 11 percent in 2007. This all allows the MEC members and accounting experts to be represented in order to bring up their geographic diversity of professional backgrounds, present and protect their interests at stake and provide their advice to the IASB.

#### **3.2 BUSINESS ENVIRONMENT IN THE MEC**

If the IASB would like to base the representation criteria on the percentage of global participation, then again the MEC will not do badly. The business environment is attracting more investors day after day. With the establishment of new industrial cities and new property holding laws, according to a survey made by CONNECT-World CEO, the middle east will lead the world out of the current economic slowdown, according to 76 % of business leaders, almost two third of respondents say they are very optimistic about the long term prospect for their company in the middle east, with another 33 % optimistic.

Regarding the stock market which is getting bigger having Saudi Arabia the largest listed foreign stock in the MEC region, reaching more than \$ 26.5 billion followed by Egypt \$ 14.5 billion. Despite the financial crisis which affect the whole world market especially the stock market the level of profits that is being made in the region along with the successful strategies that are being set are launching partnerships of the MEC region with the rest of the world and are attracting new entrepreneurs to the MEC.

Thus, it will be much better if MEC is represented on the IASB the same as each interested global business player, respecting their corporate laws, corporate acts and code of corporate governance.

#### **4. MEC KEY INTERESTS**

##### **4.1 FOREIGN INVESTMENT CONCERNS**

Planning is the 1<sup>st</sup> step for any international company before investing in any other country or region all over the world, one step of this planning is making a study of the accounting system in the country they are interested in investing at it.

Due to the location of the MEC between the East and west, it is an important location for most of the international companies. Which they are faced by the accounting system in the MEC countries which use various accounting system

It needs to satisfy the foreign investors' interests by using set of financial reporting standards (and not one set in each country) because this will reduce confusion, as well as error and fraud, which will lead to an increase in the degree of governance and trust. This transparency and trust can lead to better corporate governance that cannot be underestimated by investors who are targeted for providing foreign capital flows that cause growth, which is main concern for the region.

Thus, it is an advantage for the MEC to follow IFRS and not to establish their own set of united reporting standards, however, the importance of transmitting the concerns of its countries to the IASB should be understood. That is why inviting a MEC representative to the IASB structure will solve the adaptation problem, ensure that the IFRS will not harm it – but will only help it- and will serve the global accounting harmonization movement at the same time, instead of establishing new regional sets of IFRS.

##### **4.2 ACCOUNTING STANDARD DIFFERENCES BETWEEN IASB, AAOIFI AND MEC**

The accounting and auditing standards that are adopted by Islamic financial institutions are an obvious reflection of the different financial instruments, contracts, insurance and interest laws, ethical standards, and types of business organization that are used by them. These standards, which slightly differ from those set by the IASB, are set by the AAOIFI which currently has 115 members from 27 countries. Specifically, they differ in five issues that are related to leases, restricted contracts, and specialty investment account (where the investors bear part of the business risk).

Having a representative from the MEC in the IASB will facilitate a lot of issues as he will understand these differences and MEC nation's common sources of finance, accounting regulations and framework, level of industrial development, as well as many other factors that are relevant, according to his experience and exposure.

##### **4.3 CHALLENGES OF COMPLYING FULLY WITH THE IASB**

IASB requires each organization to comply fully with IFRS in order to be considered as following IAS. Full compliance with each IFRS by the MEC is a real challenge at the current moment. First, complying with the IFRS mean that the MEC are ready to abandon their particularities, replace their business reporting culture, lose the control process of standard setting, and use the one that is accepted by the IASB.

The second challenge is the current unavailability of high qualified IFRS auditors and accounting staff in the MEC countries in the same level as in the western regions of the world.

Third, until now the IFRS are not proving to be workable within the MEC context of national standards and that is why many standards have not yet been adopted in many countries.



## 5. CONCLUSION

In conclusion, the above observations show that on the basis of any representation criteria (geographical location, GDP level or population) MEC will be capable of gaining a seat on the IASB structure as it is doing in other reputable international financial organizations such as the world bank and international monetary fund.

If the world want to apply one accounting standards, IASB should recognize the importance of the Middle East countries in their structure, having a representative in the IASB will allow the MEC to apply IFRS in all the countries and allow the IASB to apply the IFRS in a very important region of the world, because otherwise the MEC will be supporting the current available ideas of establishing the Association of Gulf Cooperation Council (AGCC) accounting system or MEC accounting system.

Finally, it can be said that IASB and MEC have to recognize and respect each other because of the simple fact that each of them creates a benefit for the other. Definitely this can be appreciated and considered more after acknowledging the number of Middle Easter countries that are currently complying with IFRS and also after concentrating more on the idea of perfect harmonization.

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## AN APPLICATION OF THE STOCHASTIC McSHANE'S EQUATION IN FINANCE

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**Abstract:** *In specialty literature, for establishing a variation model for the price of an active there is usually used Ito's theorem. Starting from a model enunciated by Mcshane, I will try to expose another way for introducing the price of a share.*

**Key words:** Options pricing models

### 1. INTRODUCTION

The stochastic calculus is the most natural instrument for studying natural models which have an indeterminist part. If we want to describe the Brownian motion, this can be done by using stochastic differential equations where a Wiener process formal derivate can be identified.

In stochastic calculus, like in classical differential equations, the hardest part is the interpretation and the approximation of the processes. Usually, the indeterminist part is approximated to something convenient for obtaining the desired result or, at best, the inferred one.

In finances, if the price of an active or a derivative must be decided, the most used instruments are the ones resulted as a consequence of Ito's theorem. This domain's pioneers were Black, Scholes, Merton, and Fischer who, in the 70s, attained at remarkable results in the establishing of financial instruments' prices by using mainly Ito's theorem. An alternative to this calculation technique, described by Stratonovich (1966), was analyzed by Sethi and Lehoczky (1981), the two attaining that for respecting the hypothesis of an "efficient market", the described process must be a martingale, which happens in the case of Ito processes, but didn't happen in the case of the processes described by Stratonovich.

Brownian motion models studied up to date and described in specialty works do not cover all possible situations. Usually, the models that try to establish the prices of some financial instruments have restrictions regarding the variation of certain parameters, which makes them inefficient.

In this article I will use a result obtained by McShane (1974), the McShane integral, which is a particular case of semi martingale. The system proposed by McShane has the property that, in case of lipschtzien functions, the solution of the equation is the same as the solution inferred by a similar physical system.

The article will make an introduction in the stochastic calculus used for McShane's equation and then I will propose an application to this type of calculus for the variation of an option's price, similar to the Black-Scholes equation.

## 2. MCSHANE'S DIFFERENTIAL EQUATION

The equation announced by McShane is the following:

$$x(t) = x(0) + \int_0^t f(s, x(s)) ds + \int_0^t g(s, x(s)) dz(s) + \int_0^t h(s, x(s)) (dz(s))^2, \quad (1)$$

where  $f$  and  $g$  are functions having partial derivatives on each variable, required for the integral's

and the differentials' existence,  $z$  is a stochastic process, and  $h(t, x) = \frac{1}{2} g_x(t, x) g(t, x)$  with the

less used notation  $g_x = \frac{\partial g}{\partial x}$ .

While the first integral is a Riemann-Stieltjes integral, the last two must be introduced somehow because, although they look like a Riemann integral, they don't represent the same thing.

Let  $\Delta_n = (0 = s_0^{(n)}, s_1^{(n)}, \dots, s_{k_n}^{(n)} = t)$  be a series of divisions in the interval  $[0, t]$ ,  $t \in \mathbb{R}_+^*$  which has its norm tending to 0 when  $n \rightarrow \infty$ .

If the series

$$\sum_{i=1}^{k_n} g(s_{i-1}^{(n)}, x(s_{i-1}^{(n)})) (z(s_i^{(n)}) - z(s_{i-1}^{(n)}))$$

has a finite limit, then the limit is

$$\int_0^t g(s, x(s)) dz(s)$$

and, similar if the series

$$\sum_{i=1}^{k_n} h(s_{i-1}^{(n)}, x(s_{i-1}^{(n)})) (z(s_i^{(n)}) - z(s_{i-1}^{(n)}))^2$$

has a finite limit, then the limit is

$$\int_0^t h(s, x(s)) (dz(s))^2$$

From equation (1) we deduce

$$dx = f(t, x) dt + g(t, x) dz + \frac{1}{2} g_x(t, x) g(t, x) (dz)^2 \quad (2)$$

Consider the continuous function  $F$ , having continuous partial derivatives  $F_t, F_x, F_{xx}$  and  $x(t)$  is a stochastic differential process, then:

$$dF(t, x(t)) = \{F_t(t, x(t)) + F_x(t, x(t))f(t, x(t))\} dt + F_x(t, x(t))g(t, x(t))dz(t) + \left\{ \frac{1}{2} F_{xx}(t, x(t))g_x(t, x(t))g(t, x(t)) + \frac{1}{2} F_{xx}(t, x(t))g^2(t, x(t)) \right\} (dz(t))^2 \quad (*)$$

We will analyze some particular case:

If  $g$  is independent of  $x$ , then  $g_x = 0$  and so  $h=0$ , meaning

$$dx = f(t, x) dt + g(t) dz \quad (3)$$

An equation with a form usually used in finances.

In case of a Lipschitzen process  $z$ , meaning that exists an  $L$  so that

$$|z(u) - z(v)| \leq L|u - v|,$$

for any  $u, v$  in a compact interval, we can affirm that  $(dz(t))^2 = 0$  and we have

$$dx = f(t, x) dt + g(t, x) dz. \quad (4)$$

In the last case, where  $z$  is a Wiener process, we have  $(dz(t))^2 = dt$  and equation (2) will become:

$$dx = f(t, x) dt + g(t, x) dz + \frac{1}{2} g_x(t, x) g(t, x) dt = \left( f(t, x) + \frac{1}{2} g_x(t, x) g(t, x) \right) dt + g(t, x) dz \quad (5)$$

In the same context equation (\*) becomes

$$dF(t, x(t)) = \left\{ F_t(t, x(t)) + F_x(t, x(t))f(t, x(t)) + \frac{1}{2} F_{xx}(t, x(t))g^2(t, x(t)) \right. \\ \left. + \frac{1}{2} F_{xx}(t, x(t))g^2(t, x(t)) \right\} dt + F_x(t, x(t))g(t, x(t))dz(t) \quad (6)$$

### 3. AN APPLICATION FOR ESTABLISHING THE PRICE OF THE OPTIONS

If in the Black-Scholes formula it is used the Ito equation

$$dP = \alpha P dt + \sigma P dz$$

with  $P(0) = C$ ,  $C$ -constant, where  $\alpha$  is the instant efficiency of the active support, and  $\sigma$  its volatility under an historic property  $Q$ .

then from McShane equation (6) we have the following model

$$dP = \left( \alpha + \frac{\sigma^2}{2} \right) P dt + \sigma P dz \quad (7)$$

By putting down  $V(P, t)$  the value of a call-option we obtain using (6) and (7):

$$dV = \left( \left( \alpha + \frac{\sigma^2}{2} \right) V_P P + \frac{1}{2} V_{PP} \sigma^2 P^2 + V_t \right) dt + \sigma V_P P dz \quad (8)$$

with the notations  $V_P = \frac{\partial V}{\partial P}$ ,  $V_{PP} = \frac{\partial^2 V}{\partial P^2}$ .

Acting similar as in determining the Black-Scholes formula in which the condition for an active without risk is set, that is

$$d\pi = r\pi dt \quad (9)$$

where  $r$  is the rate without risk, and  $\pi$  is the value of a portfolio formed from an option  $V$  and  $V_P$  shares, that is

$$\pi = V_P P - V \quad (10)$$

If we differentiate the last relation, we have:

$$d\pi = V_P dP - dV \quad (11)$$

which is introduced in (9) and by considering (7), (8) and (10) we will obtain the equation:

$$V_P r P + \frac{1}{2} V_{PP} \sigma^2 P^2 + V_t - r V = 0 \quad (12)$$

Equation which resembles the Black-Scholes equation obtained in the situations given by Ito's Theorem.

We obtained a new way for deducting the equation determining the price of an option without considering Girsanov Theorem of probability change, recalibrating The Wiener process or using the infinitesimal operator of the diffusion process.

We know this equation with partial derivatives, by using a change of variable, will lead us to the essence of heat. The McShane equation is mostly used in Physics; as many physical processes are similar to economic ones, the idea of using this deliverance method starting from known results in physics is not anything new and I reckoned on this thing in deducting the dynamic equation of the price of an option, the Black-Scholes equation.

The solution from equation (12) in which we have the final condition  $V(P, T) = \max(P_T - K, 0)$  is given by the representation theorem Feynman-Kac, named  $V = e^{-r\tau} E_Q[\max(P_T, 0)]$  under neutral probability at risk  $Q^*$ .

The viability of the options evaluation model formulated by Black and Scholes is analyzed by El Karoui N., Jeanblanc-Picque M., Shreve S., (1998) in an article from Mathematical Finance. From this article we can understand that the model is very robust and assures an efficient gestation to the risks the investitures are exposed to. Even more, the error of this model is systematical, overestimating "out the money" options and underestimating "in the money" options.

We can thus say that the evaluation error of this model, being systematical, it is the same as a small coverage error. Consequently, the investiture has a precise information about the error and acts accordingly to avoid loses.

The analysis of this data model offered by B.M.F.M from Sibiu cannot be done with very good results, because the transacted options are American and they have as a support future contracts, while the presented model is based upon the analysis of an European option having as a support a share that doesn't distribute dividends or the price of future contracts acts like the price of a share distributing dividends with a dividend rate equal to the rate without risk. In conclusion, to evaluate an option on a futures contract means evaluating an option on a share whose current price is  $Fe^{-r\tau}$ , where  $r$  is the rate without risk, and  $\tau$  is the duration of the contract.

#### 4. CONCLUSIONS

In this article we referred to an application for McShane's differential equation in finances, named establishing the dynamic equation for the price of an option. Through this article I wanted to show another way of reaching the result obtained by Black and Scholes starting from a differential equation with many applications in Physics, this being equivalent with the heat equation. What remains to be done is analyzing if the Mcshane equation can lead us to models in the case of stochastic volatility or the rate of the stochastic interest.

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## THE EFFECTS OF THE CRISIS ON THE ROMANIAN CAPITAL MARKET

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**Abstract:** *The main thesis of this paper represents the consequences of insufficient structural reforms and the effects of the global financial crisis to the Romanian capital market. For almost two years, the world is facing a sound financial turmoil. Romanian capital market was severely affected by the financial crisis. It is well known that capital markets tend to anticipate the future evolution of the economies. At the first sight, the evolution of the Bucharest Stock Exchange would anticipate a general collapse of the Romanian real economy. But the aspects of the BSE crash are more nuanced. There are numerous structural problems that are not resolved yet and the way investors over reacted on the upside for the last decade, they have over reacted on the downside for the last two years. Practically is an adjustment, a hard landing adjustment but it will get us back to reality, back to fundamentals. In the first part of the paper, are succinctly presented the possible causes that led us to this financial turmoil (global and local) and in the second part I briefly presented the current situation of the local stock exchange and the possible measures and solutions that might be taken by the market participants in order to increase the trust in Romanian capital market and to obtain a sustainable growth in the future.*

**Key words:** financial crisis, capital markets, market participants, structural reform, greed, fear, opportunities, crash, PER, regulation, reform

### 1. INTRODUCTION

Nowadays we are facing one of the most severe financial crisis worldwide. Although the crisis began in the second half of 2007, we still don't know whether the worst is behind of us or not. The main causes of the financial crisis reside in financial sector vulnerabilities such as:

- mismatches between assets and liabilities (borrowing short and lending long)
- excessive leverage used by investments banks
- adverse market conditions and insufficient equity to cover the liabilities in difficult market conditions, inadequate prudent policies
- fraudulent management activities determined by the unlimited greed, creating the an unprecedented global asset bubble for the last decade
- Lax regulation of financial markets and creation of the shadow banking system, a cluster of different derivative assets whose notional value managed to outride the total amount of the support assets, generating so called "toxic assets"
- Insufficient global financial expertise, bad financial models and inappropriate risk management
- High level of concentration in financial industry and promoting the short term profit incentives.

As any other stock exchange of the world anticipates the evolution of the economy, Bucharest Stock Exchange should anticipate the way of the Romanian economy may work during these tremendous financial and economic turbulences. The question is how much did BSE anticipate? A decrease of over 80% of the main indices would anticipate and overall collapse of Romanian economy. When was over reacting the stock exchange? Now when has crashed and squeezed out the profits for the last 4 years or for the last decade when rose double and triple digit percents year by year?

## 2. DOMESTIC CAUSES

Some possible causes for the collapse of the stocks prices listed on BSE and the loss of investors trust might be:

- Structural problems of the Romanian stock market and structural problems of the Romanian economy (chronic deficits and lax, evasive, confusing regulation)
- Lack of institutional reform for BSE / Sibex and for the market participants in general
- Political and discretionary nominations in key positions of the stock market institutions (BSE, CNVM, Fondul Proprietatea, Sifs)
- Interference of politics with economics in the stock market (the maximum stake cap of 1% holdings for SIFs are decided by politicians that most of them have nothing to do nor know very much about finance, business or stock market in general). The shareholders cannot decide effectively the important aspects regarding the management of the SIFs. Their regulation and status are vague and lax.
- Excessive regulation for intermediaries (so they cannot protest or take initiatives in order to reform the market) and very lax and ambiguous regulation if not inexistent regarding some aspects for the issuers listed to BSE, disfavoring the minor shareholders and creating mistrust among important foreign institutional investors.
- The “not caring attitude” of the brokers regarding the reform of the market. As long as they made substantial profits on small volumes (jeopardizing clients with huge commissions comparing other western stock exchanges), without forcing too much, being plenty of room for everybody, they did not care about the sustainability of the market. They did not take precautionary actions regarding the development of the market and making possible to work to market even in turbulence and instability market conditions (developing “short selling”, nominee account” derivatives products allowing investors to win no matter of sense, at least they intuited the right way).
- The unwillingness of the brokers to merge BSE with a regional modern stock exchange, to have a common regional trading platform.
- Too much dispersion of the brokerage community and the lack of solidarity when trying to reform the market.
- Insufficient financial education of the market participants, and probably the reason why we have some of the lowest trading volumes and limited issuers listed.

All above reasons presented above were stringent and were necessary to correct them also when the markets were in good shape, but probably then, the local participants greed, the limited financial education among investors and the abundant funds oriented to emerging markets and under valuated listed companies, made possible to seem those structural and strategic problems of the Romanian capital market, less important.

On the contrary, because of the greed and because “it was possible”, the stocks prices rose very much due to an irrational exuberance.

During 2003-2007 the main indices recorded double and triple digits gains year by year.

During 2006-2007 companies listed on Rasdaq recorded three and four and some even five digits gains. Some of them conquered in global tops of gains:

- ATGJ – Atlas Gip Ploiesti + 10000 %
- CMCM – COMCM Constanta almost 3000%
- COFI – Concefa Sibiu + 1500%
- METV – Metav Bucuresti + 700%
- COBS Bucuresti +600%
- EPT – Electroputere + 500%
- PRSN – Prospectiuni Bucuresti + 500%
- COSC Bucuresti + 350%
- CMF – Comelf Bistrita + 280%
- PREH - Prefab Bucuresti +250 % and CEON – Cemacon Zalau + 250% and MECF Mecanica Ceahlau +250 %
- The main BSE indices rose in average over 30%.

When were investors over reacting? On the upside? Weren't there problems? Only on the downside appear the problems. Why didn't the brokerage community take actions in order to temperate these evolutions (educating investors) and why are they spreading panic for help when they didn't do anything to restructure and reform the market when they had time and the opportunity. Evidently the companies mentioned above were severely under valuated but neither those prices evolution were not right, because nowadays they have fallen 70-95%.

Probably the market participants will forget easily those problems again, when we'll be back to happy days again.

As any emerging market, Bucharest Stock Exchange (BSE) has met some sound results since 2003, thanks to the large amounts of capital that flew into Romania. Because of them, exchanges rates tended to appreciate, asset prices and commodities bubbled and the wages rose rapidly. Because the main problems of the economy and the problems of the capital markets could not be fixed by pouring money, all the money that flew created vulnerabilities, weaknesses and deficits in the real economy and imbalances in the stock market. Money was not sufficient. We needed experience, know-how and institutional reform and management. Because of the easy money that were possible to make, the deficits and imbalances rose so much that any reverse flow of capital could destabilize the system. And the reverse flow happened to come together with a global crisis and the assets started to give back their gains, forcing hard landing adjustments both for market participants and for the real economy.

### **3. ROMANIAN CAPITAL MARKET OVERVIEW**

2008 was far the most difficult year for the Romanian Capital Market since last two decades. The main indexes BET, BET-C and BET-Fi lost more than 70% of its value in 2008. Practically, the final part of the year 2008, the investors have lost all the profits since 2007, 2006 and most of 2005.



**Table 1 The evolution of the main BSE indexes during 2007-2009**

Indexes	21.12.2007	23.12.2008	Max 2007	Min 2009	Evolution 2008	Evolution Max 2007 – Min 2009
BET	9827	2901	10813	1887	-70,4%	-82,54%
BET-C	6665	1997	7432	1231	-70,04%	-83,43%
BET-FI	78669	12549	95111	7861	-84,05%	-91,74%

Source: Bucharest Stock Exchange website

All the shares traded on the regulated market of the Bucharest Stock Exchange closed the year with negative return, both in EUR and in RON (the depreciation of RON – from the maximum of aprox 3.2 EUR/RON to 3.95 at the end of the 2008).

The value of equity trades on the BSE fell more than 50% in 2008 compared to the values of 2007, the most dramatic annual decline since the reestablishment of the Bucharest Stock Exchange in 1995-1997.

**Table 2 The evolution of the capitalization of BSE during 1995-2009**

Data – Market capitalization	RON	USD	EUR
03.04.2009	43.590.706.123,46	13.991.111.222,06	10.405.248.161,62
25.02.2009	26.882.977.544,80	8.066.667.930,38	6.286.357.109,90
05.01.2009	47.825.252.596,34	16.252.167.260,11	11.868.486.350,09
03.01.2008	84.967.950.060,59	34.855.786.216,76	23.621.236.568,51
11.08.2008	116.198.287.175,60	49.037.089.456,28	32.599.676.572,66
03.01.2007	77.936.487.132,18	30.715.097.001,73	23.223.029.538,79
03.01.2006	57.705.802.696,90	18.656.903.555,42	15.695.852.766,73
03.01.2005	35.983.300.000,00	12.396.492.920,38	9.153.726.787,08
05.01.2004	12.469.100.000,00	3.829.811.413,48	3.022.665.567,73
06.01.2003	9.529.500.000,00	2.849.475.226,50	2.721.314.752,41
04.01.1999	404.576.100,00	365.272.751,90	N/A
20.11.1995	28.402.755,10	111.470.781,40	N/A

Source: Bucharest Stock Exchange website

According to SSIF Intercapital SA, the most dramatic return from price, variation, dividends and share capital in EUR, at the end of 2008, were the following issuers: SSIF Broker Cluj (-95.7%), Compa Sibiu (-94.78%), Impact Developer & Contractor (-94.31%), Flamingo International (-92.12%), Electroputere Craiova (-91..51%), Dafora Medias (-90.63%) Turbomecanica (-90.22%), and the list may continue. The less dramatic evolution were for some unexpected companies like: Policolor Bucuresti (-9.80%), Kandia Excelent (-10.81%), Mopan – Titan (-11.53%), Electroaparataj (-25.06%), Azomures (-29.42%). (Prodplast Bucharest (-33.54%).

The evolution of the prices on BSE was totally unusual. It is largely accepted that the evolution of a company is directly influenced by the economic sector that it activates. Usually, in recessions, the defensive companies are the utilities company (energetic, utilities, food and beverages, health). Unfortunately, exactly those companies registred one of the most dramatic price losses during 2008: Transelectrica (-74.39%), Antibiotice Iasi (-82.95%), Biofarm (-87.53%), Petrom (-64.08%), Transgaz (-57.05%), Energopetrol (-72.64), Zentiva (-79.01%), Rompetrol Rafinare (-84.76%).

Unexpectedly, the best performers were: Policolor (-9.80%) and Kandia Excelent (-10.81%) because of the delisting procedure initiated by the major shareholder. Zimtub and Mopan-Titan had also recorded a good score because of the transactions when a major stocks package has changed. Electroaparataj and Prodplast were in a better shape than the market, because of the suspension for the share capital reduction and company division. Practically, the best performers had nothing to do with their companies' profitability but with extraordinary events or due to their illiquid markets –Mj Maillis Romania (-36.89% according to SSIF Intercapital SA).

Because of the illogic evolution and non-fundamental situation (according to the financial statements of the moment), the investors effectively have lost any rationality and confidence in the issuers and in the markets. In October 2008 there were companies with the cash/capitalization ratio well above 1 (listed on Rasdaq mostly) and some cases that cash covered almost all the capitalization (Impact Bucuresti, Zentiva , Prodplast, Armas Gaz, Translectrica). Practically, Transelectrica (-74.39% in 2008) and Transgaz (-57.05% in 2008), because of their strategic and national importance, simply cannot fail, but their prices crashed. The panic surrounded all the market and investors could not think and act logic.

Companies like banks (BRD, Carpatica and Banca Transilvania), recorded higher and higher profits for all the 4 trimesters of 2008, and their stock prices crashed.

Below you may find a table with the evolution of the main BSE indexes and some examples of possible return on investments an investor could had, if he would had invested in a portfolio in the same structure as the BET, BET-C or BET-Fi indices are:

**Table 3 The evolution of the indices during 2007-2009**

Data				Evolution comparing to 25.02.2009			Evolution up to date			Evolution since the previous data		
	BET	BETC	BETFI	BET	BETC	BETFI	BET	BETC	BETFI	BET	BETC	BETFI
23.07.2007	10795	7430	93710	-	-	-	-	-	-	-	-	-
17.08.2007	9330	6543	74803	82,5%	83,4%	91,4%	76,1%	77,5%	87,0%	0,0%	0,0%	0,0%
22.11.2007	8564	5931	65649	79,8%	81,2%	89,3%	72,3%	74,5%	83,7%	13,6%	11,9%	20,2%
22.01.2008	7304	5210	60383	78,0%	79,2%	87,8%	69,9%	71,8%	81,4%	-8,2%	-9,4%	12,2%
12.05.2008	6874	4888	49629	74,2%	76,4%	86,7%	64,6%	67,9%	79,8%	14,7%	12,2%	-8,0%
27.08.2008	5482	4054	31450	72,5%	74,8%	83,8%	62,4%	65,8%	75,5%	-5,9%	-6,2%	17,8%
18.09.2008	4272	3255	24526	65,6%	69,6%	74,5%	52,9%	58,8%	61,3%	20,3%	17,1%	36,6%
10.10.2008	3187	2405	15200	55,8%	62,2%	67,2%	39,6%	48,7%	50,3%	22,1%	19,7%	22,0%
27.10.2008	2596	1949	10012	40,8%	48,8%	47,1%	19,0%	30,6%	19,9%	25,4%	26,1%	38,0%
25.02.2009	1887	1231	8034	27,3%	36,8%	19,8%	-0,5%	14,3%	21,7%	18,5%	19,0%	34,1%
03.04.2009	2582	1670	12182	0,0%	0,0%	0,0%	36,8%	35,7%	51,6%	27,3%	36,8%	19,8%
				36,8%	35,7%	51,6%	0,0%	0,0%	0,0%	36,8%	35,7%	51,6%

Source: Bucharest Stock Exchange website, author's calculations

Practically, he would have lost almost the same (in term of percents) if he had bought Sifs in 23.07.2007 (Betfi 93710 – loss up to date of 87%) comparing to 12.05.2008 (more than 75%). The losses are dramatically for the same investments. That is why the panic surrounded investors. They say that no matter what they buy, they will have losses. The fundamental long

term values had nothing to do with the spot prices. The trust had been lost and the investors watched very carefully the evolution of the global markets.

Some investors even made jokes about the pavlovian style of trading stocks on Bucharest Stock Exchange. Practically, the intraday evolution of the main stocks (Sifs, BRD) and especially futures contracts DESIF listed on Sibex (Sibiu Monetary and Financial and Commodities Exchange) followed in majority of the cases, the intraday evolution of FTSE100, DAX, CAC40 and electronic CFD/futures based on DJIA / S&P500 indices. After a year and a half of dramatically losses, very few investors had trust to buy and hold for a long period of time, because of the sound fundamentals. Many of them preferred to speculate intraday or swing transactions trying to anticipate the short term evolution of regional and global financial markets.

This might be one of the reason why we've reached incredible prices. Below you may find some interesting stocks and their brief evaluation, according to the last analysis of SSIF Broker Cluj SA – "BVB Fundamentals 30 mar 2009":

Symbol	Name of the Issuer	Industry	Price taken in consideration (RON)	Book value	Price per book value	Return on equity	Price Earnings Ratio (last 4Q)
BRD*	BRD Groupe Societe Generale	Banking	6.45	6.8503	0.94	28.2%	3.99
EBS	Erste Bank	Banking	59	102.5	0.58	10.1%	5.71
TLV*	Banca Transilvania	Banking	0.835	1.62	0.52	23%	5.04
AZO	Azomures	Fertilizers and nitrogen compounds	0.2070	0.7437	0.28	12.9%	2.15
AMO	Amonil Slobozia	Fertilizers and nitrogen compounds	0.0117	0.0735	0.16	7.6%	2.10
SCD	Zentiva Bucuresti	Pharmaceutics industry	0.4330	0.6813	0.64	5.6%	11.28
ALR	ALRO Slatina	Materials	1.21	1.9988	0.61	17.1%	3.54
ALU	Alumil Rom Industri	Materials	1.41	1.7384	0.81	17.5%	4.64
COS	Mechel Targoviste	Materials	1.65	4.5614	0.36	33.9%	1.07
COMI	Condmag Brasov	Energetic Services and Equipments	0.179	0.4547	0.39	11.8%	3.34
PTR	Petros Rompetrol	Energetic Services and Equipments	0.3270	0.3574	0.91	24.9%	3.67
TGN	Transgaz Medias	Utilities	123.3	186.78	0.66	10.8%	6.08
SOCP	Socep Constanta	Manipulators	0.1650	0.1831	0.9	14.6%	6.18
VNC	Vrancart Adjud	Paper industry	0.0449	0.1152	0.4	7.2%	5.44

**Disclaimer: the data presented above does not represent investments recommendation.**

**\*excluding exceptional incomes deriving from selling the insurance divisions.**

Source: Alexa, M. C. "Fundamental Analysis of BSE listed companies at 30 mar 2009", Fundamental Analysis SSIF Broker Cluj SA

It is very interesting the perception of investors, how can the sentiment of investors be changed so drastically. In 2006 and 2007 it was something very normal to buy stocks with Price / Book Value more than 3, Price Earning Ratios more than 20, 25 even 40 in construction field companies. It was considered that economy would boost and the “today” PER of 30 will be the PER of 5 after one year. The economy and the companies will grow forever, due to the emerging economy and the potential that Romania has, the gap that we have to fill in order to complete the process of “catching up” the rest of the Europe. We had companies bought even with last 4Q’s PER in 2007 of almost 100 (Dafora Medias). It was considered a star.

Today, the perception is totally opposite, we have many companies listed on Rasdaq with yield dividend (of course not very liquid stocks) more than 15%,-20%, capitalization less that the liquid assets and PER less than 3. They are considered “very risky” because of the “great potential” of default. Some of them have net assets double or even triple their capitalization but investors are still afraid to buy them because they don’t trust the financial statements and they don’t believe that the historical profits earned in 2007 will be repeated for the next 5 years.

It is considered much safer speculating the rebounds based on the evolution of the foreign main indices. This might be also a consequence for the lack of the financial education among investors for the last decade. They were used to win no matter what with “buy and hold” strategy, they bought everything during 2002-2007 no matter the price paid related to the intrinsic value, because the majority of the stock climbed and now they don’t buy anything because they all crash, no matter what the price might be.

Taking in consideration the quote “Buy at the time of maximum pessimism and sell at the time of maximum optimism” and the fact that some companies are priced at some ridiculous values, probably it might be a good point thinking to start nowadays investing the stock market.

For instance, Sif Oltenia’s capitalization at 25.02.2009 was 197.256.343 RON. Only the package owned at BRD valued more than 130 million RON (aprox 5%). Sif Oltenia owns also 6% of BCR and 3.48% of Bancpost. The packaged owned at BCR must be at least valuable as it is the package at BRD (6% not 5% and the value of BCR should be greater than BRD). And we have not taken yet another hundreds of small participations to other companies listed on Rasdaq and other not listed companies or the deposits opened to several Romanian banks. Practically, Sif Oltenia’s capitalization is hilarious, but investors still did not regain trust in investments.

As the investors exaggerated upside during 2000-2007 buying stocks at any price, because their prices will always rise, now they are exaggerating downside, in the meaning that no matter what you buy, you will lose, all the companies might default. Practically, the actual prices and capitalization include a global collapse of the real economy. It is known that the stock exchange anticipates. If the BSE anticipated 18 month ago the problems of the Romanian economy, probably BSE will anticipate the economy recovery at least 12 months before, so how much stock prices may fall? As a joke, will we have to bring more money from home, because the prices will be negative? Will we have to pay the buyers only to get rid of the stocks?

#### **4. COLLATERAL VICTIMS**

The global financial crisis determined to have also “collateral victims”. Not only investors suffered large losses, but also the Bucharest Stock Exchange as a private company (fewer transactions, commissions and incomes), brokers (fewer commissions, incomes) and CNVM (National Securities Commission).

IPOs – During 2008, only four initial public offerings were made : “Casa de Bucovina Club de Munte”, “STK Emergent”, “Contor Group” and “Teraplast Bistrita”. Although it is the

highest number of IPOs launched since the reestablishment of BSE, the number is very small comparing to other regional markets. Even so, Pomponio's IPO was not a success. IPOs were not attractive for investors mainly because they were asked for non realistic prices comparing to other opportunities in the spot stock market. For instance STK's IPO price was 281 RON per unit fund. The closing price for the first day of trading on BSE fell more than 60% and on 03.04.2009 was traded at 31.4 RON (-88.82%). That means that Bucharest Stock Exchange is not anymore an alternative for banking finance. Investors expect important discounts in order to buy stocks from IPOs. As long as investors have spot market prices well below 80% comparing to the prices registered in 2007, the stock exchange does not represent a sound alternative for corporate financing and IPOs.

Brokers – The financial crisis determined a wave of closures among brokerage branches, massive layoffs, and dramatic cost cutting measures. According to a survey made by the financial paper “Bursa (“Brokers, turn off your lights”), the average monthly expenses of a brokerage house reaches 100.000 lei. According to “Bursa”, only one fifth of the current brokers still cover their current operating expenses. Some of the brokers tried to sell their stocks holdings to Bucharest Stock Exchange and Sibex only to have enough resources to survive until the financial crisis impact decreases. There has been already revoked some brokerage licenses because of insufficient equity funds (Ventrust Investments Targu Mures), Global Valori Mobiliare (at it's own request) and banned Orizont Vest Oradea and Mobinvest Oradea for serious infringements of capital market regulations.

BSE and CNVM (National Securities Commission) have suffered also because their incomes from commissions have dramatically fallen. The smallest BSE stock price asked from BCR Securities was 27 RON/stock and the amount of the offer was 113.665 ordinary shares. It is expected that in less than 18 months, the BSE's stocks will be listed on its own platform.

Press – Because of the small number of investors interested in the evolution and fundamental analysis of the companies, the magazine “Investitii si Profit” has interrupted its publication since October 2008.

## 5. MEASURES AND SOLUTIONS

Measures and possible solutions in order to reform the Romanian capital market:

- Improving the regulations on Rasdaq Market and defining clearly its legal status
- Reducing the bureaucracy, inconsistency and lack of adaptation to practical needs and international standard for certain regulations. Reducing the gaps in certain areas and the duration of procedures dealing with authorities when listing a company to BSE
- Developing new financial instruments, besides the traditional shares and bonds. Derivatives market and international listings.
- A better regulation regarding the rights of the minor shareholders
- A less severe regulation for intermediaries (SSIF, SAI) and a stronger regulation for issuers, in order to respect firmly the minor shareholders rights and the evaluations for the public takeover offers. Nowadays the minor shareholders rights are frequently violated by the issuers because of the lack of transparency (Rasdaq listed companies) and the unfair prices paid for the public takeovers offers.
- Rising the maximum stake cap in SIFs from 1% to 5% or unlimited stake cap.
- Introducing nominee accounts

- Introducing short selling, margin trading accounts and Derivatives on BSE
- Improving trading platform and the possibility of accessing BSE listed stocks from other international platforms
- Merging with a regional stock exchange in order to boost liquidity and to improve its international standing and to import modern technology and know-how – a possible merger with Warsaw Stock Exchange, WienerBorse, OMX etc.

When written in Chinese, the word crisis is composed of two characters. One represents danger and the other one represents opportunity. I do believe that if we are more responsible we can win tremendous from this crisis. It is almost a once or twice life opportunity. No crisis has last forever. In these times of crisis, investments can be very profitable. It is a bargain period and bargain hunting should gain importance. Probably is not yet to right moment for bargain hunting, but the moment definitely will be one day, and depends only by us whether we will choose it right or not. “*Be Fearful When Others Are Greedy and Greedy When Others Are Fearful*” - Warren Buffett.

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## THE INFLUENCE OF POLLUTION TAX ON CAR SALES

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***Abstract:** The fee shall be located at the border between environmental issues and the competing free. Thus, in terms of the internal market and free competition are needed consultation between Government and the European Commission. The evolution of car acquisitions, in the period of crises shows a decrease that is proportional with the level of pollution tax.*

***Key words:** pollution tax, decrease, crises, evolution, acquisition.*

### 1. INTRODUCTION

Consumption taxes in general are indirect taxes whose subjects are the manufacturers or dealers, meaning who is making /provides the goods or services, and the final payer of the tax is the beneficiary.

Number of registered new cars in Europe fell by 8% in 2008, following the financial crisis that has severely affected the automotive sector in the second semester.

Evolution of car sales in the second part of the article deals with the pollution tax problem only in the period of January-October 2008, and in part three of the article we discuss this issue after December 2008.

The pollution tax comes in the help of the state, and wants to resolve the problem of old cars that will become waste and Romania are not yet able to handle such quantities of old bond.

### 2. THE EVOLUTION OF CAR SALES

Latest official figures on car registration in Romania show a predictable evolution: imports of second hand machines are directly proportional to the level of pollution tax. The Environment Minister draws attention to the problems that have faced our neighbors: old cars will become waste, and Romania is not yet able to handle such quantities of old bond.

Triple fee for first registration in mid December last year had a spectacular effect. In fact, any change to this fee, from its introduction on 1 January 2007, shows a spectacular effect on the auto market in Romania. Evolution figures show one thing: the Romanians were enthusiastic to buy second-hand cars outside a small fee and they entered in expectation when the fee was increased. That's right, the tax increase at the end of last year coincided with the entry of Romania in the crisis and blocking lending by banks.

From the table bellow, the evolution of monthly registration from 2008,its observed the reaction of Romanians by the Romanian Government policy in relation to pollution tax. In May and June, when they clearly already knew that the fee will be reduced from 1 July 2008, registration equipment fell drastically, people walking in expectation. Number of second-hand

car import exploded compared with the first half of the year, and set a real record in December, when the tax has tripled. Remember the queues of RAR<sup>38</sup>, when people were very interested to sign up their cars until December 15, when was the old fee.

Latest data provided by Driving Direction Management and vehicle registration from the Ministry of Administration and Interior<sup>39</sup> give us a picture of what it meant tripling the amount of tax pollution from mid December 2008.

**Table 1. The evolution of cars acquisition in 2008**

Months	New cars	Second-hand import	Intern Second-hand	Total Second Hand	Total market
January	29.499	12.439	35.747	48.186	77.685
February	15.627	3.084	35.938	39.022	54.649
March	23.112	14.708	33.807	48.515	71.627
April	22.945	15.387	30.232	45.619	68.564
May	24.650	10.753	28.327	39.080	63.730
June	28.206	8.493	29.507	38.000	66.206
July	21.550	36.711	28.561	65.272	86.822
August	30.578	29.393	23.921	53.314	83.892
September	26.584	26.892	25.515	52.407	78.991
October	24.438	36.747	26.041	62.788	87.226
<b>Total :</b>	247.183	194.607	297.596	492.203	739.392

Source: MIRA<sup>40</sup>

During the first six months of 2008, when was still in force old first registration tax, in Romania were imported 64.864 second hand cars. From July until October on modified duty tax were imported 129.743 cars, two times more than in the first half of the year and almost two times more than in year 2007. In July and August 2008, the first two months of implementation of the new pollution taxes, the government collected 82 million euros, over one quarter of all income in 2007.

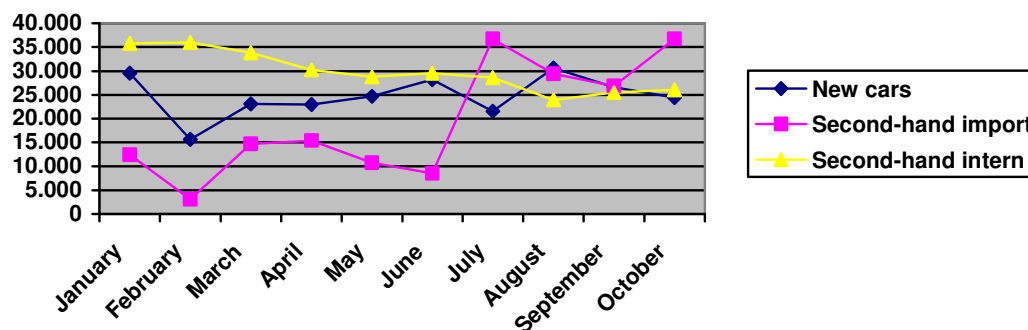
<sup>38</sup> Romanian Auto Register

<sup>39</sup> Driving Direction Management and vehicle registration from the Ministry of Administration and Interior , Auto parc statistics for 2008, <http://www.drpciv.mira.gov.ro/>

<sup>40</sup> MIRA= Minister of Interior and Administrative Reforme



Figure no.1. The evolution of Second-hand sales in 2008.



Source: MIRA

### 3. THE EVOLUTION OF CAR SALES AFTER DECEMBER 2008

Emergency Ordinance to amend Government Emergency Ordinance No. 50/2008 for the establishment of pollution tax for vehicles followed the next specifications:

- The level of analysis conclusions, in the deep economic and financial crisis in October 2008, revealed a significant decrease of the auto market and production industry suppliers, as well as supporting the automotive sector affected by international financial crisis;
- The Government is concerned about taking measures to ensure the preservation of jobs in the Romanian economy and the jobs in industry, in supplier industries, taking into account that all these elements constitute extraordinary circumstances whose regulations can not be delayed and also given that these public interest concerns the situations of emergency and extraordinary, whose regulations can not be delayed, under art. 115, par. (4) of the Romanian Constitution.

The pollution tax will be reduced, and there is the possibility that the difference will be repayed to the owners of vehicles which have paid the amount tripled.

"I received a notification from the European Commission regarding the application of Emergency Ordinance 218 (tripling the tax on second-hand cars) and as such, in addition to other opinions which should contain an emergency ordinance that we propose, it should be mandatory to have an opinion from the European Commission, to which, in the following period, the day after tomorrow, we'll make this effort,"<sup>41</sup>.

"In the medium term we will introduce into Parliament a bill that would impose an annual fee for all polluters"<sup>42</sup>.

The pollution auto fee will be reduced to a level lower than that, which is three times higher compared with values in July 2008, with the possibility that the difference will be repayed to the owners of vehicles which have paid the value tripled, and subsequently, by summer, will have passed a bill that will set an annual fee for all polluters.

The fee shall be located at the border between environmental issues and the competing free. Thus, in terms of the internal market and free competition are needed consultation between Government and the European Commission.

<sup>41</sup>said Environment Minister, Nicolae Nemirschi, article no.21651, wroted by Bodgan Pacurar, "Financiar" source, from 12.02.2009.

<sup>42</sup> Idem.

In January 2009 were 5.941 cars registered as second-hand import from 54.712 units in December 2008. For nearly ten times less. And there is an issue: certainly the overwhelming majority of registration in December 2008 was made until the 15th, before the entry into force of the tripled tax. From January 2008, second-hand records of January 2009 fell to half, making the records to 12.400 cars. Total registration of cars, new and second-hand, has decreased by 52.8% in January this year, meaning 41.938 units (in the first months of 2008) to 19.756 cars.

#### 4. CONCLUSIONS

A future evolution of car sales is unpredictable, because of the politic climate, and the evolution of pollution tax.

Moreover, due to financial crisis that deepens in Romania, led to the stagnation of car sales, witch are favorite by evolution and car tax.

When the pollution tax will be brought into line with the European Union, that means a reasonable level for all pockets, then people will start buying cars and second hand car market will be unlocked.

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## TWO IMPORTANT TRADITIONAL PRICES' INDICES FOR THE MEASUREMENT OF INFLATION AND COST-OF-LIVING IN ROMANIA, DURING THE LAST CENTURY

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**Abstract:** *This paper details the two original constructions of price indices made by the author in the last ten years. These constructions are a proposal of centennial price index and an over eighty years old Romanian cost-of-living index. First part of the paper describes the centennial index for measuring inflation in Romania, proposed by author in 2007, in international conference to “I.G. Zane” Romanian Academic Institute, from Jassy. The experience and the constructions of price indices realized after 1913 in the Romanian economy are capable of ensuring deflation or inflation movements for several economic and historical values, all over the subsequent existence in Romania, if, to that effect, the main instruments that we consider are correctly sequenced. We deal with three constructions that exemplarily define the quality and the tradition of Romanian statistics. The first belongs to an effort foreign to the national statistical effort, and is known as the index according to Argus, being a product of the early economic thought, and the first interpret index, published in “Anuarul pentru toți” (Everyone’s Yearbook), appeared at the “Cultura Poporului” Printing House in Bucharest, during the years after 1918, up to 1926. The second one is the interpret index of the ICV type, conducted by the Central Statistics Institute, from 1929 till 1938, and the third one is the interpret index of the IPC type, conducted after the year 1990 by the National Board of Statistics. In-between, the constructions derived from the ratio of the indexes of nominal and real wages allow the correct sequencing of such a Schumpeterian construction of a historical, and mainly economic, value hard to estimate at present. The approach substantiated in this logically necessary sequencing is finalized through an original construction of a Romanian centennial price index. The second part of the paper describes the construction of cost-of-living index (ICV type, published in the Romanian Statistical Review, in 2007, too). In this original cost-of-living index too, after 1929, in Romania, the author has used the two same indices that exemplarily define the quality and the tradition of Romanian statistics (the cost-of-living index, from 1929 till 1938, and the interpret index of the PCI type, after the year 1990). This second index contributes, as illustrated in the context, to diminishing the risk of re-evaluations and uncertainties of the comparisons of a social and economic nature. The final approach is finalized through an original construction of an over eighty years old Romanian cost-of-living index. A last final remark underlines the necessity of the statistical traditional instruments in our country too.*

**Key words:** statistical index, interpret index, cost-of-living index (CLI), consumer price index (PCI), harmonized consumer price index (HPCI), Schumpeterian index, centennial index.

### 1. INTRODUCTION

*“The evolution of the prices is suggestive of the economic history, in general. The currency’s power of buying is the factor that determines, in fact, a nation’s wealth or poverty...”*  
– Nicolae Georgescu–Roegen in Romania’s Encyclopaedia, vol. IV, 1943-

Measuring the phenomenon of general and continuous increase of the prices was initiated by bishop Fleetwood William in 1707, by estimating at circa 500% the inflation present in the

English economy after 1440. Subsequently, the science of statistics materializes various specific instruments of evaluation, defined as price indices. In a constant manner, a price index must meet the following essential criteria as far as their practical construction is concerned: extended coverage, national and regional comparability, promptness and periodicity adjusted to the economy, certainty and stability as to random fluctuations), objectivity and reproducibility, simplicity / plainness, and theoretical consistency.

By analysing the statistical traditions, very old as far as the economic and historical reevaluations, through the agency of a number of prices or interpret indices, one can easily find that the time universe covered exceeds, in England, two hundred years, and that it ensures historical and centennial series in the rest of Europe. But the experience and the constructions of price indices realized after 1913, in the Romanian economy are capable of ensuring deflation or inflation movements for several economic and historical values, all over the subsequent existence in Romania, if the main instruments created by the national statistics, to that effect.

The study of the price evolution in Romania or in the Romanian Principalities could provide the researchers with a variety of surprising data. Unfortunately, homogeneous and easily controllable data are scarce before the First World War. The first sober, well-documented, realistic and concise analyses, although distinctly carried out on modern Romania between 1920 and 1940 by Nicolae Georgescu-Roegen and Virgil Madgearu, are identically periodized economic analyses. The tradition of the Romanian economic and statistical school transforms their works into testimonies of analytical rigorousness and original synthesis. Combining all the data available, one can attempt a novel construction of interpret index of consumer's prices taking as a basis the year 1913. What an instrument whose nature is to reflect the "imbalance of imbalances" or inflation looks like in a practical way is a question with important consequences, both practical and historical? Combining information available after 1929, one can attempt a novel construction of a cost-of- living index, too. Capturing a general increase in the level of prices over one century period and a cost-of-living index for eighty years period could become telling examples of national statistical tradition.

## 2. A TRADITIONAL PRICE INDEX FOR THE INFLATION'S MEASUREMENT

Etymologically, the terminology of *interpret* index can represent a reasonable linguistic solution, and its signification must be that of the original value of the Latin term, basically made up of *inter* = "between" (hence the idea of implicit go-between, and mediation) and *pretium* "price". Nearly all the index constructions are originally interpret indices, and they use quantity ( $q_i$ ) as a co-measurer or weight, starting from the total volume of the transactions done  $T_i = p_i \cdot q_i$ . The qualitative factor is permanently price ( $p_i$ ). As a usual image, an interpret index, in keeping with the conform classical theory, is expressed as:

$$I_{1/0}^p = \frac{\sum q_{ai} P_{1i}}{\sum q_{ai} P_{ai}}, \quad (1)$$

where  $a = 0$ , or  $a = 1$ , and  $q_{ai}$  is a simple average ( $\sqrt{q_1 \times q_2}$ ), be it geometrical, arithmetical, etc. The distinct definitions of the national statistics, attributed to the various types of price indices, validate the statement that the interpret index has the following characteristic features as its constantly identical elements: a measuring instrument furnishing an *estimate* of price evolution; *estrangement* of commodities and doing of services (prices and tariffs *actually used*); *modification of prices in-between a fixed period* (called the basic or reference period), and a *variable period* (called the current period). *Three constructions of price indices mark the remarkable tradition of Romanian statistics.* One of them belongs to an endeavor coming from

Two Important Traditional Prices' Indices for the Measurement of Inflation and Cost-of-living in  
Romania, during the Last Century

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outside the national statistical institution, and is known as the *index according to Argus*, being a product of the early economic thought, and the first interpret index ever published in this country:

**Table no. 1.**

The Index according to ARGUS (1916 - 1926)								
Year	1916/1917	1921/1922	1922/1923	1923	1924	1925	1926	Year
- %-	100	1500	2170	3162	3954	4557	5100	- %-

Source: *Everyone's Yearbook*, "Cultura Poporului" Publishing House, Bucharest, 1929.

The second one is the interpret index of the cost-of-living type compiled by the Central Statistics Institute, more precisely by the price department led by none other than N. Georgescu - Roegen:

$$I^{CL} = \frac{\sum v_i}{\sum \frac{1}{i^p} v_i} \quad (2)$$

The theory concerning the cost-of-living (i.e. the cost-of-living index theory) dominated the inter-war period, being developed, independently, by both the Russian mathematician A.A. Konüs, and most of the English-speaking economists of the thirties (whose solutions were synthetized by R. Frisch, in 1936, in an article, as famous as that index "bible" authored by Irving Fisher (*The Making of Index Numbers. A Study of Their Varieties, Tests, and Reliability*, published in 1922)). This explains why the CLI put forward as an interpret solution, generating a Paasche index, was used by N., Georgescu-Roegen in constructing the Romanian index. Comparability and the wish of instrumental confrontation are prevalent in the inter-war age of statistics. Culling prices, processing the data and publishing them position Romania in a high-class, prominent context of the price statistics that are comparable internationally:

**Table no. 2.**

The cost-of-living index in various countries (1932-1938)								
Romania	1932	1933	1934	1935	1936	1937	1938	Romania
1929=100	62,2	56,7	53,4	55,6	57,9	66,1	74,6	1929=100

Source: *Romania's statistical summary*, vol. II-1939, ICS, Bucharest, 1939

Since 1990 up to the present, the National Institute of Statistics has undertaken an effort quite comparable to that in the period following the year 1910. Compiled in a very short period – in December 1990 the first type PCI interpret index had already been published – and based on the French method of NISSE, adapted, in view of the great number of assortments (2551), to the relative „penury” of the Romanian market, the interpret index planned holds a special significance in the statistical practice. The system of balancing used in constructing the index for commodity price index is of the Laspeyres type, that is:

$$PCI = \frac{\sum I^p(p_0q_0)}{\sum (p_0q_0)}, \quad (3)$$

where:  $\frac{(p_0q_0)}{\sum (p_0q_0)} = C_p$  and:  $I^p$  = price index of the level of aggregation specific to the post, or

group of commodities and services,  $C_p$  = coefficient of balancing specific to the post, or group of commodities and services. This new interpret index, constructed by the statistician V.V. Dumitrescu, is published in the first number of the *Bulletin of public information* of CNS, in December 1990:

Table no. 3.

Index of prices for public consumption in November, as compared to October 1990 (on the aggregate, and per categories of expenses )	
- percentages -	
<i>General total</i>	123.4
Food goods	120.4
Non-food goods	124.7
Services	127.0

Source: *Statistical Bulletin of Prices*, no. 1/ 1990, Ed. DCS, Bucharest, 1990

The remarkable instrumental comparability must be underlined, no less than the tradition of Romanian statistics as compared to that of French extraction, represented by the famous *l'indice des 34 articles*, constructed starting in 1914, or the equally well-known *l'indice des 13 articles*, published constantly since 1916. It is to the same 1914-1916, period of the American price interpret indices, or those of the overwhelming majority of the European economies belong.

In the practical, actual construction there were quite a lot of obstacles, starting from the essential differences of conception and de evaluation between the principal systems of balancing of the price interpret indices (of the Paasche and Laspeyres types), which underlie the constructions belonging to the CLI and CPI standards, and maybe ending with the solution of the ratio between the nominal and real wages in *Romania's Statistical Yearbook* for the period 1952-1989, where the administration of the single prices tried to conceal inflation – actually, a rather moderate one, yet considered to be an economic term incompatible with planned economy. Although the statistical effort of the sequencings is outstanding, while the theory of the chronological index series apparently contributes to further complicate any attempt at making a long-term index construction through imposing periodical relational reassessments (generated by the changes occurring in the balancing coefficients), be it for the impressive effort of the Romanian statistical and economic school, a centennial construction of a Romanian interpret index of inflation was in order.

The main bibliographical and methodological landmarks of the construction proposed are:

- *Anuarul pentru toți (INDEX ARGUS)*, Tipografia "Cultura poporului" București, 1929;
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Methodologically, not every aspect could be solved, which was specific to the theory of the construction of Schumpeterian statistical indices, but a few original solutions of redressing and "intrapolation" were attempted. The result of that simultaneous historical, economic and statistical investigation is presented below, by the name of Romanian centennial interpret index:

Two Important Traditional Prices' Indices for the Measurement of Inflation and Cost-of-living in  
Romania, during the Last Century

**The evolution of the Romanian centennial interpret index of the PCI type  
(Instrumental proposal)**

**Table no. 4.**

Year	Interpret index of the PCI type		Year	Interpret index of the PCI type		Year	Interpret index of the PCI type	
1913	1,000	100,0	1947	243588,800	24358880,0	1980	41,509	4150,9
1914	0,820	82,0	15.08. 1947	Second great monetary reform 1:20000		1981	43,312	4331,2
1915	-	-	1947	12,179	1217,9	1982	51,022	5102,2
1916	0,755	75,0	1948	-	-	1983	53,062	5306,2
1917	-	-	1949	-	-	1984	53,593	5359,3
1918	-	-	1950	-	-	1985	54,713	5471,3
1919	-	-	1951	-	-	1986	55,687	5568,7
1920	-	-	1952	24,360	2436,0	1987	57,027	5702,7
1921	11,330	1133,0	1953*	25,651	2565,1	1988	58,610	5861,0
1922	16,390	1639,0	1954*	27,015	2701,5	1989	59,682	5968,2
1923	23,880	2388,0	1955	28,452	2845,2	1990	62,727	6272,7
1924	29,850	2985,0	1956	29,451	2945,1	1991	169,497	16949,7
1925	32,500	3250,0	1957	29,524	2952,4	1992	526,079	52607,9
1926	35,520	3552,0	1958	31,497	3149,7	1993	1873,381	187338,1
1927	38,550	3855,0	1959	31,205	3120,5	1994	4434,275	443427,5
1928	39,640	3964,0	1960	30,669	3066,9	1995	5866,546	586654,6
7.02. 1929	First great monetary reform		1961	31,400	3140,0	1996	8142,768	814276,8
1929	39,030	3903,0	1962	31,540	3154,0	1997	20747,802	2074780,2
1930	34,500	3450,0	1963	31,058	3205,8	1998	33009,749	3300974,9
1931	28,370	2837,0	1964	32,715	3271,5	1999	48128,214	4812821,4
1932	24,280	2428,0	1965	32,886	3288,6	2000	70122,808	7012280,8
1933	22,130	2213,0	1966	32,959	3295,9	2001	94315,176	9431517,6
1934	20,840	2084,0	1967	32,789	3278,9	2002	115536,091	11553609,1
1935	21,700	2170,0	1968	33,641	3364,1	2003	133213,113	13321311,3
1936	22,600	2260,0	1969	34,323	3432,3	2004	149065,474	14906547,4
1937	25,800	2580,0	1970	34,348	3434,8	2005***	162481,366	16248136,6
1938	29,120	2912,0	1971**	33,714	3371,4	2006	173140,144	17314014,4
1939	30,400	3040,0	1972**	33,739	3373,9	2007	181520,127	18152012,7
1940	43,130	4313,0	1973**	34,104	3410,4	2008	195769,457	19576945,7
1941	-	-	1974**	34,737	3473,7	1.02. 2009	199939,346	19993934,6
1942	-	-	1975	35,444	3544,4	2010	*	*
1943	-	-	1976	35,858	3585,8	2011	*	*
1944	364,800	36480,0	1977	35,980	3598,0	2012	*	*
1945	-	-	1978	36,808	3680,8	2013	*	*
1946	-	-	1979	37,758	3775,8			

Note\* - = data missing \* = Useful data in the future till the moment of cmonetary convergence RON - EURO

The level of that index of 19993934,6 %, or an increase in prices by about 200 000 times, reached in nearly 96 years of evolution of the prices in Romania is a really impressive one, and it is probably incomparable to the very inflationary phenomena typical of inter-war and early post-war Germany, becoming, in retrospect also one of the fundamental lessons in economics as far as the permanent balancing of national economy is concerned. If one contrasts this un-denominated approach to the denominated vision, then the Romanian centennial interpret index of RON would have a different image, reflecting another tendency, which is greatly reduced (significantly de-multiplied) to 1999,39 %, or an increase by only 20 times.

### 3. A TRADITIONAL COST-OF-LIVING INDEX

Computation method for cost-of-leaving index underlines the importance of different weights that must be used, specific to every year from the period 1990-2008 (cancelling the two years final discrepancy between 2009 and 2008 generated by the Household Budget Survey - HBS).

The result of that simultaneous historical, economic and statistical investigation is presented below, by the name of an over eighty years old Romanian cost-of-living index (the most significant details have been in brief presented in the next table):

**Table no. 5.**

Year	Year HBS	Weighting coefficient			Detailed price index			Type of Index	
		Food goods	Non-food goods	Services	Food goods	Non-food goods	Services	CLI**	PCI
1990	1990	4049	4028	1923	104.5	105.5	105.5	105.1	105.1
1991	1991*	4046	4377	1577	286.2	267.8	235.7	269.0	270.2
1992	1992*	4254	4273	1473	336.6	294.2	280.4	308.5	310.4
1993	1993	4692	4054	1254	348.9	369.0	340.3	355.6	356.1
1994	1994*	4705	4070	1225	236.2	232.8	250.8	236.5	236.7
1995	1995	4793	4032	1175	131.9	129.6	142.7	132.1	132.3
1996	1996*	4888	3915	1197	136.4	139.1	146.9	138.6	138.8
1997	1997	5036	3730	1234	251.4	252.5	276.5	254.7	254.8
1998	1998	4761	3789	1450	148.4	160.2	192.1	158.0	159.1
1999	1999	4388	4022	1590	127.9	152.3	184.0	144.2	145.8
2000	2000	4470	3956	1574	143.7	144.0	153.9	145.3	145.7
2001	2001	4434	3925	1641	135.7	133.1	135.4	134.6	134.5
2002	2002	4226	4131	1640	118.3	125.5	126.8	122.6	122.5
2003	2003	4168	4182	1650	114.7	116.1	114.8	115.9	115.3
2004	2004	4071	4225	1704	109.5	113.2	114.7	111.9	111.9
2005	2005	3892	4354	1754	106.1	111.3	110.5	109.1	109.0
2006	2006	3750	4470	1780	103.84	108.47	108.20	106.64	106.56
2007	2007	3758	4405	1837	103.89	104.99	106.63	104.87	104.84
2008	2008 <sup>1</sup>	3750	4400	1850	109.22	106.36	108.57	107.82	107.85

Source: www.insse.ro și *Statistical Bulletin of Prices*, no. 1/ 1990-3/ 2009, Ed.INS, Bucharest

\* Note: data are redressing. Note <sup>1</sup> = estimated data

The Romanian cost-of-living index is intended to be not only a homage to the endeavour made by the Romanian school of statistics and de economics, but also an instrument of genuine theoretical and practical, social and economic valences.

#### The evolution of the Romanian cost-of-living interpret index (CLI type) - an instrumental proposal -

**Table no.6.**

Year	Cost-of-living Index		Year	Cost-of-living Index		Year	Cost-of-living Index	
	Coefficient	Per cent		Coefficient	Per cent		Coefficient	Per cent
7.02.1929	First great monetary reform		1954	0.692	69.2	1984	1.373	137.3
1929	1,000	100.0	1955	0.729	72.9	1985	1.402	140.2
1930	0.884	88.4	1956	0.755	75.5	1986	1.427	142.7
1931	0.727	72.7	1957	0.756	75.6	1987	1.461	146.1
1932	0.622	62.2	1958	0.807	80.7	1988	1.502	150.2
1933	0.567	56.7	1959	0.800	80.0	1989	1.529	152.9
1934	0.534	53.4	1960	0.786	78.6	1990	1.607	160.7
1935	0.556	55.6	1961	0.805	80.5	1991	4.323	432.3
			1962	0.808	80.8	1992	13.336	1333.6



Two Important Traditional Prices' Indices for the Measurement of Inflation and Cost-of-living in  
Romania, during the Last Century

1936	0.579	57.9		1963	0.796	79.6		1993	47.427	4742.7
1937	0.661	66.1		1964	0.838	83.8		1994	112.165	11216.5
1938	0.746	74.6		1965	0.843	84.3		1995	148.170	14817.0
1939	0.779	77.9		1966	0.845	84.5		1996	205.364	20536.4
1940	1.105	110.5		1967	0.840	84.0		1997	523.062	52306.2
1941	-	-		1968	0.862	86.2		1998	826.438	82643.8
1942	-	-		1969	0.879	87.9		1999	1191.724	119172.4
1943	-	-		1970	0.880	88.0		2000	1731.575	173157.5
1944	9.347	934.7		1971	0.864	86.4		2001	2330.700	233070.0
1945	-	-		1972	0.864	86.4		2002	2857.438	285743.8
1946	-	-		1973	0.874	87.4		2003	3311.771	331177.1
1947	6241.065	624106.5		1974	0.890	89.0		2004	3705.872	370587.2
15.08.1947	Second great monetary reform 1:20000			1975	0.908	90.8		2005	4043.106	404310.6
				1976	0.919	91.9		2005*	denomination 0.404	1:10000 40.4
1947	0.312	31.2		1977	0.922	92.2		2006	4311.568	431156.8
1948	-	-		1978	0.943	94.3		2007	4521.542	452154.2
1949	-	-		1979	0.967	96.7		2008	4875.126	487512.6
1950	-	-		1980	1.064	106.4		2009	*	*
1951	-	-		1981	1.110	111.0		2010	*	*
1952	0.624	62.4		1982	1.307	130.7		2011	*	*
1953	0.657	65.7		1983	1.360	136.0		2012	*	*

Note\* - = data missing \* = Useful data available in the future, till the moment of monetary convergence  
RON - EURO

The estimated level of that index of 487512.6 %, or an increase in prices by about 4875 times, reached in 2009, nearly 80 years of evolution of the prices (inclusive the cost-of-living), in Romania is a really impressive one, and it is probably incomparable to the very inflationary phenomena typical of inter-war and early post-war Germany, becoming, in retrospect also one of the fundamental lessons in economics as far as the permanent balancing of national economy is concerned. If one contrasts this non denominated approach to the denominated vision, then the Romanian cost-of-living index of RON would have a different image, reflecting another tendency, which is greatly reduced (significantly de-multiplied) to 48.8 %, or an decrease to only 0.488 times.

Romania, through the National Statistics Institute, aligned itself with the European programme of calculus of the harmonized index of the consumer prices (HPCI, an index that was imposed at the same time as the single currency, in January 2000, and represents, exclusively, a manner of internationally comparing the level of inflation among the member states, as well as a means of establishing monetary policy at the level of the European Union), long before 1<sup>st</sup> January 2007, the date of Romania's joining the la E.U.

#### 4. A FINAL REMARK

No other E.U. member state, not even EUROSTAT, will impose Romania the assurance for the historical and economic comparisons of a centennial interpret index or an eighty years cost-of-living index, but the domestic political, statistical and economic needs certainly will, in the new Europe our national economy is part of, as naturally as possible... An instrumental comparison on a European plane facilitates the knowledge of the past real economics, as, as Gottfried Wilhelm Leibniz stated, one should never omit the fact that *“The present contains the past, and is full of future...”*

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## U.E. STATES ECONOMY COUNTRIES - ENGINE WITH 5 gears –

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**Abstract:** *Is an analysis of the economic development of the EU member countries, based on the following indicators: productivity, gross domestic product per capita surplus (deficit) per capita commercial consumption of electricity to 1000 Euro, inflation and unemployment. For the ranking states according to their economic development is used **medoda Onicescu**. It concludes that between 2001-2006, although they produced some changes in the development of the EU Member States, the gap between developed countries and least developed remains.*

**Key words:** economic development, labor productivity, balance deficit per capita

European Union enlargement from 15 to 25 and then 27 Member States has created conditions for economic development components of all countries. Valuing these conditions depended not only on the economic legislation of the E.U., but the economic policies of governments in each country.

The degree of development of countries in the accession and the economic future accession led to a different level of development from one country to another, which is being highlighted by a system of macroeconomic indicators.

Heterogeneous content of these indicators requires a methodology of analysis to allow assessment of the evolution of the economic development of Member States and the whole European Union. In this respect has turned to the method of estimating comparative variables bear several characteristics, known as **method Onicescu**.

In essence this method consists in defining a class of employment and classes hierarchy states distinct class hierarchy for each of the macroeconomic indicators taken into consideration for assessing economic development.

First class hierarchy includes the most highly developed economically, and the last class the least developed.

Based on a dot-matrix table of the frequency variables, composed of a number of lines equal to the number of E.U. Member States and a number of columns equal to the number of class hierarchy, it is generally stable points depending on who is the ranking of countries and considers their economic development.

Filling table dot-matrix is as follows: at the intersection lines with the columns is a record that plays the indicators on which the state falls into the class hierarchy.

The score is generally determined on the basis of the relationship:

$$Pt = \sum ni \cdot pi$$

where:

$Pt$  - score is generally awarded to each state;

$n_i$  - the dot-matrix included in the table on the line each state;

$p_i$  - the score for each class hierarchy, arbitrarily, but after a series of decreasing arithmetic with constant ration.

The study was conducted in 2001 compared to 2006, and appreciation for economic development where taken into account the following indicators:

- labor productivity (the average level of countries is equal to 100);
- gross domestic product per capita (in Euro);
- the surplus or deficit of foreign trade per capita (dollars);
- electricity consumption to 1000 Euro;
- inflation rate;
- the unemployment rate.

The characterization of economic development through a list of indicators was based on the following considerations:

**1. Labor productivity** is an indicator that gather in one place variety of issues, such as the economic activities, technological level, the degree of processing resources, the optimum combination of production factors, the level of qualification of labor resources, etc.

**2. Gross domestic product** synthesis entities economic capacity to create wealth, the intermediate processing resources, the economy is developed that provides a high degree of efficiency for intermediate consumption. It's per person allow feedback on the level of living of the population and member capacity to develop economy based on their sources of funding.

**3. In the global economy** take-scale international trade. Each country will develop with the priority export products produced with high efficiency, while imports should support internal development, so that the whole of foreign trade to a surplus register the trade balance.

**4. A large part of electricity** is obtained on the fossil energy resources, non-exhaustible and in a more or less closely. Therefore be focused on reducing energy consumption by using efficient technologies and by reducing energy-intensive activities.

**5. Harmonious development of economy** and respecting environmental correlations between wages and productivity has the effect of maintaining price stability and control inflation rate.

**6. A developed economy harmoniously** provide jobs for population working age and capable of work, helping to reduce unemployment.

The indicators take the study is shown in Table 1 and Table 2 are playable classes of hierarchy for each economic indicator.

Based on data from Table 1 and taking into account the range of grouping was prepared Table 3 which plays the frequency and variables on which to set points in each EU Member State.

An analysis of the data in Table 3 allows to draw several conclusions, such as:

- With few exceptions, the Central and Eastern Europe presents a low level of economic development, first as a result of the crash reported when the socialist block, on the other hand, as a result of new conditions arising that was not asserted after EU accession.

- The economic and technical level of the former socialist led to low labor productivity. For this reason, countries such as Bulgaria, Estonia, Latvia, Lithuania and Romania productivity in 2001 was below 50% of the average EU countries, while in Hungary, Czech Republic, Poland, Slovenia and Slovakia was lower 80% of the EU average. After 5 years, in 2006 the situation is improved, maintaining the gap in most mentioned above.

- Former socialist countries are left with energy and polluting industries (cement, siderurgy, chemical industry etc.). Even if the privatizations have been undertaken by investors

from developed countries in economic terms. At least not in Romania has been big thing on the modernization processes in these activities and polluting energoface. If it would not be valid this claim, would not be able explanation that the energy consumption at Euro 1000 has remained almost the same level in 2006 compared to 2001.

- The trade balance deficit per capita is high in developed countries like the United Kingdom, Luxembourg and Spain but also in countries of the former socialist bloc. Therefore the trade deficit is directly linked to economic development, but primarily the trade policy of each state. While increased external debt in some countries was made in parallel with economic development in countries such as Romania increased imports has been detrimental to the internal economy.

**Table 1 - The economic indicators for the years 2001 and 2006 in EU Member States**

Country	Productivity laborx		GDP per capita (Euro)		Surplus, Deficit (dollars /capita)		Energy consumption electric to 1000 Euro		Inflation rate%		Unemployment rate%	
	2001	2006	2001	2006	2001	2006	2001	2006xx	2001	2006	2001	2006xx
Austria	118,6	121,1	26800	31100	-246	-24	144,5	149,9	2,3	1,7	3,6	5,2
Belgium	134,5	134,9	25200	30000	1600	1475	240,6	227,5	2,4	2,3	6,6	8,4
Bulgaria	31,6	35,3	1900	3300	-281	-1049	1938,5	1606,9	7,4	7,4	19,4	10,1
Czech Republic	63,6	71,2	6800	11100	-221	187	890,5	828,5	4,5	2,1	8,1	7,9
Cyprus	87,2	85,8	15400	18900	-	-	-	-	2,0	2,2	4,0	5,3
Denmark	108,1	108,4	33500	40500	1297	1223	125,1	115,6	2,3	1,9	4,8	5,0
Estonia	48,0	63,7	5100	9800	-	-	1229,7	967,4	5,6	4,4	12,6	7,9
Finland			27000	31700	1751	1585	256,2	242,7	2,7	1,3	9,1	8,3
France	125,7	125,3	24500	28400	-1225	-807	190,1	184,5	1,8	1,9	8,8	9,8
Germany	107,8	106,4	25700	28200	2195	2509	163,7	158,3	1,9	1,8	8,0	11,0
Greece	110,4	116,8	13500	19300	-1901	-3508	233,1	212,2	3,7	3,3	10,4	9,6
Ireland	128,7	132,1	30300	41100	9181	4941	174,8	143,5	4,0	2,7	-	-
Italy	126,2	109,5	21900	25100	133	-418	180,3	189,6	2,3	2,2	9,5	7,7
Latvia	41,6	52,9	400	7100	-	-	767,0	613,8	2,5	6,6	13,1	8,7
Lithuania	47,1	58,6	3900	7000	-	-	1223,5	948,4	1,6	3,8	17,4	8,3
Luxembourg	163,2	183,3	51100	71600	-6748	-10522	173,0	184,5	2,4	3,0	-	-
Malta	90,4	88,2	10900	12400	-	-	213,1	264,9	2,5	2,6	-	-
Netherlands	113,9	114,1	27900	32700	1774	2546	198,6	198,7	5,1	1,7	2,8	5,2
Poland	56,3	61,5	5600	7100	-366	-300xx	649,2	582,5	5,3	1,3	18,2	17,7
Portugal	69,9	67,9	12600	14700	-1273	-2143	231,0	243,4	4,4	3,0	4,0	7,6
Kingdom United	110,3	110,3	27300	31500	-1001	-1970	222,4	202,2	1,2	2,3	4,8	5,0
Romania	25	38,3	2002	4529	-183	-870	1371,4	1167,4	34,5	6,6	6,4	7,2
Slovakia	60,7	71,4	4400	8200	-554	-733xx	1054,7	848,3	7,2	4,3	19,2	16,2
Slovenia	75,8	84,7	11300	15200	-289	-983	336,8	314,4	8,6	2,5	5,9	5,8
Spain	103,8	100,3	16700	22300	-977	-2477	220,0	220,6	2,8	3,6	10,6	9,2
Sweden	107,5	110,1	<del>27800</del>	33700	1642	2267	222,5	199,4	2,7	1,5	4,0	60
Hungary	68,4	74,8	5800	8900	-332	-244	589,7	545,8	9,1	4,0	5,7	7,2

x EU-27 =100; xx of 2005 date.

**Table 2. Intervals grouping of indicators of class hierarchy**

Indicators	Indicators interval grouping hierarchy of classes				
	Class 1	Class 2	Class 3	Class 4	Class 5
Labor productivity -% the EU average	Peste 140,0	110,1- 140,0	80,1-110,0	50,1-80,0	Sub 50
GDP - per capita	Peste 20.000	15.001-20.000	10.001-15.000	5.001-10.000	Sub 5000
Export-Import - \$ per capita	Peste 2.000	1.000- 2000	0-1.000	(-1.000)-0	Sub -1.000
Power consumption at Euro 1000	Sub 200	200,01-400,00	400,01-600,00	600,01-800,00	Peste 800
Inflation rate%	Sub 1,5	1,3-3,0	3,1-4,5	4,6-6,0	Peste 6,0
Unemployment rate %	Sub 4,0	4,0-7,6	7,7-11,3	11,4-15,0	Peste 15,0

Following overall score based on data in Table 3 and shown in Table 4 may be also some findings:

**Table 3 - Frequency variables and scores on the general stat e-**

Country	10	9	8	7	6	10	9	8	7	6
	Class hierarchy – 2001					Class hierarchy - 2006				
	1	2	3	4	5	1	2	3	4	5
Belgium	1	4	1	-	-	3	2	1	-	-
Bulgaria	-	-	-	-	6	-	-	1	1	4
Czech Republic	-	1	1	3	1	-	1	3	1	1
Denmark	1	3	1	-	1	3	2	1	-	-
Germany	3	1	2	-	-	4	1	1	-	-
Estonia	-	-	1	2	2	-	-	2	2	1
Ireland	3	1	1	-	-	5	-	-	-	-
Greece	1	2	3	-	-	-	4	1	-	1
Spain	1	2	2	1	-	1	3	1	-	1
France	2	2	1	-	1	2	3	1	-	-
Italy	2	3	1	-	-	2	1	2	1	-
Cyprus	-	3	1	-	-	4	1	-	-	-
Latvia	-	-	-	3	2	-	-	1	3	1
Lithuania	-	1	-	-	3	-	-	2	2	1
Luxembourg	3	1	-	-	1	4	-	-	-	1
Hungary	-	-	2	3	1	-	1	2	3	-
Malta	-	2	2	-	-	-	2	2	-	-
Netherlands	2		1	-	-	3	3	-	-	-
Austria	2	3	-	1	-	2	3	-	1	-
Poland	-	-	1	5	-	1	-	1	3	1
Portugal	-	2	2	1	1	-	2	2	1	1
Romania	-	-	-	2	4	-	1	-	1	4
Slovenia	-	1	2	2	1	-	2	1	3	-
Slovakia	-	-	-	3	3	-	-	1	3	2
Finland	1	4	1	-	-	-	2	4	-	-
Sweden	1	4	1	-	-	3	3	-	-	-
United Kindom	2	3	-	-	1	1	4	-	-	1

**Table 4 - Scores on general state of EU members and their level of economic development-**

Country	Total score		Level development	
	2001	2006	2001	2006
Belgium	54	56	FD	FD
Bulgaria	36	39	CD	SD
Czech Republic	44	46	MD	MD
Denmark	51	56	D	FD
Germany	55	57	FD	FD
EstoniaX	41	43	SD	SD
IrelandX	56	60	FD	FD
Greece	52	50	D	D
Spain	51	51	D	D
France	52	55	D	FD
Italy	55	52	FD	D
CyprusX	53	59	FD	FD
LatviaX	40	42	SD	SD
LithuaniaX	41	43	SD	SD
LuxembourgX	54	59	FD	FD
Hungaria	43	46	SD	MD
MaltaX	48	48	MD	MD
Netherlands	55	57	FD	FD
Austria	54	54	FD	FD
Poland	43	45	SD	MD
Portugal	47	47	MD	MD
Romania	38	40	CD	SD
Slovenia	45	47	MD	MD
Slovakia	39	41	SD	SD
Finland	54	50	FD	D
Sweden	54	57	FD	FD
United Kindom	53	52	D	D

X-indicators are missing, the score was set as an average of the existing FD-highly developed with over 53 points; D - developed (49-53 points); MD-developed medium (44-48 points); SD - poorly developed (39-43) points; CD - developing (under 39 points).

In 2001, of the 27 EU Member States, nine were highly developed, five were developed, medium developed five, six and two poorly developed in developing countries.

In 2006, Spain, Austria, Malta and Portugal remain the same overall score as in 2001, Greece, Italy, Finland and the UK recorded a decrease in the overall score, and all other states have increased the overall score.

The highest growth recorded a Luxembourg (5points), Ireland (4points) and Denmark (4 points). There is no EU member state to aggregate less than 39 points, disappearing from the group of developing countries.

To note that France and Denmark in Group pass developed into the highly developed countries, and Italy, highly developed in the state, becomes developed, Poland poorly developed state of the environment becomes developed, and Bulgaria and Romania join the group least developed countries.

Overall changes in the development groups have been reduced, even if the score generally changed us what to say that the EU economy is an engine with more gears, the gear and maintaining speed, making the gap between developed countries and least developed to maintain the period 2001-2006.

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## THE ACCOUNTING TREATMENT OF INTANGIBLE ASSETS IN THE KNOWLEDGE-BASED ECONOMY

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***Abstract:** The recognition and evaluation of internally generated trademarks is an unsolved aspect of accounting regulations in the context of a transnationalization phenomenon. On the other hand, residual goodwill cannot reflect the intellectual capital and the company's knowledge which help optimize and create durable value. To prevent an alteration of the comparability of companies' financial statements, it is recommended that financial analysts take into account the economic goodwill based on entity economic performance and not the accounting goodwill which follows accounting regulations.*

***Key words:** Intangible assets, evaluation, intellectual capital*

### INTRODUCTION

Knowledge tends to become the main feature of countless activities, even more than the resulted products or services. On the economic level, knowledge becomes the fundamental element of obtaining a high level of productivity and competitiveness for companies, economic branches, national economies and the world economy as a whole. At the level of the company, knowledge can be found in the manpower/labour (human capital), into the customers' requirements and preferences (client capital), and into its products, processes, capabilities and systems (the structural capital). Consequently, the value of the knowledge assets can significantly exceed the value of the tangible assets.

The knowledge capital tends to have an ever increasing weight into the total value of the modern companies. Although intangible, the knowledge of the company's employees, its technologies, commercial, managerial and financial know-how, etc. is valuable.

### 1. ACCOUNTING TREATMENT OF INTANGIBLE ASSETS

The research and development expenses can be capitalized with some caveats, even though national law have fixed quite different rules in this field as a consequence of a differentiated implementation.

The objective of IFRS 3 is to prescribe the accounting treatment for business combinations. In these, the acquiring company must always be identified.

The balance sheet should include all the identifiable assets and liabilities of the acquire measured at their fair value, and any positive or negative goodwill arising.

An important innovation introduced by IFRS 3 regards the separate recognition of intangible assets apart from goodwill. This is the most important change in allocating the cost of the business combination. It prescribes that intangible assets have to meet two criteria

(The contractual-legal criteria and the separation criteria) for their separate recognition; otherwise their value must be included in the goodwill.

To help companies to better allocate the cost of the business combination, IFRS 3 gives a list of examples of intangible assets that meet these two criteria and are therefore accounted for as an asset apart from goodwill.

This guidance identifies five categories of intangible assets:

- Market-related intangible assets;
- Customer-related intangible assets;
- Artistic-related intangible assets;
- Contract-related intangible assets;
- Technology-related intangible assets.

It should be noted that this is neither an exhaustive nor a compulsory classification.

Karl-Erik Sveiby (2003) proposes the development of a system monitoring the intangible assets of a company with the help of several indicators differing function of the strategy adopted by the company.

**Table 1 – Intangible Asset Measurement Indicators**

<b>External structure indicators</b>	<b>Internal structure indicators</b>		<b>Competence indicators</b>
<b>Indicators of growth</b>	<ul style="list-style-type: none"> <li>•Development of the external structure</li> </ul>	<ul style="list-style-type: none"> <li>•Investments in IT</li> <li>•Investments in internal structure</li> </ul>	<ul style="list-style-type: none"> <li>•Competence index</li> <li>•Number of years in the profession</li> <li>• Level of education</li> <li>•Competence turnover</li> </ul>
<b>Indicators of renewal/innovation</b>	<ul style="list-style-type: none"> <li>•Improving the company’s image through the relationship with the customers/ clients (proportion of incomes)                             <ul style="list-style-type: none"> <li>• Sales to new customers</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>•Organizational structure enhanced through the relationships with the customers (proportion of incomes)                             <ul style="list-style-type: none"> <li>• Proposal for new products/services</li> <li>• New production processes implemented</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>•Competence earned through the relationships with the customers (proportion of incomes)</li> <li>•Training and education costs</li> <li>•Competence diversity</li> </ul>
<b>Indicators of efficiency/utilisation</b>	<ul style="list-style-type: none"> <li>•Profit per customer</li> <li>• Sales per customer</li> <li>• Win/loss index per customer</li> </ul>	<ul style="list-style-type: none"> <li>• Proportion of support staff</li> </ul>	<ul style="list-style-type: none"> <li>• Proportion of professionals</li> <li>•Value added per employee</li> <li>•Profit per employee</li> <li>•Profit per professional</li> </ul>
<b>Indicators of risk/stability</b>	<ul style="list-style-type: none"> <li>•Customer satisfaction index</li> <li>•proportion of big customers</li> <li>•Age structure of contracts of the</li> </ul>	<ul style="list-style-type: none"> <li>•Value/Attitude index within the organization</li> <li>•Age of the organization</li> <li>• Support staff</li> </ul>	<ul style="list-style-type: none"> <li>•Professionals turnover</li> <li>•Average wage per employee</li> <li>•Seniority</li> </ul>

	company ● Devoted customers ratio ● Frequency of renewed contracts	turnover ● number of employees with less than two years of seniority (Rookie ratio) ● Employees' seniority	
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Source: Karl-Erik Sveiby (2003)

This system of monitoring intangible assets proposed by Karl-Erik Sveiby was applied by several Swedish companies, one of which is Celemi. The problem of the measurement of the intellectual capital is not solved, however, due to the lack of standardization of most of the indicators especially developed for this purpose.

## 2. METHODS OF EVALUATING INTANGIBLE ASSETS

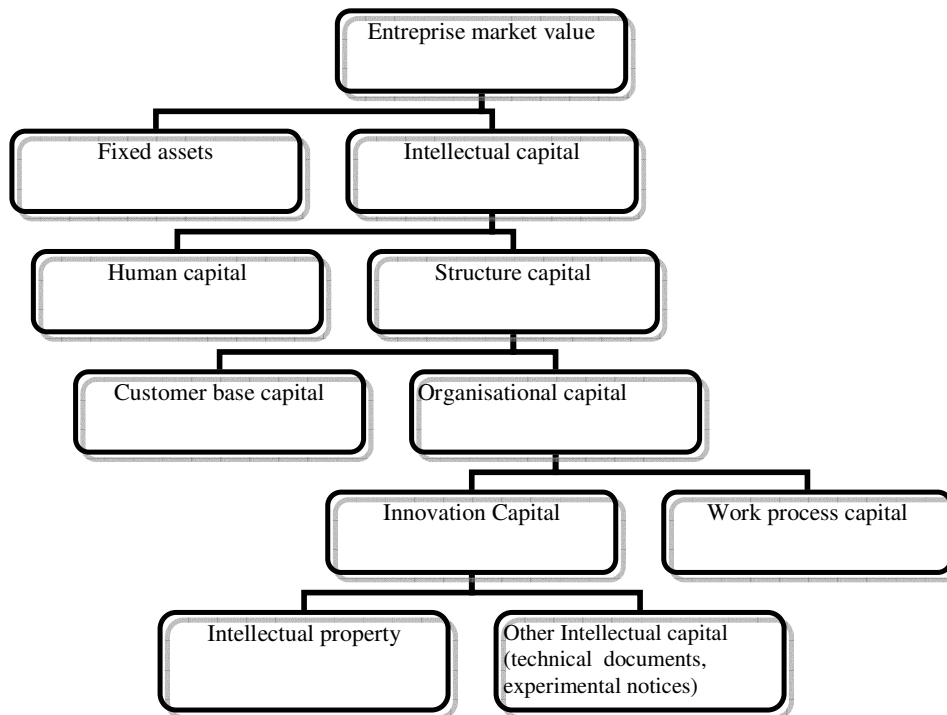
Although in the specialized literature both the distinctive notion of intellectual capital as well as that of intangible assets can be found, they both refer to the knowledge, abilities, competences acquired by the company, the exploitation of which bring profit to the company.

In this age of information and technology, the intellectual capital has an ever increasing weight in the total assets owned by a company. The company's traditional objective concerning large-scale savings at the level of the performed activity is completed with or even substituted by the objective related to the network economy (Baruch, 2001). Consequently, the profit of the company is, first of all, the result of the relationships the company cultivates with its employees, suppliers, customers or clients, and even with its competitors.

In these circumstances, the company management direct their efforts towards the creation and development of intangible assets that should support this innovative process by: spending money on research and development, allotting resources for the employees' training, etc. As a result, the market value of a company is increasingly influenced by the intangible assets owned by the respective company (see figure 1).

Karl Sveiby proposes, in his paper entitled *Methods for Measuring Intangible Assets*, grouping the methods of measuring intangible assets found into practice in: direct intellectual capital methods, market capitalization methods, return on asset methods, scorecard methods.

- **Direct Intellectual Capital Methods (DIC)** implies evaluating the intangible assets of a company by identifying each component. These components are evaluated either individually or as an aggregated coefficient.
- **Market Capitalisation Methods (MCM)** evaluate the intangible assets of a company as the difference between the company's market capitalization and its stockholder's equity,
- **Return on Assets Methods (ROA)** calculates the company's asset turnover and compare it to the average turnover of the related business segment/industry. The profit earned by a company from holding intangible assets is assessed by multiplying the difference between the two ratios by the value of the company's assets. The current value of all these future incomes represents the value of the company's intangible assets.



**Figure 1. Enterprise market value breakdown on its determining factors**

Source: Edvinsson, L; M. S. Malone Intellectual Capital, Paitkus, London

The ROA and MCM methods are very useful in the evaluations performed on the occasion of merger and/or acquisitions, respectively for the stock market valuations. Their main disadvantage results right from the attempt of quantifying all the performance factors (the quality and quantity ones) in the value of the company, the consequence being that the estimations performed with the help of these methods largely depend on the hypotheses/assumptions related to the opportunity costs and are irrelevant in the case of non-profit organizations or in the case of organizations in the public sector.

A distinctive category is represented by those intangible assets the existence of which is legally protected, such as the intellectual property: invention or innovation patents, recipes, industrial designs, utility models, computer software, know-how, brands and trademarks, copyright, franchise and licensing agreements, etc. Their acknowledgement and legal protection represent a competitive advantage for the company that owns them, and the analysis of the value creation for the shareholders of the company is performed from this perspective. These assets are generally the result of the research and development programs conceived by the company.

### 3. INTELLECTUAL CAPITAL REPORT

Although *Intellectual Capital* is the hidden driver of the Knowledge-based Economy, because it is not included in the traditional accounting model it is mostly ignored in the decision-making process for investments in *Research and Development*.

Creating greater transparency in the process of identifying and reporting *Intellectual Capital* can improve the quality of the dialogue between investors and research-intensive enterprises, as well the internal process of managing resource allocation and augment the finance available to carry out *Research, Development and Innovation*.

Intellectual Capital plays a vital role in the creation of value through *Research and Development*. Although a wide range of methods for measuring and reporting Intellectual Capital have been developed during the last decade, especially for internal managerial purposes, the take up in companies is still quite low. Articulating the value of *Intellectual Capital* is problematic and therefore attracting capital for investments in it is much harder to achieve than doing so for investments in tangible assets. Investors are reluctant to invest in *Intellectual Capital* because of its inherent high-risk nature.

Since Intellectual Capital is now the main driver of value creation and growth, this negative investment bias is seen as harmful, particularly for research-intensive and innovative enterprises. By improving transparency, Intellectual Capital can strengthen the business case for *Research and Development* in two ways:

- First, *Intellectual Capital Reporting* can help research-intensive enterprises' to improve their understanding of the value constellation of *Research and Development*., the drivers of value creation and the important role of complementary assets, thus improving the *quality* of the business case. It makes the management of the research-intensive enterprises' intangibles a conscious and deliberate exercise. The impact on the internal management of the research intensive enterprises, and on its ability to attract relevant resources, is very important in an intangible economy where the question of what management really is, is still relatively unknown. The *Intellectual Capital Statement* can make research intensive enterprises' more professional in their approach to managing the business. The process of creating an *Intellectual Capital Statement* often proves to be a very fruitful learning experience for the management of research intensive enterprises', one that also helps the company to align various views on the enterprise that might exist within itself.

- Second, *Intellectual Capital Reporting* can help improve the dialogue between investors and investees, improving the *cogency* of the business case for *Research and Development* and thereby improving access to finance. It communicates revealing information about the enterprise's intangible resources: It contributes to transparency in the business model and it provides information about the activities of research-intensive enterprises to develop and exploit them. In this way, the *Intellectual Capital Statement* makes complex resources, such as competencies and relationships visible.

Through its function as a communication tool, an *Intellectual Capital Statement* **directly** tackles the problem of market failure in the capital markets for research intensive enterprises'. However, the process of creating an *Intellectual Capital Statement* will help management to better understand its own business, which in turn will help to improve their dialogue with investors. This indirect contribution of an *Intellectual Capital Statement* is just as important as its direct contribution.

Firms that manage and report on their *Intellectual Capital* usually follow a procedure that can be split into three non-linear, related phases:

- ◆ *Identification* of intangibles; where companies define their vision and mission and identify the main intangibles they count on and, eventually, those they lack and have to acquire or develop.
- ◆ *Measurement*; where specific financial and non financial indicators are built as a proxy measure of each intangible asset. The indicators are checked against a set of characteristics to make sure that the exercise of an *Intellectual Capital* analysis is worthwhile and appropriate.
- ◆ *Action*; where the company integrates the intangibles management system within the rest of the management routines.

#### 4. CONCLUSIONS

We currently move along the borderline between established classic economics and a new theory of knowledge economics that is not well worked out or formulated. An example of this development is the current discussion on patent protection of software that is heavily opposed by those supporting the so-called Open Software Initiative. In practice we still rely on the well-established models of “traditional” economics, not least because of the availability and application of legal regulations. This also holds true for new standards in financial reporting. A good example of the clash between classic economics and knowledge economics is how investments in IT are calculated.

The promises made by the vendors and the expectation of the customer / buyer is that an IT solution that is purchased will serve a number of aims and purposes, as set out in the vendor’s proposal.

But, at the end of the day, on the invoice only pieces of hardware and software show up, and certainly not the whole world of fascinating functions which motivated the client to make the investment. The accountants on their part just take to their books what is on the invoice, and certainly not the value of the effects generated by the use of the IT. It is clearly this dichotomy between the imagination and the reality, which creates a productive tension when discussing knowledge economics.

The transformation from traditional valuation methods to new ways of valuation by means of *Intellectual Capital Reporting* is an issue which is not yet being mastered sufficiently. One expectation is that “the real new economy” emerges out from the old one. However, it is more likely that, for a certain period, both paradigms develop in parallel and then will converge, thereby solving the valuation paradox.

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## ACCOUNTING AND LEGAL ASPECTS OF FRANCHISE OPERATIONS

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***Abstract:** Franchise, as a form of marketing goods and services, meets an emphasized extension due to the multiple advantages for the parts involved in the transaction, but also for the economies in their economical, social and fiscal plans. In specialty literature franchise meets different definitions depending on the issues considered most important in this transaction, by various authors.*

***Keywords:** franchisor, beneficiary, franchise network, royalty, price of the franchise*

Franchise in our country is defined as “a system of marketing based on a continuing collaboration between natural or legal person, independent in financial terms, by which a person called franchisor, granting to another person called beneficiary, the right to exploit or develop a business, a product, or a service.

### 1. LEGAL REGULATION OF THE FRANCHISE.

Legal basis of operations of a franchise is represented by the **franchise contract** whose main elements are the ones in the following content:

▪ **The contracting parties**

These are named franchisor and franchise. Legally and financially, they are independent entities. The **Franchisor** is a merchant who: is a holder of rights over trademarks; has the right to exploit or develop a business, a product, technology or service; ensures the beneficiary the initial training for exploiting registered trademark. He personally uses financial means to promote his brand, his research and innovation, ensuring the development and viability of the product. The **beneficiary** is a merchant, individual or legal, selected by the franchiser, who adheres to the principle of uniformity of franchise network. **Franchise network** includes all contractual relationships between a franchisor and more beneficiaries in order to promote a technology, a product or a service and to develop production and distribution of a product or service.

▪ **The contract work object**

It is represented by the good and contract services according to which three categories of franchise are distinguished:

a) Franchise of **products**, in two forms:

a<sub>1</sub>) **Manufacturer franchise**, in which the franchiser has as objective product selling but also related services;

a<sub>2</sub>) **Distribution franchise**, in which the franchiser selects the products manufactured by various suppliers, buys the products, they pay for them, then resell them to the beneficiary (pilot units are created);

b) **Service franchise**, in which products are not sold but services, various dues: hotel franchise, consultancy franchise etc;

c) **Industrial franchise**, in which the franchiser builds a factory in order to be franchised, he gives the license, the patterns, the trademark, he forwards the technology, assures constant technical assistance, and the beneficiary produces and sells the products under the name of the franchiser.

**Franchisors** may be:

- a) Manufacturers of goods, who signed franchise contracts in the country or abroad for the sale of manufactured products;
- b) Wholesalers merchants, who perform a selection of goods that we buy in large quantities, establish exclusive supply catalogs which are sold through the franchise;
- c) Service suppliers, whose activity consists in the original discovery of ideas and practical methods of profitability: hotel chains, car rental locations, construction of houses etc;
- d) Industrial people, who form the industrial franchise, the most modern form of the franchise and the most usual in international relations.

**Beneficiaries** may be:

- a) merchants, companies that are organized in various ways;
- b) non-professional people (those who either have never worked in industry either did not have any trade).

▪ **Price of the franchise**

As any other economic activity, the franchise has a price which for the franchisor is the income, and for the beneficiary is the cost. The price of the franchise must cover its costs so that the franchise activity to be profitable. Usually the price of the franchise consists of two elements: entrance fee for the franchise network and royalty.

**The entrance fee** represents the franchisor's remuneration for granting the right to use the trademark and its way of work, whose development required a variety of expenditures, for example: prior studies to implantation, costs for searching and arranging a certain location, supplying stocks and specific equipment to the franchise; elaborating professional experience (know-how), franchise marketing (participation in fairs and exhibitions) etc. So, the entrance fee is considered as the price of business admission, its size varying on the importance of the business and its prospects. Depending on size, it is provided a certain selectivity of beneficiaries.

The entrance fee can be calculated using different methods based on franchise profitability calculation and it is established so that it doesn't have the effect of possible beneficiaries shift to other competing networks. Usually, the entrance fee has values between 5-10% of the total cost of the franchise. If the franchisor proposes signing an exclusive contract and if it is cashed an entrance fee, then on signing the contract, the exclusive rights (exclusive fee) that were calculated proportionally with the entrance fee will be added next to the entrance fee.

The exclusive tax may be dedicated to cover a part of the expenses needed to implement the franchise and/or to delimit the area and/or for the transmitted know-how.

**Royalty** represents remuneration of the services which the franchisor provides permanently to franchise during the contract, as the following: improving personal experience (know-how), assistance during the period of contract, expenditure on training the staff permanently, expenditure on advertising etc. Usually, royalty rate is calculated in percentage to the turnover, but in some cases it may be established a lump royalty. Sometimes forms of fee assessment can be used, determined by the object of the franchise contract. For example, in hotels royalty may be set according to the number of rooms. It is important that the size of the fee, determined through negotiation, to motivate both sides: a great fee determines the franchisor to be less interested in increasing the sales, and a small fee determines that the majority of the profit to belong to the franchisor, leading to a loss of development sources of the franchisor.

▪ **The rights and obligations of parties**

They represent the important elements of the franchise contract, one of them being directly



or indirectly at the base of organizing franchise accounting. Among these we mention:

**For the franchisor:**

- To provide the beneficiary a process of manufacturing, distribution and marketing of a product or service or to put such a process that would ensure a high turnover and a high yield;
- To sell the beneficiary his experience, components of intangible assets (franchisor's trademark and the know-how);
- To ensure technical assistance to the beneficiary, material assistance and sometimes financial assistance both before making the transaction but during the transaction;
- To provide the beneficiary goods (merchandise) directly, or by selecting some good providers;
- The right to control over the way business is developing, these respecting the conditions imposed by the franchisor.

**For the beneficiary:**

- To obtain authorization for the functioning of the unit of provision or services under the franchisor's brand. The license accorded in this context specifies both the location of sales and the precise location of the sales unit which refers at: the use of the franchisor's name and distinctive signs, of work techniques and operation methods;
- To purchase goods (merchandise) from the franchisor, or from the agreed suppliers;
- To sale the good (merchandise) and the services forwarded by de franchisor by respecting strictly the contractual conditions;
- To pay the cost of the franchise to the franchisor (entrance fee and royalty) and other elements as: initial inventory (equipment, accessories), the initial stock of merchandise (necessary for opening the franchise), rent premises, public services etc.

## 2. THE ACCOUNTING OPERATIONS OF THE FRANCHISE.

**In the accounting of the franchisor:**

**a) The assets** available for the beneficiary refer to intangible assets in constant mark of the franchisor (the manufacturing, commerce, services) and know-how. They remain the property of the franchisor because he does not sell them, but "gives" them for temporary use in order to be exploited.

The purchase of the assets specified by the franchisor can be done through purchasing or owning. If the trademark and the know-how are purchased from a third party, these are evaluated at the cost of acquisition and recorded in the account 205 "Concessions, patents, licenses, commercial trademarks and similar rights".

If the trademark and know-how are created by the franchisor, these are counted as any investment in its own meaning: the expenses made in this purpose are collected as they are performed in their accounts of expenditure in class 6, and at the reception, the obtained immobilization is recorded in the cost of production in account 205 "Concessions, patents, licenses, commercial trademarks and other similar rights" according with 721 account "Income from production of intangible assets"

The use of 721 account "Income from production of intangible assets" for the recording of the intangible assets realized in its own is made to avoid the distortion of the exercise by which these are obtained.

**b) The expenditure of the franchisor** are grouped in the periods in which the sequence is done, in the following categories:

- Costs of establishing the franchised companies;
- Expenses for the launching of the franchised companies (cost for advertising models, costs for presenting on different showrooms, etc);

- Expenses on the beneficiary's technical assistance;
- Expenses for administrating the franchise network.

As a rule, the expenses are recorded in the expenses accounts from class 6 according to the exercise these were engaged. In the case where some expenses regard the next exercises to which they were engaged, they are recorded in account 471 "Expenses recorded in advance", so at the end of each exercise the related expenses to be organized in the expenses accounts from class 6.

**c) The income specific to the franchisor** are grouped in 2 categories:

- Direct revenue from the franchise operation which includes revenue from the entrance fee and royalty income;
- Income from selling goods to the beneficiary, or the provision of services or execution of papers.

**Revenue from entrance fee** is considered an accessory-income that is recorded in the account 708 "Revenue from various activities". The right for claiming for the franchisor arises in the moment of signing the franchise contract. Payment may be made in full at the time of signing the franchise contract or staggered through negotiation. In this second case the income from entrance fee is initially booked as income in advance in the account 472 "Income recorded in advance", and that after each staggered collection to be emphasized the current income in the account 708 "Income from various activities".

**The income from fees.** It is the main income of the franchise which is registered in 706 account "Income from fees, locations and rent management". Calculation, collection and accounting of fees is done periodically, usually monthly, the basis of calculus being the turnover. If at the closing the exact fee income for December is not known, it can be proceeded to estimate the fee income and recording the claims in the account 418 "Clients – bills to be drawn". Later, after the calculation of the turnover based on the drawn bill, the certain claim will be recorded and the difference between income tax and the VAT will be solved in one of the next :

**a)** either by canceling the initial operation (with estimated data) and simultaneous recording of the actual size of dept and VAT.

**b)** Or by recording the actual size of claims and by adjusting the differences between income and tax, by amounts in black for the differences in addition to the estimations and amounts in red for the differences in minus.

**Income from selling own goods** to the beneficiary are ordinary operating income of the franchisor which are registered in the corresponding revenue accounts: 701 "Revenue from finished products", if the franchisor is the manufacturer, 707 "Revenue from selling the goods" if the franchisor is the merchant, 704 "Revenue from performed work and rendered services, if the franchisor is a service provider.

#### **In the accounting of the beneficiary**

The franchise operations generate to the beneficiary both expenses specific to the franchise and ordinary expenses and income for any company. Specific expenditure refers to the entrance fee and the royalty that are to be paid to the franchisor, and the ordinary income and expenses relates to the cost of sold goods, general expenses, income from selling goods and so on.

To conclude, being a form of marketing goods and services, franchise meets an emphasized extension because of its multiple advantages for the parts that are involved in the transaction, but also for the economies in their economical, social and fiscal plans.

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## ACCOUNTING PROCESS IN THE CONTEXT OF ECONOMIC DEPRESSION

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**Abstract:** *The times of exuberance expressed by the current economic cycle has culminated in the end of the last year with a big crisis in the banking system, real estate, financial and capital markets, which menaced to produce an economic global recession. We are going to analyze some accounting aspects that make it part of the depression process. One of them is given by the necessity of having more or strong cash in such period. Also, the article is purposing to present which are the benefits and losses of using the fair value. It explains that using this type of accounting evaluation excessively may provoke some premises to get to an economical decline of companies and economy. Regarding this aspect we must reflect on which is the barrier by we can use it and when we must adopt another evaluation type, because are moments when the specify market may influence by increasing irrational the prices. Although we mustn't abolish it because there are times when is recommended to use it for bring some asset's values to the real, in this scope being present the correspondent example.*

*We now that like other economic aspects also the accounting is an imperfect theory. So, it must be adjusted by made the current accounting system and oversight structure that could help to prevent the accounting rules from having worse consequences for future.*

**Key words:** accounting, fair values, crisis, cash, recession, depression.

### 1. INTRODUCTION

The explanation of the crisis period in a business cycle is represented by a phase that comes inevitably and that preceding a boom, the inflation process is that makes the depression phase inevitable. We may see that the depression is the process which adjusts the market economy being a necessary reaction to the results of the previous expansion.

Looking back to the history, The Great Depression from USA in 1929, or the economic catastrophe as it is known, was basing on economical activity from the decade that preceded it; the '20s being characterized by some new innovations in the consumption behavior of households, and not only.

In that time other factors that contributed were also the development of installment credit led to substantial growth in the consumer durables market, the acquisitions of durable goods, and especially real estate, capital market investments and banks exponential activity.

Some of those reasons are repeated in present days on the economical and financial crisis to which we are witnesses as well as were 80 years ago. The US economy decline was a factor that pushed the downturns to other countries over the world, and joining with their internal weaknesses made conditions worse.

The answer of how we are getting to the recession is simple. Bankers begin to expand credit, for more they expand it the greater will be the profits, and meantime households are investing in real estate and capital market, making so a pyramid of negative consequences.

Like present days the biggest economic crisis from 1929 had negative consequences not only to the USA and also to the Europe, Australia, Africa, or Asia.

An issue of the recent period of artificial expansion was a process of corruption, on the USA and in Europe, of the traditional principles of accounting which is practiced over the world for many years.

The acceptance of the International Accounting Standards (IAS) and its incorporation into law in different countries (like Spain) generated the abandonment of the traditional principle of prudence being replaced by the principle of fair value for evaluating (financial assets).

Regarding this issue, a main contribution had the stock brokers, analysts, investment banks, and all parties interested to exaggerate the values for bringing them nearly to, as it is named, an objective stock-market value, that was in the past rose and continuing with a process of financial euphoria.

## 2. THEORETICAL BACKGROUND

Taking into account these conditions to renounce at traditional accounting principles and replaced them with others considerate more actually, it is usage for evaluating, based on unorthodox aspects that in the new standards replace one truly objective criterion (the historical cost).

For the present, the decline of financial markets has generating the loss of faith in banks. Their accounting practices have presented some serious error and a renouncement of traditional principles, the error being a result of creative fair-value accounting that was used in excess.

Now, is important to see which are the measures practiced in the United States and the European Union for decreasing the impact of fair-value accounting for financial institutions. This is the beginning for the right direction.

In that period some firms were joyfully with the Standard's stipulations of irrational exuberance, foreseeing the excessive values on the financial markets, presenting their statements with strong figures for a good profit, which encouraged them to risk a new unexpected danger.

Some standards act in a strange way by increasing volatility of business management. So, in prosperity times, it is created a false richness that makes the people to assume some risks. Also, as long as daily comes out to the light errors, the loss of assets devalue companies, being forced to sell assets and trying to refresh after the worst moment.

It is, also, vital in periods of prosperity to respect the principle of prudence in evaluation and others that shaped all accounting systems till the Luca Pacioli's period from the start of the 15<sup>th</sup> century.

The main error of the accounting reform is that scraps centuries of experience and business management and replaces it with others like fair-value, which using it in excess goes to the volatile market value for an some assets, especially financial ones.

The false good effect produced, especially during the boom, is reflected just on the paper profit, by acceptance some risks, errors to the detriment of healthy structure and economic capacity of increasing.

The aim of accounting is to permit the prudent management of each company and to prevent capital consumption, applying correct standards of accounting conservatism (prudence principle and recording historical cost or market value, *when the case is asking*). Those standards ensure that distributable profits come from a safe surplus without endangering the future capitalization of the company.

Even if there are similitude that make present crisis to be compared with that past 80 years ago, we must say that economical condition in such process of globalization make it not having the consequences of that period.

And that, because of the richness of global economy, which allows USA and other countries not to get the figures of that time referring to unemployment, industrial activity, and other sectors.

### 3. DEBATING THEME

The main request in recession conditions is having a good cash situation. So, by practicing cash accounting in the mean time with the accrual one is insurance for crisis periods.

In this context, we mustn't ignore the engagement accounting which offer an economical view for a medium and long term, but once appeared signs of the decline phase those terms should reduce, because now only cash are considered richness for a firm or economy.

In the last six month, since the start of present crisis it is demonstrated that for those conditions using only the accruals is not a solution as long as treasury is that express the financial power of a company.

As long as the engagement accounting expresses only the present incomes and expenses and not the cash inflow – outflow, which are paid or collected by the company, we recommend to record operations basing also on the cash accounting even it isn't reported, for avoiding the deep dropping.

We must give more attention to cash situation and that doesn't mean to ignore the accruals because it help us to know the future collects and payments from the past and present records.

So, a good cash situation doesn't express that a depression will not appear but its consequences may be decreased as possible it is.

Another accounting aspect that it appears in crisis conditions is fair value or mark to market as it is known in the specialty theory. It is quite known that fair value for accounting is an important cause of the world-wide financial crisis during the '80s financial crisis. The application of this value on accounting first of the other problems would have been part of the disastrous.

A FASB defense its fair value accounting theory, claiming that “it reflects losses that have been incurred, it does not cause losses.” But in a big financial bust, with a downward spiral of panic and illiquidity, this is manifestly false: accounting has real world effects. The effects of this kind of value in a market panic are why almost all banking is reserved on it.

The FASB sustainers of the fair value accounting say that they are insisting on “the facts” of market prices. Even though they admit that in many cases there is no active market or no market, and this panicked conditions can result in sale prices that will get irrational. So, in a period of disequilibrium and discontinuity, like panic, it adds more problems being worse.

There are some specialists that say that should be suspended the fair value accounting, and others propose that it must be reformed.

For this, is to make a balance sheets and income statements before the fair value days, and after that, a separate fair value balance sheet using the market prices and estimates of what they might obtain in the correspondent market.

Current application of IFRS on fair value accounting was not in fact the first of the causes of the current financial crisis, but was a factor in its occurrence by increasing its impact. The starting point of the current crisis was the dynamic economic events of the past few years.

The application of fair value measurements in these conditions resulted in financial instruments and real estate, in particular, being valued higher for increasing their profitability.

This effect is more pronounced if the reported fair values are determined on the basis of non-realized price changes on markets with little liquidity.

There are some specialists like Wolfgang Sawazki, Head of Research at Sal. Oppenheim who thinks that financial market crisis will not be over for quite some time: “We are currently in the middle of a financial crisis, which has resulted in impairment losses reported by financial institutions in the region of 500 billion dollars”.

These unwished effects of IFRS fair value accounting added to the pro-cyclical supervisory law appear not to be taken into account by the authorities, and other market players (shareholders).

Regarding this aspect, I was myself a sustainer of such evaluation, but we have to practice it only when it is required, and not in excess. Let’s take an example when it is recommended and another one when it gets for supra-evaluating some assets.

So we have to measure the risks in accounting, trying to develop a comparison between historical cost and fair value consequences.

Taking into account that now there are some entities which are using the historical cost for evaluate assets / liabilities achieved in '90 (especially in the public romaine institutes) at thousand old lei (ROL) we may say it doesn’t reflect an economic reality.

We know that every economic operation (goods acquisitions or services or investment / financing activity, or creating a debt) is generating a plus or minus value and recording and maintaining this measure is not a solution to express the real economy.

Another factor is the rate of inflation. Consider it as a passive monthly monetary depreciation of the economic assets (and liabilities) it has some influences for the financial statement when it has big figures.

Let’s take a look over the next situation. It is presenting the rate of inflation evolution for eighteen years in Romania.

Table 1: **The rate of inflation for 1991 – 2008 in Romania**

ANUL	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
RATA INFLATIE I-%	170.2	210.4	256.1	136.7	32.3	38.8	154.8	59.1	45.8	45.7	34.5	22.5	15.3	11.9	9	6.56	4.84	7.85

(Source : <http://www.insse.ro/>)

So, as it appears from this evolution, is recommended to update the value (generally the historical cost) by applying for example the fair values according to the markets requests. So, we mustn’t abolish it because there are times when is recommended to use it for bring some asset’s values to the real. In spite of these reasons of sustaining the fair value there exist also negative consequences when it is used.

If we take into consideration just the real estate we realize that the market prices have touched enormous and unjustified values, driving to an inexistent richness of global economy, like 80 years ago.

Also, we must remark in the financial and capital market where some companies were increasing their capital by issuance of new shares with bigger values as market was requesting.

We mustn’t consider that the fair value may resolve any evaluation problems for the financial statements, but we have to say that choosing a model we must take in account the impact on the results and the risk management required by using one of them.

This has direct consequences for investors, banks, banking supervisors and the accounting standard makers, for reduce the risks of financial and economic crises in the future.

From some specialists point of view accounting should continue to be based on fair values since it remains the most convincingly method of representing the economic situation.

IASB should restructure the way that results are reported, regarding the performance reporting by fair value accounting of financial liabilities which is not good in times of crisis.

For investors, IFRS fair value accounting means that overstatements on the equities and securities markets are increasing, valuations are being revised downwards and that historically developed measurement methods are no longer used.

“The focus should be more clearly on normalized profits and cash flow factors,” advises Dr. Sawazki. Investors should increasingly analyze all asset changes in financials – including equity impacts “looking at profit reported as insufficient”. He continued that the financial crisis will enter into a new phase during the coming months.

***“The crisis has reached its peak but the pain is growing”***

In such period of crisis the stabilization efforts by governments and central banks are essential, as is regulatory intervention by the supervisory authorities and standard setters.

After the economic decline of the 2008 financial crises, the inevitable search for causes and cures has started. Politicians, economists and all observers have presented critiques of the manner that business was practiced in credit, capital and insurance markets, and the ineffectiveness of government regulation of certain financial products, transactions and players in those markets.

There are few arguments that for example fair value accounting caused part of the economic crises, and inflate the credit bubble and increased destructive effects.

FAS 157 is an accounting standard issued in September 2006 with the objective of defining fair value, presenting a framework for measuring it. It was intended to achieve greater consistency and comparability in fair value measurements and to provide better information, and more transparency. It is defines as “the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.”

So, the standard requires that assets and liabilities must be valued at a price in a hypothetical market transaction based upon the assumptions of a current market participant who is independent and able to transact.

In response to the concerns over the application of mark-to-market accounting, on September, 2008 the SEC and FASB issued a joint clarification regarding the implementation of it. So, on October 10, 2008 is presented the FASB Staff Position 157-3, which offered an illustrative example of how the fair value of a financial asset is to be determined when the market for such asset is inactive.

We think that financial reporting implications of the credit crisis will continue to be a main concern and that accounting issues will continue to require supervision by special committees.

It is recommended a professional debate and companies must continue to discuss on some accounting standards.

#### **4. CONCLUSION**

Accounting is too vital for the economy and everyone's finances to have been left to the experts, whether they are professors, auditors, analysts, investment bankers, or any international committees. We must accord more attention to this aspect because even if accounting is a theory, it is also a practice and was demonstrate that has it own influences in the recession period.

Present article research is not a view of the depression literature and not a theory, but it is a description of some events and issues of interest, regarding some accounting aspects on economical and financial crisis.

It was expressed that a strong cash situation for a company and also economy is an advantage in such a period of crisis. Also it was discuss the irrational using of fair value according to the market requests when that market is not so well formed.

So, that, accounting doesn't make any exception of economical decline process. It is a part of it. But we don't have to consider that crisis is generated just from it, being other factors that contribute and make it inevitable. So, we must learn from the history for avoiding some negative aspects and be prepare for those that are new to eliminate also.

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## THE ROLE OF THE UNIVERSITY IN THE REFORMING OF THE ROMANIAN HIGHER EDUCATION SYSTEM

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***Abstract:** At European and international level it was discussed about the urgent need to work changes in higher education concerning the role and organizational structure. There is consensus about the need for higher education to substantially contribute to the development of entrepreneurial skills of university graduates who will work in a society that requires frequent changes of occupation, international mobility and a fast adaptation to flexible structures.*

*Modern educational policies have as main purpose building and developing the learning society concept, characterized by the transition from education, where school is in centre, to the one based on lifelong learning, by developing professional software conversion and continues training. This educational guidance is based on adult education reviving need as a result of confrontation with the major problem of unemployment and significant changes in the economic and social system due to the dynamism imposed by technological revolution.*

*Transformation of the European Commission considered to be the key to success in achieving the objectives are: elimination of geographic and inter-sectorials barriers between European universities; ensure real autonomy and accountability of the university; providing incentives for partnerships with business environment; reducing the financial deficits and efficiency of financing education and research programs; increasing the interdisciplinary and trans-disciplinary number of studies; knowledge activation through interaction with society; highest level excellence reward.*

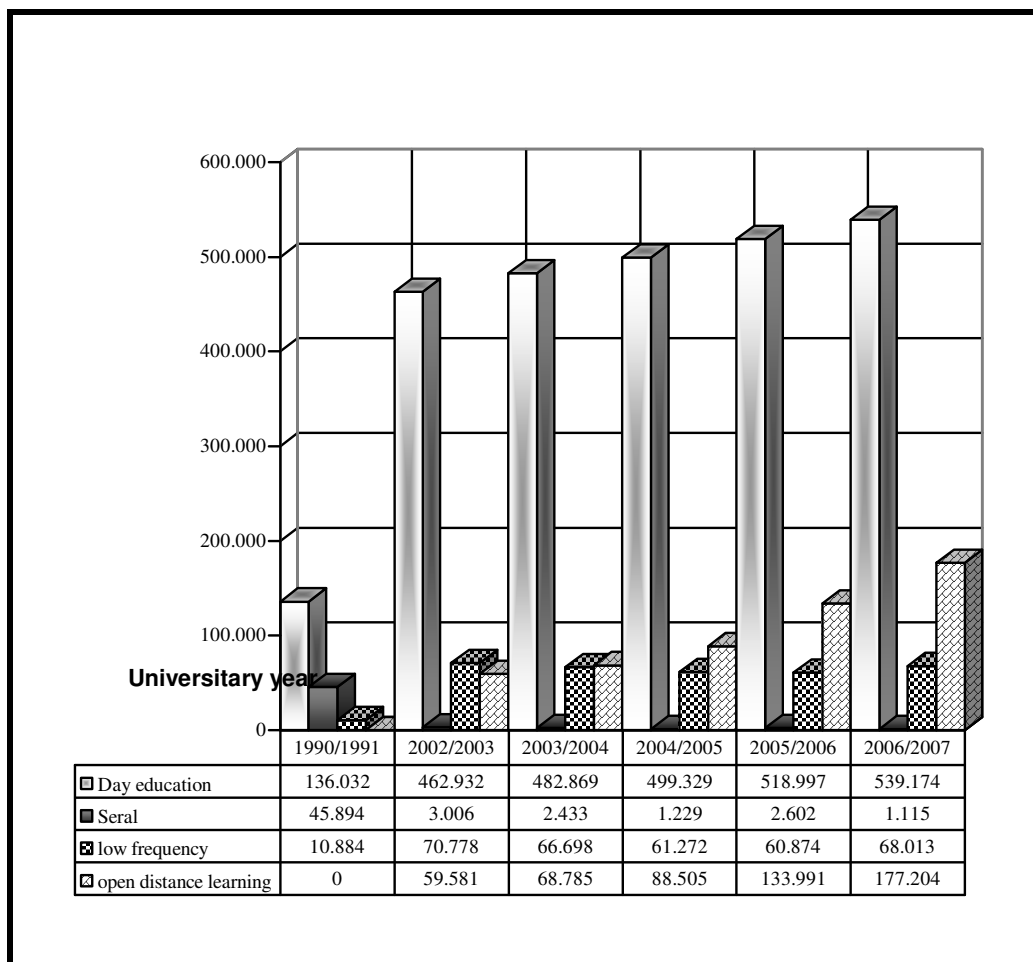
**Key words:** entrepreneurial university, innovative vision, learning society

### 1. SHORT RADIOGRAM OF THE POPULATION DYNAMIC PRACTISED IN THE ROMANIAN HIGHER EDUCATION SYSTEMS

According to 2009 EUROSTAT edition, in 2006 the Romanian pupils and students was 3.8 million, meaning 4% of all European pupils and students, and students represented 21.8% of the total school population, compared with 20% of European average.

Share of population aged 25 to 64 years included in the training is about 3% to almost 10% European average. (Europe 27) Number of higher education institutions increased from 48 to 286 students in 1991 to 104 to 775 of faculty in 2007 and the rate of students per 10,000 inhabitants from 81 in 1990-1991 to 364 students per 10,000 inhabitants in 2007.

Between 1990 and 2007 the number of students increased by approx. 4 times and the highest growth recorded per students to university courses with low frequency (about 6 times) followed by students in university courses in education day (about 4 times) and open distance learning (about 3 times).



**Figure 1. Dynamics of students by level of education**

Source: INSSE

Groups of students share specialization is as follows in figure 2. If in the 1990/1991 academic year, the technical specialties represented 62.5% of graduate school, in 2006/2007 they were only 21.7%, the medical-pharmaceutical were halved, while economic specializations and share tripled, and the legal increased about 5 times.

Postgraduate education has been an increase in the total school population from 1% in 2002/2003 to 3.2% in 2006/2007.

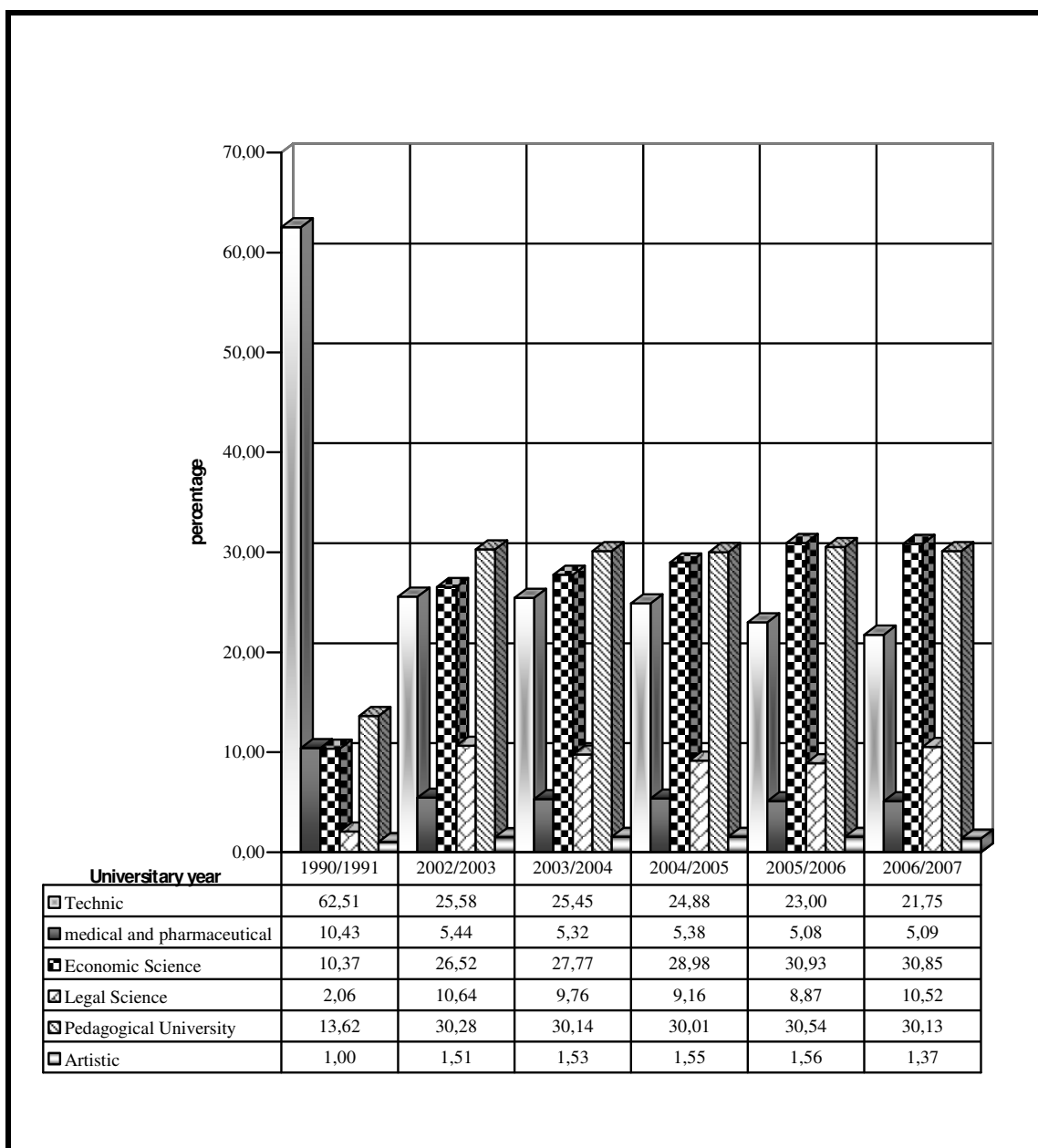


Figure 2. Dynamic share of students to groups of specializations

Source: INSSE

Table 1. Population by level of school education

(% Total school population)

Education level	2002/2003	2003/2004	2004/2005	2005/2006	2006/2007
Higher Education	14,1	15,1	16,5	18,6	20,7
Postgraduate education	1,00	1,40	2,00	2,60	3,20

Source: INSSE

Statistical analysis derived from the AMIGO 2001-2005 survey, trimester IV 2006 and trimester IV 2007 highlights system tend to increase population to university level education, and structured sex women share is higher than men by about 2 to 3 percentages.

In 2007-2008, according to the Report on the status of national education in 2008, higher education had the most spectacular growth, 6.4% more compared to the previous year. Thus, today more than half of the population age range is appropriate for this level of education. If the academic year 2000/2001 the rate of coverage in higher education was 27.7%, in 2007/2008 amounted to 53.6%. The rate of coverage of female population in higher education is higher by about 5 percentage points than that of men throughout the period 2000/2001-2007/2008.

The rate of occupancy of the active population at the University has increased during 2001-2007 from 81.7% to 86.6%.

A very significant indicator to highlight the effectiveness of external learning system and its adaptation to the needs of the labour market is the *insertion of graduates of various levels of education who have found a job one year after completing their studies*. Unfortunately, there are no investigation systems at national level for different levels of education competence. Last investigation on the transition from school to work (in the investigation AMIGO) conducted regularly at system in Romania, took place in 2000 and is planned for current year.

Public expenditure on education as a share of GDP, highlights the financial support made by system for education sustaining and the importance given to education as a system and different levels of education and is issued as follows:

**Table 2, Public expenditure on education as% of GDP**

2000	2001	2002	2003	2004	2005	2006	2007	2008
3,4	3,6	3,6	3,5	3,3	3,5	4,3	5,5	cca.6,0

Source: Ministry of Education and Research, General Directorate for Budget, Finance, Investment and Heritage

Romania continued trend of increased funds allocated to education as the Czech Republic and Bulgaria too, significantly closer to the average of the EU member countries. In 2007 Romania has allocated to education more than 17% of total public expenditure, being one of the privileged public services, including higher education having returned 3.9%. (MECT, 2008, INS, 2008).

If we refer only to expenditure on higher education in total spending for education, we can find maintaining their weight around 22% during 2002-2007.

Total expenditure for continuing training as an expression of the total percentage of total expenditure on education should be calculated by considering the public and private contributions too. Unfortunately no information necessary to establish the correct value of this indicator is available. Joint Interim Report 2008 draws attention to the effectiveness and sustainability of funding education and training remain the most critical EU member. In Romania, the average expenditure per employee continues to be well below the European average.

According Progress Towards the Lisbon Objectives in Education and Training Report, Commission of the European Communities (2008) there are large differences with regard to participation in adult education and training between the EU Member States: the Scandinavian countries and the UK recorded the highest rate of participation over 20%, while in Bulgaria, Greece, Romania these rates are around 2%, over four times lower in comparison with the EU average.

In 2007 the rate of participation of adults (25-64 years) on education and training is at 1.3%, when the European states that the objective value is at least 12.5%.

In Romania, there are many university **departments of continuing education or lifelong learning and developing centres of excellence** in the programs of the National Council for Financing Higher Education (CNFIS) financed by the World Bank. Centre for Continuous Training mission in the universities is to monitor and manage training programs conducted at their level. These training activities are defined as training activities in the sphere of vocational training programs which involve the conversion / reconversion / professional training courses, postgraduate courses for specialization, postgraduate refresher courses, workshops, summer schools.

Some departments integrated to the PRIME-NETWORK European association (Interuniversity Professional Networking for Educational Management).

## **2. THE GENERAL SETTING OF THE SOCIETY THAT IMPOSE THE REFORMING OF THE HIGHER EDUCATION SYSTEM AND THE MEASURES BY NOW**

Complexity of the nowadays stage, supported by the spectacular development of information and communication technology, lead the entire economy and society in general. The changes concern both form and content of the entire economic system as it moved from an economy in which material resources were most important, to a knowledge-based economy, considered as the most valuable and able to ensure achievement of competitive advantages in a competitive and very dynamic market.

Knowledge-based economy produces a society in which knowledge is mostly traded, a knowledge society (Miclea & Oprea, 2002). In such a context it is normal for the university to substantially alter the meaning of scientific knowledge production and dissemination thereof. Down through history the university has turned permanently to serve the best interests of the university ranging from traditional to the virtual. James J. Duderstadt, Professor at the University of Michigan and known author in higher education describes the transformation of the universities that took place in two forms: evolution and revolution. The author describes the developments as adaptations to the external environment, changes taking place gradually over time in response to various influences from the society in which universities operate. Revolutions instead, represent dramatic and radical transformations, aiming the axiological core of these institutions in a relatively short time. Constructive solutions to the challenges, faster adapt to market requirements by extrapolation of the novelty of changes that turns threats into opportunities is called adaptation proactive, entrepreneurial (Pintea, 2002).

2010 is settle by the Council of Europe as the deadline by which Europe must become the most competitive and dynamic knowledge-based economy in the world, able to sustain economic growth. Research, development and universities are considered the fundamentals of European competitiveness and therefore require sustained action in partnership with social and economic environment.

One of the policy guidelines of the European Commission aims at reforming higher education systems in order processing them into systems more flexible, more consistent and more open to the needs of society, able to meet the challenges of globalization and the need for training of human resource reform in Europe. Reforms at this level offer universities more skills in assuming the fundamental role in a Europe of knowledge in order to achieve the objectives set by the Lisbon Strategy by the European Union. Modernization of European universities by linking education with research and innovation is an essential condition of success for the Lisbon Strategy.

The European Commission estimates that are required transformations considered to be the key to success in achieving objectives, including: eliminating the geographic and inter-sectorial barriers between European universities; ensuring real autonomy and accountability of the

university, providing incentives for partnerships with business environment; reducing financial deficits and efficiency of financing of education and research programs; increasing the number of interdisciplinary and trans-disciplinary studies; knowledge activation through interaction with society; rewarding excellence at the highest level.

Analysis of literature shows that it was discussed at international level the urgent need to operate changes in higher education concerning the role and organizational structure. There is consensus about the need for higher education to contribute substantially to the development of entrepreneurial skills of university graduates who will work in a society that requires frequent changes of occupation, international mobility, and faster adaptation of flexible structures. In this context, the degree does not have to be regarded as a guarantee of employment throughout the life, but as "a ticket of entry into the labour market". Key component of such a perspective is to develop entrepreneurship among students / graduates. (Nela Popescu, 2008)

In the unprecedented development of information technology and especially the Internet, access to global information globalize, certainty never holding monopoly on knowledge. Students have multiple opportunities to access information, and teacher remains especially the lead role in the ocean of information, the one who say to the what is relevant and what not, and that it provides an emotional experience, training rather than information (Miclea & Oprea, 2002).

Due to increasing tender and of knowledge tenderers, the student can choose the most accessible sources in terms of monetary and non-monetary costs, and traditional universities cannot operate as only suppliers of knowledge in a highly competitive market. The only way forward is to work flexible, adapting to market requirements through the transition from classical to an innovative and entrepreneurial university.

University takes over human resources, materials, information which exploit in their teaching and research, and outcome, knowledge, return in the environment where these resources were taken as components of a system. It is important to consider the student as customer and not a product of university and marketing education policy of the university should be based on customer orientation needs, needs that change with changes in the global economy. Globalization is seen in literature as the greatest challenge that higher education had to answer it throughout history, from the Enlightenment era to the present (Bratianu, 2001). Therefore, adopting an entrepreneurial vision is essential to winning an important position in the market of educational services.

It is necessary to operate changes in procedures and organizational structure of the business of universities, to increase the concern for transformation *through the use of training and research for the local community, in partnership with economic, public actors, non-governmental organizations.*

New vision of higher education institutions is required too by changing the role in modern society where the primary beneficiary is no longer state who funded higher education unconditionally a long time, but community. On this is added the increased number of students with decreasing average financial funds allocated from the state budget. In this newly created context, universities are forced to supplement their resources from their own budget resources obtained through fundamental activities, education and research.

Increasing the number of potential beneficiaries of superior preparation must be accompanied by adequate financial support, support that cannot be ensured only by the public effort, but must identify new funding sources. This should be seen as a challenge for universities that must identify new sources of business funding, in particular from the private sector. It is a direction of transformation referred to Burton R. Clark (Clark, 2002), namely "the existence of a diversified funding base". In this respect it is necessary to amend the model of organizing work in the university by the specific loan based on private sector investment, profit.

Exponents demand for higher education come from a very diverse population in terms of demographic, social, cultural and economic. Higher education market can no longer be defined simply as preparation for life or for a career, nor focused on a population of young students as in XX centuries. Development of the higher education market for adults offers the opportunities of the universities and stimulates the emergence of new competitors on this market. This is associated with development of new communication technologies which are cheaper and more accessible.

Due to the diversity of the population of students appears a special problem, namely increasing the demand for adult education that must learn to maintain their workplace, to develop career in the dynamic changes in the economy, technology, work environment etc.

Campuses monopoly on higher education can be easily eliminated by new communication technologies that facilitate the demand for education of any age from any corner of the world in higher education institutions in the world.

The higher education trends that are found today in the Romanian higher education market, namely:

- increasing demand for higher education and training in response to the knowledge society;
- reduction of public financial support;
- diversifying needs of training and higher education of the adult permanent education;
- Development of information technology with emphasis on the higher education globalization.

Analysis of individual demand for education in Romania highlights some features:

- individual demand for education is centred on diploma, certificates or certifications without being accompanied by a comprehensive assessment of competences, knowledge, values and skills;
- number of highly-qualified and competitive persons that emigrate towards economic developed countries is high; Romania is losing highly qualified staff in favour of developed countries, because it doesn't provide minimum guarantees for the performance ones;
- general culture is evaluated against the pragmatic one, using knowledge to solve current problems; universities must focus on creation and lifelong learning skills training, on new information technologies and communication usage.

Experts have identified **several obstacles in the reform of universities in Romania**:

- academic institutions are conservative about their structures; their management is provided by academic staff and not by specialized managerial staff; Romanian university considered from an institutional and management structure is obsolete, continuing to remain in forms adapted to the new part, the World War II university model sketch, a model that is not for the future;
- the purpose for which the university receives funding from the state or for students who pay taxes is, even if the University remains a culture institution, is to form specialists in certain fields and not to form cultural people;
- lack of skills at the level of cooperation on teachers that is concerned only on its professional, very specialized life and characterized by competition;
- Romanian education is primarily based on memorization and not on skills training, competences, and is concerned in particular by the organization of classrooms and seminar, and not the student's performance in his future career, and the failure of higher education graduates is not considered a result of the university activity.

Introducing the private organizations model on higher education institutions implies (N. Burdules, 2000):

- administrative functions associated with titles borrowed from the private sector (manager, executive director);
- implementation of quality management system in administration the university curricula;
- new strategies for allocating budgets to encourage academic entrepreneurship;
- adoption on basic vocabulary in specific activity of academic notions such as “services”, “customers”, “corporate research structures from university by strengthening relations with private companies”.

One of the main goals pursued in the reform of university administration has been **developing and implementing a new management structure of the university**: the guiding idea was the separation of decision functions (held by teachers with the leadership tasks) from the administrative ones (held by the body of professional managers). The situation inherited from previous decades was that of overlap of these tasks at Rectors, and pro-rectors and deans. In this framework, was introduced the Administrative Executive Director job (DGA) as head of the university administration and the Chief Administrator job of college (ASF) as head of the college administration. The proposal overtook the Western universities experience, especially the French and German ones. Professionalizing of the university administration is a general trend, and in preparing that decision worked several Romanian and foreign experts. The decision in favour of this change was taken in the context in which in many countries in Europe, the traditional university concept has been replaced by the concept of "entrepreneurial university".

In Romanian context, **entrepreneurial university** is “opposite to the state assisted university”. It's a university that takes seriously the competition criteria and financial profitability. It is a "self-governing" university, lead by a "strategic plan" which seeks to alter the competitive balance in its favour. It is a university in which managers are becoming more specialized and in which teachers are involved only in managerial and policy decisions, not the current administration. It is a university which seeks to diversify budgetary resources (it has a policy to increase their revenue) and provides de-concentration of allocated funds. It is an open and connected university to socio-economic environment, a university in which explicit standards of quality are functioning, and where it is accepted the idea of bankruptcy caused by poor management." (The final report of the R09601PHARE).

Technical assistance in Western Europe chancellors and Romanian experts involved in this process drafted a general scheme of universities reorganization in this regard, substantiated in first instance, the MO no.5647/22.12.97 on the new organization of university and Director General Administration job introduction (DGA), and MO no.3334/26.02.98 regarding the post of Administrator Faculty Chief -ASF. Were also launched initiatives to legislative changes to ensure adequate wages of these two new functions (Law no.154/16.07.1998).

Actions taken to achieve this objective included sensitizing Romanian university leaders (rectors, pro-rectors, deans, DGA, ASF, accounting officers, etc.) to these ideas (study visits in Western Europe countries (SVT, STT), seminars work, informative materials, drawing up, together with EU experts, of a new management scheme and following its implementation through dissemination actions.

The results reported in this chapter show the initiation of a genuine process of change. In 41 universities DGA were engaged and there are many ASF in faculties. It was created the National Association of DGA, the evidence of the need for professional identity that they felt. In some universities has been the decision of administrative decentralization and separation of management functions of the academic administration.

In fact, the meetings organized by the Program have created a debate and search on the subject climate, synchronized with searches taking place in Europe. Actual results are gradual and vary from place to place: there are universities that do not want the program to operate these changes, universities that have made form changes (there are DGA employments without proper



tasks; ASF employment among the teachers, etc.) and universities who haven't taken into serious the change. Overall, however, difficult to change rank, the more engaging the DGA and ASF should be accompanied by a change in the university organization and a modernization of structure and administrative services functions. In terms of decentralization of the administrative decision within the university, there are two options: to maintain a centralized decision, namely decentralization and faculties' responsible action. A small number of universities have opted for the second variant, but in most universities it is regarded with more interest.

In terms of **entrepreneurship spirit**, even if it's challenged by many traditionalists, it will be dictated by the budget precariousness and more visible competition that will exert future large private universities.

There have been steps taken at the ministry level on the introduction of the strategic plan and institutional contract field, creating in university a culture of strategic management. The results marked a beginning in this field. After 1999, all state universities have adopted strategic plans, negotiated all this year the first contract between the universities and institutional ministry; all actions were based on MO nr.3595/22.04.1998 on developing strategic plan for institutional development university. However, most strategic plans are not the result of policies faculties aggregation, being developed by a group of people and the procedure of negotiation with the ministry concerned is relatively short and shallow as time.

Regarding financial autonomy of universities, established as objective of the PHARE Program, has managed a new financing system called "global finance" meant to increase the responsibility of universities and their economic efficiency. This system is based on "funding follows the student" principle and replaces the one which was the number of posts. This requires universities to effectively make their household resources and to establish staff taking to account the budget and not budget after personnel. Application of several orders of the Minister concerned, governmental ordinances and Education Law amended-(no.85/1999) led to the transition to the new funding mechanism of higher education, and the namely implementation has led universities to reconsider their management and make it anchor in the financial return requirements. However, it remains difficult to accept ideas such as "bankruptcy because of poor lacking management", the idea of the financial losses caused by indiscipline and bad organization, and the idea of financial support of those who are the fault of their deficit. Complementary funding mechanism remained a draft, respectively the funding allocation on competitive criteria, performance in research, and explicit policy of the ministry concerned on budgets deconcentration within universities.

In what concerns the **quality assurance in education**, it has been achieved in recent years, a legislative package that includes: Law no.87/2006 approving the Emergency Ordinance no. 75 of 12.07.2005 on the quality of education, Order no. 3928/21.04.2005 on quality assurance of educational services in higher education institutions, principles and criteria concerning the quality system at the institution of higher education - Annex to the Order no. 3928/21.04.2005 Regulation of organization and functioning of the Romanian Agency for Quality Assurance in Higher Education (ARACIS) and Order No. 4492/06.07.2005 on promoting professional ethics in universities. It is important the awareness for all faculty of the importance of practical application of the provisions of Annex Order No. 3928/2005. Providing quality education should be based on several aspects, namely:

- designing and implementing the quality system in each faculty,
- knowledge, understanding and proper implementation of the approved quality standards;
- establish transparent mechanisms on quality evaluation of university action with support and consultation of specialists in education, among employers, of some professional organizations and best students and graduates;

- empowerment of all compartments of the faculty and all the actors for each quality assurance activities;
- students and partners capacity in the quality internal evaluation

The following extract from a report in 1994 by the Commission of the European Community is typical of policy documents of this period: "All measures must therefore necessarily be based on the concept of developing, generalizing and systematizing lifelong learning and continuing training. This means that education and training systems must be reworked in order to take account of the need-which is already growing this year set to grow even more in the future-for the permanent recomposition and redevelopment of knowledge and know-how-CEC, 1994.

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## MAJOR MANAGERIAL RISKS FOR THE ROMANIAN COMPANIES

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**Abstract:** *The strategic management index number which assesses the salary policies is the share of the total salary policies in the net added value. The international use established the value of 85% as the alarm ceiling of this index. The salary policies have distinct characteristics in accordance with the dynamics of the turnover. The internal strategic index of the financial safety of the company is the cover degree with cash of the monthly operating expenses. According to the international practice, a company is fully financially secured if this index is bigger or equal with 100%.*

**Key words:** the rate of the operating result, the index number of the salary policies, the financial safety of the company, the degree of cash cover, the rate of the residual payments, the rate of the financial expenses.

### 1. RISKS RESULTED FROM THE MANAGERIAL DECISIONS REGARDING THE SALARY POLICIES

The following axiom is imposed at the level of the company: The necessary condition for a company to exist on the market is the elicitation of a positive result of operating, on short, medium and long term. As a result, the rate  $Rex / CA \geq 0$  (Rex is the rate of the operating result). In other words, a company should always record a turnover  $CA \geq CAcr$  (CA is the turnover of a company, while CAcr is the critical turnover).

The total salary expenses represent an essential part of the structure of the net added value. The net added value is the base for the comparative analysis between companies.

In Romania, the share of the total salary expenses in the net added value starts from 86-87% in the industry and 50-52% in the commerce and service fields.

The strategic management index number which assesses the salary policies is the share of the total salary expenses in the net added value  $IS = ChST/VA_{net\grave{a}}, \%$  (ChST represents the total salary expenses, while  $VA_{net\grave{a}}$  represents the net added value).

The international use established the value of 85% as the alarm ceiling of this index. For a value bigger than 95%, a company records loss of operating.

The salary policies are never analyzed by the percentage of increase of the value of average salary. The economists take always into account the dynamics of the buying power of the employees.

The strategic objective of the social partnership regarding the salary policies is the increase of the purchasing power of the employees, established by the report:

$$KS = \frac{\frac{Smed\ n}{Smed\ n - 1}}{\text{Price Increase Index} \frac{\text{year}\ n}{\text{year}\ n - 1}} \quad (1)$$

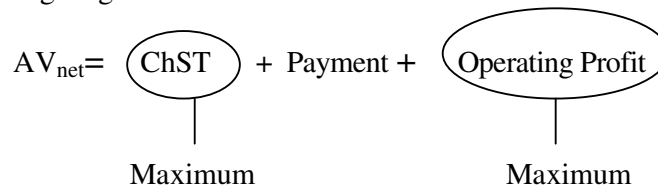
Ks represents the index number of the salary policies

Ks > 1 - the purchasing power increased

Ks = 1 – the same level of the purchasing (indexation)

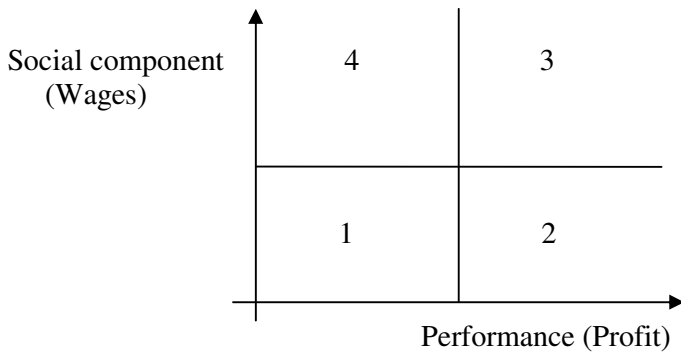
Ks < 1 – the purchasing power decreased

In any company, the interests of the employers and those of the unions are opposed. The employers aim at maximizing the operating profit and the union aims at maximizing the salaries, according to the following diagram:



**Fig. 1.1 Interests of the employers and of the unions**

The negotiations between employers and unions are focused on the identification of a compromise between these two courses. The patterns of management leave their marks on the result of these negotiations with direct implications on the results on short and medium term for the companies.



**Fig. 1.2. Patterns of management in transition**

- 1 – ineffectiveness – “laissez-faire” style
- 2 – net trend to the tracing of the profit
- 3 – negotiated compromise (willable) – fair partnership
- 4 – net trend to the maximization of salaries - populism.

The salary policies have distinct characteristics in accordance with the dynamics of the turnover. The turnover increase calls for carefulness in the rise of buying power and/or of the number of employees or relaxation (significant increment of the buying power and/or maximum staff deployment). The turnover cut makes the managers to freeze the buying power (indexation),

measure to be applied in the same time with staff lay offs or to maintain it with the same number of employees.

## 2. RISKS RESULTED FROM MANAGERIAL DECISIONS REGARDING THE FINANCIAL SAFETY OF THE COMPANY

The financial safety of a company represents the capacity of an organization to fulfill all its contractual financial obligations at the terms that were established or stipulated by the law.

The rates of performance which mark the financial safety of a company are:

- The debts reported to the turnover PR / CA, % ;
- The financial expenses related to the turnover ChF / CA, %.

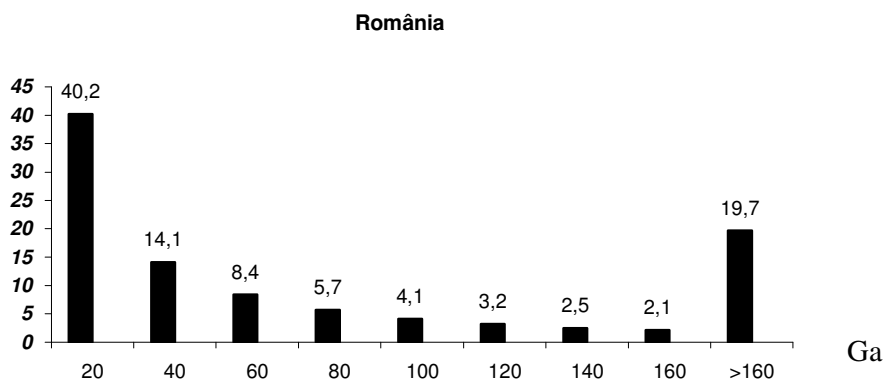
In the present stage of the Romanian economics, PR/CA  $\geq$  50 % or ChF/CA  $\geq$  25% represent alarming ceiling related to the lack of capability to pay.

The internal strategic index of the financial safety of a company is the cover extent with cash of the monthly expenses of operating.

$$Ga, \% = \frac{\text{Liquidity}(\text{RON accounts} + \text{currency} + \text{case})}{\text{Monthly\_expenses\_of\_operating}} \times 100 \quad (2)$$

In the international practice, a company is fully financially secured if Ga  $\geq$  100 %, the alarm ceiling being Ga < 80 %.

Share of the companies



**Fig. 1.3. Evolution of the financial blocking**

According to this diagram, 40,2 % of the companies have Ga < 7 % in the context in which: the total salary expenses and the energetic expenses represent almost 19% from the monthly operating expenses. A strong centre of very poor companies exists, but also a centre of extremely profitable companies (Ga > 160%).

The conducts resulted from the structure of the cover degrees Ga can be:

- minimum solvency (namely the provision of the negotiated net salaries and the payment of the direct imports);
- intermediary solvency (the first case is added the partial payment of the suppliers, interests an bank loans, of the taxes to the consolidated state budget);
- unprofitable high solvency (the assurance of the entire repayment of the obligations in the context of the null profit and of the abandonment of the investments );

- high solvency with partially advantageous (compared to the previous case, the self-financing capacity for investments is used and a minimum profit is obtained);
- the maximization of the profit in the sense presumed in the modern theory of the company's activity in competitive system.

From the conduct point of view, in the majority of the cases, the management of the Romanian companies affected by "the negative shocks on the market" are included in the first two categories mentioned above, working by inertia.

Starting from these aspects, we can draw a few conclusions from the decisional perspective in the context of the Romanian economics in the present stage:

- The necessary condition for the survival of the companies in the Romanian business environment is the constancy in each accounting period of a positive operating result. The pendulous evolutions characterized by alternations of positive and negative results of operating can lead, on short term, to a crisis of cash and to a significant increase of the debts.
- In the managerial interpretation, the operating result is the key of the economic performance of a company. The operating result focuses the efficiency of the managerial steps in the essential fields of a company's activity, as the labor productivity, the salary policies, the cut of the energy consumption, the cut of the material expenses, the policies regarding the stocks and the harmonization of the investment policies with the real resources of the company
- A rate of the operating result of 6-7% barely covers the financial and exceptional results, leading to a rate of the gross result of the accounting period almost reaching the equilibrium. As a consequence, a rate of the operating result smaller than +5% does not provide, on the whole, in the context of the Romanian business environment, a global positive capitalization.
- The assuring values of the rate of operating result reported to the turnover from the point of view of financial safety are those bigger than 10%
- The probability relatively high of the appearance of some negative shocks on market of big amplitude (more than -10% per year) entails from the perspective of the financial safety, the operationalisation of the structural conditions to increase the flexibility of the operating by concomitant programs to cut the fixed expenses, the decrease of the variable expenses and the reduction of the negative shocks of the market.

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## THE PERFORMANCES OF THE ORGANISATION AND THE INFORMATIONAL SYSTEM IN THE CONTEXT OF THE ECONOMIC CRISES

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*Abstract: Major changes which occur in the economic actions and processes, as a direct effect of the economic crises and increasing competition, involve the use of innovation as founding pillar in the creation of strategies by managers.*

*Knowledge along with information is the nowadays competitive weapon and will be the main motor force.*

*This paper wants to reveal the superior rendering profitable of information and knowledge by the manager represents the main source of creating the value in the company which activates in economic crises.*

*The world is literally crossed by a large number of economic, communicative, cultural, independence.*

**Key words:** management; economic crisis; resources; dissemination; knowledge.

The economy of the future will be totally different in its essentials from its present form. This new economy will find its reliance in the advancement of science and technique, the technologies of the future, which should work with priority according to the environment regulations. This trend is already noticeable especially in the IT industry.

On the other side, the economy of the future will have to be more efficient than the present one; the motivation is already known: the changes in economic crises and their impacts, the population is constantly increasing and the resources are, quite often, limited, even if there is an important transformation undergoing in the place and purpose of the factors of production.

It's all about the genesis of a new civilization (based especially on elements coming from science and technique), which comes in a constant conflict with the other civilizations today, the later trying as well to expand their influences.

The essential dominant characteristic of this century is change. It applies to all the organizations, no matter what they do, all are systems undergoing change, and their self – regulation is done through management.

We will witness, in economy, a revolution of the information which is the base of the economical increasing significance of information, of the capacities and of the organization competences. An essential role in the starting of this revolution it's held by the mixing up between the new IT, the communication technology and acquisition means, making, dissemination and use of information.

In the context of economic crises the need to have vast and inclusive information will trigger a very profound and broad process, with major changes in all the components of the economical activity.

We can say that we do not have to prepare for the organization of this situation, we are already there and only those who will adjust quickly will be winners, otherwise chances and opportunities will be lost. There's no need to build an ideal company, but one shaped by goals,

people and cultures. An organizational culture has to be developed, focused on the values of knowledge and communication. It takes a remodeled company, which can permanently shift from one strategy to another. This is the flair and instinct of the manager anchored in the society based on knowledge.

In a society affected by the crisis, the changes are more consistent and occur one after the other in a constantly increasing pace. These changes are oriented in some great ways, which even if they cannot be seen as exhaustive, give a rather clear image on the challenges of the future and of the impact these will have on the very existence and activities of the organizations.

In the informational society, the essential economical resource is no longer the fund, nor the land, nor physical labor. Knowledge and information will soon become essential elements of the obtaining of competitive advantages by the organizations in the context of the economic crises.

At the core of the genesis and running of the informational system of the organization – just as the information management – there's a new paradigm. The one used until a few years back referred to the focusing of the informational system on the identification of the need of information and the ways of compliance, concomitant with the information usage approach, in a vision both strategic and economic, focused on efficiency.

This paradigm is a prediction of the evolution towards the company based on knowledge, being the kind of organization which develops the fastest in a significant part of the globe.

The approach of definition, running and designing of the company's informational system starting from a new paradigm represents the premise of its running and efficiency.

The information from within the organizations is extremely complex. To facilitate their description, there are classified according to several criteria, which allow the presentation of areas significant for the management of the organizations. Therefore, information is raw material involved in all the activities of the organization. Every work process, no matter its nature, is based on information.

A common characteristic of managers is the fact some information contain a ruling aspect, shaping into decisions. Therefore, the decision can be defined as being that information through which is being ascertained, for other people, the obligation to do certain work processes with an exact outcome. In light of the aspects mentioned earlier, information gives power to the holder.

The more information the person inside the organization holds – meaning raw material and finite informational product – and the more ability to use it efficiently, the more power he holds, formal or informal one. The relation information – power acquires new dimensions in the shifting environment to an economy based on knowledge.

Specialists believe information has value and generates efficiency at a level which depends on the complexity and the competitive aspect of the environment involved. In the context of the development of the organizations based on knowledge – the basis of birth, development and use of knowledge – is amplified.

On the informational – managing side this is reflected in the appearance of the so-called contextual scanning, which is the systematic activity of research of the informational environment of the company by the manager, based on the Internet connection of the company and other informational resources. Therefore, information starts moving intensively towards the ambient environment, through which a large quantity of exogenous information is absorbed.

In an increasing proportion, the ability of managers to ensure the access to the most recent and performing hardware and software limits the competitive capacity of the organization.

For the performance of each organization it is essential that the informational subsystem is not approached by itself, but related to the other systems which form the managerial system.

This is absolutely necessary because in each company there's the trend to ignore or underestimate the correlations with the other subsystems, which triggers multiple negative effects, on the functioning and economical level.



The managerial system of the company contains the shaping and exertion of the processes and managerial relations in a certain manner, as to determine the obtaining of high competitiveness. In other words, the managerial system, can be defined as the total of the elements with a decisional, organized, informational, motivational aspect from within the organization, through which is exerted the management process and relation ensemble.

When it comes to them, the elements which compose the informational system greatly mark the running of the managerial instrument. The biggest impact is held by the quality of the information delivered, which, evidently, depend greatly of the characteristics of the procedures, circuits, transfer and informational means.

The data and information represent, accompanied by the decisions as well, the main inputs in the methodic – managing system, seriously limiting its effects generated directly and indirectly. The relations between the informational system and the organization system are both functional and structural-constructive. The entire informational system is held by the organizational structure of the company. Working with the data and information, the operation of the moving of information and the informational procedures, the use of means to deal the information are the result of the tasks, competences and responsibilities exertion of certain managers. Their reasoning has a great impact over all the components of the informational system.

Simultaneously, there's a strong influence of the organizational culture over the informational elements. This influence is functional, and is exerted especially over the operational way of the components of the informational system. By the correlative measuring of the performances, we call upon concepts of competitiveness and competitor advantage. Inevitably, the notion of performance brings to light the efficiency and efficacy, and the indicators of performance acquire a special diversity.

Therefore, the obtaining of performances at a company level assumes, directly or indirectly, the reevaluation of the concepts of competitiveness, competitor advantage, efficiency and efficacy. Performance is not a simple ascertained fact of a result, but just the opposite, is the consequence of a comparison between result and objective.

The proportions the term “practice” of performance has achieved, led to outline of a new concept, the one of performance management, itself debatable, but justified by the orientations which the stating of performance in the center of the managerial concerns of the organization gives the present steps and especially to the future ones of it.

Also, performance cannot be defined as a great result obtained in the field of management, economics, commercial which gives characteristics of competitiveness, efficiency and efficacy to the organization and its procession and structural components. Which is particularly interesting are the theory and managerial practice from Romania, the managerial performances, which are absolutely necessary to obtain economic and financial performances in the fields they run.

The unanimous recognized conditions by specialists in this area of scientific concerns are clear: only a performing management, exerted by professional managers, is capable of managerial performances, generated by social, economic, financial performances. For this it is necessary to know the accomplishments of other organizations in the reference fields in order to compare (volume indicators, quantity, as well as efficiency).

A performing organization, anchored in the economy based on knowledge, renders better the opportunities of the ambient environment, overcomes more easily the difficulties arisen, performs better from a quantity and quality point of view towards a segment of the social need, and obtains a competitive advantage on its specific market.

In fact, a performing organization from a managerial and economical point of view is capable to fully satisfy the economical interests of its main stakeholders – employees, managers, shareholder, state, local authorities, banks, contractors, clients – when the two fundamental

trends are optimized and they mark its running: “the obtaining of value for the client” and “the obtaining of value for the shareholder”.

Mainly, the obtaining of managerial performances at a company level is limited by the competence of managers and employees, by the cultural context in which they act and, evidently, by the contextual influences exerted by the ambient, national and international environment.

One factor of limitation of the level of managerial performances is represented, without any doubt, the competence of those who exert management processes, meaning managers but also those who implement the decisions, the employees.

Evidently, the decisive role is held by the managers, proper education, no matter the position in the organization.

A competent manager, professional, takes quality decisions (proven scientifically, proper, complete), using modern leading instruments, increasingly sophisticated, in a cultural context as open as possible, to allow him to implement managing styles which involve others as well.

The managerial performances are, in conclusion, several and have great chances of implementation in the organization.

Knowledge along with information is, in condition of the economic crises, the nowadays competitive weapons and will be the main motor force.

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## MANAGERIAL ASPECTS IN CONDITIONS OF CRISIS

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***Abstract:** The reorganization of the business implies the partial or total reconfiguring/redesigning of the activity of a company and it can be of managerial, structural or financial kind. The financial crisis brings in foreground the cash management which becomes a constant concern for the financial stability of business. The identification, the computation and the control of the fixed costs becomes a priority on the daily agenda of the managers in any company.*

***Keywords:** managerial reorganization, structural reorganization, financial reorganization, cash-flow, fixed costs.*

### 1. THE REORGANIZATION OF THE COMPANIES

The reorganizations means the total or partial reorientation/redesigning/reconfiguring of the activity of a company in order to maintain or strengthen a challenging advantage on the market and to provide the stability of a business.

The major causes which entail the reorganization and major intrusions into the activity of a company are those who affect the survival of the company:

- the fast decrease of the sales and of the market share of a company;
- the pronounced decrease of the profit as a result of the permanent rise of the costs;
- major difficulties regarding the financing of the business on short and medium term;
- the general worsening of the performance indexes;
- the inefficiency of the present system of company's management;
- the lack of adjustment of the company's objectives and strategies to the general business.

In order to start a process of business reorganization, one must observe the following stages:

- the drawing up of a SWOT analysis of the company: opportunities and threats peculiar to the business environment in which the company activates, strengths and weaknesses in the habitual activity of the company;
- the identification of the significant and the establishment of the "intervention" options to optimize the performances of the company: precise plans of action (the revision of product on the target markets, the gradual cut of the fixed costs) or plans for total or partial reorganization of the company;
- the drawing up of the objectives and of the plan for strategic or operational reorganization of the company;

- the implementation and the assessment of the reorganization plan.

The reorganization of the business can be of managerial, structural or financial type.

The managerial reorganization means the reassessment of the following elements:

- a) the application of the principle “the right persons at the appropriate place and moment” to record safe and immediate results;
- b) the concern for the development of the knowledge and managerial know-how;
- c) the more striking exercise of the planning functions of the business, or organization and permanent control of the activities, resources and performances;
- d) the implementation of some policies and instruments of high-efficiency management: management by objectives, budget management, project management, managerial tables, in order for all of these objectives and results to be measurable and controlled, so corrective measures to be applied anytime;
- e) the reorganization of the IT system of the company, in order for the management team to have access anytime to information and accurate, complete and well structured reports;
- f) the improvement of the managerial communication and of the communication between departments;
- g) the reviewing of the decisional system, in order for the decisions to be well-grounded and an assessment on their future effects to exist;

Structural reorganization means the analysis and the redesigning of the company’s activities in accordance with the new objectives and strategies of the company:

- a) the reviewing of the company’s organization chart, from the point of view of the hierarchical levels, the responsibility centers and the support ones;
- b) the redesigning of the number and staff policy, of the salary policy;
- c) the development of the controlling departments to supervise, analyze, assess the commercial and financial performances of the business and the endowment of any information to the management team in order for this to draw up the strategies and company’s policies;

The financial reorganization aims at maintaining the profit and the financial balance of the business, by the permanent control of the revenue and costs and returns and of the payments with the third parties.

In order to achieve this goal, the following measures have to be taken into account:

- a. the identification and the decrease / cancellation of the areas that cause cash losses: production centers, sales centers, support centers; ranges of products or services etc;
- b. the costs cut and the improvement of their structure in accordance with the volume and the level of company’s sales;
- c. the working-out and the monthly supervising of the revenue and expenses budgets at the company’s level and at responsibility centers, in order to observe the budget limits established and to provide the advanced premises and to decrease the losses;
- d. the working-out and the monthly and weekly supervising of the budgets of revenues and payments, to anticipate and provide the necessary of financing for the company’s activities to continue;
- e. the reviewing of the investment policies and those of the bank financing;

- f.* the reviewing of the commercial financial policies: loan-client and loan-supplier;
- g.* the designing and the supervising of the main economic-financial indexes for the analysis of profit, cash and business' solvency;
- h.* the implementation of a system of financial managerial frames for the efficient "running" of the business.

The time allotted to a reorganization process can vary between 6 months and 1- 2 years.

## **2. THE CONTROL OF THE CASHING AND OF THE PAYMENTS OF A COMPANY**

The present financial crisis brings in foreground the cash management, which becomes a constant concern for the financial stability of a company. The cash-flow can have positive or negative values, in accordance with the result of the difference between the cashing and the total payments of the company.

If the negative cash-flow is recorded in the case of a company, the situation can worsen in a fast way, if a plan of corrective measures is not applied in a short time and in an efficient manner. If the cash-flow had and it still has a positive value, then the company must forecast and permanently control the flow of cashing and payments, in order to avoid the appearance of the situations of financial deficit.

In order to avoid the lack of the financial reserves and the blocking of the activity, the cashing and the payments on short, medium and long term should be correlated, in accordance with the objectives and policies of each company.

Some of the managerial policies which directly purchase the financial reserves of a company are the following:

- Policies that affect the cashing:
  - the policy of sale and the policy of the granting of commercial loans for the clients;
  - the policy of attracting bank financial sources on short, medium and long term;
- Policies that affect the payments:
  - the policy of acquisition of products and services and the policy of negotiation of the commercial loans from the suppliers;
  - the policy of investments in fixed assets or in those of any other kind;
  - the staff and wage policies;
  - the policy of financing and the repayment of the debts on financial type(leasing, bank loans);
  - the policy of allotment and of payment of dividends.

## **3. THE ANALYSIS AND THE CUT OF THE FIXED COSTS**

The fixed costs are the "rigid" ones, those which are constant and which are not influenced in direct ratio by the volume or the values of the sales of a company.

We can provide the following examples for these costs: the expenses with rents, the depreciation, partially, the expenses with wages, electric power, fuel, delegations, rent transportation, other services carried out by the third parties, as the security services, sanitation, recruitment, consultancy.

The identification, classification, computation and control of the fixed costs becomes a priority of the daily agenda of the managers of any company. The analysis and the control of the costs involves the knowledge and understanding of the general features of a company's activity and the comprehension of the relation of interaction between a company and the business in which it activates (economic, political, technological, social etc).

For the analysis and the efficient cut of the fixed costs, we may take into account the following reference points:

- the approach of the costs must first start from the level of the company (global approach) and then on components (types of activity and cost centers, types of expenses);
- one must identify the activities which generate the biggest fixed costs and then they have to be analyzed the two fundamental options: the activities are limited and organized or the activities are fully eliminated;
- the resources which generate the biggest costs within each cost center are identified;
- the ways to cut the fixed costs are decided per each category of fixed expenses;
- the advantages of the measures to cut costs have to be maintained on long term, in order to provide the performances of the company on short, medium and long term.

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## THE LOYALTY OF THE EMPLOYEES, AN ESSENTIAL ELEMENT IN ATTRACTING AND MAINTAINING THE CUSTOMERS

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***Abstract:** To attract the optimum customers is a first important step in building up a business based on loyalty. Once the company has loyal customers, it must reinvest in employing and retaining of quality employees. The employees that are not loyal cannot build a portfolio of loyal customers, and that happens because of various reasons: Firstly, time is needed in order to build a strong relationship with the customers. Secondly, the loyal employees have greater opportunities to learn how to make their efficiency better. Thirdly, the money that these save the employers, by reducing the recruiting and training costs, can be invested somewhere else – for instance, in increasing the satisfaction of the customers. We will see how the customers try to build the loyalty of the employees and use it to improve the maintaining of customers. In order to maintain their customers, many companies have entered a relational marketing policy. The analysis has allowed the identification of several factors that allow the companies to win the competition for the strategic resource “customer”.*

***Key words:** loyalty, motivation, ethics, internal marketing, maintaining customers.*

### 1. INTRODUCTION

The interface employee-customer was considered a central point in the relationship between the organization and the customer. In many cases, the employee to be contacted is considered to be the service from the customer’s point of view (Berry, Conant, Parasuraman, 1991). In other words, the attitude and behaviour of the personnel in contact with the customer are those of the organization in the eyes of the customer. In this sense, it is mandatory to develop quality relationships, not only between the employee and the customer, but, even more important, between the organization and the employee. The strong relationships between the organization and the employee can improve both the motivation of the employees towards their working place and their availability to offer better services to the customers.

The marketing literature stipulates important fundamentals in order to understand the role of the organization in influencing the attitude and the behaviours of the employee at the workplace.

In order to realize the objectives of the relational marketing but also those that are related to the personnel’s impact on the efficiency of the marketing activity there was developed a new concept of the marketing activity that is the internal marketing which represents the systematic optimization of the internal processes of the company with the aid of the marketing, personnel management instruments by which the entire activity of the personnel is directed towards satisfying the needs of the consumers.

The concept of the competitive advantage, as it was formulated by Porter, is defined when a company creates value for its customers, chooses the markets where it can excel and is a mobile target for its competitors, through the fact that it constantly improves its position.

According to Porter, three of the most important factors are innovation, quality and cost supremacy but admits that all three depend on the quality of the organization's human resources. The exception abilities amongst the employees, among which the superior performance, the productivity, the flexibility, the innovation spirit, and the capacity to insure high levels of personal attendance of the customers are ways through which people supply a vital component in edifying the competing position of an organization.

One of the benefits of the competitive advantage based on the efficiency of the human resources management is that such an advantage cannot be imitated but with difficulty.

## 2. INTERNAL MARKETING, CONCEPTUAL APPROACH

*The internal marketing* recognises the human resources as a competitive advantage and insists upon the necessity of favouring the personnel's satisfaction and its implication in the company. The objective also consists of studying the key factors of the customer's satisfaction success through satisfaction of personnel.

We will define internal marketing also as the initiation, maintenance and development process of the relationships between employees, management and organization, with the purpose of creating a superior value for the customers.

The level of organisational support perceived reflects the belief of the employees regarding the degree to which the organization appreciates its contribution (Eisenberger, Fasolo, Davis LaMastro, 1990). On the basis of this reasoning, the employee makes decisions about his value for the organization and the way in which such support will be mutual.

The customer is often in interaction with the contact personnel whose role has become a differentiating element. Through its attitude, the contact personnel will influence the quality of the service perceived by the customer; thus, seldom the contact personnel is considered by the majority of the consumers as being the service itself, he communicates the message to the company and reflects its image.

In this vision, the company's personnel is responsible with the quality of the service which, influences the satisfaction and the fidelity of the customer. In another vision, the quality of the service and the behaviour of the contact personnel towards the customer depend on the personnel's degree of satisfaction, motivation and implication. Through internal marketing the entire personnel politics (human resources) is organised on the basis of the marketing principles, this step having as finality the accomplishment of the market objectives of the company and the increase of the consumers' satisfaction.

As any marketing activity, the internal marketing of a company must also have a marketing policy expressed through the four classical components of the marketing mix.

**The product policy** in the internal marketing will represent a marketing approach on the personnel, seen as consumer. Thus, the main offer of the company is addressed to the personnel, seen in this hypothesis, is represented by the job offered, that will be acquired by the future employee according to the attractiveness of the offer. Towards the employed personnel, this approach considers the improvement and fitting out of the work place such as to equally satisfy both the consumer and the employee.

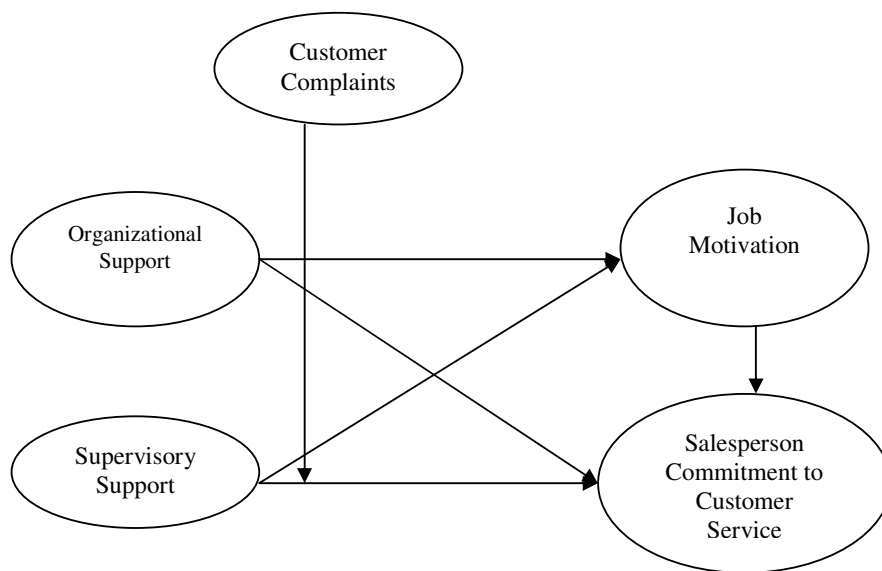
**The internal distribution politic** will pursue the creation of information transmission channels between the employees. These can take the form of some formal or informal meetings that try to eliminate the intermediate channels. Another approach on distribution in the internal marketing is represented by the positioning (placement) of the job within the company's diagram on a certain position that implies certain attributions and responsibilities, as well as the politics referring to the transfer from a position to another one inside the company.



**Within the price policy**, the internal marketing activity of the company takes into consideration the entire personal payment program, the applying of a strategy referring to granting of bonuses, bounties, pay rises and other stimulants which would have a direct correspondent in what the employee offers, expressed through volume and quality of his activity.

**The internal communication policy** represents the process of transmitting information from and to personnel, through formal and informal ways. The development of some internal publications or information bulletins for the employees, the notice boards or the video information represent forms through which the company can support the idea of internal communication through different types of media. To these there are added the direct internal communication with different management representatives and a series of elements of external communication that also refer to the employed personnel, starting with the mission declaration of the company oriented towards the market and the employees.

The model proposed in figure no. 1 implies that the employee's commitment to the customer will result in the direct and indirect effects of the organizational support, of the supervisors' support, as well as of the motivation at the work place. The motivation at the work place is positively related to the commitment towards serving the customers. Both the organizational support and that of the supervisors can have a direct relation with the employee's commitment in his relationship with the customers and an indirect one with the motivation at the workplace.



**Figure no. 1 A Model of Internal Marketing Relationships and Customer Complaining**

### **3. A MODEL OF THE ECONOMICAL EFFECTS ASSOCIATED WITH THE EMPLOYEE'S LOYALTY**

Studying the industries for a period of more than 10 years, Bain has developed a model of 7 economic effects associated with the employee's loyalty, namely:

1. *Investments in recruiting*: costs of recruiting, interviewing, expenses with relocation.
2. *Training*. In order to give the new employees a basis for the productive work there is often needed the training type classroom or the training at the workplace. The salaries paid during the training period do not bring any contributions to the company. When the companies continue to invest in training, even for the most experienced employees, the expenses are

more than covered by the training realised by the senior employees to the younger ones. Thus, on the long run, the training stops being a cost and becomes a net advantage, leading to the fidelity of the employees.

3. *Efficiency of activities.* The employees learn to work more efficiently and gain experience at the workplace. As a general rule, the employees that stay in the firm because they are proud of the value they have created for the customers and of the value created for themselves are more motivated and work better.
4. *Selection of customers.* The experienced sale and marketing agents are better in identifying and recruiting the best customers.
5. *Retention of customers.* As in the case of banks, brokers, and services the long term employees create a superior loyalty of customers. Even for the positions where they do not interact directly with the customers, the stable employees can produce better products, a greater value for the customer and implicitly, a better retention of the customers.
6. *References of customers.* The loyal employees are seldom a major source for customers' references.
7. *References for employees.* On the long run, faithful employees generate the greatest flux of calibre applicants. This not only increases the medium quality of the new employees but also reduces the recruiting costs.

#### **4. HOW TO MAKE THE EMPLOYEES BE FAITHFUL?**

Making them be faithful consists in creating a work climate that should maintain the employee's attachment on the long run.

In order to be efficient, a faithfulness program should first of all be founded on common values of the company and of the employees, as well as personal investment and development of competences.

The main element for faithfulness used by the employers is remuneration. But, faithfulness is not realised only in terms of material or financial advantages, as remuneration politics have the disadvantage of not differentiating the employees.

The work satisfaction and the employees' commitment are other essential elements of the faithfulness program. In order to increase the satisfaction of the employees it is necessary to favour the commitment and to create a strong feeling of belonging, through a clear communication of the values and objectives of the company and of the things expected from the employee, through the employees' possibility to grow, through offering of continuous formation sessions. Also, a method for increasing the satisfaction is represented by the systematic evaluation of performance, giving the opportunity of recognising their efforts and being listened.

##### **What values must be developed in order to make the collaborators be faithful?**

###### **○ The legacy feeling**

"To transmit", is a value that companies must develop. Knowledge management, trusts, career counseling, are devices that contribute to the adhesion of the employees to the projects of the company.

###### **○ The belonging feeling**

The company's culture, the management style and the organizational climate are the vectors of motivation. These vectors used correctly, prove to be good methods for making the collaborators be faithful. The company's culture is based on its history and values and to talk about these favours the adhesion every time. The management must encourage team work. The company must favour the inter-exchanges among employees. In order to strengthen the connection, the company can organize, during working hours, various events, discussions on themes related to the company. The working climate and reports among collaborators must

always be considered. The RU department must watch over the relational impact on the teams at every recruitment, promotion or dismissal.

#### **How to valorise the performance**

The performance is not only a result it is also a result in the context of competition. In order to valorise DRU performance, apply various solutions:

- *To appreciate and compensate*

To encourage the competition, to appreciate the individual distinction are politics that valorise the performance's culture. But, after the encouragement and appreciation of individual or collective performance the reward there must be taken into consideration. One of the vectors: remuneration. But there are other solutions that the collaborators expect: realising services for the company (gyms, daycares), individual coaching.

- *To make responsible and to take into consideration*

The participation and the making responsible are the vectors of an increasing implication of the employees. Also, taking the collaborators into consideration is a way of valorising the performance this being based on interest for the collaborator and for his reports with the interlocutors, the place, his statute and his image within the company for the evolution of his career (past, present, future).

In order to increase performance, the essential factor lays in the interest given to the motivation of the employees but, as easy as the motivation diagnosis seem, as delicate the administration of motivations is. What the company must satisfy today is the desire of personal fulfillment of the employees. To understand the sense that the employee gives to his job is to define the place that this occupies in his life.

The old belief was that if you pay the people accordingly they will be motivated. Nevertheless, today it has been acknowledged that people do not only work for money but also for being satisfied with what they do.

There are various forms for describing the motivation, according to the object we are referring to. In case we refer to the origin of the source that generates the motivation, we will be able to define:

**The intrinsic motivation (direct)** is generated, either by sources internal to the motivation subject – by his needs and demands – either by sources that come from the developed activity. The characteristic of this motivation consists in obtaining satisfaction through accomplishing an adequate action.

**The extrinsic motivation (indirect)** is generated by sources external to the subject or to the nature of his activity. It can be suggested or imposed by other persons or by the circumstances, favorable or not. In the organization, the extrinsic motivation is encountered in case of promotion on a position considered only as income source.

In case we refer to the motivation as being connected to some of the immediate needs of the individuals, we will be able to define:

**The cognitive motivation** is related to the need to know, to learn, to be stimulated from a sensorial point of view. It is manifested under the form of the curiosity towards the new, the undiscovered, the complexity, as well as through the high tolerance regarding the risk. The name of cognitive is given by the predominance of the learning, understanding processes. Through the mechanisms of perception, thinking, memory and imagination take place progressively: exploring, reproduction, understanding of certain phenomena and the desire to create something new. The cognitive motivation finds its satisfaction in explaining and resolving as independent purposes.

**The affective motivation** is determined by man's need to obtain the recognition of the others and to feel good in their company. In the organization, the affective motivation may

appear for instance under the form of accepting assignments and positions out of the desire of not being considered incapable or evil-minded.

The most important classification of motivation values the effects of praising and rewards in opposition to those of admonition and threatening. Thus, we differentiate the positive and negative motivations.

**The positive motivation** consists in the direct and proportional relating of the results obtained and of the promoted behavior (the response to appellations, the solutions' value, and the level of initiatives) with the personal satisfactions. The great variety of the human psycho-intellectual structures leads to a different perception of the satisfaction from one individual to another. The satisfaction depends on each person's character, way of thinking, of conceiving the role and values of life. For these reasons, the manager must build a real structure of the positive motivation which should offer to each individual the type of satisfaction that he is sensitive about. The individuals are unique, and the norms of a group differ very much from one organisation to another. What can motivate a group of employees; can have an opposite effect on another group.

The motivational factors may vary. In the first category, that of the motivational factors that have a material component, we see first of all the salary respectively the bonuses according to performance or other professional criteria. In the last years, many advantages have been added to these, which complete the salary.

- *Money as motivator*

As the profit is manifested as a measure of success in a business, people judge their own success or failure according to the level at which they are maintained by the employer in financial terms respectively according to the salary that they are paid for the work they do. The salary may be considered as a survival factor. Money can act as a stimulant for a more productive work. With the earned money people can buy goods and services that can satisfy their needs. The more boring the work is and has a reduced intrinsic interest the more important money are as motivational factor of the initiative for making the effort.

- *Certain bonuses (rewards) at the salary*

The simplest form of the bonuses is the payment of a certain pre-established amount for a supplementary established production. The bonuses can be paid for respecting the established time or for realising a supplementary production during a given period of time. They can be paid individually or in group. They must be correctly rewarded because on the contrary they can determine resentments or frustrations. Another example is represented by the lunch tickets.

- *The employees participate at the owners' plans*

During the last years the personnel's involvement in the establishment of the company's objectives has proven to be an ideal way to motivate people. There must be mentioned that only a certain part of the total shares are available to the employees and these are generally distributed according to the duration of the service within the company. This fact can determine certain problems with the people that are excluded. When the participation to the company's management is also accompanied by a good communication, only then it can reach its motivational objectives.

- *The payment of a part of the profit*

It can vary from a simple chart with bonuses in which a part of the company's profits are distributed to the employees according to the position and experience to a system in which the proportion paid to the employees is related to the profits of the company.

The payment of this part of the profit as a motivational factor can cut both ways because:

- if it is successfully applied, the employees are motivated to work more, as to increase the company's profits and implicitly their incomes;

- but, in order to be successfully applied, there must be taken into account the fact that the company activates on the market and the market can determine a supra-profit or a very low level of profit.

▪ also, the company's management can also be criticized, in case of a reduced level of benefits. In other words the payment of a part of the profit can also be an anti-motivator, adding and not reducing the sentiments.

- *Other paid bonuses*

The companies offer a large variety of payments according to the realised work. This includes a supplementary amount paid for working under difficult circumstances: night shifts, dangerous or toxic conditions, etc.

- *Financial advantages (fringe benefits)*

The financial advantages are not actually paid. They have indeed a pecuniary value for the employees but it depends on the supply (buying) of goods and services. Here there are the financial advantages offered to employees in Great Britain:

**Table no. 1. Financial advantages of the employees in Great Britain**

For management	For "staff"
discounts at buying goods	discounts at buying goods or services
member cards for certain clubs	subsidizing certain meals
payment of courses	entertainment facilities for the entire family
payment of transport expenses and trip allowance for wife/husband	fees payment for certain educational courses
school fees payment for children	credits with reduced interests for buying houses
using business facilities	credits for buying vacation tickets

Sometimes, these financial advantages have a greater value for the employee than a salary raise.

Another more frequently used factor, especially at the medium or top positions are the car, the phone or the laptop given by the company. The personnel's formation is a more and more motivating factor for the majority of the employees. So, an increasing number of companies chose to motivate their employees through investing in professional formation programs respectively through financing courses for the employees from simple trainings of one or two days to MBA complex programmes or paid courses abroad.

Some companies choose as a motivational factor rewarding the faithful or performing employees through payment of trips abroad, or payment of work delegations. Regarding the courses more and more annual team-buildings and events organised by the company for the employees are added. A motivational factor with seasonal character is represented by the bonuses or the presents offered by the companies to the employees for Easter or Christmas respectively the vacation awards in some cases these having very motivating values. A last factor of this category considered until recently a factor for an exclusive category of employees but which has slowly become more frequent is represented by the private pension insurances or private health insurances.

The second category, that of the motivational factors that are related to the structure of the job and the culture of the company on the market of human resources there appeared various instruments for "measuring" the satisfaction of the employees at the workplace. Thus, there are considered motivational factors of the employees: the autonomy degree regarding the job, the power to make decisions, the promoting degree that the respective person feels towards the workplace and the organization, the team, the values and the culture of the company, the respect and the appreciation that the employees enjoy within the company, communication, support and the feeling of belonging to a team. Last but not least, within this category an important factor is

represented by the positive or negative level of stress within an organization, respectively the existence or not of conflicts within the company.

For the motivation of the personnel besides the financial motivators there are certain types of non-financial instruments that have the same effect. People tend to be more motivated if they are interested in the respective work, if they feel respected, if they like the people they work with, they have a certain statute, and the possibility of future promotions through training, things that a company can easily offer. If these conditions do not exist, people tend to feel alienated, in other words the moral of the company will be low.

The leadership, communication and prestige of certain companies are all part of increasing the moral and of the level of motivation of the work force.

- *Improvement of the job (job enlargement)*

This regards increasing of the variety of responsibilities that the respective job has. It can also be defined as a redrawing of the job. Being given a multitude of attributions, the worker will select those that will need less concentration in that part of the day during which the concentration levels are low.

The jobs can be “rotated” in order to have the same effect. A worker can spend as much time such as to be moved to another duty, work or maybe even another department. Also, the fact that applying this method can create resentments, believing that he is asked to work more for the same salary, must not be forgotten.

- *Enrichment of the job (job enrichment)*

It is a process of increasing the degree of responsibility of the workers assumed for their own work for the recognition it offers. This can also be an augmentation of the promotion possibilities of the employees by adding to their level of experience. The enriching of the job can give the employees more control over the manner in which they organise their work, over the quality of the work and the attributions’ distribution, within a group. In order to be a success it must be supported by a training program in order that the workers be able to achieve the aptitudes they need.

- *Participation to the making of the decision (participation)*

When people actively participate at making a decision, they feel more indebted in putting it into practice. There is a multitude of proofs that support the theory according to which the workers’ participation to the making the decisions is one of the most efficient motivational ways. Where the participation is imposed to the work force, without also ensuring the necessary preparation, the implication is more reduced.

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## **RISK-MANAGEMENT, PROTECTION FACTOR FOR ORGANIZATIONS IN THE CURRENT ECONOMICAL CONTEXT**

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***Abstract:** In the current financial crisis, the economic environment is marked by deep uncertainty over organizations activities. In this cloudy environment, implementing an effective system of risk-management and continuous improvement, enable managers to cope with these uncertainties and to overcome the dangers faced by organizations.*

*Risks amplification in Romanian economic environment is a reality that can not be ignored by managers of organizations, the existence of a viable system of risk-management is a prerequisite for making decisions and protection of the organizations.*

***Key words:** risk, uncertainty, risk management, financial crisis, costs*

***JEL CODES:** L20, L30, M16, M40*

In the current financial crisis, the economic environment is marked by deep uncertainty over organizations activities. In this cloudy environment, implementing an effective system of risk-management and continuous improvement, enable managers to cope with these uncertainties and to overcome the dangers faced by organizations.

In Romania, the risk management was introduced relatively recent. The role and importance of risk-management organizations in achieving the objectives is obvious, but the implementation of this new management system in Romanian organizations are at an early stage. The complexity of environmental organizations active in Romania, with the major challenges they face today, have increased the level of perception of hazards. Although the vast majority of managers are aware of the need for risk management, they give to low attention to the creation of small systems for identifying potential risks.

If intuition can help managers to manage satisfactory simple and repetitive processes, it proves insufficient for the complex processes taking place within organizations. Organizations are not closed systems, they operate in an often hostile environment whose uncertainty should not be ignored.

In business, decisions are taken in conditions of risk and uncertainty. Under these conditions, designing an effective system of risk management is a necessity for organizations that wish to operate in an environment in which knowledge from the manager of information on potential risks, allowing actions which can prevent the negative decisions and taking the best ones. For the organization managers is very important to identify and assess the risks involved in present or near future, to base decisions on more complete information.

Implementing a risk management system involves a consumption of resources and time, but these efforts are justified in time, through the creation of early warning systems, risk, optimizing processes, increasing efficiency and creating value.

Risk management system at the organizations level, is a structured approach that involves both strategy and processes, human resources, technology and knowledge.

Risk management is a cyclical and ongoing development strategy in accordance with the organization. Main stages of this process are: identify and prioritize the risks arising from the organization's strategies and activities, establish an acceptable level of risk, development and implementation of risk mitigation, monitoring, reassessment of the risks and effectiveness of controls that enable management.

During all stages, takes place a continuous process of communication and learning, without which the system of risk management may not be viable. Creating and maintaining a network of communication between members of the organization, capitalization of the sources of information from organizational environment are of major importance for the process of risk management. For adequate and uniform process of risk management is necessary for the organizations to have assurance that each employee knows his own role, responsibilities of individual risks in the strategy.

Risks have multiple determinations, most often being interrelated. Failures reported by the partner organizations can reverberate directly in the risk management of their organization so that communication with their partner receives a major importance in setting priorities for managing their risks. In this way it is very important to analyze the relationship with each business partner to ensure that the priorities of a particular risk are properly understood and communicated.

Analyzing the extended risk environment is important because it allows the organization to determine how it affects the strategy of risk management. Extended environmental risk implies the existence of the organization factors that must take into account in setting the strategy for risk management. Thus, organizations must know the economic environment, laws and regulations under which they operate, the expectations of stakeholders.

Most often as a result of extensive analysis of environmental risk, the organization can only set plans for difficult situations, to act if the risks that can not control, could materialize. Analysis environmental risk as a generator of risks, is important to identify in advance some possible risks that may happen in the future and which approach should be ready in time.

In business, the risks are complex and multiple, with speculative character. Entrepreneurs assume certain risks when initiating a business, but also during their performance.

Variety of risks encountered in business, has generated numerous classifications made according to several criteria, among which include: business strategy, the location of risk, their effect.

Ritchie and Marshall<sup>43</sup>, propose a classification of general risks that may affect the activity of an organization, as follows:

1. Market risks resulting from the influence of many factors which affect demand for goods and services organization;
2. Financial risks, which depend on the government policy reflected thru changes in interest rates, exchange rates, taxes;
3. Supply risks arising from technological change, lack of labor forces, bankruptcies;
4. Environmental risks arising from regulations on safety, pollution.

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<sup>43</sup> Ritchie,B, Marshall,D, Business Risk Management, Chapman/ Hall, Londra,1993, p114



Regardless the criterion by which risk classification is achieved, it is important for analysis, because it allows the elimination of confusion causes, effects and consequences.

In the current financial crisis, risk amplification in Romanian economic environment is a reality that can not be ignored by managers of organizations, which argued the need to implement or improving continuously the process of risk management which is a prerequisite for making decisions strategic stability and continuity of business organization, protecting it.

Usually associated with insurance, risk management also include other industries such as banking, financial and public security.

Risk assessment is required from the highest levels of decision-making on activities to be undertaken, assets to be acquired, the markets in which the organization should be involved, continuing with the operational decisions regarding the acceptance of payments in foreign currency, providing places to work.

In financial services are used techniques developed by risk management, companies in this field having specialized departments organized for this purpose.

By contrast, the techniques of risk management used in other non-financial sectors are less developed, considering that manager's own experience is sufficient to control risks. Managers can argue that they took into account the risks, but it is possible that they recognize the risks more easily identified and quantified, which could result in adoption of distorted decisions. Risks affect all aspects of company operations. Companies are aware of the implications of the price paid to attract the financing, while dealing with a multitude of issues relating to: maintaining market where something bad happens to a product, the possibilities of remuneration or employment personnel security jobs, preserving reputation.

Ability to deal with risks is one of the crucial elements that distinguish quality management. Some managers are considered weak because they allow companies to take risks without being aware that are doing this. In this sense skills include a systematic approach, better communication and a willingness to review the appetite for risk. Skills Board as regards the identification and selection of risk that is willing to accept (the risk appetite) and how we manage this risk are fundamental to the company strategy.

The problem of administration of risk management by policy makers, is an alternative between the impact that may have the materialization of risk factors on the organization and the cost that it involves using appropriate control tools.

The ***Key to success of risk management*** lies in include all processes in the organization and in all structures of governance.

Ability of organizations to cope with risks, depends on the level of awareness of risk, how the processes for reporting risks are applied and developed. The key measurement of success of risk management within the organization is the outcome of these processes, but this does not mean taking into account only the losses but also the opportunities lost. So, a balanced assessment of the organization's ability to cope with risks involves both an analysis of what worked wrong and what has worked well to determine whether losses suffered corresponds the appetite of risk of the organization, or if it takes advantage of opportunities that comes up.

In the process of assessing of risk management should be taken into consideration a number of factors: organizational culture, the company's success to comunicate to the risk appetite and to correlate with the mechanisms of stimulation and to ensure that risk appetite is well understood and used.

In 2007 The Economist Intelligence Unit, conducted a study on the approach to risk management, challenges and opportunities involved in this process. This study was conducted by

interviewing a large number of managers around the world, responsible for decision-making process of risk management. The study achieved a ranking of the elements that influence the effectiveness of risk management within organizations.

Most of those interviewed placed first the organizational culture and an awareness of the existence of risks, followed by an attitude towards risk and well-defined systems and processes for monitoring risk.

The existence of models and techniques is a necessary condition to demonstrate that risks are managed, but not sufficient, because the success of risk management depends on the manner of using such techniques.

In risk management, not the models and techniques are the most important, but attitude toward risk, and it is formed while being a part of organizational culture.

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## ANALYSIS OF TOURISM LABOUR MARKET

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**Abstract:** *The purpose of this article is to make a short overview of both main characteristics of human resources in tourism, and the evolution in structure and dynamics of the labour force in hotels and restaurants in which regards Romania. The most important features of the tourism labour market are: a big amount of live work, superior material and moral responsibility, high level of training, direct relations between customer and workers, a pronounced seasonality, using part time job features. In Romania, the amount of personnel from hotels and restaurant has reached 137 thousands persons in 2007, 65.9% being women. Tourism plays an important role in the national economy as it provides available jobs and thus it bring its contribution to the increase of employed persons.*

**Key words:** tourism, labour market, service, hotels and restaurants

### 1. CHARACTERISTICS OF TOURISM JOBS

Through its activities, tourism pumps up the demand for goods and services from different fields, which wouldn't have been provided if it weren't for tourism. On the other hand, a part of the results obtained by touristic field returns to them as profit and financial funds for salaries, another part goes into local or country's budget as taxes and fees, and the third share is directly absorbed by other economic branches for the payment of delivered products, provided services for tourism requirements.

There is an inter-conditioning connection between tourism and human resources, both of them generating a cause-effect role. Any policy in which regards human resources must be based on distinctive knowledge of tourism labour force, on the evaluation of actions, touristic production and results of inquired activity.

The main characteristics of the labour force in tourism are: a big amount of live work, superior material and moral responsibility, high level of training, direct relations between customer and workers, a pronounced seasonality, using part time job features.

In tourism, live work is superior to other branches. Tourism is included in the third sector where technical advancement is not always recommended. It is obvious that replacing a human being with a machine is not the best solution for several services such as: accommodation, reception, food, service.

In tourism, the level of material and moral responsibility is high. The qualities of a good employee in tourism are: maximum correctitude, patience, solicitude, ability to overcome tourist's demands. In tourism, the labour force must possess a complex and high level of training. Work in tourism requires technical information and knowledge, a high level of education and somehow closed to the one of each tourist. An employee in tourism must also possess communication skills and full availability. Physical characteristics and general conduit are also compulsory.

In Romania, education and professional training are considered a priority, but several policies and strategies in this field didn't manage to prove enough coherence and sustainability. Barely in the last years, under the pressure of integration in European Union and due to the participation to communitarian policies, strategies and actions regarding labour force, but also due to the more and more obvious effects of globalization and the lack of competition, we face a restructuration and modernization of education systems and professional training (initial training, continuous, superior training). Tourism cannot ignore those activities as it is perceived on the one hand as an activity able to provide jobs for several categories of persons and on the other hand as it is by default in permanent competition with similar activities in other countries. We can also state the fact that big companies from tourism area (especially hotels) have overcome restructuration in education field as they brought in Romania their own training programs and professional teaching systems for personnel.

Professional training in Romania is facing a continuous process of restructuration in accordance with the objectives established at the European level, regarding the development of educational systems and professional training. In this respect, a major importance comes to specific actions of the Copenhagen Process regarding professional training and of the Bologna Process regarding restructuration of superior education.

Another feature of working in tourism is the direct contact with the customer, the employee acting proactively in order to provide the service. This feature determines first of all an permanent effort to adapt to customer's request and personality, implementing a suitable communication system between them.

Among the features of working in tourism there are also temporary and seasonal occupancy, and connected to this there is a serious fluctuation of personnel in comparison with other fields of activity. This characteristic is the result of seasonal concentration of touristic attractions and temporary function of an important part of the techno-material base.

The peculiarity of touristic activity is given by the use of part time jobs and of flexible patterns for employees. This means hiring people for weekends, for several events and celebrations or for certain activities (guide, sport instructors, au-pairs and so on).

Other features of personnel from tourism are: the womanizer character of tourism labor force, high level of mobility due to other causes than seasonality, full time jobs.

In their whole, the features of work in tourism influence permanently the number and dynamics of employees, their structure, the level of work productivity, collateral systems and recruitment policies, organizing professional training and so on.

## **2. THE EVOLUTION AND STRUCTURE OF LABOR FORCE IN TOURISM ON THE ROMANIAN MARKET**

In the developed countries, the third sector faces a big amount of personnel involved, this branch being the most powerful attraction in which regards communitarian work. As in any service industry, in the touristic branch women participation is high (65%) and in the other European Union countries is of 20-30% from the total number of employees.

In Romania, the evolution of the total amount of employees and their structure on the main areas of the national economy is atypical from the perspectives of rating our economy as a modern, competitive and able to sustain labor force occupation and the security of incomes from work. The development of the private sector in Romania, and mainly of the service branch (commerce, services provided to people, tourism) and setting people free from the industrial

branches due to a restructuration will bring after a while to the increase of the number of employees in services.

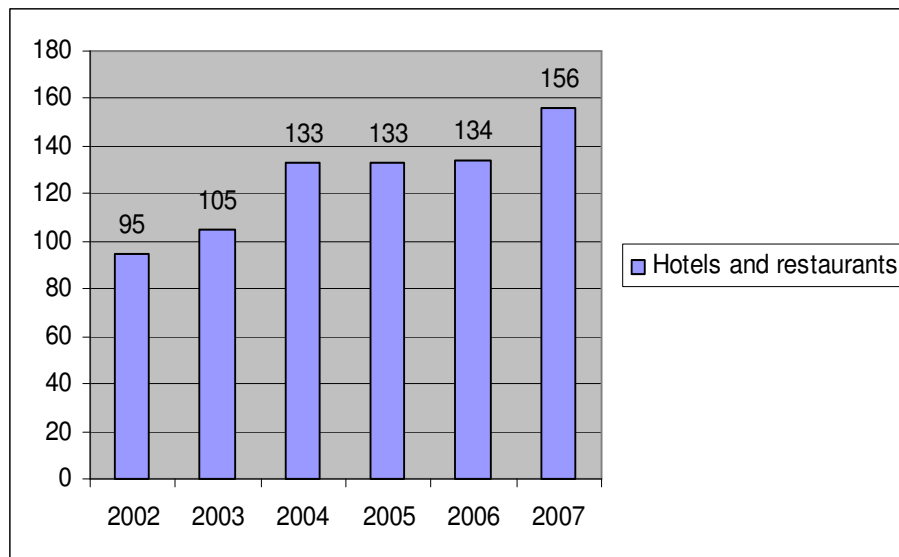
The issue regarding human resources in tourism is highly complex and it involves aspects such as: recruitment, training, hiring personnel in different sectors according to several priorities.

A high importance is given to personnel training and specializing in tourism. This involves two main actions: raising the level of education and changing the mentality for the ones working in tourism – and this is, of course, a long and very process.

The low rhythm of privatization in tourism, the extremely low salaries comparing with extern offers, labor force migration towards the European Union are only few of the causes that bring to stagnation in which regards the number of employees in tourism between 2001 and 2007.

In 2007, from the total number of personnel hired in tourism: 96.9% were acting in hotels and restaurants and only 3.1% in tourism agencies (11.3% of the last mentioned were touristic guides). Those percentages are the result of a slow development of touristic products and of the accent put on accommodation and food facilities. Of all the workers within hotels and restaurants, in 2006, 90.9% were hired staff, 6.6% stockholders, 2.3% were working on their own and 0.2% of them were familial workers.

The analysis of the employees in „Hotels and restaurants” branch from 2002 to 2007 emphasizes the general tendency of an increase in the number of workers in this field (fig. no. 1).



**Fig. no. 1 People hired in Hotels and Restaurant in Romania, between 2002 and 2007**

If we talk about Romania, the dimensions and the dynamics of the personnel reflects the involutions in touristic circulation and the issues faced both by the economic and the social sector. The amount of people hired in hotels and restaurants is 2% from the total population, as it can be observed on table no.1.

The hospitality sector in Romania is facing a crisis caused by the lack of qualified and trained personnel and this leaves a negative mark over general performances in services sector. But the lack of qualified personnel is different from the lack of quality personnel.

**Table no. 1 Personnel hired in hotels and restaurants**

Indicator / Year	2002	2003	2004	2005	2006	2007
Occupied population in Romania	8329	8306	8238	8390	8469	8726
Occupied people in hotels and restaurant (thousands persons)	95	105	133	133	134	156
The amount in the total population	1,14	1,26	1,61	1,59	1,58	1,79

Source: Calculated according to the Statistic Yearbook of Romania, 2008.

The first one is caused by the fact that an important amount of people leave Romania to go for work abroad after graduating high-school or university (but they are still not enough trained) or soon after working for a while in a hotel.

The main causes of this personnel crisis could be the ones mentioned above:

- Current training programs are not based on developing skills and competences and they do not observe standards. There are many training courses and programs providers that easily issue diplomas and certificates required for hiring without ensuring a proper and complete instruction or training.
- A big amount of young people leave the hospitality sector and tourism in order to go abroad because of the low salaries and generally low rated conditions of work.
- Management staff and supervisors cannot handle or do not possess specific skills for internal training programs in order to meet standards and maintain the wish for performance.
- There is no continuous training on job in order to keep up with the required skills and knowledge of the existent personnel from hospitality sector at several levels.

The structure on age groups of the employed people in hotels and restaurant in Romania in 2006 is presented on table no. 2.

**Table no. 2 Structure of the occupied population in hotels and restaurants, on age groups in 2007**

	Total employment (thousands persons)	of which, at working age (%):					
		Total 15-64 years	age groups (years)				
			15-24	25-34	35-44	45-54	55-64
Total	9353	94,5	8,3	27,1	26,4	22,4	10,3
Hotels and restaurants	137	99,7	17,9	32,1	25,2	20,0	4,5

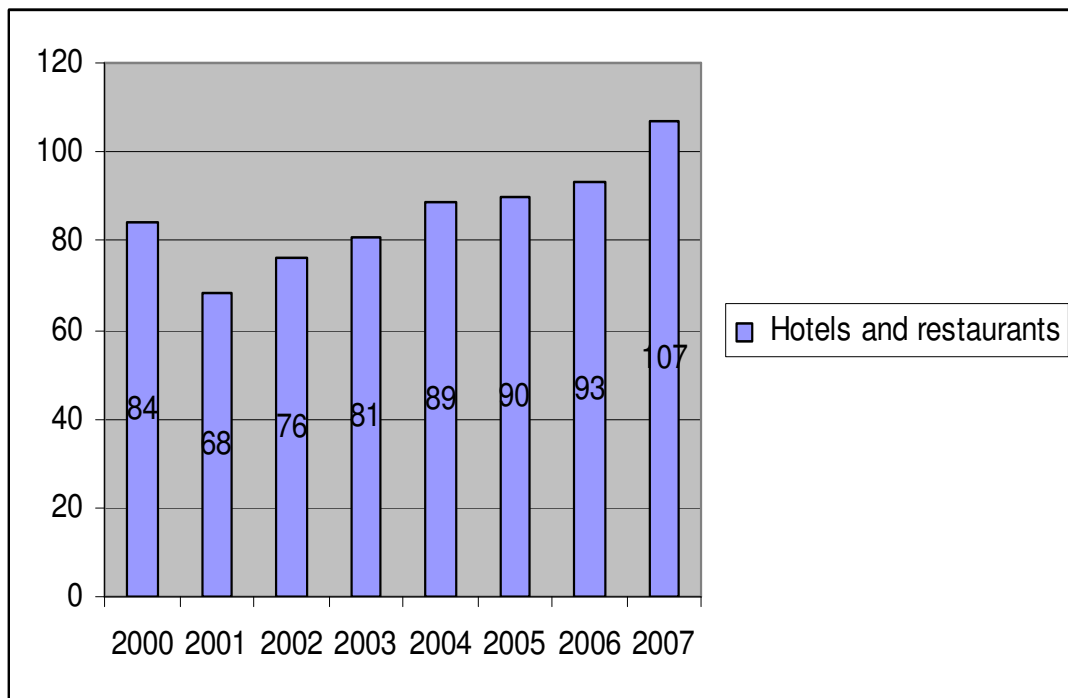
Source: Statistic Yearbook of Romania, 2008.

In Romania, the total number of employed population in hotels and restaurants is 137 thousands persons in 2007, 62.9% of them being women. The labour force involved in tourism is relatively young – 21.4% is less than 35 years old.

Some important information regarding personnel policy gives a structure to workers according to their professional status. The analysis of this aspect puts in evidence that more than 93.9% of the employees are workers, 4.9% are stakeholders and almost 1% work on their own.

From the total number of women working in hotels and restaurants, only 0.8% have the professional status of “stakeholder”, 64.3% are hired and 0.6% are self workers. In which regards the development and the general trend, after a burst of the number of stakeholders in 1990-1991, we can notice a sensitive decrease in their number caused by different issues: the less proper business conditions, maintaining public property, avoiding assuming several risks.

For our country, tourism should be a sector able to involve a big part of the labour force dismissed from other branches, especially from the industry. The average number of employees involved in hotels and restaurants decreased between 2000 and 2003 and then it increased, getting to 107000 persons in 2007, as it can be noticed in the following image. The main cause is the critical situation that characterized tourism during the last decade.



**Figure no. 2 Average number of employees, by activity, Hotels and restaurants, 2007 (thousands of persons)**

Employments in tourism depend on specific needs evolved by customers. But even though tourism offers plenty of jobs, touristic fluctuation is extremely high. This is due to the fact that jobs in this field do not usually require special knowledge. We should also take into consideration the fact that tourism is often a seasonal activity and this means hiring additional staff only for summery periods, for some days or even for just one night.

According to World Travel & Tourism Council’s statements, the contribution of the Travel & Tourism economy to employment is expected to rise from 582,000 jobs in 2009, 6.8% of total employment or 1 in every 14.6 jobs to 631,000 jobs, 7.9% of total employment or 1 in every 12.6 jobs by 2019.

The staff hired in hotels and restaurants is the most viewable kind of working force from tourism and, generally speaking, it is the easiest identifiable information and data source. Even though we still face several difficulties mainly in which regards the inclusion of restaurants whose personnel works in snack bars, cafés and fast food and whose customers are local residents and not national or international tourists.

However, this information is available for people working in registered hotels and restaurants and, as it was already highlighted, the existence of a big amount, still unquantifiable of hotels and other accommodation forms suggests that official statistic data underestimate significantly the real number of persons working in this sector.

The labour force used in tourism is in fact a key feature that brings an important contribution to the quality of the touristic product in its whole. Therefore, the human element by which touristic packages are sold and consumed has a powerful importance in development policy within touristic sector.

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## TRENDS REGARDING THE MAIN INDICATORS OF THE PENSION SYSTEM

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**Abstract:** *The public pensions represent the most expensive component of the social protection system of all the countries, including Romania. They involve important financial flows which get to represent around 12% of GDP of all European Union countries and to constitute a significant component of the public budget being continuously under pressure because of the changes recorded due to the more general context of development, such as the economic growth, the evolutions on the labour market, inflation, etc.*

**Key words:** demographic ageing, the rate of dependence, the replacement rate, the stage of contribution, adequability.

### 1. OVERALL PICTURE

The Romanian pension system has been found under different pressures derived from the issues regarding the black market (loss of a number of important remunerated workplaces, the work extended on the black market, external migration, etc), and also regarding the demographic ageing process.

These pressure factors had a double effect:

On the one hand, a catastrophic decrease in the number of employees (from 8 million in 1989 to 4.67 million in 2007) has been registered as well as a substantial increase in the number of pensioners (from 2.1 million in 1989 to 4.64 million in 2007) which led to a decline of the report between the persons who pay taxes and those who benefit from pensions. Between the year 1989 and 2007, it can be noticed that the total number of pensioners has increased twofold and more, while the number of taxpayers has been reduced at almost a half. Thus, the supporting rate (the report between the average number of wage earners and the average number of pensioners) decreased from 3.8:1 in 1989 to 1:1 in 2007, which had a negative impact, on the one hand, on the capacity of the social security budget, and on the other hand, on the pensions' level and applied indexations. This factor strongly influences the possibility of maintaining a reasonable level of pensions, such as the pensioners' standard of living. (Table 1)

**Table no. 1. The Evolution of the Supporting Rate in Romania**

No.		1989	1995	2000	2006	2007
1.	The average number of employees (mil. persons)	8.0	6.2	4.6	4.675	4.7
2.	The average number of pensioners of state social security (mil. persons)	2.1	3.5	4.2	4.63	4.64
3.	The supporting rate	3.8	1.8	1.1	1.0	1.0

*Source: INS, Romanian Statistic Yearbook, 2001, p.104 and 161; 2005, p.124 and 282; 2007, p.125 and 283, Statistic Bulletin nr.1/2008*

On the other hand, a substantial reduction of receipts from the social security contributions paid by the employers and the employees has been noticed, first of all, because of the reduction in the number of employees, as well as of a wrong policy regarding the exemption and delay of the social security contributions paid by some economic agents.

Under such constraints, various tensions appeared regarding the pensions' finance, because, the money collected from an even more reduced number of employees, should be distributed to a larger number of pensioners, which affects the pensions' level, in this way, the pensions being maintained at a low level. In order to emphasize this aspect, the replacement rate indicator is used.

The replacement rate (the report between the pension's size and the wage's size) is a method used for the assessment of adequate pensions which delivers information related to the way a pension system can offer pensions to the pensioners in order to enable them a standard of living closed to that before retirement. During the period when a person has the statute of pensioner, the replacement rate is influenced by the evolution of wages, by the indexation modality of pensions according to the wage evolution and inflation.

In order to exemplify, it is given below its evolution in Romania regarding the state Social Security pension (table 2).

**Tabelul 2. Evolution the average replacement in Romania**

Nr. crt.		1989	1995	2000	2006	2007
1.	The average pension of state Social Security per month- lei	1430	99893	849621	3110000	3740000
2.	The net average wage per month- lei	3063	211373	2139138	8170000	9900000
3.	The replacement rate %	47	46	39	38	37.7

Source: INS, *Romanian Statistic Yearbook*, 2001, p.212 and 273; 2005, p.222 and 283; 2007, p 221 and 284, *Statistic Bulletin nr.1/2008*

Although some steps for increasing pension taxes have been taken from around 14% in 1990 to 35% today, it can be noticed a significant degradation of the report pension/wage, as well as of the real purchasing power of pensions.

These issues worsened because of the poor management ability and of the policies that encouraged the anticipated retirements and because of the use of sick-based retirements that were granted to compensate the increasing rate of unemployment among older persons.

The already registered trend of decreasing the number of taxpayers and of significantly increasing the number of pensioners, is going to manifest on a long term too, the main reasons being, on the one hand, the decrease in the birth rate and increase in the active population migration and, on the other hand, the increase in the population life expectancy, especially that registered at the retirement age.

In order to face these constraints, an increase in the social security contributions has been tried at levels that are among the highest of the European Union. In order to compensate the decrease in budget returns and the increase in the system expenditures in 1990, the rate of contributions to the insurance budget increased in 2002 from 14% to 35%. Though the rate has later been reduced to 29.25% in January 2006, it still continues to be high. Romania – with contributions according to wages totalizing 46.25%, occupies the sixth place (between other 26 countries) in Europe regarding the contributions to the Social Security budget alongside with Albany (with 49%), Poland (46.64%) and Hungary (45.50%) that are placed on top of the Central and East European countries.

On the basis of the reporting regarding the contributions' level to the pensions' level, a paradoxical situation emerges: to high contributions correspond low pensions.

The explanation consists in the small number of taxpayers to the pension Social Security system. Under such conditions of overtaking the pensioners from agriculture to the state budget and of other supplies such as the sick leave, almost the whole burden of pension payment for the other insurance carriers goes to the public pension fund supplied by the employers and employees.

From the number of measures that could lead to the increase in the number of taxpayers to the Social Security system, one can mention the following ones:

- the gradual inclusion among the taxpayers to the pension fund of those who work in agriculture (seasonally or occasionally), of those who work on the black market, of young pensioners, and housewives by attracting them on the labour market;
- the decrease in the contributions' level to the pension system; the policies of decreasing the Social Security level must be correlated with some increasing measures of collecting taxes and measures against tax evasion from the economic agents.

## **2. ASPECTS REGARDING THE CONSOLIDATION OF THE PENSION SYSTEM**

Some of the most relevant aspects that are linked to the consolidation of the pension system and that proved to have an important impact on the pensions' adequacy can be mentioned below: the dependence rate, the retirement age, the replacement rate, the contribution stage.

1. The dependence rate of the elders. Nowadays, less than half of the active population is ensured by pensions (under 5 million out of 10.5million of the number of the active population), fact that will generate long-term issues. In 25 or 35 years, those who work on the black market or do not work at all, will reach the retirement age without being ensured and a number of them will burden the social assistance system demanding the minimum secure income or other forms of social assistance. The perspectives of population on age groups show a decrease in the birth rate and a reduction of young population in the following years. Under these circumstances, the dependence rate is expected to increase. On a long or average term, the report between the pensioners and employees will be maintained at a high level, the structure of the Romanian population being untypical, characterized by numerous generations between 17 and 39 years old (as a result of the pro – birth rate policies during the communist period) and by very few between 0 and 16 years old (the transition generations). Consequently, in the future, fewer generations will enter the labour market and the number of employees will not grow very much in case of a constant economic increase. Under the previously mentioned conditions concerning the evolution in population, the dependence rate of the elders is continuously and substantially deteriorating, in the way that an old person capable of work must sustain an increasing number of old persons. Under these circumstances, one can take into consideration the following measures:

- attracting new insurance carriers because today the participation in the system is of only 50% of the busy population and of 40% of the active population;
- the discouragement of the anticipated retirement; this can be accomplished by establishing low pension rates so that those who can work might not appeal very easily to this early retirement facility ;
- the equality in the age retirement between men and women. Today, women with an average life expectancy over 6 years higher than men's will continue to represent a very high percentage in the number of pensioners. Being retired earlier and living longer, the women benefit from the pension fund more years than men, in their case the report between the years of paying contributions and those of pension being lower than that for men. The equality of retirement age between men and women would eliminate the negative effects of this situation.

2. The retirement age. In Romania, the standard retirement ages are still extremely low and differentiated on the two sexes: (60 years for women and 65 for men). At the same time, a large number of persons, (14% of total pensioners) are retired because of certain disabilities. Although it is hard to prove that some of the disabled pensioners are pensioned fraudulently, the statistics entitle the opinion that the disability pension is one of the alternative solutions to unemployment. The reduction in the number of anticipated or fraudulent retirements on sick basis would lead to a slow increase in the number of pensioners and would also create premises for increasing the pensions for the pensioners with age limit and integral period of employment.

3. The replacement rate. In Romania, the replacement rate has a low value. The increase in the replacement rate, for example, can be realized by increasing the average wage. This increase must take into account the imposed limits of work productivity, at the moment, the report between productivity and wage enables an increase of the latter, at least in some areas of economy.

4. The contribution stage. The standard contribution is unequally low comparing to the retirement age. As for women, the period of employment represent 50% of the standard limit age(30 years to 60years), and for men 53% (35 years to 65 years). In order to continue the contribution stage one can take into consideration the following measures:

- Considering the retirement ages as a right, not an obligation: this means that the person who achieved the standard age provided by law can retire, without being obliged to do it. Keep working above the retirement age stipulated by law would lead to obtain resources for pensions' increase;
- The increase in the limits of the employment period required for full retirement benefits; the limit of the employment period for full-retirement age would be increased to at least 35 years both at women and men, as long as it has been also introduced the recognition as the employment period of the years when no contribution was paid (the period of academic studies).

Through this indicator, it would not be achieved differentiated rates of pensions for women and men at the same age limits, working conditions, years of contribution, or level of contributions. The difference of the years of contribution could remain only at anticipated retirement (as a facility), but with the reduction of the pension rate.

The financial sustainability, as a major problem of the pension system viability is indispensably linked with the necessity of maintaining, for a period of time, an adequate level of pensions. However, the financial sustainability, can also be realized under the conditions of reducing the pensions level (as a result of the political options of (non) indexation taking into account the rate of inflation or the wage increase, of modifying the account formula of pensions etc.). Such an option can not last long, because it contains the risk of extending poverty for the elderly, creating new problems and social tensions. Therefore, the financial sustainability must be followed under the circumstances of ensuring adequate pensions.

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## IMPLEMENTATION THROUGH INTERNAL MARKETING

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**Abstract:** *The paper takes into consideration the role of internal marketing in enhancing and sustaining a company's ability to compete:*

- *much new thinking and practice in strategic marketing is concerned with managing relationships: with the customer, and with partners in strategic alliances. However, a further aspect of relationship management and relationship marketing is the relationship with the employees and managers, upon whose skills, commitment and performance the success of a marketing strategy unavoidably relies. This is the internal market inside the company;*

- *we have emphasized the centrality of competitive differentiation to build market position. Let truly exploiting a company's potential competitiveness and its capabilities in reality is often in the hands of what Evert Gummesson (1990) has called the "part-time marketers". Indeed, in some situations, the employees of a company may be the most important resource that provides differentiation;*

- *in a similar way, the growing emphasis on competing through superior service quality relies ultimately on the behaviour and effectiveness of the people who deliver the service, rather than the people who design the strategy;*

- *indeed, increasingly it is recognized that one of the greatest barriers to effectiveness in strategic marketing lies not in a company's ability to conceive and design innovative marketing strategies or to produce sophisticated marketing plans, but in its ability to gain the effective and enduring implementation of those strategies. A route to planning and operationalizing implementation in strategic marketing is "strategic internal marketing" (Cespedes and Piercy, 1996).*

*The potential importance of internal marketing to relationship marketing strategies to strategic alliances, to competitive differentiation, to delivering superior service quality and to effective marketing implementation is underlined by the growing emphasis placed by companies in this issue.*

**Key words:** internal marketing, relationship marketing, internal customer.

The conventional training and development of marketing executives, quite reasonable, has focused primarily on the external environment of customers, competitors and markets, and the matching of corporate resources to marketplace targets. The argument we now present is that, while analyzing markets and developing strategies to exploit the external marketplace remains quite appropriately a central focus, it is frequently not enough on its own to achieve the effective implementation of marketing strategies. In addition to developing marketing programmes and strategies aimed at the external marketplace, in order to achieve the organizational change that is needed to make those strategies work, there is a need to carry out essentially the same process for the internal marketplace within companies.

The marketplace is made up of the people, the culture, the systems, the procedures, the structures and developments inside the company, whose skills, resources, participation, support and commitment are needed to implement marketing strategies. Indeed, the internal marketplace may increasingly extend to include our partners in alliances and organizations.

It seems that the reality in many organisations is that often an implicit assumption is made by executives that marketing plans and strategies will "sell" themselves to those in the company whose support and commitment are needed. When made explicit in this way, it is apparent that

this is just as naïve as making similar assumptions that, if they are good enough, products will “*sell themselves*” to external customers. It is often surprising that those same executives who have been trained and developed to cope with behavioural problems – like “*irrational*” behaviour by consumers and buyers, or the problems of managing power and conflict in the distribution channel, or to need to communicate to buyers through a mix of communications vehicles and media, or the problems of trying to outguess competitors – have taken so long arrive at the conclusion that these same issues have to be coped with *inside* the company. The paradox is that we discuss the “*better mousetrap*” syndrome for our external markets, but adopt exactly this approach in expecting managers and operatives, whose support we need, to make a “*beaten path*” to the marketing planner’s office. In particular, we suggest that it is not acceptable to adopt change and to the “*unreasonable*” behaviour of those who hold different views about the desirability of that market-led change. Read commitment to strategic marketing must involve a managerial role of creating the conditions necessary to permit strategic change to happen.

What we are calling strategic internal marketing here has the goal of developing a marketing programme aimed at the internal marketplace in the company that *parallels* and *matches* the marketing programme aimed at the external marketplace of customers and competitors. This model comes from the simple observation that the implementation of external marketing strategies implies changes of various kinds within organizations – in the allocation of resources, in the culture of “*how we do things here*”, and even in the organizational structure needed to deliver marketing strategies to customer segments. In practical terms, those same techniques of analysis and communication, which are used for the external marketplace, can be adapted and used to market our plans and strategies to important targets within the company. The goals of the internal marketing plan are taken directly from the implementation requirements for the external market plan, and the objectives to be pursued.

This is not as radical as it may at first seem. The marketing literature has traditionally displayed some attempts to link the marketing concept to the “*human resource concept*” (Cascino, 1969; Dawson, 1969) and more recent attentions has been given specifically to the interaction between the human and organizational context and the effectiveness of marketing (Arndt, 1983). Other evidence relating to the internal market on marketing effectiveness has focused on various aspects of the intervention of organizational issues as a determinant of marketing strategies rather than a result of them: Leppard and MacDonald (1987) attempted to relate the effectiveness and appropriateness of marketing planning to the different stages of organizational evolution; John and Martin (1984) have analyzed the credibility and use of marketing plans in terms of characteristics of the surrounding organizational structure. Cunningham and Clarke (1976) studied product managers as self-serving manipulators of targets and marketing information; Deshpandé (1982) and Deshpandé and Zaltman (1984) have attempted an analysis of the cultural context of marketing management and commented on the lack of a marketing theory of culture; while Bonoma (1985) has commented on the problems of a lack of “*marketing culture*” in the specific context of implementation obstacles. More recently, in a similar way, Ruekert and Walker (1987) have studied the interaction between marketing and other functional units and the role of marketing in implementing business strategies.

While this focus on the significance of various dimensions of organizational context provides a foundation, the most specific attention given to acting on the organizational environment through internal marketing, to archive marketing goals, is found in the services literature. One of the earlier conceptualizations of the employee as “*internal customer*” was provided by Berry (1981) in the context of bank marketing, and this theme has been pursued by others, and it is heavily oriented towards the identification of employee training and development needs to improve quality in the delivery of services. Similarly, the independence of internal and external markets has been stressed by Flipo (1986), who emphasized the need to overcome conflict and challenges to marketing strategies from the internal market, implicitly

following Arndt's (1983) conceptualization of internal markets in a political economy model of marketing.

Perhaps the best-known conceptualizations of internal marketing come from the "*Nordic School of Services*", where amongst other contributions Grönroos (1984, 1985) has written of the need for strategic and tactical internal marketing, and Gummesson (1987) has studied the use of internal marketing to achieve culture change in organizations. The practical application of these concepts is reflected in the literature of "*customer care*" (e.g. Moores, 1986; Thomas, 1987; Lewis, 1989), which emphasizes customer perceptions of quality, and the importance of fostering this perception through the training and development of personnel at the point-of-sale. (An interesting aside on the customer care issue from one organization was that, when presented with top management's new customer care strategy, employees reacted with some hostility and the message if you care about customers why don't you care about us? (Piercy, 1997).

None the less, there is some established precedent for use of the terms "*internal marketing*" and the "*internal customer*". We see these developments as important for two main reasons. First, the internal marketing paradigm provides an easily accessible mechanism for executives to analyze the organizational issues which may need to be addressed in implementing marketing strategies. Quite simply, concepts of marketing programmes and targets are familiar to marketing executives and they are "*comfortable*" with them. The second point is that the internal marketing model provides a language which actually legitimizes focusing attention on issues like power, culture and political behaviour which appear quite often to be avoided by executives as somehow "*improper*".

It follows from the emergence of the internal marketing paradigm from diverse conceptual sources that the practice of internal marketing and its potential contribution to marketing strategy are similarly varied. It is possible to consider the following "*types*" of internal marketing, although they are probably not equal in importance:

- internal marketing that focuses on the development and delivery of high standards of *service quality* and customer satisfaction;
- internal marketing that is concerned primarily with development *internal communications programmes* to provide employees with information and to win their support;
- internal marketing which is used as a systematic approach to managing the *adoption of innovations* within an organization;
- internal marketing concerned with providing products and services to users *inside the organization*; and
- internal marketing as the *implementation strategy* for our marketing plans.

The original and most extensive use of internal marketing has been in efforts to improve the quality of service at the point-of-sale in services business like banking, leisure, retailing, and so on – the so-called "*moment of truth*" for the services marketer. Some call this "*selling the staff*", because the "*product*" promoted is the person's job as a creator of customer service and value. This tends to be seen in customer care training programmes and similar initiatives. These types of internal marketing programme are, in practice, essentially tactical and often restricted to the operational level of the organization.

The logic is that it is apparent and obvious that marketplace success is frequently largely dependent on employees who are far removed from the excitement of creating marketing strategies – service engineers, customer services departments, production and finance personnel dealing with customers, field sales personnel, and so on. As we noted earlier, these are all people Evert Gummesson (1990) called "*part-time marketers*" – they impact directly and significantly on customer relationships, but are normally not part of any formal marketing organization, nor are they typically within the marketing department's direct control.

It can be argued that there is no one “right” strategy in any *delivering* market strategies, which determine if they succeed or fail. The critical issue is becoming the consistency between strategies, tactics and implementation actions. This suggests that real culture change is a central part of the process of going to market effectively. At its simplest, the disgruntled employee produces the disgruntled customer. Tom Bonoma (1990) summarizes this point succinctly: “*treat your employees like customers, for your customers will get treated like employees*”.

However, it is apparent that successfully exploiting the linkage *between* employee and customer satisfaction may not always be straightforward. Research into the way in which customer satisfaction is measured and managed in British companies is revealing (Piercy, 1995). Studies suggest that:

1. There is a need to create clarity for all employees regarding customer service quality policies and customer satisfaction targets. It is not enough to pay lip-service to these ideals and to expect success in attaining them. The starting point must be to identify what has to be achieved in customer satisfaction to implement specific market strategies, and to position the company against the competition in a specific market. It is unlikely that achieving what is needed will be free from cost. We need to take a realistic view of the time needed and the real costs of implementation in aligning the internal market with the external market.

2. Internal processes and barriers suggest the need to consider both the internal and external markets faced in implementing customer satisfaction measurement and management systems. To ignore the internal market is to risk actually damaging the company’s capacity to achieve and improve customer satisfaction in the external market. If, for example, management uses customer feedback in a negative and coercive way, then it may reduce employee enthusiasm for customer service, or create “*game-playing*” behaviour where people compete for “*Brownie points*” in the system at the expense of both the company and the customer. This said, we have also to recognize not just the complementarity between internal and external markets, but the potential for conflict of interest. Achieving target levels of customer service and satisfaction may require managers and employees to change the way they do things and to make sacrifices they do not want to make. This may take more than simple advocacy or management threat.

3. Related to the above argument, recognizing the internal market suggests that there may be a need for a structured and planned internal marketing programme to achieve the effective implementation of customer satisfaction measurement and management. This has been described elsewhere as “*marketing our customers to our employees*” (Piercy, 1995), and can be built into the implementation process to address the needs of the internal customer and to confront the types of internal processual barrier we have encountered.

4. Also related to the recognition of the internal market, is the need to question the relationship between internal and external customer satisfaction. This can be discussed with executives using the structure shown in Figure 1. This suggests four possible scenarios that result when internal and external customer satisfaction are compared:

- (a) **Synergy**, which is what we hope for, when internal and external customer satisfaction are high, and we see them as sustainable and self-regenerating. As one hotel manager explained it: “*I know that we are winning on customer service when my operational staff come to me and complain about how I am getting in their way in providing customer service, and tell me to get my act together!*” This is the “*happy customers and happy employees*” situation, assumed by many to be obvious and easily achieved.
- (b) **Coercion** is where we achieve high levels of external customer satisfaction by changing the behaviour of employees through management direction and control systems. In the short term this may be the only option, but it may be very difficult and



expensive to sustain this position in the longer term, and we give up flexibility for control.

- (c) **Alienation** is where we have low levels of satisfaction internally and externally, and we are likely to be highly vulnerable to competitive attack on service quality, and to the instability in our competitive capabilities produced by low staff morale and high staff turnover.
- (d) **Internal euphoria** is where we have high levels of satisfaction in the internal market, but this does not translate into external customer satisfaction – for example, if internal socialization and group cohesiveness actually shut out the paying customer in the external market. These scenarios are exaggerated, but have provided a useful way of confronting these issues with executives.

		External customer satisfaction	
		High	Low
Internal customer satisfaction	High	Synergy	Internal euphoria
	Low	Coercion	Alienation

**Figure 1. Customer satisfaction: the internal market and the external market**

5. A critical mistake is to ignore the real costs and challenges in sustaining high service quality levels and the limitation which may exist in a company’s capabilities for improving customer satisfaction levels. While advocacy is widespread and the appeal is obvious, achieving the potential benefits requires *more planning and attention to implementation realities than is suggested by the existing conventional literature.*

As well as customer care training and a focus on service quality, internal marketing may also be seen as internal communications. In fact, the largest growth in this area has been investment by companies in broader internal communications programmes of various kinds – where “communications” is understood as providing our employees with information and delivering messages which support the business strategy. The goal is to build both understanding and commitment. Conventionally, these activities tend to be a responsibility of the human Resource Department (Mitchell, 1994a). Indeed, Mitchell (1994h) suggests that internal communications is becoming one of the most important tools available to companies to hone competitive edge:

- for the delivery of brand promises;
- for improving levels of customer service;
- for faster and better innovation;
- for smooth yet rapid organizational, technological and cultural change.

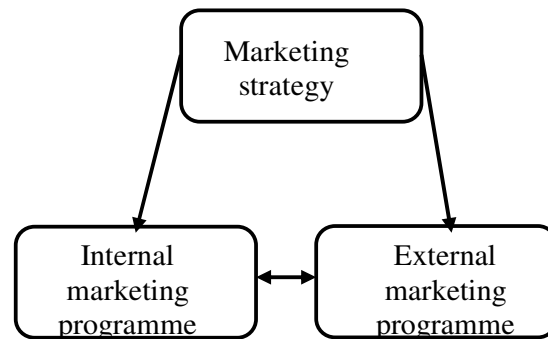
Somewhat different is the use of the internal marketing framework to place, and gain use of, innovations like computers and electronic communications in the IT field. These applications use tools of market analysis and planning to cope with and avoid resistance and to manage the process of change. This may be particularly important where the effectiveness of a marketing strategy relies on the adoption of new technologies and ways of working. The argument here is that People in an organization are ‘customers’ for our ideas and innovations.

This view encourages us to consider:

- **looking at customer needs** – even in hierarchical companies people are not robots waiting to be told what to do, so making the effort to understand their needs increases the likely effectiveness of innovation;
- **delivering the goods** – the needs of customers tell us what matters most to them;
- **raising unrealistic expectations** – is as dangerous with internal customers as it is with external customers (Divita, 1996).

Lastly, we should note the use of strategic internal marketing (SIM) as an approach to the structured planning of marketing implementation and analysis of underlying implementation problems in an organization. This form of internal marketing is a direct parallel to our conventional external marketing strategy and marketing programme, which aims at winning the support, co-operation and commitment we need inside the company, if our external market strategies are to work. This is a somewhat different view of internal marketing compared to those discussed above, although it is informed by the other types of internal marketing which have a longer history. The key underlying issue here is the organizational and cultural change needed to make marketing strategies happen.

A structure for an internal marketing programme is shown in Figure 2. The underlying proposal is that the easiest way to make practical progress with this type of internal marketing, and to establish what it may achieve, is to use exactly the same structures that we use for planning *external* marketing. This suggests that we should think in terms of integrating the elements needed for an internal marketing mix or programme, based on our analysis of the opportunities and threats in the internal marketplace represented by the company with which we are working. This is shown in Figure 2 as a formal and legitimate part of the planning process.



**Figure 2. Internal and external marketing programmes**

In fact, in this model, we take the internal marketing programme not only as an *output* of the planning process and the external marketing programme, but also as an *input*, i.e. constraints and barriers in the internal marketplace should be considered and analyzed as a part of the planning at both strategic and tactical levels. For the proposals to make sense in practice, we rely on this iterative relationship.

The starting point for this approach is that the marketing strategy and the planning process may define an external marketing programme in the conventional way, and less conventionally the internal barriers suggest that some external strategies are not capable of being implemented in the time-scale concerned, and we have to feed back into the planning process the message that some adjustments are needed while there is still time to make those adjustments to plans.

More positively, however, it is equally true that our analysis of the internal market may suggest new opportunities and neglected company resources which should be exploited, which in turn impact on our external marketing plan and thus on the planning process.

What we are trying to make explicit for executives is the need to balance the impact of both internal and external market attributes on the strategic assumptions that they make in planning.

The structure of such an internal marketing programme can be presented in the following terms:

- **The product:** At the simplest level the ‘product’ consists of the marketing strategies and the marketing plan. Implied, however, is that the product to be “sold” is those values, attitudes and behaviours which are needed to make the marketing plan work effectively. These hidden dimensions of the product may range from increased budgets and different resource allocations, to changed control systems and criteria used to evaluate performance, to changed ways of handling customers at the point of sale. At the extreme the product is the person’s job – as it is redefined and reshaped by the market strategy so it will make people’s working lives more enjoyable. There may also be negatives – changes people will not like, which brings us to Price.
- **The price:** The price element of the internal marketing mix is not our costs, it is concerned with what we are asking our internal customers to “pay”, when they buy in to the product and the marketing plan. This may include the sacrifice of other projects which compete for resources with our plan, but more fundamentally the personal psychological cost of adopting different key values, and changing the way jobs are done, and asking managers to *step* outside their “comfort zones” with new methods of operation. *The price* to be paid by different parts of the internal marketplace, if the marketing plan is to be implemented successfully, should not be ignored as a major source of barriers and obstacles of varying degrees of difficulty.
- **Communications:** The most tangible aspect of the internal marketing programme is the communications media and the messages used to inform and to persuade, and to work on the attitudes of the key personnel in the internal marketplace. This includes not only written communications, such as plan summaries and reports, but also face-to-face presentations to individuals and groups who are important to the success of the plan. Broadly, we should remember that to assume that simply “telling” people will get them on our side is likely to be as naive inside the company as it is outside. We suggest it is important to consider the full range of communications possibilities and associated goals, as we would with external customers, and we should not forget to budget the time and financial costs which may be associated with these activities. At the simplest level, the purpose of our internal marketing communication may be served by a video presentation explaining *things*, or a roadshow taking the message out to the regions and the distributors. But real communication is two-way – we listen, we adapt, we focus on our audience’s problems and needs.
- **Distribution:** The distribution channels element of the mix is concerned with the physical and socio-technical venues at which we have to deliver our product and its communications: meetings, committees, training sessions for managers and staff, seminars, workshops, written reports, informal communications, social occasions, and so on. Ultimately, however, the real distribution channel is human resource management, and in the lining up of recruitment training, evaluation and reward systems behind marketing strategies, so that the culture of the company becomes the real distribution channel for internal marketing strategies. In fact, Ulrich (1992) makes some radical points about this, which are worth confronting.

He says that if we really want complete customer commitment from our external customers, through independent, shared values and shared strategies, then we should give our customers a major role in our:

- staff recruitment and selection decisions;
- staff promotion and development decisions;
- staff appraisal, from setting the standards to measuring the performance;
- staff reward systems, both financial and non-financial;
- organizational design strategies; and
- internal communications programmes.

In effect this means using our human resource management systems as the internal marketing channel, thus taking the internal and external customer issue *to its logical conclusion*.

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## THE ECONOMIC CRISIS' IMPACT ON EUROPEAN TOURISM

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***Abstract:** Travel and tourism industry is one of the most important industries which creates millions of jobs and has been one of the most dynamic sectors in the last 20 years. Moreover, during the first half of 2008, tourism withstood the deterioration of world economy. Still, affected by the negative effects of 2008, which resulted in a change in consumers' and businesses' confidence, tourism began to suffer in the last six months of 2008, now experiencing a deep recession.*

***Key words:** economic recession, European tourism sector, economic crisis' effects, predictions.*

### 1. WORLD TOURISM AND THE ECONOMIC CRISIS

2008 will be known in history as a year of turbulence and contrast. Tourism industry is influenced by the global economic crisis. The increased price of oil barrel has generated increased prices for airline companies, train companies, cruise lines and coach companies. This industry, facing increased costs, had no choice but to raise its tariffs, change reflected in more expensive travel tickets. This coincided with the moment when consumers had less resources allocated for travelling. Although oil prices have dropped, airlines predict millions of dollars in damages for 2009, caused by the 3% reduction in passenger numbers, anticipated for this year.

Unlike past economic crises (like the 11<sup>th</sup> September 2001), this economic twist does not influence the desire for travelling. The major problem is if a person can still afford to travel or if he or she wants to spend their money on trips, given the uncertainty of their economic status.

Until now, international tourism has survived the crisis better than other economic sectors, such as: constructions, real estate businesses and car industry. Thus, similar to other past crises:

- trips closer to home will be preferred to long distance trips;
- the decrease in accommodation days, as well as expenses, will be more obvious than the decrease in arrivals;
- those destinations that offer “value for money” and favorable exchange rates have an advantage as price becomes a key problem;
- companies want to and should focus on stabilizing prices in order to maintain their competitiveness. More than ever, they need to work together in the tourism chain (for example, the public sector with the private one, and destinations with the travelers transport industry).

The last edition of the tourism barometer published by the Tourism World Organization confirms the rapid lagging of international tourism starting with the middle of 2008.

Europe registered a 2% increase during the first 8 months of 2008 (an important decrease compared to the 5% increase of the past 5 years); the decrease has not spared any European country.

In 2008, 23 million additional trips (compared to 2007) were registered, adding up to 642 million international arrivals. But a big part of the January-August increase reflects the situation preceding the downward trend – an increase established internationally reached even 7% in May 2008. The increase in tourist inputs dropped to less than 2% in June and to only 1% in top season months – July and August, underlining the period when energy prices, inflation and credit market blockage began to seriously affect travels and tourism demand.

The slowing economy, combined with current uncertainties, the high market volatility and a decline of both consumers' and businesses' trust will continue to influence tourism demand, at least on the short term.

Many businesses are expected to reduce their activity and any kind of limitation will be rapidly felt by consumers' market. Given the pressure put on many company budgets, business trips will be affected more than the spending free time sector.

After four years of steady increase in tourist numbers at a global level (during 2004-2007, the number of tourists increased with 7% per year), for the first time in 2008, an accelerated decrease was recorded, decrease that will continue in 2009.

## **2. EUROPEAN TOURISM IN THE 2000-2007 PERIOD**

Europe represents the most important region for tourism, both as a destination, and as a source. Despite a decrease in market share in the last 10 years, caused by a dramatic increase of some very dynamic regions like Asia (especially South Asia), the number of tourists in Europe multiplied during the 1995-2000 period, after which a more fluctuant growth was recorded. Therefore, Europe continued to play a central role on the global tourism market.

With regard to the European realm, Western and Southern Europe countries have remained market leaders, but, at international level, the demand for these destinations has decreased. On the other hand, the second group (Eastern and Northern countries) has recorded an important increase, both for the number of incoming tourists and for the number of departing tourists, many of them to and from the rest of Europe.

### ***A. European Tourism sector in the 2000-2006 periods***

In 2006, hotels and similar premises have hosted 1.525 million nights, in the 27 member countries of the European Union, with an average growth rate of 1,1% between 2000 and 2006.

With regard to the distribution of tourism nights per country, in 2006, five countries: Spain, Italy, Germany, France and the United Kingdom, have amounted up to 72% of the total number of tourist nights spent in the EU. New member states have totaled together less than 10% of the total, with the highest values in Poland and the Czech Republic (1,8%). Despite all that, in absolute terms, the number of nights spent by tourists in Bulgaria and in the Baltic countries has recorded its highest increase between 2000 and 2006 (Bulgaria had an average growth rate of 12,5% per year, Estonia 17,7%, Latvia and Lithuania 13,1%). Other European countries where the number of tourist nights average growth rate was higher than the European average were: Iceland (5,6%), Croatia (3,2%), Sweden (3,1%), Germany (2,7%), Slovenia (2,3%), Ireland, Finland and Norway (each with 2,1%), Spain (1,6%), Ireland, Denmark, Italy and Austria (1,3% each).

On the other hand, the number of nights spent by tourists decreased in Cyprus (-3,1% per year), Liechtenstein (-1,1%), United Kingdom (-1%) and Hungary (-0.6%).

Scandinavian countries have had better results between 2000 and 2006, as well as Slovenia, Ireland, the Iberic Peninsula, Italy and Austria. In Sweden, Finland, Slovenia, Italy and Austria, the growth has been determined by international tourism, while in Norway, Ireland, Spain and Portugal, by national tourism.

The decrease in Greece, Cyprus and Hungary was mainly caused by the decrease of foreign tourists.

During the 2003-2006 period, the evolution of economic markets was characterized by a "Two speed Europe". Especially in 2004 and 2005, the difficult situation in the Euro zone<sup>44</sup> had a negative effect on tourism expenditures and changed Western Europeans' consumption trends. The German recession and the stagnation of neighbor economies (Italy and France) continued in 2005. Then again, in 2006, their economies had an increasing trend.

**Table 1. Evolution of tourism expenditure, total and per zone, between 2000-2006<sup>45</sup>**

<i>Expenditures (billion Euros)</i>	<i>2000</i>	<i>2001</i>	<i>2002</i>	<i>2003</i>	<i>2004</i>	<i>2005</i>	<i>2006</i>
<i>EU 27</i>	211.4	216.3	218	218.1	226	239.5	244.4
<i>EU 15</i>	201.2	205.1	207.949	206.6	213.9	226	228.9
<i>Annual exchange rate (%)</i>	<i>2000</i>	<i>2001</i>	<i>2002</i>	<i>2003</i>	<i>2004</i>	<i>2005</i>	<i>2006</i>
<i>EU 27</i>		1.9	1.1	1.2	2.4	1.7	3
<i>EU 15</i>		1.9	1	1	2.2	1.6	2.8
<i>Market share</i>	<i>2000</i>	<i>2001</i>	<i>2002</i>	<i>2003</i>	<i>2004</i>	<i>2005</i>	<i>2006</i>
<i>EU 27</i>	100	100	100	100	100	100	100
<i>EU 15</i>	95.2	94.8	94.7	94.8	94.6	94	93.6

The GDP increased in the 27 EU countries from 2000 to 2006 with approximately 4% per year. Due to the rapid development of new member countries, great GDP increases were registered during the 2004-2006 period.

The GDP growth, together with the increase of consumers' and businesses' trust in industrialized countries has had positive effects on the labor market.

### ***B. European tourism sector in 2007***

In 2007, the number of arrivals has increased from 800 to 900 million in just 2 years, a 6% growth rate was recorded with 52 million more international arrivals than in 2006.

2007 has surpassed expectations for global tourism, the number of arrivals reaching new records. The results confirm both the steady increase during these last years and the sector's flexibility with regard to external factors.

This development was supported by a strong world economy that passed through its longest increase period for more than 2 decades.

According to the World Tourism Organization, international arrivals have increased with 6% in 2007 (898 million) compared to 2006.

From the 52 million world increase, Europe received approximately 19 millions, while Asia and Pacific 17 millions. America increased with 6 millions, Africa with 3 millions and the Middle East with 5 million. All regions have recorded different growth rates, above the long term predicted average.

Europe, the biggest world destination, with a quota of over 50% of the total global arrivals, has registered an increase over average and totaled 480 million tourists in 2007.

<sup>44</sup> Exchange rates (dollar/euro, British pound/euro and yen/euro) have influenced the European tourism sector. The Euro zone lost American tourists, to other destinations' detriment, due to continuous appreciation of Euro. Also, euro's appreciation in comparison to the yen made Euro zone's destinations less attractive to Japanese tourists.

<sup>45</sup> Source: EUROSTAT, Panorama on Tourism 2007

Destinations like Turkey (18%), Greece (12%) and Portugal (10%) or Italy and Switzerland (both with %) are the proof of the region's economic growth positive impact in 2007.

### 3. EUROPEAN TOURISM IN 2008

Arrivals during the first 8 months in 2008 increased with only 2% (compared to the 5% increases of 2007 and 2008) and a big part of the increase was concentrated in the first five months. For individual destinations negative numbers were recorded in June, July and August. The decreased demand was felt in the USA, Euro zone, the United Kingdom and Asia, while some favorite destinations still had increases, such as the Russian Federation, other parts of Central and Eastern Europe, Scandinavia and South America. Also, the staying period and the level of expenses/visitor indicator decreased.

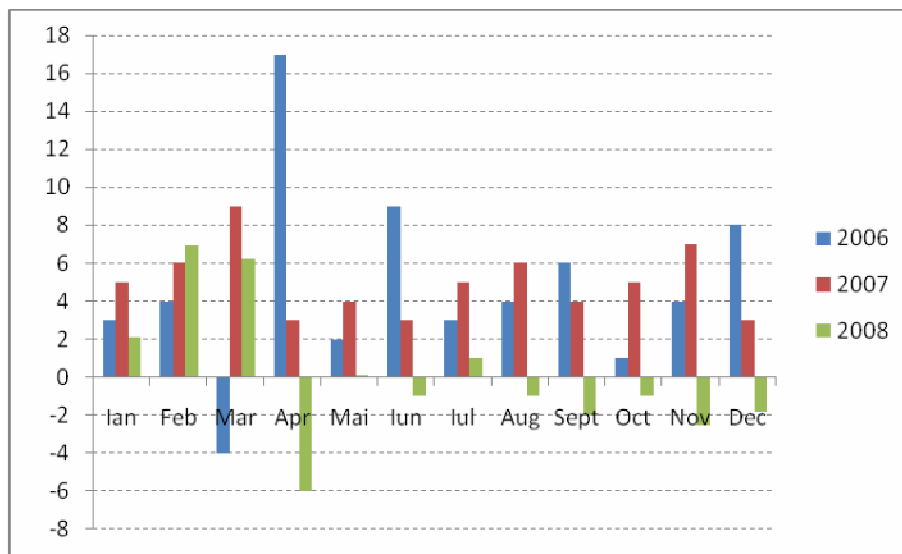


Figure 1. International arrivals, monthly evolution (percentile change)<sup>46</sup>

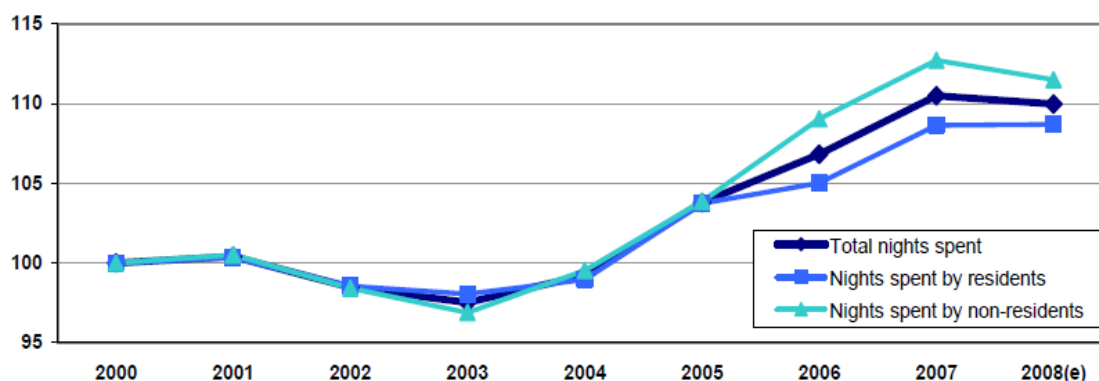
In 2008, for the first time since 2003, the number of nights spent at hotels and other locations in the European Union dropped with 0,5% in comparison to 2007. The number of nights spent by residents remained relatively stable, while the number of nights spent by foreigners dropped with 1%.

Big differences were noticed in the interior of the EU, from a 4,3% decrease in Cyprus to a 7,7% increase in Slovakia.

Data registered during the year show that the effects of the financial crisis have begun to manifest themselves during the middle of the year. During January-April 2008, the number of nights spent increased with 1,6% compared to the same period in 2007, while for May-August, a 0,5% decrease was recorded. During the last four months of the year, the total number of night spent diminished with 3,2%. The decrease in number of nights spent by non-residents was the main factor.

<sup>46</sup> Source: World Tourism Organization





Source: Eurostat, Tourism Statistics

**Figure 2. Evolution of number of nights spent by residents and foreigners during the 2000-2008 in the European Union**

The hotel sector seems to have been affected more than the rest of tourism sectors. While the number of nights spent in hotels and pensions decreased, the number of holiday trips made by EU residents grew with 7,1% in 2008. However, the increase began to stagnate during the second half of the year, especially with regard to trips made abroad. Finally, trips in 2008 have been shorter on average, in comparison to 2007.

**Table 2. Percentage change of number of nights spent in hotels in 2008 compared to 2007<sup>47</sup>**

<i>Member state</i>	<i>Total</i>	<i>Member state</i>	<i>Total</i>
EU 27	-0.5%	Lithuania	2.8%
Belgium	2.1%	Luxembourg	-----
Bulgaria	1.7%	Hungary	-0.3%
Czech Republic	3.8%	Malta	-1.4%
Denmark	-3.0%	The Netherlands	-4.1%
Germany	1.9%	Austria	4.7%
Estonia	1.1%	Poland	4.7%
Ireland	-0.5%	Portugal	-0.2%
Greece	-4.6%	Romania	1.0%
Spain	-1.1%	Slovenia	1.9%
France	-0.2%	Slovakia	7.7%
Italy	-2.9%	Finland	1.9%
Cyprus	-4.8%	Sweden	2.0%
Latvia	-2.2%	United Kingdom	-1.6%

Table 2 shows a heterogeneous trend in Europe. The biggest decrease was observed in Cyprus (-4,8%), Greece (-4,6%), The Netherlands (-4,1%), Denmark (-3,0%) and Italy (-2,8%). Taking into consideration their importance on the European tourism market, Italy and Spain have been, in absolute terms, the biggest responsible for tourism decrease at European Union level. In 14 of 27 state members, the number of nights spent have increased in 2008. The most important growth rates have been observed in Slovakia (7,7%), Poland (4,7%) and Latvia (4,6%).

<sup>47</sup> Source: Eurostat, Tourism Statistics

In absolute terms, the increase in Germany and Austria has had the biggest contribution to the leveling of negative growth at European Union level.

European Union residents have made more holiday trips in 2008 compared to 2007; still, the increase was less obvious than in the second half of the year.

Based on information from 21 member states, the number of holiday trips increased with 7,1% in 2008. Yet, to the end of the year, the decline began. The increase dropped from 8,6% for the first six months to 5,3% during the second half of the year.

The increase of trips made abroad (6,7%) was somewhat smaller than that of national trips (7,2%). During the second half of 2008, the number of trips made abroad was especially affected by the economic crisis, with a 2,6% increase compared to 6,2% for trips made in the country.

During the last 10 years, the fastest growth sector was that of short excursions, from 1 to 3 nights. This phenomenon continued in 2008, with a 9,3% increase. Although the growth rate for this type of tours slightly dropped in the second half of 2008 (8,% compared to 9,8% during the first semester), it exceeded by far the growth rate for long trips of at least 4 nights, which was reduced to 3,7%. This indicates the substitution of long trips with short holidays.

Despite long trips have replaced short excursions, the economic crisis profoundly affected them as well, decreasing them with 4,1%.

In many destinations, consumption prices increased faster than it was expected. Still, a slower growth and in some countries, a recession period, may reduce inflation. The problem cannot be separated by exchange rates' volatility. Countries that pass through a depreciation of their national currency experience an acceleration of inflation – that for international visitors may not count (the cheaper currency will compensate higher prices), but that will be important for internal travelers. Together with buying power, fluctuant exchange rates will be a factor that will influence tourism during next seasons.

Furthermore, business trips, meetings will decrease in numbers along with world trade and with the reduction of organizations' expenditures. Decreases have been recorded in Germany, The Netherlands and Spain. More important, this is the first segment that suffers because of the financial crisis.

#### 4. EUROPEAN TOURISM IN 2009. ESTIMATIONS AND PREDICTIONS

In 2009, tourism industry in the European Union is expected to generate 1.668 billion dollars from economic activity. The direct impact of industry includes:

- GDP in tourism industry: 581 billion dollars (equal to 34% of total GDP).

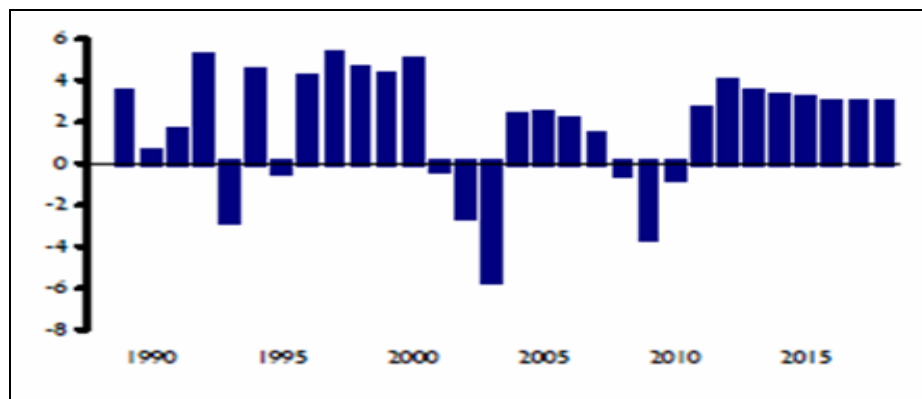


Figure 3. Evolution of tourism economy's share in GDP in the EU<sup>48</sup>

<sup>48</sup> Source: World Council for Tourism and Travels

- Labor force in direct industry: 8.496.000 (the number of jobs representing 3,9% of total jobs)

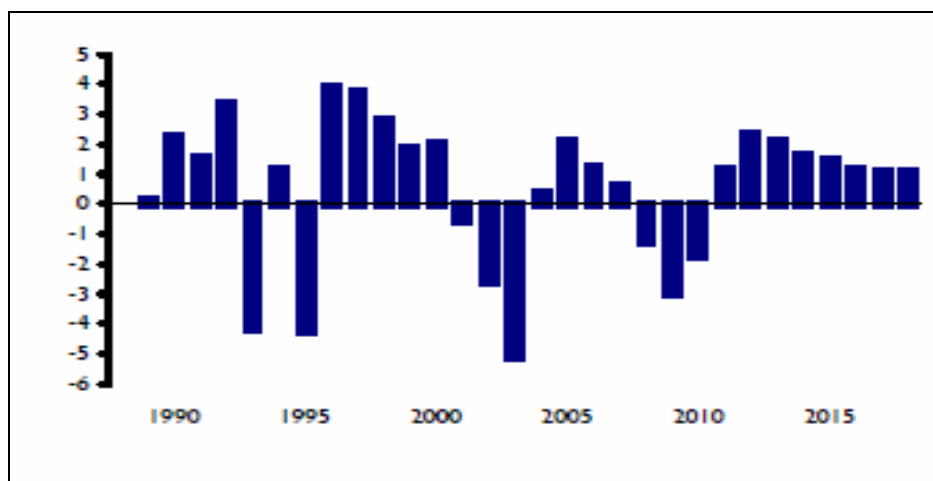


Figure 4. Dynamic of labor force employed in tourism industry between 1990 and 2015<sup>49</sup>

Table 3. Estimation for labor force employed in tourism economy per regions<sup>50</sup>

<i>Labor force employed in tourism economy</i>	<i>2009 % of total</i>
World level	7,4
North Africa	11,2
European Union	10,4
North America	10,4
Middle East	9,0
South Eastern Asia	8,5
North Eastern Asia	8,0
Latin America	6,4
South Asia	5,8

- Exports, services and merchandise: 811 billion dollars (equal to 11,6% of total exports)
- Governmental expenditures: 119 billion dollars (equal to 3,3% of total governmental expenditures)
- Capital investments: 303 billion dollars (representing 9% of total investments)

In 2009, tourism and travels are supposed to drop in real terms:

- GDP in tourism industry will drop with 4%;
- Labor force will drip with 3,8%.

Total tourism demand in the European Union is expected to decrease in 2009 with 4,1% and with 3,2% per year between 2010 and 2019. Total demand represents 27,79% from the world market share.

<sup>49</sup> Source: World Council for Tourism and Travels

<sup>50</sup> Source: World Council for Tourism and Travels

## CONCLUSION

Given the grim image of 2009 predictions, revenues from tourism will be reduced with 3,5% in 2009. Also, revenues are expected to remain small in 2010, with a marginal increase predicted at 0,24%.

World recession is so spread and so profound that there is no hope that tourism will not be affected. Being a relatively cyclic industry, its contribution to world GDP will decrease in the next two years to 9%. Moreover, approximately 10 million jobs will be lost.

Investments in tourism and business trips are expected to be seriously hit. Thus:

- investments will decrease with 5,5% in 2009 and 1,25% in 2010;
- bussines trips will decrease in he next two years with 7,25%, respectively 4,25%.

Monetary fluctuations could help some destinations, yet the recession's impact on family and corporations budgets will dominate in the short run.

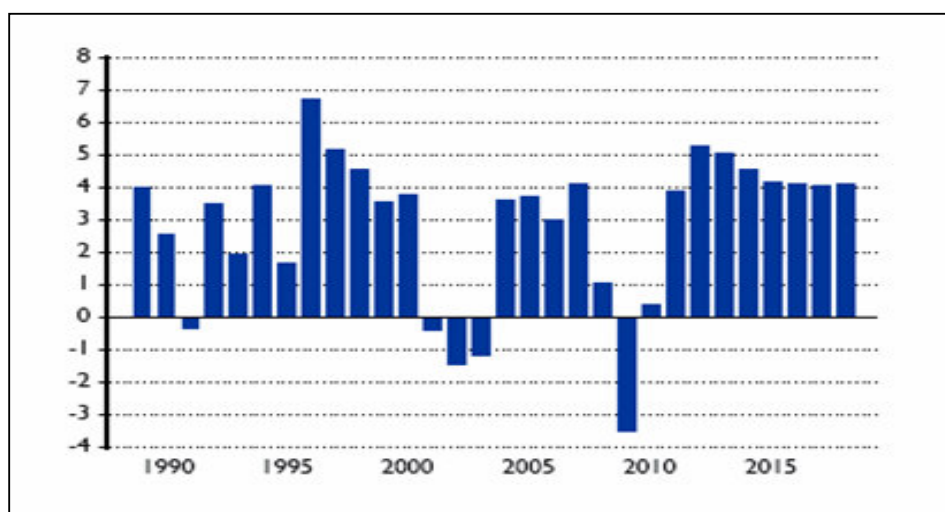


Figure 5. Share of tourism economy and trips in world GDP (percent real growth)<sup>51</sup>

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<sup>51</sup> Source: World Council for Tourism and Travels

## MARKETING CHANNEL RESEARCH

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*Abstract:* The article had as object to carry out a marketing channel research. Here there were presented the main elements referring to marketing channels: channels definition, marketing channel structure, participants at the distribution process, marketing channel sizes and strategic distribution alternatives.

*Key words:* distribution; marketing channels; channel-structure

### 1. DEFINITION OF THE MARKETING CHANNEL

Distribution is defined as a combination of utilities and functions which provides the successive transfer of merchandise and services, as well as the property right over them, from the producer to the consumer, the distribution includes along with the merchandise flows transactional, informational, financial, monetary, risks flows etc. and the organizational structures and the equipment necessary for the performance of this objective of the products economical cycle<sup>52</sup>. The distribution implies an itinerary (crossed by the products/services from the producer to the consumer), a network of participating organizational structures and an ensemble of operations (at the level of all corresponding flows) and processes over the products (merchandise logistics).

The new economical crisis conditions force the organizations to grant an even greater attention to this activity, make conjugated efforts in order to optimize it , in the wish to create a durable competitive advantage able to induce the occupation of certain favorable positions on the market.

Over two decades ago, the term „distribution channel” started to be replaced with the term marketing channel. A marketing channel consists in a certain configuration of utilities and functions necessary for the transfer of a product from the producer to the consumer/user and is characterized by its length (given by the number of links and successive products and property transfers, the number of products transfers not being necessarily identical to those of property), width (given by the multitude of organizational structures providing the distribution) and depth (given by the closeness of distribution to the consumer).

Marketing channels are sets of interdependent organizations involved in the process of making a product or service available for use or consumption<sup>53</sup>.

A channel ends and another one starts at the moment in which the goods are modified by certain processing operations<sup>54</sup>.

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<sup>52</sup> Petcu M. A., David Sobolevschi I., *Distribution- the synergetic process in establishing the value*, The Economical Amphitheatre Magazine , ASE-Bucharest, the Faculty of Commerce, no. 24, July 2008, p. 134

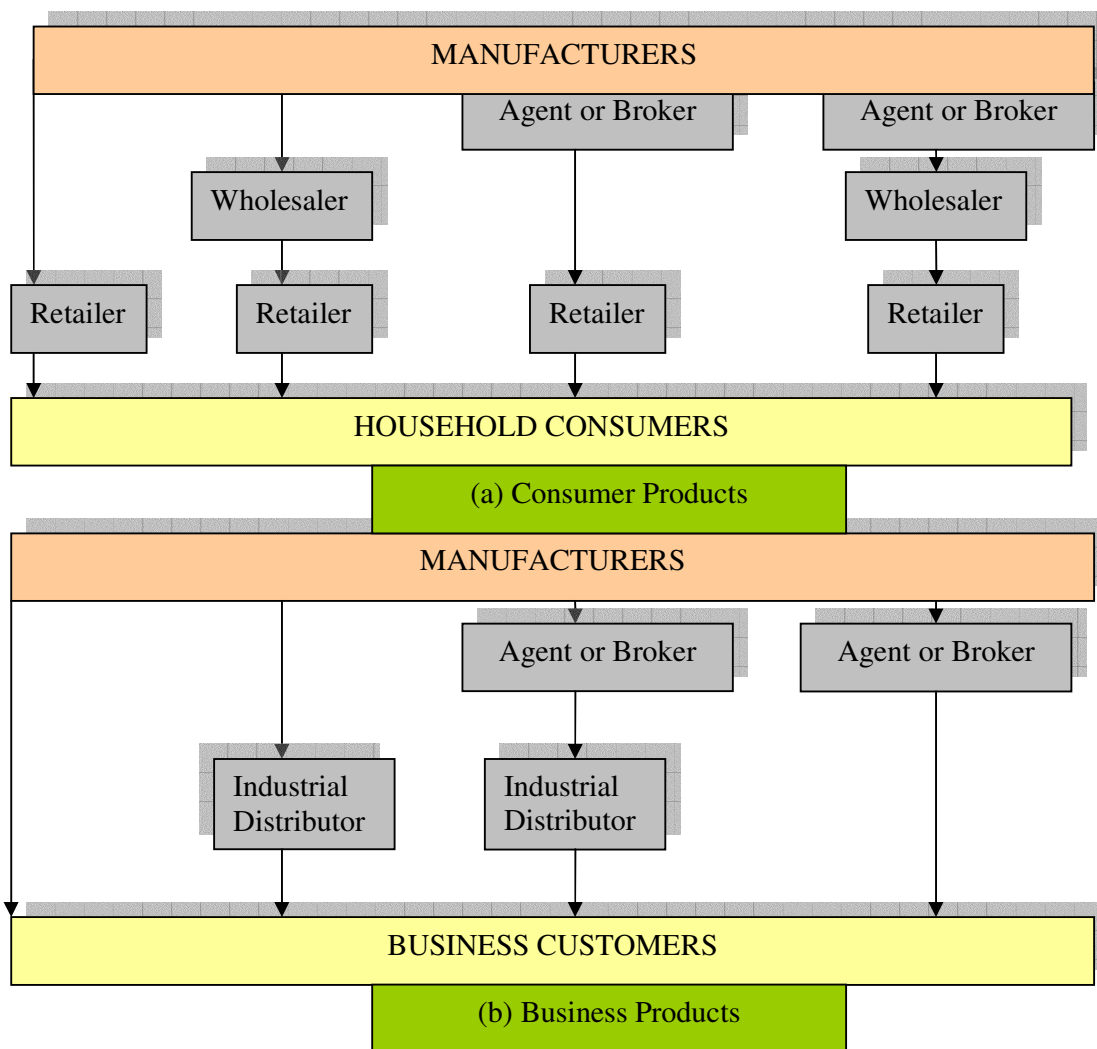
<sup>53</sup> Louis W. Stern and Adel I. El-Ansary, *Marketing Channels*, 5th ed. Upper Saddle River, NJ: Prentice-Hall, 1996

<sup>54</sup> Balaur V., Adăscăliței V., Bălan C., Cătoi I., Olteanu V., Pop Al. N., Teodorescu N., *Marketing*, 2nd Editions reviewed and completed, Uranus Publishing House, Bucharest, 2003, p. 409.

Distribution has an active role in the adequate performance of the flows involved in the supply just in time of necessary products or services and it is an activity particularly complex and heterogeneous by the diversity of intermediaries, of operations and processes which take place at the level of each considered channel.

## 2. CHANNEL-STRUCTURE

The **channel-structure**<sup>55</sup> refers to the number of intermediaries that may be employed in moving goods from manufacturers to customers. A company may undertake to distribute its goods to customers or retailers without involving any intermediary. This strategy constitutes the shortest channel and may be labeled a *direct distribution strategy*. Alternatively, goods may pass through one or more intermediaries, such as wholesalers or agents. This is an *indirect distribution strategy*. Exhibit 1 shows alternative channel structures for consumer and industrial products.



**Exhibit 1: Typical Channel Structures**

Source: adapted from Subhash C. Jain, *Marketing-Planning Strategy*, South-Western Pub, 2004, p. 448.

<sup>55</sup> Subhash C. Jain, *Marketing-Planning Strategy*, South-Western Pub, 2004, p. 447.

### 3. THE PARTICIPANTS TO THE DISTRIBUTION PROCESS

The marketing channels are made up of operators with various activity profiles, who contribute to different extents at the physical displacement of merchandise and at the performance of all the other flows associated to it.

In the distribution process several major participant categories are involved<sup>56</sup>:

- **Primary participants.** *Companies which own, in general, the property over the merchandise they distribute, assuming a substantial risk in the process of value adding, within distribution. The primary participants are considered to be producers and wholesale and retail intermediaries.*
- **Functional services tenderers.** *Have the role to facilitate distribution and they are made up of functional services tenderers which include the following operations: transportation, storage, assembly, orders processing and honoring, selection and merchandising services.*
- **Support services suppliers.** *Most of support services providers offer only a certain type of services. The main support services include: financial and insurance services, communication services, marketing and consulting research services, promotion services.*

### 4. EVALUATING, TERMS AND RESPONSIBILITIES OF CHANNEL MEMBERS

Producers must periodically evaluate intermediaries' performance against such standards as sales-quota attainment, average inventory levels, customer delivery time, treatment of damaged and lost goods, and cooperation in promotional and training programs.

A producer will occasionally discover that it is paying too much to particular intermediaries for what they are actually doing. As one example, a manufacturer that was compensating a distributor for holding inventories found that the inventories were actually held in a public warehouse at the manufacturer's expense. Producers should therefore set up functional discounts in which they pay specified amounts for the trade channel's performance of each agreed-upon service. Underperformers need to be counseled, retrained, remotivated, or terminated<sup>57</sup>.

The producer must also determine the rights and responsibilities of participating members when considering channel alternatives. From an ethical perspective, each channel member must be treated respectfully and given the opportunity to be profitable. Other key rights and responsibilities include<sup>58</sup>:

- *Price policy.* The producer establishes a price list and a schedule of discounts and allowances that intermediaries see as equitable and sufficient.
- *Conditions of sale.* The producer sets payment terms and guarantees for each sale. Most producers grant cash discounts to distributors for early payment; they may also offer guarantees against defective merchandise or price declines.

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<sup>56</sup> Balaure V., Adăscăliței V., Bălan C., Cătoiu I., Olteanu V., Pop Al. N., Teodorescu N., *op. cit.*, p. 411-410

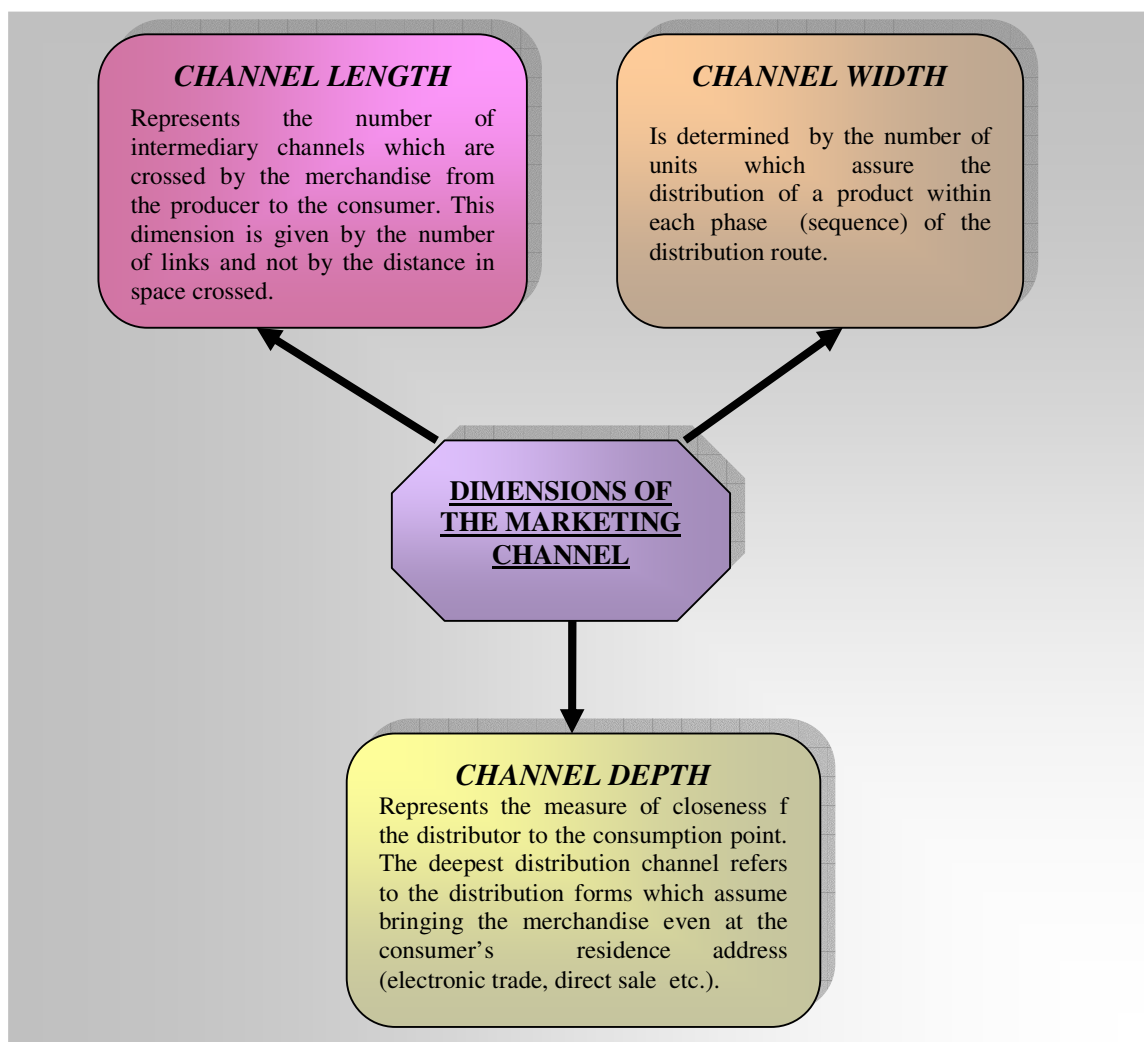
<sup>57</sup> Kotler Ph., *Marketing Management*, Millenium Edition, Customon Edition for University of Phoenix, Person Costom Publishing, SUA, 2002, p. 244.

<sup>58</sup> Kotler Ph., *op. cit.*, Millenium Edition, Customon Edition for University of Phoenix, Person Costom Publishing, SUA, 2002, p. 242

- *Territorial rights.* The producer defines the distributors' territories and the terms under which it will enfranchise other distributors. Distributors normally expect to receive full credit for all sales in their territory, whether or not they did the selling.
- *Mutual services and responsibilities.* The producer must carefully lay out each party's duties, especially in franchised and exclusive-agency channels. McDonald's provides franchisees with a building, promotional support, a record-keeping system, training, and technical assistance. In turn, its franchisees are expected to satisfy company standards regarding physical facilities, cooperate with new promotional programs, and buy supplies from specified vendors.

## 5. DIMENSIONS OF THE MARKETING CHANNEL

The marketing channel is particularized by three dimensions: length, width and depth (see picture 2).



**Picture 2. Dimensions of the marketing channel**

Source: adapted from Balaure V., Adăscăliței V., Bălan C., Cătoiș I., Olteanu V., Pop Al. N., Teodorescu N., op. cit., p. 413.



Each category of goods/services has its specific distribution channel/channels, existing also the possibility that the same product be encountered in channels of different dimensions.

In order to survive in the new context, the organizations must find complex solutions, able to induce improvements in all activities. In this sense, the reconsideration of organizations' marketing channel dimensions is also imposed with the purpose of identifying the optimal channel (the channel which will determine the smallest costs for the transfer of a product from the producer to the consumer).

## 6. DISTRIBUTION-SCOPE STRATEGY

For an efficient channel network, the manufacturer should clearly define the target customers it intends to reach. Implicit in the definition of target customers is a decision about the scope of distribution the manufacturer wants to pursue.

The strategic alternatives are<sup>59</sup>:

- **Exclusive distribution** means that one particular retailer serving a given area is granted sole rights to carry a product. An exclusive dealership is more willing to finance inventories and thus bear a higher degree of risk than a more extensive dealership. Having a smaller number of dealers gives a manufacturer or wholesaler greater opportunity to provide each dealer with promotional support. And with fewer outlets, it is easier to control such aspects as margin, price, and inventory. Dealers are also more willing to provide data that may be used for marketing research and forecasts. Exclusive distribution is especially relevant for products that customers seek out. Examples of such products include Rolex watches, Gucci bags, Regal shoes, Celine neckties, and Mark Cross wallets.
- **Intensive distribution** makes a product available at all possible retail outlets. This may mean that the product is carried at a wide variety of different and also competing retail institutions in a given area. The distribution of convenience goods is most consistent with this strategy. If the nature of a product is such that a consumer generally does not bother to seek out the product but will buy it on sight if available, then it is to the seller's advantage to have the product visible in as many places as possible.
- **Selective distribution** is the strategy in which several but not all retail outlets in a given area distribute a product. **Shopping goods**—goods that consumers seek on the basis of the most attractive price or quality characteristics — are frequently distributed through selective distribution. Because of this, competition among retailers is far greater for shopping goods than for convenience goods. Naturally, retailers wish to reduce competition as much as possible. This causes them to pressure manufacturers to reduce the number of retail outlets in their area distributing a given product in order to reduce competition. The number of retailers under a selective distribution strategy should be limited by criteria that allow the manufacturer to choose only those retailers who will make a contribution to the firm's overall distribution objectives.

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<sup>59</sup> Subhash C. Jain, *op.cit.*, South-Western Pub, 2004, p. 455-457.

For example, some firms may choose retail outlets that can provide acceptable repair and maintenance service to consumers who purchase their products. In the automotive industry, selective criteria are used by manufacturers in granting dealerships. These criteria consist of such considerations as showroom space, service facilities, and inventory levels.

## 7. CONCLUSIONS

This short marketing channel research had as object the presentation of main component elements. The subject is a wide one and rises a series of complex problems, impossible to be taken into consideration in one article. The author will write on other aspects too concerning marketing channels in some future research.

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## THE CONSEQUENCES OF THE LACK OF CITIZENS' INFORMATION ON THE POLITICAL MARKET

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**Abstract:** *As in Romania and in other countries persists, more or less, a lack of information on the political markets, we analyse the political information asymmetry and its consequences, namely the phenomenon of adverse selection and moral hazard as failures of this particular market. The citizens are screening the challengers and controlling the incumbents, and the politicians are signaling in order to gain as many votes as possible. Transparency is very important; this is the main way and the solution for the electors to get more information, because collective political decisions recall information to be more efficient.*

**Key words:** asymmetric information, political market, screening, signaling, controlling politicians, transparency

In a country with an emerging economy like Romania, especially in this time of crisis, it is imperative to identify causes that may lead to failures of government. One reason for such failure is information asymmetry between citizens and politicians, a political market imperfection with serious consequences.

Policy measures are considered solutions for counter-balancing economic market failures. The situation of our country should, obviously, be improved, so we must consider very carefully what could cause government failure.

We aim to present situations, to explain possible implications and to look for solutions. But first, we intend to draw attention to this matter, maybe, in this way, a part of the members of the scholarly world will seek solutions in this regard.

The political market is characterized by an increased information asymmetry between the government and the governed, between the candidates for political positions and the voters. This leads to a series of failures of this particular market, because, as Joseph Stiglitz shows, decisions must be based on information<sup>60</sup>, and the policy is no exception. Both collective decisions, as well as individual decisions need information to lead to effective results.

We must emphasize that information asymmetry on the political market differs from country to country, and Romania does not excel with many citizens highly informed in this matters.

In Public Opinion Barometer in May 2005 there were addressed a series of questions to the interviewed citizens, targeting their direct interest in the political phenomena and the level of their information on the political matters. Table 1 shows the percentage frequencies of recorded responses. As can be seen, large percentages of those who participated in the survey said they are not interested, or they are little or very little interest in local and national political events and in political information.

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<sup>60</sup> Joseph E. Stiglitz, „Information and the Change in the Paradigm in Economics”, *American Economic Review*, Vol. 92, No. 3, (June, 2002), pp. 460-501

Table 1 (%)

How interested are you with ...	not at all	very little and little	much and very much	don't know, don't answer
the political life in your city/village	22,3	55,7	20,6	1,3
the political life in Romania	19,8	53,5	25,4	1,3
the elections for the Parliament	22,1	53,3	22,7	1,9
campaigns	24,7	52,9	20,8	1,7
political tv shows	24,3	49,4	24,5	1,9
personal discussions on political themes	26,8	52,9	18,4	1,9
readings on political themes	42,0	44	11,3	2,7

Data source: [www.soros.ro](http://www.soros.ro)

Anticipating a bit, we question whether the political market in Romania is not in a position to pay what George Akerlof called "the costs of lack of honesty"<sup>61</sup>: "The presence of people who want to offer inferior goods on the market has the tendency to disestablish the market itself". Of course, under democratic conditions political market can not be disbanded, but it may occur a phenomenon of "sending off" honest politicians by those less honest, with lower quality of the applied policies and drastic reduction of public confidence in the political class. Paraphrasing Akerlof, the cost of lack of honesty is not only to the extent to which the voter is cheated, but also the loss that accompanies the withdrawal of honest politicians from the policy.

What did Akerlof mean? On the second-hand cars market, which became famous as a result of his studies, information asymmetry between the buyer and the seller makes poor quality cars ("lemons", as Americans call them) to chase away the good cars from the market. The fact that there is a large probability that a second-hand car to be qualitatively poor makes the selling price quite small on the market, and consequently the higher quality second-hand cars are removed from the market - their owners are not willing to sell them at a lower, inappropriate price.

How is this situation reflected on the political market? The citizens have learned from his experience that they must not put a high price on the promises made in electoral campaigns. This is why the electoral programs of the honest politicians are not believed either. The voters, generally speaking, have a moderate or rather reduced confidence in all politicians.

This can generate a series of consequences:

- Those who would like to get involved in politics with the purpose to change things for the benefit of the citizens are reluctant to do so.
- A lot of citizens do not vote because the lack of confidence in the electoral process lowers their interest in the elections. A derivative form of electoral protest, with a fairly strong support in Western democracies, is "the white vote", called civic absenteeism (the voter leaves unmarked the ballot paper, leading to its cancellation).
- Those who really want to do something in the public interest do not gain the votes of the public (they do not have sufficient funds for convincing campaigns), but those who are persuasive enough or manage to buy votes.

The removal from the political arena of those people who would like something more than power and money for themselves, people unrewarded according to their intentions and real qualities, but rather ignored, have consequences easy to predict. This is a phenomenon of adverse selection, a failure of the political market, a direct consequence of the informational asymmetry between the voters and the candidates to the political office.

<sup>61</sup> George A. Akerlof, „The Market for „Lemons”: Quality Uncertainty and the Market Mechanism”, *The Quarterly Journal of Economics*, Vol. 84, No. 3 (Aug., 1970), pp. 488-500

The lack of honesty in business, Akerlof says, is a serious problem in underdeveloped countries. The dishonest actions of the politicians are also serious, meaning corruption but also electoral promises void of content.

In the political processes principal-agent relations develop. The citizens represent "the principal" and the elected politicians and the bureaucrats are "the agents", hired by "the principal" to work for his benefit. The principal-agent model assumes that there is a conflict of interests between the two sides, between the citizens and the elected politicians, a vision that corresponds to the Public choice<sup>62</sup> opinions on the political market. The problem is ultimately extremely complex, because the electorate is not homogeneous, different voters having different preferences<sup>63</sup>.

Through the election a deal is made, a "contract" between voters and the elected politician; according to this contract, the citizen gives his vote to the politician in exchange of the latter's electoral promises. Once the electoral process is ended, the politician feels "insured" against dismissal for a period of time equal to the electoral cycle, and the citizens encounter extreme difficulties in keeping a check on him and also have no means to dismiss him immediately if the received utility does not meet the expectations. This kind of "insurance" makes the elected politician less concerned about achieving the principal's goals that he should work for; his central purpose is pursuing his own interest. This is another kind of failure of the political market - a moral hazard type of behavior.

It can be noticed that the allegations of the Public choice scholars on the elected politicians pursuing their own interest according to the homo oeconomicus model are proved out. Certainly, the approaches are different; the information economy considers this kind of behavior as a moral hazard, a market failure, while in the view of the Public choice theory the explanation lies in the economic rationality of the man who has the political power and acts for his personal benefit. The conclusions are ultimately convergent.

In pursuing his own goals and ignoring those of the electorate, the politician can undertake illegal, corrupted actions, including political , encouraging rent-seeking practices etc., which also represent failures of the political market.

Generally speaking, people in official positions still have in mind the prospect of the next elections; these perspectives represent a brake to the actions of moral hazard.

Still, where can the information be obtained from?

According to the economic theory, generically called "classical", the bearer of the information on the business market is the price, as a measure of scarcity and the basis of making the production and consumption decisions. In the theory of the economy with imperfect information the information is obtained by observing the behavior of individual market players. The problem is that individuals are aware of this and change their behavior for purposely transmitting false information<sup>64</sup>, for their benefit, hiding the real ones.

If the first step is made by the individual who holds more information in order to inform the other one, he has a signaling behavior - emits signals bearing information of interest to less informed individuals. Signaling behavior can also be denatured. The campaign conducted with an unsincere signaling purpose may thus become a farce.

Actually, the politicians find out the electorate's wishes by the agency of the polls. For example, if the expressed options of the citizens rather lean to the right, they will adapt their

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<sup>62</sup> James M. Buchanan, Gordon Tullock, *Calculul consensului. Bazele logice ale democrației constituționale*, Versiunea în limba română Dr. Paul Fudulu, Editura Expert, București, 1995

<sup>63</sup> John Ferejohn, "Incumbent preference and electoral control", *Public Choice* 50: 5-25 (1986)

<sup>64</sup> Joseph E. Stiglitz, "Information and the Change in the Paradigm in Economics", *American Economic Review*, Vol. 92, No. 3, (June, 2002), pp. 460-501

doctrinal position in this regard. Through surveys information regarding the options of the electorate in several areas of interest is gathered.

Usually the electoral supply of a party / candidate is what in marketing, but also in Public choice theory is called "bundle"; by bundling a whole package of policies are offered to the electorate, especially when the vote is for the party lists, not the people are voted, but the packages of policies that politicians present as the party's programme.

On the other hand, the voter is in a position to do a screening. But how is he going to identify the politician that would best respond to his wishes? Unfortunately, the candidate running for the political position knows from the start what the voter wants: "to live well", so he often transmits redundant signals in order to persuade the citizen that he, the politician, is the most able to fulfill the man's wishes, that he is the one, best suited for the position for which he applies.

The membership of a candidate to a political party gives him, especially when he is not known by the public, a certain quality in the eyes of the followers of that party. If a politician is enrolled in a certain party and the voter has confidence in that party, even if that confidence is rather emotional and not based on concrete issues, the situation resembles the confidence in a preferred brand. For some voters this information is sufficient. In fact, sometimes it is difficult to know more about the candidate as a person and it would be very difficult and costly for the voters to make investigations in this regard. The problem is that such a membership of the elected politician does not provide the voters with compensations if the quality is proven defective.

We may add that political parties do some screenings themselves, using their own criteria for promoting politicians on the hierarchical scale or in certain positions. It should be noted that this type of screening is much stronger in countries with a single party, as our country was until 1989.

Once elected and invested in office, politicians should be monitored by the public, but especially by the competent authorities, that struggle against corruption on behalf of citizens. In addition to the criminal liability the politicians who break the law in order to gain some personal advantages must be subjected to, they are also exposed to risk of no longer being voted at the next elections. Uninominal vote should be a suitable tool for this type of reward / punishment.

Assuming that voters vote retrospectively, the electoral process is a means of screening through which, the voters, unfortunately, do not have complete control over the politicians. The political market is sorting in this way and in time is eliminating those politicians who seek their own interests to the detriment of the electorate<sup>65</sup>.

The control over the politicians, however, can mean more than the retrospective vote, more than just a selfish vote. It may be a sociotropic<sup>66</sup> vote; it means that the voter takes into account the national economic conditions in general, when voting. The voter "awards or punishes" the politician having in mind the entire economy, not necessarily because he thinks of the good of the country, but because it is better for him too to be part of a prosperous nation<sup>67</sup>.

In some situations the politicians are still not influenced by the prospect of the next elections, for example if the number of seats is limited by the law, or if they are simply sure they won't be elected anymore.

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<sup>65</sup> John R. Lott, Jr., W. Robert Reed, „Shirking and sorting in a political market with finite-lived politicians”, *Public Choice* 61: 75-96 (1989)

<sup>66</sup> John Ferejohn, “Incumbent preference and electoral control”, *Public Choice* 50: 5-25 (1986)

<sup>67</sup> Marcus A. G. Harper, „Economic Voting in Post-Communist Eastern Europe”, Center for the Study of Democracy, UC Irvine, <http://www.democ.uci.edu/publications/papersseriespre2001/harper.htm>, accesat 16.12.2008

On the other hand, there are providential people who work from conviction for the good of the collectivity. People are still waiting for them; they continue to hope, even if they are discontent and say they do not trust the political class anymore.

*Why is it important to study information asymmetry on the political market?*

It is important because the voters must understand that they need information in order to distinguish between real promises that can be materialized after the elections, and fake promises, made just to get some votes in return. They must be informed and educated to properly receive the messages sent by the political marketing and to be able “separate the wheat from the chaff”.

To this end, they should ask, through public opinion and civil societies, as much transparency in the politico-administrative processes as possible. They must denounce lack of transparency; they should even create a possibility to immediately sanction such practices, not just once every four years.

I keep in mind a statement made by an acquaintance of mine, resident in Austria, in the 90s, explaining what democracy means: “Here, in Austria, there are high taxes, but I know exactly how the money the state takes from me is used.” He was receiving, as a citizen, periodic information on the use of taxes that he paid and, what is very important, he wanted to be informed, he was concerned that he must be informed.

Transparency is necessary in politics, people need as much information about the activity of the officials, even if some politicians claim that it would have adverse effects on the quality of governance, because in this way we know to what extent the interests of citizens are taken into account or if the private interests of the delegates come first, on behalf of the people. Lack of transparency fosters corruption, and it is unquestionably “sand in the wheel of economic growth.”

We should also mention that individuals tend not to make particular efforts to obtain information on the political market. They do not feel that the benefits they would get if they voted consciously would compensate the costs of obtaining the information in terms of scarcity. They do not feel directly and immediately affected, as individuals, by the outcome of the elections, not to the same extent as they are directly and immediately affected by the choices that they make on the market of goods and services. On the other hand, they have the impression that their vote will not influence the final outcome, but that it is lost without trace in “the sea of votes”. In fact, according to Downs's paradox of voting, even the cost of voting itself exceeds the benefits of voting. Consequently, they allow the information to reach them in one form or another, if the information succeeds in getting through the informational noise. The problem is that most often little, distorted, false information gets to the voters, sometimes aimed to manipulate<sup>68</sup> them. Under these circumstances it is even more necessary for citizens to become aware of the necessity to be informed.

For, as George J. Stigler says, “everyone knows: knowledge is power”<sup>69</sup>.

That's why it is important to study informational asymmetry on the political market.

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<sup>68</sup> Simona Bușoi, „Comunicarea politică, fenomen cotidian”, Simpozionul internațional “Comunicare, competență și competitivitate”, 24 noiembrie 2007, Academia de Studii Economice din București, Facultatea de Economie, Catedra de Comunicare și politici economice, ISBN 978-973-594-992-1

<sup>69</sup> George J. Stigler, „The Economics of Information”, *The Journal of Political Economy*, Vol. LXIX, June 1961, No. 3

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## INTERNET MARKETING – A NEW METHOD FOR REACHING THE CLIENTS

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***Abstract:** The paper presents some aspects on internet marketing, the definition of this concept, the differences between the traditional marketing and this new tool that is available to marketers. It presents the implications that Internet marketing has on the 4P. The paper points out the main advantages, the limitations, the evolution of this marketing tool, and the impact that it has on different industries.*

***Key words:** Internet marketing, technology, advantage, costumers.*

Internet marketing is a relative new area in the field of marketing. It is also referred to as web marketing, online marketing or electronic marketing (e-marketing). Marketers have been using electronic tools for many years, but the Internet and other new technologies created a flood of interesting and innovative ways to provide customer value. New opportunities create lots of questions, however. How can firms leverage new technologies to maximum benefit? How much commitment should marketers make to electronic marketing programs? Is our market online? In this paper, we attempt to answer these and many other questions - some developing even as we wrote the text.

The Internet has brought many unique benefits to marketing, one of which being lower costs for the distribution of information and media to a global audience. The interactive nature of Internet marketing, both in terms of providing instant response and eliciting responses, is a unique quality of the medium.

Internet marketing is traditional marketing using electronic methods. It affects traditional marketing in two ways. First, it increases efficiency in established marketing functions. Second, the technology of e-marketing transforms many marketing strategies. The transformation results in new business models that add customer value and/or increase company profitability. The Internet serves as an efficient marketing planning tool for both secondary and primary data collection. In addition, electronic technologies affect the 4 Ps:

- **Product** - Internet technologies spawned a variety of innovative products for creating, delivering, and reading messages as well as services such as reverse auctions, business-to-business (B2B) market exchanges, and interactive games. What's next?
- **Pricing** - The Net turned pricing strategies upside down. Bartering, bidding, dynamic pricing, and individualized pricing are now quite common online. Shopping agents create transparent pricing for identical product offerings at various retailers.
- **Distribution (Place)** - E-marketers use the Net for direct distribution of digital products (e.g., news stories and live radio) and for electronic retailing. But tremendous value occurs behind the scenes: supply chain management and channel integration create efficiencies that can either lower customer prices or add to company profits.

- **Promotion** - The Net assists with two-way communication: one-to-one Web pages, email conversation, and e-mail conferencing via newsgroups and mailing lists. The Net is also an advertising medium in its own right, with over \$2.8 billion in online ad revenues in 1999. E-marketers also use the Net for promotions, and sending electronic coupons and digital product samples directly to consumers.

The internet marketing has several important differences from the traditional marketing:

- **One-to-one approach** - The targeted user is typically browsing the Internet alone, so the marketing messages can reach them personally. This approach is used in search marketing, where the advertisements are based on search engine keywords entered by the user;
- **Appeal to specific interests** - Internet marketing and geo marketing places an emphasis on marketing that appeals to a specific behavior or interest, rather than reaching out to a broadly-defined demographic. "On- and Off-line" marketers typically segment their markets according to age group, gender, geography, and other general factors. Marketers have the luxury of targeting by activity and geological location. For example, a kayak company can post advertisements on kayaking and canoeing websites with the full knowledge that the audience has a related interest. Internet marketing differs from magazine advertisements, where the goal is to appeal to the projected demographic of the periodical. Because the advertiser has knowledge of the target audience - people who engage in certain activities (e.g., uploading pictures, contributing to blogs) - the company does not rely on the expectation that a certain group of people will be interested in its new product or service.
- **Geographical targeting** - Geo targeting Geo targeting (in internet marketing) and geographical marketing are the methods of determining the geological location (the physical location) of a website visitor with geological location software, and delivering different content to that visitor based on his or her location, such as country, region/state, city, metro code/zip code, organization, Internet Protocol (IP) address, ISP or other criteria.
- **Different content by choice** - A typical example for different content by choice in geo targeting is the FedEx website at FedEx.com where users have the choice to select their country location first and are then presented with different site or article content depending on their selection

The main advantages of Internet marketing are various; this new tool is relatively inexpensive when compared to the ratio of cost against the reach of the target audience. Companies can reach a wide audience for a small fraction of traditional advertising budgets. The nature of the medium allows consumers to research and purchase products and services at their own convenience. Therefore, businesses have the advantage of appealing to consumers in a medium that can bring results quickly. The strategy and overall effectiveness of marketing campaigns depend on business goals and cost-volume-profit (CVP) analysis.

Internet marketers also have the advantage of measuring statistics easily and inexpensively. Nearly all aspects of an Internet marketing campaign can be traced, measured, and tested. The advertisers can use a variety of methods: pay per impression, pay per click, pay per play, or pay per action. Therefore, marketers can determine which messages or offerings are more appealing to the audience. The results of campaigns can be measured and tracked immediately because online marketing initiatives usually require users to click on an advertisement, visit a website, and perform a targeted action. Such measurement cannot be achieved through billboard

advertising, where an individual will at best be interested, then decide to obtain more information at a later time.

Internet marketing as of 2007 is growing faster than other types of media. Because exposure, response, and overall efficiency of Internet media are easier to track than traditional off-line media—through the use of web analytics for instance—Internet marketing can offer a greater sense of accountability for advertisers. Marketers and their clients are becoming aware of the need to measure the collaborative effects of marketing (i.e., how the Internet affects in-store sales) rather than siloing each advertising medium. The effects of multichannel marketing can be difficult to determine, but are an important part of ascertaining the value of media campaigns.

But unfortunately the internet marketing has some limitations; it requires customers to use newer technologies rather than traditional media. Low-speed Internet connections are another barrier: If companies build large or overly-complicated websites, individuals connected to the Internet via dial-up connections or mobile devices may experience significant delays in content delivery. From the buyer's perspective, the inability of shoppers to touch, smell, taste or "try on" tangible goods before making an online purchase can be limiting. However, there is an industry standard for e-commerce vendors to reassure customers by having liberal return policies as well as providing in-store pick-up services.

Other aspects that we need to take into consideration when we talk about internet marketing are the security concerns. Information security is important both to companies and consumers that participate in online business. Many consumers are hesitant to purchase items over the Internet because they do not trust that their personal information will remain private. Encryption is the primary method for implementing privacy policies. Recently some companies that do business online have been caught giving away or selling information about their customers. Several of these companies provide guarantees on their websites, claiming that customer information will remain private. Some companies that purchase customer information offer the option for individuals to have their information removed from the database, also known as opting out. However, many customers are unaware if and when their information is being shared, and are unable to stop the transfer of their information between companies if such activity occurs.

Another major security concern that consumers have with e-commerce merchants is whether or not they will receive exactly what they purchase. Online merchants have attempted to address this concern by investing in and building strong consumer brands (e.g., Amazon.com, eBay, Overstock.com), and by leveraging merchant/feedback rating systems and e-commerce bonding solutions. All of these solutions attempt to assure consumers that their transactions will be free of problems because the merchants can be trusted to provide reliable products and services. Additionally, the major online payment mechanisms (credit cards, PayPal, Google Checkout, etc.) have also provided back-end buyer protection systems to address problems if they actually do occur.

Online advertising techniques have been dramatically affected by technological advancements in the telecommunications industry. In fact, many firms are embracing a new paradigm that is shifting the focus of online advertising from simple text ads to rich multimedia experiences. As a result, advertisers can more effectively engage in and manage online branding campaigns, which seek to shape consumer attitudes and feelings towards specific products. And just what is the critical technological development that is fueling this paradigm shift? The answer: Broadband.

The best example for this case is the USA. In March 2005, roughly half of all American homes were equipped with broadband technology. By May 2008, broadband technologies had spread to more than 90% of all residential Internet connections in the United States. When one considers a Nielsen's study conducted in June 2008, which estimated the number of U.S. Internet

users as 220,141,969, one can calculate that there are presently about 199 million people in the United States utilizing broadband technologies to surf the Web. As a result, all 199 million members of this burgeoning market have the ability to view TV-like advertisements with the click of a mouse. And to be sure, online advertisers are working feverishly to design rich multimedia content that will engender a “warm-fuzzy” feeling when viewed by their target audience. As connection speeds continue to increase, so will the frequency of online branding campaigns.

The effects of Internet marketing on the industry has a large impact on several previously retail-oriented industries including music, film, pharmaceuticals, banking, flea markets, as well as the advertising industry itself. Internet marketing is now overtaking radio marketing in terms of market share. In the music industry, many consumers have been purchasing and downloading music (e.g., MP3 files) over the Internet for several years in addition to purchasing compact discs. By 2008 Apple Inc.'s iTunes Store has become the largest music vendor in the United States.

The number of banks offering the ability to perform banking tasks online has also increased. Online banking is believed to appeal to customers because it is more convenient than visiting bank branches. Currently over 150 million U.S. adults now bank online, with increasing Internet connection speed being the primary reason for fast growth in the online banking industry. Unique items that could only previously be found at flea markets are being sold on eBay. Specialized e-stores sell items ranging from antiques to movie props. As the premier online reselling platform, eBay is often used as a price-basis for specialized items. Buyers and sellers often look at prices on the website before going to flea markets; the price shown on eBay often becomes the item's selling price. It is increasingly common for flea market vendors to place a targeted advertisement on the Internet for each item they are selling online, all while running their business out of their homes.

Internet marketing has had a growing impact on the electoral process. In 2008 candidates for President heavily utilized Internet marketing strategies to reach constituents. During the 2007 primaries candidates added on averaged over 500 social network supporters per day to help spread their message. For example the U.S. President Barack Obama raised over US\$1 million in a single day during his extensive Democratic candidacy campaign, largely due to online donors

The development of the information and communications technology has lead to the development of this new important tool for the managers and the organizations of the 21<sup>st</sup> Century. It is very important that today's organizations use Internet marketing in their strategies to reach out to the client and fulfill their needs. The client's satisfaction is the most important aspect in a business that a marketing specialist has to consider.

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## RISK MANAGEMENT IMPLICATIONS

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**Abstract:** Risk management is a structured approach to managing uncertainty through risk assessment, developing strategies to manage it, and mitigation of risk using managerial resources. The strategies include transferring the risk to another party, avoiding the risk, reducing the negative effect of the risk, and accepting some or all of the consequences of a particular risk.

Objective of risk management is to reduce different risks related to a preselected domain to the level accepted by society. It may refer to numerous types of threats caused by environment, technology, humans, organizations and politics. On the other hand it involves all means available for humans, or in particular, for a risk management entity (person, staff, organization).

Risk management also faces difficulties allocating resources. This is the idea of opportunity cost. Resources spent on risk management could have been spent on more profitable activities. Again, ideal risk management minimizes spending while maximizing the reduction of the negative effects of risks. Steps in the risk management process: establishing the context, identification, assessment, potential risk treatments, risk avoidance, risk reduction, risk retention, risk transfer, creation of a risk management plan, implantation, review and evaluation of the plan.

**Key words:** risk management, risk assessment, management plan

Risk management is a structured approach to managing uncertainty through risk assessment, developing strategies to manage it, and mitigation of risk using managerial resources.

The strategies include transferring the risk to another party, avoiding the risk, reducing the negative effect of the risk, and accepting some or all of the consequences of a particular risk.

Some traditional risk managements are focused on risks stemming from physical or legal causes (e.g. natural disasters or fires, accidents, death and lawsuits). Financial risk management, on the other hand, focuses on risks that can be managed using traded financial instruments.

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### 1. SOME EXPLANATIONS

In ideal risk management, a prioritization process is followed whereby the risks with the greatest loss and the greatest probability of occurring are handled first, and risks with lower probability of occurrence and lower loss are handled in descending order. In practice the process can be very difficult, and balancing between risks with a high probability of occurrence but lower loss versus a risk with high loss but lower probability of occurrence can often be mishandled.

Intangible risk management identifies a new type of risk - a risk that has a 100% probability of occurring but is ignored by the organization due to a lack of identification ability. For example, when deficient knowledge is applied to a situation, a knowledge risk materialises. Relationship risk appears when ineffective collaboration occurs.

Process-engagement risk may be an issue when ineffective operational procedures are applied. These risks directly reduce the productivity of knowledge workers, decrease cost effectiveness, profitability, service, quality, reputation, brand value, and earnings quality. Intangible risk management allows risk management to create immediate value from the identification and reduction of risks that reduce productivity.

Risk management also faces difficulties allocating resources. This is the idea of opportunity cost. Resources spent on risk management could have been spent on more profitable activities. Again, ideal risk management minimizes spending while maximizing the reduction of the negative effects of risks.

## **2. STEPS IN RISK MANAGEMENT PROCESS**

### ***2.1 Establish the context***

Establishing the context involves:

- a. Identification of risk in a selected domain of interest
- b. Planning the remainder of the process.
- c. Mapping out the following:
  - the social scope of risk management
  - the identity and objectives of stakeholders
  - the basis upon which risks will be evaluated, constraints.
- d. Defining a framework for the activity and an agenda for identification.
- e. Developing an analysis of risks involved in the process.
- f. Mitigation of risks using available technological, human and organizational resources.

### ***2.2 Identification***

After establishing the context, the next step in the process of managing risk is to identify potential risks. Risks are about events that, when triggered, cause problems. Hence, risk identification can start with the source of problems, or with the problem itself.

**Source analysis** Risk sources may be internal or external to the system that is the target of risk management. Examples of risk sources are: stakeholders of a project, employees of a company or the weather over an airport.

**Problem analysis** Risks are related to identified threats. For example: the threat of losing money, the threat of abuse of privacy information or the threat of accidents and casualties. The threats may exist with various entities, most important with shareholders, customers and legislative bodies such as the government.

When either source or problem is known, the events that a source may trigger or the events that can lead to a problem can be investigated. For example: stakeholders withdrawing during a project may endanger funding of the project; privacy information may be stolen by employees even within a closed network; lightning striking a Boeing 747 during takeoff may make all people onboard immediate casualties.

The chosen method of identifying risks may depend on culture, industry practice and compliance. The identification methods are formed by templates or the development of templates for identifying source, problem or event. Common risk identification methods are:

**Objectives-based risk identification** Organizations and project teams have objectives. Any event that may endanger achieving an objective partly or completely is identified as risk.

Objective-based risk identification is at the basis of COSO's Enterprise Risk Management - Integrated Framework

Scenario-based risk identification In scenario analysis different scenarios are created. The scenarios may be the alternative ways to achieve an objective, or an analysis of the interaction of forces in, for example, a market or battle. Any event that triggers an undesired scenario alternative is identified as risk - see Futures Studies for methodology used by Futurists.

Taxonomy-based risk identification -The taxonomy in taxonomy-based risk identification is a breakdown of possible risk sources. Based on the taxonomy and knowledge of best practices, a questionnaire is compiled. The answers to the questions reveal risks.

Common-risk Checking In several industries lists with known risks are available. Each risk in the list can be checked for application to a particular situation. An example of known risks in the software industry is the Common Vulnerability and

Risk Charting This method combines the above approaches by listing Resources at risk, Threats to those resources Modifying Factors which may increase or reduce the risk and Consequences it is wished to avoid. Creating a matrix under these headings enables a variety of approaches. One can begin with resources and consider the threats they are exposed to and the consequences of each. Alternatively one can start with the threats and examine which resources they would affect, or one can begin with the consequences and determine which combination of threats and resources would be involved to bring them about.

### **2.3 Assessment**

Once risks have been identified, they must then be assessed as to their potential severity of loss and to the probability of occurrence. These quantities can be either simple to measure, in the case of the value of a lost building, or impossible to know for sure in the case of the probability of an unlikely event occurring. Therefore, in the assessment process it is critical to make the best educated guesses possible in order to properly prioritize the implementation of the risk management plan.

The fundamental difficulty in risk assessment is determining the rate of occurrence since statistical information is not available on all kinds of past incidents. Furthermore, evaluating the severity of the consequences (impact) is often quite difficult for immaterial assets. Asset valuation is another question that needs to be addressed. Thus, best educated opinions and available statistics are the primary sources of information. Nevertheless, risk assessment should produce such information for the management of the organization that the primary risks are easy to understand and that the risk management decisions may be prioritized. Thus, there have been several theories and attempts to quantify risks. Numerous different risk formulae exist, but perhaps the most widely accepted formula for risk quantification is:

Rate of occurrence multiplied by the impact of the event equals risk

Later research has shown that the financial benefits of risk management are less dependent on the formula used but are more dependent on the frequency and how risk assessment is performed.

In business it is imperative to be able to present the findings of risk assessments in financial terms. Robert Courtney Jr. (IBM, 1970) proposed a formula for presenting risks in financial terms. The Courtney formula was accepted as the official risk analysis method for the US governmental agencies. The formula proposes calculation of ALE (annualised loss expectancy) and compares the expected loss value to the security control implementation costs .

### ***2.4 Potential risk treatments***

Once risks have been identified and assessed, all techniques to manage the risk fall into one or more of these four major categories:

- Avoidance (aka elimination)
- Reduction (aka mitigation)
- Retention
- Transfer (aka buying insurance)

Ideal use of these strategies may not be possible. Some of them may involve trade-offs that are not acceptable to the organization or person making the risk management decisions. Another source, from the US Department of Defense, Defense Acquisition University, calls these ACAT, for Avoid, Control, Accept, or Transfer. The ACAT acronym is reminiscent of the term ACAT (for Acquisition Category) used in US Defense industry procurements.

#### **2.4.1 Risk avoidance**

Includes not performing an activity that could carry risk. An example would be not buying a property or business in order to not take on the liability that comes with it. Another would be not flying in order to not take the risk that the airplane were to be hijacked. Avoidance may seem the answer to all risks, but avoiding risks also means losing out on the potential gain that accepting (retaining) the risk may have allowed. Not entering a business to avoid the risk of loss also avoids the possibility of earning profits.

#### **2.4.2 Risk reduction**

Involves methods that reduce the severity of the loss or the likelihood of the loss from occurring. Examples include sprinklers designed to put out a fire to reduce the risk of loss by fire. This method may cause a greater loss by water damage and therefore may not be suitable. Halon fire suppression systems may mitigate that risk, but the cost may be prohibitive as a strategy.

Modern software development methodologies reduce risk by developing and delivering software incrementally. Early methodologies suffered from the fact that they only delivered software in the final phase of development; any problems encountered in earlier phases meant costly rework and often jeopardized the whole project. By developing in iterations, software projects can limit effort wasted to a single iteration.

Outsourcing could be an example of risk reduction if the outsourcer can demonstrate higher capability at managing or reducing risks. In this case companies outsource only some of their departmental needs. For example, a company may outsource only its software development, the manufacturing of hard goods, or customer support needs to another company, while handling the business management itself. This way, the company can concentrate more on business development without having to worry as much about the manufacturing process, managing the development team, or finding a physical location for a call center.

#### **2.4.3 Risk retention**

Involves accepting the loss when it occurs. True self insurance falls in this category. Risk retention is a viable strategy for small risks where the cost of insuring against the risk would be greater over time than the total losses sustained. All risks that are not avoided or transferred are retained by default. This includes risks that are so large or catastrophic that they either cannot be insured against or the premiums would be infeasible. War is an example since most property and risks are not insured against war, so the loss attributed by war is retained by the insured. Also any amounts of potential loss (risk) over the amount insured is retained risk. This may also be



acceptable if the chance of a very large loss is small or if the cost to insure for greater coverage amounts is so great it would hinder the goals of the organization too much.

#### 2.4.4 Risk transfer

Means causing another party to accept the risk, typically by contract or by hedging. Insurance is one type of risk transfer that uses contracts. Other times it may involve contract language that transfers a risk to another party without the payment of an insurance premium. Liability among construction or other contractors is very often transferred this way. On the other hand, taking offsetting positions in derivatives is typically how firms use hedging to financially manage risk.

Some ways of managing risk fall into multiple categories. Risk retention pools are technically retaining the risk for the group, but spreading it over the whole group involves transfer among individual members of the group. This is different from traditional insurance, in that no premium is exchanged between members of the group up front, but instead losses are assessed to all members of the group.

#### 2.5 *Create a risk management plan*

Select appropriate controls or countermeasures to measure each risk. Risk mitigation needs to be approved by the appropriate level of management. For example, a risk concerning the image of the organization should have top management decision behind it whereas IT management would have the authority to decide on computer virus risks.

The risk management plan should propose applicable and effective security controls for managing the risks. For example, an observed high risk of computer viruses could be mitigated by acquiring and implementing antivirus software. A good risk management plan should contain a schedule for control implementation and responsible persons for those actions.

According to ISO/IEC 27001, the stage immediately after completion of the Risk Assessment phase consists of preparing a Risk Treatment Plan, which should document the decisions about how each of the identified risks should be handled. Mitigation of risks often means selection of Security Controls, which should be documented in a Statement of Applicability, which identifies which particular control objectives and controls from the standard have been selected, and why.

#### 2.6 *Implementation*

Follow all of the planned methods for mitigating the effect of the risks. Purchase insurance policies for the risks that have been decided to be transferred to an insurer, avoid all risks that can be avoided without sacrificing the entity's goals, reduce others, and retain the rest.

#### 2.7 *Review and evaluation of the plan*

Initial risk management plans will never be perfect. Practice, experience, and actual loss results will necessitate changes in the plan and contribute information to allow possible different decisions to be made in dealing with the risks being faced.

Risk analysis results and management plans should be updated periodically. There are two primary reasons for this:

- to evaluate whether the previously selected security controls are still applicable and effective
- to evaluate the possible risk level changes in the business environment.

For example, information risks are a good example of rapidly changing business environment.

### 3. LIMITATIONS

If risks are improperly assessed and prioritized, time can be wasted in dealing with risk of losses that are not likely to occur. Spending too much time assessing and managing unlikely risks can divert resources that could be used more profitably. Unlikely events do occur but if the risk is unlikely enough to occur it may be better to simply retain the risk and deal with the result if the loss does in fact occur.

Prioritizing too highly the risk management processes could keep an organization from ever completing a project or even getting started. This is especially true if other work is suspended until the risk management process is considered complete.

It is also important to keep in mind the distinction between risk and uncertainty. Risk can be measured by impacts x probability.

### 4. AREAS OF RISK MANAGEMENT

As applied to corporate finance, risk management is the technique for measuring, monitoring and controlling the financial or operational risk on a firm's balance sheet.

The Basel II framework breaks risks into market risk (price risk), credit risk and operational risk and also specifies methods for calculating capital requirements for each of these components.

In project management, risk management includes the following activities:

- Planning how risk management will be held in the particular project. Plan should include risk management tasks, responsibilities, activities and budget.
- Assigning a risk officer - a team member other than a project manager who is responsible for foreseeing potential project problems. Typical characteristic of risk officer is a healthy skepticism.
- Maintaining live project risk database. Each risk should have the following attributes: opening date, title, short description, probability and importance. Optionally a risk may have an assigned person responsible for its resolution and a date by which the risk must be resolved.
- Creating anonymous risk reporting channel. Each team member should have possibility to report risk that he foresees in the project.
- Preparing mitigation plans for risks that are chosen to be mitigated. The purpose of the mitigation plan is to describe how this particular risk will be handled – what, when, by who and how will it be done to avoid it or minimize consequences if it becomes a liability.
- Summarizing planned and faced risks, effectiveness of mitigation activities, and effort spent for the risk management.

### 5. CONCLUSIONS

Risk management is simply a practice of systematically selecting cost effective approaches for minimising the effect of threat realization to the organization. All risks can never be fully avoided or mitigated simply because of financial and practical limitations. Therefore all organizations have to accept some level of residual risks.

Whereas risk management tends to be preemptive, business continuity planning (BCP) was invented to deal with the consequences of realised residual risks. The necessity to have BCP in place arises because even very unlikely events will occur if given enough time.

Risk management and BCP are often mistakenly seen as rivals or overlapping practices. In fact these processes are so tightly tied together that such separation seems artificial. For example, the risk management process creates important inputs for the BCP (assets, impact assessments, cost estimates etc).

Risk management also proposes applicable controls for the observed risks. Therefore, risk management covers several areas that are vital for the BCP process. However, the BCP process goes beyond risk management's preemptive approach and moves on from the assumption that the disaster will realize at some point.

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## CRITICAL FACTORS ABLE TO STRENGTHEN THE ROMANIAN MEDIA MARKET THROUGH ECONOMIC CRISIS

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***Abstract:** Taking into account the troubled economic climate across all the domains within every single economy in the world, the Romanian media is facing same symptoms as in the similar industries in the Western and Central Europe.*

*Budget constraints, big companies cancelling major advertising campaigns, increase in integration of cheaper vehicles or an increasing TV consumption (due to changes in the consumers' behavior) are the same for media channels and agencies all over Europe in the first quarter of 2009.*

*The paper aims to present this year's challenge that goes through the relationship between the 3 main types of companies involved: advertisers, media agencies and media channels and the core competencies they need to have in order to go through the crisis.*

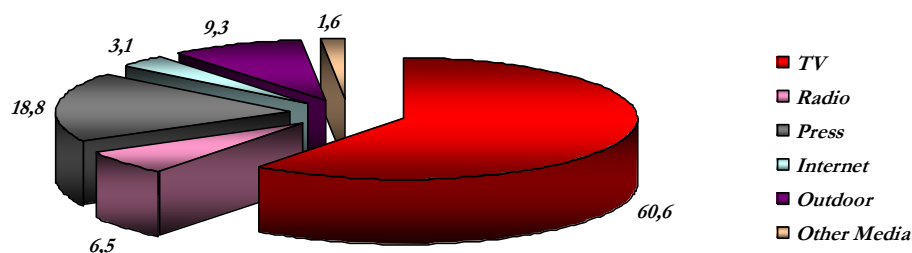
*It deals with a large scale from strategy to the usage of the communication mix or social impact (due to the higher unemployment generated by the media sector in 2009), even though the Romanian media and advertising market has already a decade of solid growth both in terms of the amount of the players and total expenditure.*

***Key words:** Media, advertising, communication, TV stations, advertising agencies, budgets, media plan, advertising expenditure, crisis, marketing mix, promotion*

As Alvin Toffler pointed out in “The Third Wave” (1980), emphasizing the role of communication for every organization, the new economy has to use it in order to heal the break between the producer and the consumer. This very basic approach defines the meaning and the importance of an entire industry.

Despite late development, starting right after 1989, the Romanian media & advertising market experienced a solid growth consisting of a decade of year-by-year double-digit increase until 2009. This year seems to be a turning point that will interrupt this continuous growth, mostly because of the global economic crisis.

According to the Alfa Cont Media Watch Report (released in February, 2009), in 2008 the total amount of the Romanian advertising expenditure was 1944 million RON (approximately 550 million Euros), out of which 1178 million (60.6 %) went to TV advertising, 126 million (6.5%) to radio, 366 million (18.8%) to the press, 60 million (3.1%) to the internet, while the outdoor media gained 181 million (9.3%). Other types of media manage to receive not more than 32 million RON (1.6%).



Taking into account the allocation of the budgets shown above, we identify extract 3 types of organization involved in the communication process:

- the advertiser (the producer), the one who tries to sell a product and sets the budget for the communication campaign
- the media & advertising agency, who basically takes care of the communication budget and creates promotional works for the advertiser's product (mostly TV, radio or print) and then tailors media plans able to optimize the exposure of those works, according to an agreed target focus, within the limits of the defined budget
- the media vehicle (channel, as more than 60% of the incomes go to TV stations), the one who carries the message toward a specific target at a defined rate-card, actually the price perceived for the exposure.

Due to the turbulence caused by the increasing impact of the economic crisis, the first quarter of 2009's reality seems to approve the pessimistic forecasts of the media analysts regarding the entire market this year. Erste Group's media market report for 2009 predicts a contraction with 3,4% of the Romanian advertising market, the lowest in Central and Eastern Europe, compared to estimated drops of 6% in the Czech Republic, 7,3% in Croatia, 3,5% in Poland or a possible record of 15% for Ukraine.

Taking these premises into account, we might assume that some critical factors reside in some core competencies of each one of the 3 links in the communication process:

- a. the importance of "Promotion" in the Marketing Mix (for the advertiser)
- b. the flexibility of the media planning capacity (for the media & advertising agency)
- c. the pricing strategy and the creative approach of the advertising aspect (for the media channel)

#### ***a. The importance of "Promotion" in the Marketing Mix***

A plenty of constraints are forcing the management of the advertiser to cut the communication budgets: drops in sales, increasing costs, low margins, all of them determine imperative decision into a tight cost-control strategy.

The top 5 of the main spenders into the Romanian advertising market by category (according to the Biz Magazine Top 50 Advertisers Report) was in 2008 the following:

1. Telecom companies
2. Auto companies
3. Banks and financial services

4. Newspapers and magazines
5. Beer product companies

As the crisis hits severely the automotive industry and the financial sector, the advertising amounts from those areas will be dramatically reduced in 2009. Actually, the first 3 months of this year showed new categories leading this chart: brands of detergents, shampoos (and the entire scale of FMCG products), pharmaceuticals and coffee (Financiar newspaper, March 2009). Even though those companies faced significant sales drops, they continued to communicate their brands in an aggressive manner

***b. The flexibility of the media planning capacity (for the media & advertising agency)***

As the budget constraints are higher, the critical success factor is the optimum allocation of the amounts, which will take the shape of a media plan. The main principles a media plan is built upon are:

- **adequate to the target** - the message must reach the main target set during previous research activities. A media planner's main concern is to avoid useless insertions (situations in which the message goes to the wrong target or doesn't achieve significant reach of the main target). "Half the money I spend on advertising is wasted; the trouble is I don't know which half (John Wanamaker, US department store merchant (1838 - 1922)
- **with the best timing** - advertising for some products categories need to be set into some specific time frames (ice cream during the summer, gloves during the winter)
- **efficiency** - as the costs are becoming one of the main concerns, the media plan must optimize the cost ratio
- **matching with the message** - the channels and targets must fit the manner in which a message is tailored (rhetoric, tone, etc)

***c. The pricing strategy and the creative approach of the advertising aspect (for the media channel)***

Decreasing the rate-card when demand is decreasing might be an option for the media channels in 2009. The major TV groups try promotional prices, combined with several creative alternative advertising solutions:

- contextual advertising
- product placement (exposing the brands during the shows)
- graphic works (split screens, third lows, pop-ups, etc)
- contests within the program's breaks,

all of them aiming to develop ways to put the advertiser's brand in a more visible place.

This new set of solutions aims to reestablish the normal course of TV sales, after 2 months (Jan-Feb) in which few ads were placed during the most expensive slots (such as Prime Time, 19:00 – 23:00. The biggest networks, in Romania as in the whole Europe started tight cost control actions which included important job cuts as well.

Despite the overall negative impact of the crisis, there is a positive aspect of the economic downturn, at least for the Romanian TV stations.

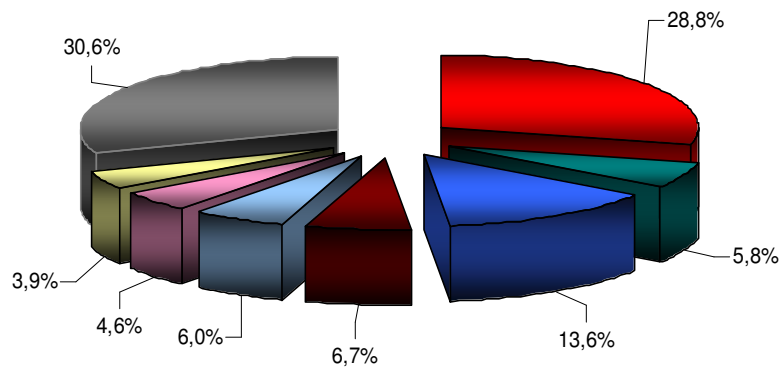
The latest audience results (Gfk Romania, Jan-Mar 2009) showed an increasing TTV (total number of viewers) since the beginning of the year, by 4% during the whole day and by 2% within the Prime Time slot. The calculation are made on the Urban Population, 18 up to 49 years old.



**Samples of brand exposure within TV shows: Audi (left), Yamagato (right)**

The main cause of this evolution is a relatively new change in the consumer's behavior. Less people go out and prefer to stay home and watch TV. What is really bad for restaurants, cinemas or tourism seems to be great for TV stations that soon might be able to report increasing Gross Rating Points, taking benefit from this trend.

Even though the real figures seem to change, all of the channels growing accordingly in terms of audience, the market share structure tends to remain the same - Market share of the most important media groups in Romania (2008)



## CONCLUSIONS

As the entire economy is under historical challenge because of the world crisis, the Romanian advertising industry has a chance to pass with less damages the skeptical forecast by increasing the focus on some critical competencies trough each one of the most important layers: the importance the advertiser gives to communication in this hard environment, the flexible attitude of the media & advertising agency, together with a well-tailored pricing strategy and intensive creative approach of the media channel.

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## SOME CONSIDERATIONS ON THE IMPACT OF THE INTRODUCTION ICT IN THE EDUCATIONAL SYSTEM

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***Abstract:** Approximation, with fast steps, of the Information Society requires adaptation to new technologies to all sectors of activity. In this context, education has a particularly important role in stimulating the transition towards the Information Society, on the one hand, and on the other hand, should consider the orientation of the education system towards this.*

*New information and communication technologies change the perspective on educational practice; their implementation is considered one of the most important problems in at the beginning of this millennium.*

*The paper presents some elements of the actions taken at European and national levels to implement new information technologies in the education system.*

*Impact of implementation of specialized programs and computer-assisted education necessary to improve education in Romania, in the context of integration into European structures, as well as the need to continue reform of the education system is also analyzed in this paper.*

**Key words:** education, Information Society, e-Learning

**JEL Classification:** I20, I23, I29

### 1. GENERAL FEATURES OF THE INFORMATION SOCIETY

Information Society represents a new phase of human civilization, a new way of life quality education involving intensive use of IT in all spheres of human existence and activity, with a major economic and social impact.

Technological progress in recent decades has allowed the emergence of new services and multimedia applications.

Develop new means of communication and technology of information is an important factor for increased economic competitiveness, opening new perspectives for better organization of labour force and creation of new jobs.

Also, open new perspectives for the modernization of public services, health care, environmental management and new ways of communication between the government and citizens. Also, wide access to education and culture of all social classes, regardless of age or geographic location can be achieved with new technologies.

Major changes in recent years (the exponential growth of mobile communications and Internet users, the contribution of the sector of Information and Communications Technology (ICT) to economic growth and job creation, etc.) supports the transition from the industrial era to "knowledge-based economy."

In terms of integrating new technologies, sociologist Peter Drucker said: "*People that will result from the permutation of values, beliefs, economic and social structures of political systems and concepts, in other words, the concepts of the world, will be different by what could anyone*

*imagine today. In some areas - and especially in society and its structure - the basic transformations have already taken place. The new society is practically a certainty, and is also a certainty that its primary resource will be knowledge ". [Human resources in the Information Society, www.computerworld.ro]*

Construction of the new model of society raises issues such major socio-political - both national and international level- to mitigate the phenomenon of exclusion from the benefits of new technologies for some social categories and regions/geographical areas and social cohesion, to conservation and promotion of specific culture to each nation and local communities, to protection of citizen and consumer.

Information Society is more than progress and applications of information technology and communications, this having the dimensions:

- *social*, which refers to placing the items of the Information Society on health care and social protection, social democracy;
- *education*, which develops competence in design and work in a computerized regime, intelligent management of processes (education and distance education, virtual libraries, e-Teaching, e-Learning);
- *environmental*, with an impact on resource use and environmental protection;
- *cultural*, with impact on the conservation and development of heritage (museums, art galleries on the Internet, digitization of information: books digitized, the digitization of the national and international heritage);
- *economic*, which develops new paradigms of the digital economy and knowledge-based economy (e-Commerce, e-banking, e-Learning, e-Money, e-Trading, business on the Internet etc.).

Model of the Future Society - Information Society - put before the European Union issues of highest priority and urgency: a new regulatory framework, promoting a new culture of entrepreneurship and business, achieving leadership in new technologies, educating and training of the citizens, implementation of new methods in business.

In this context, the European Union, through its political and executive bodies has acted since 1993 through a series of strategic decisions and programs.

Applying digital technologies has become a vital factor in growth and insurance jobs in the new economy. Although Europe is a technological leader in many areas (egg. mobile communications, digital television), in others - particularly in the use of the Internet - is lagging behind compared with the U.S. and Canada.

As a result, the eEurope initiative aims to bring Europe in a position to benefit fully from the advantages of digital economy, to exploit its full technological priorities, and to increase the educational potential and entrepreneurial necessary.

Information Society will have a positive impact on the *Romanian economy* by contributing to the increase in productivity, to eliminate the inequalities, to decrease the unemployment, to increase the educational quality.

The main policies for the computerization of Romanian society as a whole are structured Director Project of Computerization in Romania (DPCR).

Analysis undertaken by The Economist Intelligence Unit for Central and Eastern Europe show that the score awarded many countries in this area of training of the state transition to the Information Society, places them in the second half of the list (Table. 1).

**Table. 1 The hierarchy of countries of Central and Eastern Europe and in Asia in terms of their preparation for the Information Society in 2005 and 2006**

2006 rating in region	2005 rating in region	Country	Global Location (of 68)	E-readiness score (maximum 10)
1	1	Estonia	27	6,71
2	2	Slovenia	28	6,43
3	3	Czech Republic	32	6,14
4	4	Hungary	32	6,14
5	5	Poland	34	5,76
6	6	Slovakia	36	5,65
7	7	Lithuania	38	5,45
8	8	Latvia	39	5,30
9	9	Bulgaria	44	4,86
<b>10</b>	<b>10</b>	<b>Romania</b>	<b>49</b>	<b>4,44</b>
11	11	Russia	52	4,30
12	12	Ukraine	61	3,62
13	13	Kazakhstan	64	3,22
14	14	Azerbaijan	68	2,92

*Source: The Economist Intelligence Unit, Report 2007*

Information Society can be characterized by means of indicators such as number of personal computers (PC) in 1000 inhabitants, or the number of Internet users per 1000 inhabitants. In Romania, the use of ICT products in recent years has seen a dynamic increase, so in 2006, the number of Internet users per 1000 inhabitants was over 300 and was about 12 percentage points higher in 2005.

During January-November 2007, all seafarers on the Internet in Romania has increased by about two million people from the first eight months, to seven million users, respective 31.4% of the total population, estimated at 22.27 million inhabitants according to InternetWorldStats data.

The rate of use of the Internet has increased at the end of November 2007 was 7.5 percentage points over the interval from January to August.

After the first part of last year Romania was on the last place in the EU, compared to the rate of Internet penetration, on the end of November, Romania climbed two seats, before Poland, ranked last, with a rate of 29.6% and Bulgaria with 30%, and is coming to Malta, where the level is 31.7%

## **2. EDUCATION IN THE INFORMATION SOCIETY**

New information and communication technologies change the perspective on educational practice, their implementation being considered one of the most important issues at this end of century, built at the rank of national politics.

Since 1986, in the International Colloquium at Stanford, dedicated to science and education issues, distinguish the major responsibilities for education to avoid the remaining ago of the developing to highly industrialized. The first suggestion advanced as a result of analysis the accumulated experience is that should be given absolute priority for all research problems related to introduce the computer in education, emphasis being put on teacher training and recycling.

In the "Declaration" of the Colloquium at Stanford is shown that the essential element between education and new information technologies is that the citizens must be trained to live in an Information Society.

The most durable and most effective innovations are those which the beneficiary has assimilated, meaning it has adopted for its meet the specific needs [Huberman, AM "How to produce changes in education: contribution to the study of innovation", Bucharest, EDP, 1978, p. 11].

Robert McClintock look in the paper "Renewing the Progressive Contract with Posterity: on the Social Construction of Digital Learning Communities" that is necessary to take what happens to the concrete transformation of products of new technologies of information and communication.

Problems of education are changing profoundly, the alternative at the strategies of insufficient and expensive knowledge is finding the ways that allow the beginners to use the unlimited access to culture.

Proximity, with fast steps, by the Information Society requires adaptation to new technologies for all sectors of activity. In this context, education has a particularly important role in stimulating the transition towards the Information Society, on the one hand, and on the other hand, should consider the orientation of the education system towards the Information Society.

The European Commission has started a pioneering action using the new technologies in education some time ago, and the general objectives of European cooperation in this field were reflected in the resolutions of the Council of Europe 1983 on the introduction the new information technologies in education [Decision, 2002, p. 3]. Moreover, recent policies in the European Union have emphasized the role of e-Learning in improving the innovation in education and training [Anon, 2001]. The information technologies and communications which mediate learning are components of education and training. Action plans eEurope2002 and eEurope2005 adopted by the European Councils of Lisbon (2000), Stockholm (2001) and Barcelona (2002), identified e-Learning as a top priority.

The educational system is the main supplier of training. Universities and higher education institutions are key actors in the production and dissemination of knowledge, in social, pedagogical and technological development research, training for tutors and trainers, in continuing professional development. They use more and more e-Learning as a source of added value for their students [Decision, 2002, p. 4].

The impact of technology and communication in society resulted a normal reaction and educational systems, implementing new information technologies being considered as one of the most important issues in late twentieth century and the beginning of the millennium 3. A confirmation is that, in the last decade have been organized at UNESCO a suite of international congress on "Informatisation of education". Reference axis has been a finding that preparing teachers for an Information Society is a key factor of success of the entire process of development of human resources.

In the paper "Training teachers in the European Union and the EFTA/EEA" presented the structure and content of training courses. One of the most consistent themes is the use of information technologies (IT). States need to review the process of training educators and reassessment of priorities in a society whose development, especially technology, known strong acceleration.

It may be said that since the '80 has triggered technological revolution in education. Application of computers was born unprecedented hope for educational future approach.

Technological fever was so high that, from the early years of the decade, have been launched government programs in many countries, concerned not lagging behind in this field.

Gradually, most developed countries have introduced computers in schools, starting with the upper levels, then successively higher grades primary and secondary. Even in the absence of incentives from the government, a willingness to adapt IT to the needs of classrooms was so great that many schools have purchased their own initiative from IT. In the Netherlands, almost 50% of schools have acquired IT material to support banks and the local industry, even before the start of the first governmental programs introducing computers in education. It should be noted that without prior training of teachers for the operation of new IT in the teaching/learning, the progress can not be guaranteed.

E-learning is thus a type of education which is done via the Internet. Training solutions based on Internet provide faster results at lower cost, broader access to training and a clear responsibility for all participants in the training. In the current dynamic culture, organizations that implement the Web training give to the employees the opportunity to exploit their advantage in changing. Training via the Internet ensures accountability, accessibility and opportunity. It allows people and organizations to keep pace with the global economy which now growing speed Internet.

Electronic systems can improve training methods and traditional training materials, such as discussions in the classroom, textbooks, CD-ROMs and computer training outside the Internet.

In 1994, Al Gore defined as the creation of lines of information as a central political project of the Clinton administration, which lead to the U.S. addition impulses to existing technological supremacy. A stated goal of U.S. policy was that, since 2010, all citizens age know to use with dexterity the computers, digital communications and digital television.

New information technologies have a profound impact on how the information is obtained, which communicate on their training. New skills that accompany these technologies - technical, intellectual and social - are essential for life, work and active participation in a knowledge society.

The breadth of these skills extends far beyond the "operating a computer" and are part of the "new basic skills", such as languages, entrepreneurial spirit, use of new technologies, and to be acquired through a process of learning throughout life. Firm strategies are needed that can provide qualified labour force in this field and missing not only on the Romanian market, but also at European level. Thus, in 1999, there was a call for 800000 persons qualified in information technology sector, is expected to increase to 1700000 persons. Ability to use information technologies and communication is essential in many sectors, and the priority now is to define them clearly, so that education and training systems to integrate them into their programs.

For improving education in Romania, in the context of Romania to the European structures, as well as the need to continue reform of the education system, the Ministry of Education and Research (MER) has defined the requirements of a program that includes the most important activities necessary in the field of education and computerization computer-assisted.

Thus, pre-university education, the education system computerized - SEI represent the materialization of the strategy MER for computerization of education. This is under the eEurope Action Plan prepared by the European community and being part of the initiative European e-Learning.

Among objectives of this program may be listed:

- equipping all schools in Romania with complete IT solutions for the teaching/learning. As a result, secondary and high schools are equipped with computerized laboratories where can be teach the official program, and installed software allows activities in schools.

- introduction of technology in education through specific projects intended for educational and administrative purposes such as the computerization of national examinations (admission in colleges, baccalaureate, etc.).

Following the implementation of this program, each high school in Romania are currently receiving at least one computerized educational platform for use in classroom teaching hours of mathematics, biology, physics, chemistry, Romanian, history, etc. Educational Platform system consists of a set of technology, computers, Internet, electronic multimedia educational content, methodology and training of teachers.

Program progress was achieved during the three stages:

i) *phase I (pilot): 2001-2002* included, among others, provision of 120 computer laboratories, educational Software, projects run by administrative support, evaluation of textbooks and electronic auction for the purchase of school textbooks in 2002, creating and Internet information management portal

ii) *phase II of the SEI Program* was conducted in 2003 and included installation and configuration of the 1100 computerized platforms, educational software, multimedia educational content: 80 lessons, 30000 questions to test electronic, training system administrators, improving the over 15000 professor, running projects such as administrative support: ADLIC (Admission to high schools and vocational schools in 2003 and the movement for the teaching staff);

iii) *phase III of the SEI Program* aimed primarily complete computerization of high schools: 290 complete computerized platform, including: computers, servers, printer, scanner, connection equipment, Oracle AEL licenses, education Software, installation and configuration, training teachers, secretaries, system administrators.

Following the implementation of this program, more than 7 million people are directly or indirectly involved-students, teachers, instructors, staff and parents. 2900000 more than 110000 students and teachers have access to the platform AeL e-Learning and teaching materials in electronic format. Also, Romanian pre-university education has 4780 computerized laboratories, 52000 school teachers, 1700 multimedia AeL lessons, dictionaries, encyclopedias.

But the most important achievement is the revolution in the mentality of the school, in particular, and society in general. School proved responsiveness, willingness to change and adjustment to European standards.

Assimilation of new educational tools has reached a level of mass - an important asset strategies for educational medium and long term.

In recent years a role of increasing returns to *distance education via the Internet*. Historically, distance education means studying by correspondence, but the acceptance of current tend to be closer to the methods of transmission technology supported by audio, video and (more frequently and more opportunities opening) through global computer networks.

By this method of education ensure learning opportunities for broad categories of citizens, without interruption of their training. This is actually the main feature that makes the system to be very viable for higher education cycles, for permanent education and vocational training and it potentially puts the most requested types of education systems of the future.

A very good definition, operational value, is given by Council for Distance Education and Training: "*Distance education involves the study and enrollment in a training institution which provides teaching materials prepared in a sequential and logical order for students to study on their own. At the end of each stage, the students sent by fax, mail or computer by qualified instructors, their work for correction, grading and guidance tutorials on the topic. The tasks corrected are return, this exchange providing a student-teacher personalized relationship*" [Distance Education Training Council (DETC), [www.detc.org/](http://www.detc.org/)].

By reference to traditional education, can emphasize some advantages of education at remotely via the Internet - may apply, at least for now, at university level education and training after the model of open universities and at distance from the technological countries:

- multiple ways to purchase the highest level in all fields of culture;
- audience is considerably increased, distance education may include students who can not attend the courses from the traditional system. The access to local, regional and national networks link students from different social, cultural, economic areas and varied experiences;
- learning is facilitated in one's own pace, in a fashion, proceeding or hearing of courses can be made gradually and repeatedly. Computers incorporating various software packages extremely flexible, the student having a maximum control of information content.
- synchronous and asynchronous interaction between teacher and students can be complementary
- technologies are interactive, allowing a total feedback in real time and formative and summative assessment, quantitative or qualitative in an easy way and by the best evaluators;

Among the difficulties in implementation, which may be considered and limits of the new system, include:

- high costs for development the system, including expenses with technology (hardware and software);
- transmission of information networking, maintenance, production of necessary materials;
- difficulty in supporting the implementation of the system, a consistent and sustained effort of students, teachers, brokers offering technical support and administrative staff.
- need for students to have experience in the field of computers. Maintaining own computer will probably be one of current responsibilities.
- students must be highly motivated to participate. The phenomenon of school abandonment is more common in distance learning than in traditional frameworks of education, inter-relationships are established relatively impersonal, making for easier the option for student.

But the last experience ensure that participants in education through new technologies are quickly familiar with the digital system and come relatively recently in the natural rhythm of transmission and respectively, assimilation of knowledge.

A type of teaching-learning remote, which gain ground every day, is education by Internet which is considered the most promising form of eLearning. Support courses are stored on a computer in a specific form and a typical Internet browser, or in some rare cases, a special program, allow students to access information in their own pace of assimilation. Learning materials are presented in a form of multimedia, a structural model in which access to information is achieved through multiple links from one page.

The evolution towards the Information Society has resulted in profound changes in the services provided by libraries, with appropriate changes to this development: changing the way to perceive the importance and role of information, increasing the quantity of information available and diversification of their presentation formats, development of information sector in the modern economies, technology impact on all sectors of activity.

This evolution has implications both on libraries and their staff, which should be ready to meet new challenges and to manage changes, consequently, on the Information Society. The information in electronic form is raised each individual, both in the workplace, in society and home. Libraries, structures info-documentary with tradition, lies, in turn, on the trajectory of this information, having the potential to acquire, manage and disseminate in order to provide products and services tailored to the needs of the modern user.

In Romania, the transition to Information Society is a priority objective of government or sectoral policies. And at the level of education and learning, in order to connect to contemporary requirements, governmental programs for the following period, in synchrony with global trends, must lie on an important place achieving of the “educational society”, which effectively capitalize human resources through lifelong learning, increased the role of the expertise in decision making, access generalized to any form of knowledge, extending the media, increased individual learning and personal emancipation. Strategy in Romanian higher education during 2002-2010, the Ministry of Education and Research stated that “improving the teaching process can not be conceived without its computerization in a large extent, without switching to an education related to resources that is available”.

Due to rapid developments in information technology domain and the penetration of these technologies in the workplace, communication, public services, in family, in leisure time, at the university level it is considered that “they are required to use these technologies, to participate in their innovation, to incorporate these technologies in training students, to benefit as soon as the advantages offered by these technologies and to protect against unwanted consequences of their use”.

In this context, the Romanian universities, have become, over time, large systems, equipped with advanced and integrated into the global flow, can and should play an important role to satisfy the information needs of their users and for their initiating into the modern process by information, in which the use of information and communication technologies play a crucial role.

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## DATA CENTER VIRTUALIZATION AND ITS ECONOMIC IMPLICATIONS FOR THE COMPANIES

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**Abstract:** *In the current situation of the economic crisis, when companies target budget cuttings in a context of an explosive data growth, the IT community must evaluate potential technology developments not only on their technical advantages, but on their economic effects as well. More than ever, the old cliché “doing more things with fewer resources” is true today. Many IT companies started building very large facilities, called data centers (DCs) or Internet DC (IDCs), which provide businesses a wide range of solutions for systems deployment and operation. In recent years, the IT departments around the world have moved from data center and infrastructure consolidation to virtualization.*

*Data center virtualization is the process of aligning available resources with the actual needs of the offered services, moving from physical servers to virtual servers, sharing and provisioning servers, networks, storage, and applications. By taking advantage of three basic innovations — virtualization, tiered storage architectures and dynamic provisioning software — an organization can achieve greater efficiencies in their current computing environment.*

*Such a unified computing architecture offers end-to-end virtualization; all structures are optimized for virtualized environments, from the CPU to the aggregation layer. In combination with embedded management, this new approach increases responsiveness and reduces the opportunities for human error, improving consistency and reducing server and network deployment times.*

**Key words:** data centre; virtualization; tiered storage; provisioning software; unified computing.

### 1. INTRODUCTION

In the current situation of the economic crisis, when companies target budget cuttings in a context of an explosive data growth, the IT community must evaluate potential technology developments not only on their technical advantages, but on their economic effects as well. More than ever, the old cliché “doing more things with fewer resources” is true today. So, the increased global competition, shrinking budgets and rising energy costs are driving up virtually every aspect of doing business. Dramatically increasing amounts of data are produced by the business, the rising management costs of complex storage networks, and the pressure to hold or reduce IT costs leaves no place for waste or error.

IT operations are an important aspect of most organizational operations. One of the main goals is **business continuity**: companies rely on their information systems to run their operations continuous. If a system becomes unavailable, the company’s services may be disturbed or stopped completely. It is necessary to provide a reliable infrastructure for IT operations, in order to minimize any chance of discontinuity. Today, the majority of IT budgets are spent just for

maintenance and management of the existing infrastructure. As a result, IT departments must continually invest in more people, time, and other resources to maintain a growing, inflexible infrastructure instead of rapidly and effectively responding to business needs.

Now, during the global economic crisis, IT departments struggle to be more responsive to the business at a lower cost. Power, cooling, real estate, and the ever-increasing demand for computing, storage, and application resources all continue to push costs higher.

Companies needed fast Internet connectivity and nonstop availability to establish a serious presence on the market. Installing IT&C equipment for this purpose was not financially acceptable and viable for many smaller organizations. So, many important service providers started building very large facilities, called *data centers (DCs)* or *Internet DC (IDCs)*, which provide businesses with a range of solutions for systems deployment and operation. Information security is also a concern, and for this reason a data center has to offer a secure environment which minimizes the chances of a security break. A data center must keep high standards for assuring the integrity and functionality of its hosted computer environment.

In recent years, the IT departments around the world have moved from *data center* and infrastructure consolidation to *virtualization*. In 2008, 38 percent of all IT workloads were virtualized. This trend is continuing as the majority of IT executives are planning to virtualize more than 50 percent of their computing infrastructure within the next two years. In 2008, the average enterprise deploying virtualization could expect a return on investment (ROI) of more than 400 percent and payback within 12 months, largely as the result of server consolidation, increased utilization, and higher availability.

However, customers are facing challenges in achieving the full benefits of virtualization. Despite the widespread adoption of virtualization, data center operating costs are still at a high level. Server capacity and performance have increased exponentially faster than data center cooling capacity. This disparity accelerates the obsolescence of data center infrastructure. According to Forrester (December 2008), more than 70 percent of today's average IT budget is spent maintaining today's inflexible data center equipment. Data center owners are challenged with unifying and scaling separate virtualized environments.

The history of enterprise computing has been marked by compromises between scale and simplicity. As the number of data center systems has scaled, they have also increased in complexity, and as complexity has increased, so has the expense of deployment and ongoing management [5]. They are struggling to:

- Maintain consistent and coherent infrastructure policies in this new virtualized environment;
- Adapt current management tools and methods to the changing and increasingly interdependent roles of data center administrators;
- Simplify operations when their infrastructure is inflexible, underutilized, and lacking cohesive integration.

Today's concept is data center virtualization and will be our target likewise the distinct approaches of that by two important companies: Cisco, Hitachi and VMware.

## 2. MEETING VIRTUALIZATION WITH DATA CENTER

It may be helpful to give an appropriate definition for this concept: a **data center** is a facility used to house computer systems and associated components, such as telecommunications and storage systems. It generally includes redundant or backup power supplies, redundant data communications connections, environmental controls and security devices [4].

A data center must therefore keep high standards for assuring the integrity and functionality of its hosted computer environment.

The TIA-942: Data Center Standards Overview [6] describes the requirements for the data center infrastructure:

- **Physical layout** – the equipment such as mainframe computers and storage devices;
- **Network infrastructure** - communications in data centers are most often based on networks running the IP protocol suite; data centers contain a set of routers and switches that transport traffic between the servers and to the outside world; some of the servers at the data center are used for running the basic Internet and Intranet services needed by internal users in the organization: e-mail servers, proxy servers, and DNS servers.  
Network security elements are also usually deployed: firewalls, VPN gateways, intrusion detection systems, etc. Also common are monitoring systems for the network and some of the applications. Additional off site monitoring systems are also typical, in case of a failure of communications inside the data center.
- **Applications** - the main purpose of a data center is running the applications that handle the core business and operational data of the organization. Such systems may be proprietary and developed internally by the organization, or bought from enterprise software vendors. Such common applications are Enterprise Resource Planning (ERP) and Customer Relationship Management (CRM) systems.

Often these applications will be composed of multiple hosts, each running a single component. Common components of such applications are databases, file servers, application servers, middleware, and various others. Data centers are also used for off site backups. Companies may subscribe to backup services provided by a data center. Larger companies may also send their backups off site for added security. Encrypted backups can be sent over the Internet to another data center where they can be stored securely. For disaster recovery, several large hardware vendors have developed mobile solutions that can be installed and made operational in very short time. Vendors such as Cisco Systems, Sun Microsystems, and IBM have developed systems that could be used for this purpose [2].

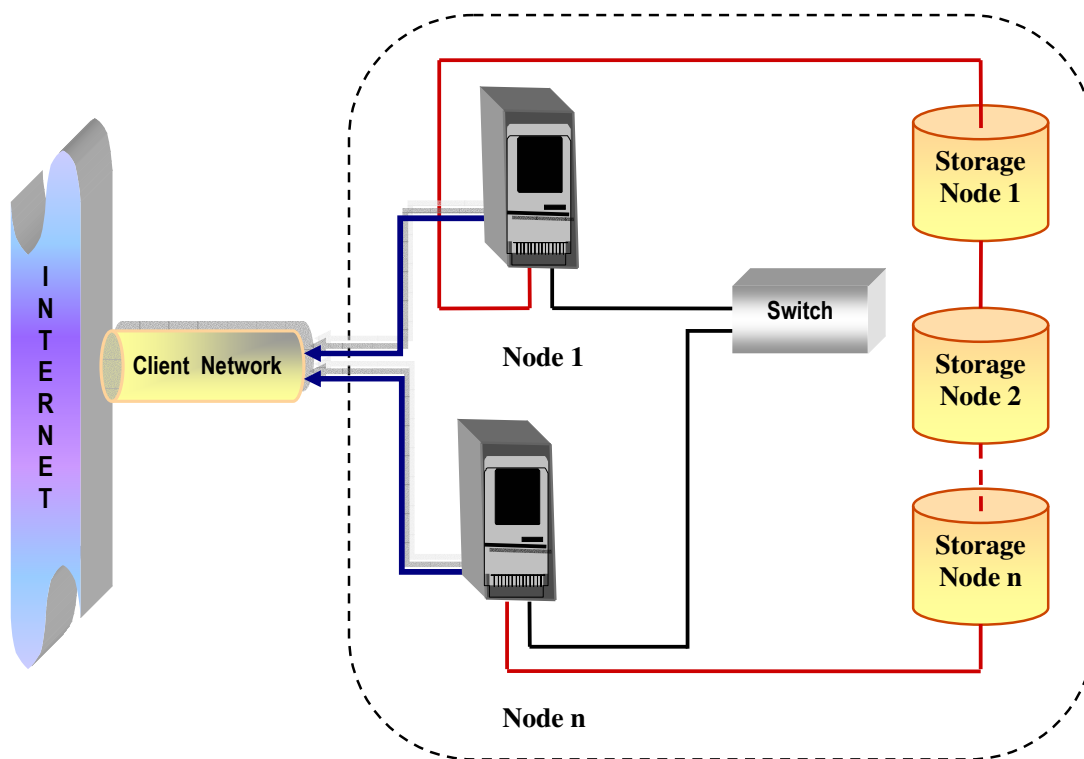


Figure 1 Data Center Architecture

**Virtualization** has created a market transition in which IT departments are trying to reduce costs and increase flexibility. Despite this, IT organizations are constantly working against existing rigid, inflexible hardware platforms. As a consequence, data center administrators have had to spend significant time on manual procedures for basic tasks instead of focusing on more strategic, proactive initiatives.

Virtualization allows **multiple virtual machines**, with **heterogeneous operating systems** to run independently, on the same physical machine. Each virtual machine has its own set of virtual hardware (RAM, CPU, NIC, Disk) upon which an operating system and applications are loaded. The operating system sees a consistent, normalized set of hardware regardless of the actual physical hardware components [1].

An important advantage of virtual machines is that they are encapsulated into files, making it possible to rapidly save, copy and provision a virtual machine. Full systems (fully configured applications, operating systems, BIOS and virtual hardware) can be moved from one physical server to another for zero-downtime maintenance and continuous workload consolidation. They can even be sent over the network in real time, without stopping the running system.

Some of the advantages of Virtualization are [7]:

1. Partitioning hardware and software – meaning that multiple applications and operating systems supported on a single physical system, computing resources are treated as a unified pool from which they are allocated to virtual machines in a controlled manner
2. The isolation between host machine and virtual machines, the functional independence of virtual machines and their applications, that can only communicate over network connections
3. The possibility to save as a single file of the complete virtual machine environment (named also Encapsulation).

This blend of virtualization technologies - or **virtual infrastructure** provides a layer of abstraction between computing, storage and networking hardware, and the applications running on it. Virtual infrastructure gives administrators the advantage of managing pooled resources across the enterprise, allowing IT managers to be more responsive to dynamic organizational needs and to better leverage infrastructure.

The PC's functional structure after the virtualization gives us important advantages:

- Virtualization offers a hardware independence of Operating Systems and applications;
- Virtualization offers high availability and error recovery solutions by encapsulating entire systems into single files that can be replicated and restored on any destination server.
- Virtualization offers the ability to run multiple operating systems on a single physical system and share the underlying hardware resources;
- The virtualization solves the problems of insecurity by layering a security policy in software around desktop virtual machines.

The virtualization has two aspects typically used with software-based partitioning: hosted and hypervisor architectures [3].

A **hosted approach** provides partitioning services on top of the operating system and supports the broadest range of hardware configurations. The main characteristic of this virtualization solution is the capability to run as an application, based on host Operating System for device support and physical resource management. There are two kinds of applications on the same machine: dependents on host OS and based on Virtualization Layer.

A **hypervisor architecture** (Figure 2) considers the virtualization as the first layer of software installed on a clean x86-based system (often referred to as a *bare metal* approach). Since it has direct access to the hardware resources, a hypervisor is more efficient than hosted architectures, enabling greater scalability, robustness and performance. This approach has a virtualization central kernel (Virtualization Layer) and a Service Console for applications.

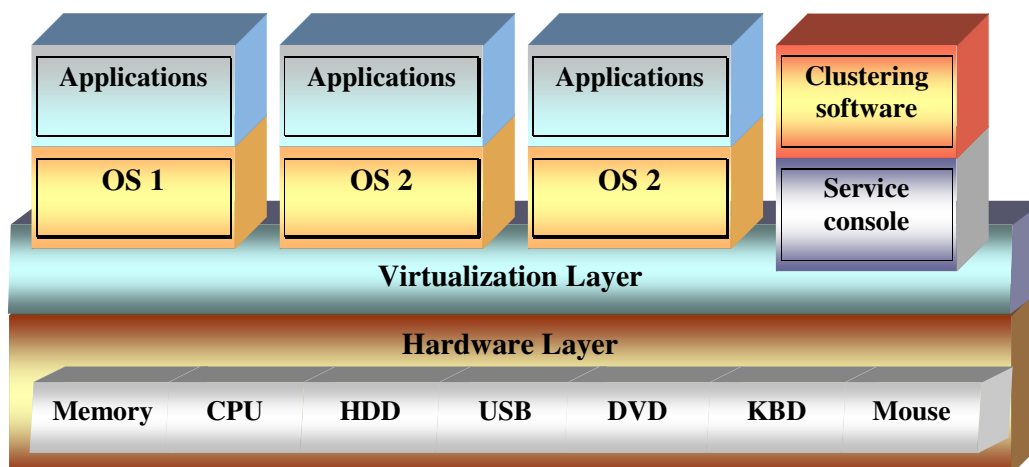


Figure 2. Hypervisor Virtualization Architecture [7]

Virtualization technology enables you to create a set of logical resources that share underlying physical resources. A group of resources, such as servers, applications, databases, and networks, behave as a single resource from which all services can draw. It requires application components, access software, virtualized operating systems, storage, and an overlying infrastructure layer to make it appear that all components are equally available. The goals are high availability, load balancing, increased utilization, improved scalability, flexible capacity on demand, and simplified systems management.

**Data center virtualization** is the process of aligning resources with the needs of services. In the earliest stages of virtualization, data centers typically move from *physical servers* to *virtual servers*. In support of maturing IT processes, data center virtualization extends to *sharing* and *provisioning servers, networks, storage, and applications* to maintain application service levels through policy-based management.

Data center virtualization enables more efficient sharing of resources. It has been a proven solution for IT management in mainframe environments for more than 20 years, where the need for reliability and efficient resource utilization has been crucial. Now the distributed systems industry is searching for the same level of efficiency that data center virtualization affords to mainframe IT managers.

By taking advantage of two basic innovations — **virtualization** and **tiered storage** architectures — an organization can realize *greater efficiencies* in their *current storage environment* and discover a way for easier data migrations in the future. In other words, they can reduce cost and complexity while increasing quality of service. Beyond these organizational benefits, they are economically superior architectures that can reduce both the initial cost of acquisition as well as ongoing costs, leading to a lower total cost of ownership and a better return on investment.

Flexible **data center automation** is achieved by unifying computing, network, storage access, and virtualization within a single, highly available, cohesive system, decreasing costs and increasing flexibility.

As a result of the virtualization revolution of the past few years, new standards, technologies, and integration conventions are emerging. These innovations enable the design of a pre-integrated data center solution from industry-standard components, rather than requiring IT staff or consultants to integrate their own network, computing, and virtualization platforms to create a data center solution.

### 3. EXAMPLES OF DATA CENTER VIRTUALIZATION

There are many hardware and software companies that offer to the clients the possibilities of virtualization their data center and two of them are: Cisco and Hitachi.

**Data center 3.0**, the latest iteration of **Cisco** is based on a shared, virtualized infrastructure model: services abstracted from the underlying physical assets that can be dynamically adapted to changing application and service level requirements. This architecture enables the emerging enterprise and service provider "cloud" models. This transformation is more heavily reliant on the network than ever before. In many ways *the network* now becomes **the underlying foundation** upon which the virtualized data center infrastructure runs.

Data Center 3.0 is Cisco's strategy and vision for facilitating data center transformation to this new virtualized model by using the network as the underlying platform. It combines an innovative architecture with an integrated technology roadmap, design best practices, and services, all designed to help customers transform their data center infrastructures, processes, and organizations with maximum effectiveness and minimum risk, cost, or disruption.

The Cisco Data Center 3.0 technology portfolio includes the most comprehensive range of networking products and solutions designed specifically to help IT organizations transform their data center infrastructures:

- **Data center network infrastructure:** Network infrastructure platforms that provide the physical and logical connectivity and access to all physical and virtualized data center resources (compute and storage). This infrastructure layer supports all heterogeneous servers and storage, including standalone servers, blade servers and virtual machines.
- **Data center infrastructure services:** These networked services reside on the infrastructure platforms to help ensure scalable protection, manageability, and reliability for the applications and information hosted in the data center. These services include virtualization, storage, security and application network services.
- **Application network services:** Cisco Application Networking Services (ANS) increase application performance and availability, enable the consolidation of expensive branch office and data center infrastructure, and accelerate new application deployments. These services include data center application services and wide area application services.
- **Data center automation and provisioning tools:** As data center technologies become increasingly sophisticated, Cisco is developing innovative tools and working with partners to help reduce the complexity of deploying and managing a virtualized environment.

This market transition, which Cisco is embracing as unified computing, marks the natural evolution of the data center to link data center resources within a cohesive management framework, bringing infrastructure policy consistency and transparency, traditionally delivered by the network, to the virtual machine level. In essence, the network is becoming the foundational infrastructure of the data center.

This architectural shift will have a profound, positive effect on traditional data center administrator roles. Unifying and embedding management at the system level creates the opportunity to increase flexibility and incorporate multiple administrator roles within the same system. With embedded role-based management, organizations can make more efficient use of their administrator resources.

Another interesting approach is given by **Hitachi Company**, which demonstrates that virtualization technology, tiered storage and provisioning software can all deliver significant economic benefits to the organization by helping to increase storage utilization and overall efficiency while reducing costs and complexity. By decreasing capital expenses as well as operational expenses, these elements represent an economically superior solution, a sustainable approach to run multiple applications and operating systems on a single physical system, to

improve the performance and efficiency of IT infrastructure, high availability and multiple storage solutions for today and for the future [2].

Because of the way storage is packaged, businesses must buy up to 75 percent more capacity than they actually need. It's cheaper to simply buy more storage than to hire somebody to manage it, so an organization's first response to a storage crisis will be to throw more storage at the problem. Of course, the many different business units in a given organization may not want to share storage, so they each purchase it piecemeal through a variety of different vendors with an eye to the lowest cost option. The result is a confusing tangle of heterogeneous storage systems and management software, which requires more IT staff expertise, and massively underutilized storage assets and "stranded storage," which are a waste of already shrinking budgets. Ultimately, coping with exploding data requirements by simply purchasing more storage can lead to very costly consequences.

By taking advantage of three basic innovations — *virtualization, tiered storage architectures and Hitachi Dynamic Provisioning software* — an organization can realize greater efficiencies in their current storage environment. In other words, they can reduce cost and complexity while increasing quality of service. Beyond these organizational benefits, tiered storage, virtualization and dynamic provisioning are economically superior architectures that can reduce both the initial cost of acquisition as well as ongoing costs, leading to a lower total cost of ownership (TCO) and a better return on investment (RoI).

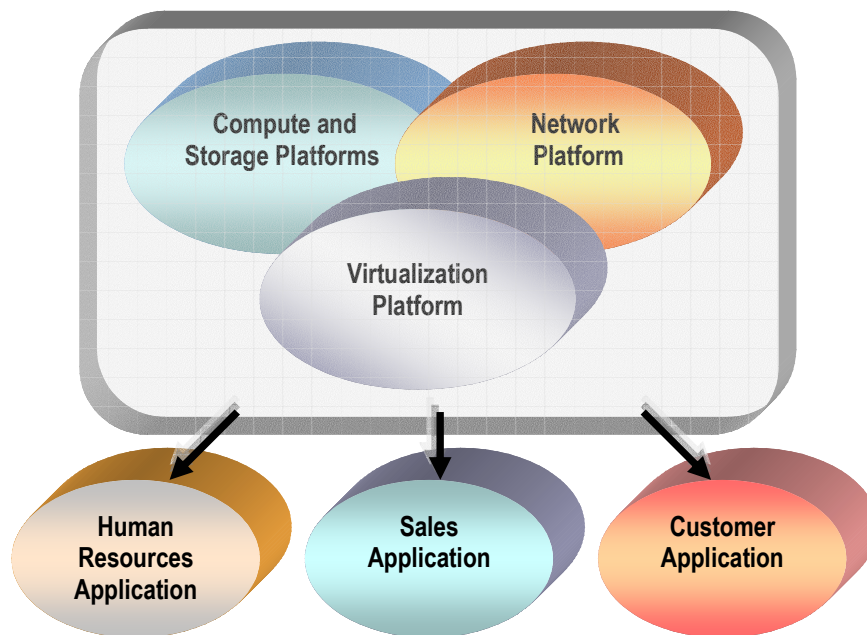


Figure 3 Data Center Virtualization Architecture

Another competitor on the datacenter virtualization market is *VMware, Inc.*, a company with tradition and long-time experience in the field of virtualized environments. Their flagship product, *Virtual Datacenter OS*, brings the paradigm of cloud computing one step closer, by using transparently all available physical resources, independent of their location, and offering integrated management through *vCenter*, their solution to reduce costs associated with managing distributed environments. Applications run wherever there are resources available, and services are offered on a full time basis wherever the clients are demanding them, without the hassle of redirection and downtimes. Near 100% availability can be achieved at substantially lower operating costs, and all industry-used technologies can be deployed instantly, without the OS-related incompatibility issues, as the VDOS can support anything from Windows to Linux.

#### 4. CONCLUSIONS

This new approach of data center *allows organizations to increase effectiveness* by maintaining IT disciplines and accountability while increasing teamwork and collaboration. Server, network, and storage administrators can preserve accountability for their domain policies while interoperating within a single integrated management environment. As data center roles and policies evolve, individual responsibilities and system privileges can be easily modified and new roles quickly created.

Unified computing will accelerate adoption of virtualization and magnify the returns. Integration of virtualization, network, and compute resources creates the opportunity to provide the same level of network visibility for virtualized environments that is expected and required for physical servers. Data center virtualization integrates policy-based virtual machine connectivity, mobility of network properties with the virtual machine, and a consistent operational model for both physical and virtual environments. This approach simplifies network and security policy enforcement when virtual machines are migrated from one host to another.

A unified computing architecture offer *end-to-end virtualization*; all structures are optimized for virtualized environments, from the processor to the aggregation layer. The latest industry-standard processor technology enables better virtualization performance, scalability, and enhanced flexibility. In the server, by balancing CPU and I/O capabilities while increasing memory capacity, more virtual machines can be hosted per server than ever before.

By providing visibility and portability to network policies and security all the way to the virtual machine, a consistent operational model can be implemented between the physical and virtual environments. In combination with embedded management and the service profile construct, this automation *increases responsiveness* and *reduces the opportunities for human error*, improving consistency and reducing server and network deployment times.

A unified computing architecture based on virtualization helps companies:

- a) Reduce total cost of ownership (TCO) at the platform, site, and organizational levels;
- b) Increase data center staff productivity by accelerating infrastructure provisioning for both virtualized and non-virtualized environments;
- c) Enable scalability without the increase in complexity typical of older environments, with hundreds of servers and thousands of virtual machines now operating in a single highly available management domain;
- d) Increase data center energy efficiency and resource utilization;
- e) Reduce the interventions of management; with disparate technologies integrated into one cohesive system, management is consolidated and embedded, enabling infrastructure policies to be consistently applied across the system.

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## RISK MANAGEMENT IN RESTRICTIVE FINANCIAL CONDITIONS

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***Abstract:** Data security on a company's own computers is a paramount requirement for an active market presence. This requirement translates in a need for investments in security. The calculated value of this investment is given by the risk analysis at company level. The real value of the investment however depends on the way the business owner understands risk. Misunderstanding risk or a push to save costs may lead to the acceptance of a high level of risk, which may lead to disastrous consequences. Often times the IT or executive staff must adapt to a limited budget based on poor understanding of risk. The solutions that need to be adopted in this case will be temporary compromises. A good understanding of risk, without exaggerations that may lead to excessive expenditures, will lead to an adequate security budget and a company operating at a minimum level of risk.*

***Keywords:** risk, security, risk management, security provider, management security provider.*

### 1. SECURITY RISK AND BUSINESS AFFAIRS

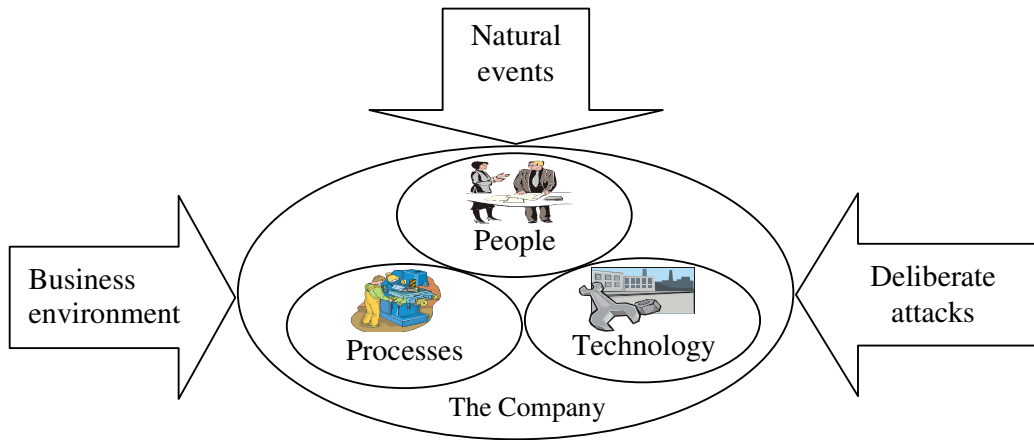
Evolution and diversity of the business environment in the economy that tends to globalization tends to put some companies in difficulty. Among the difficulties that small and medium companies may face we include the ensurance of the data in their computers.

Ensuring the data security of their computers should be a constant concern for the management of the company. Security is not a destination, security is a continuous process. This involves ensuring and maintaining **confidentiality, integrity, availability** and **nonrepudiation** of the company's data. A company must be able to prevent, detect and respond to computer attacks that put in danger its data and can jeopardize the business. Any attack, but especially the ones to computers make the risk level reach higher levels by compromising the company's data. And if they added financial difficulties then ensuring the optimal level of security is seriously questionable. The main categories of risks to which the company must face, are grouped in three major categories: **natural events, business environment** and **deliberate attacks** (Figure 1).

To stay protected from these threats the company can be based on **People** (training, responsibilites, culture, organization), **Technology** (infrastrucutre, applications) and **Processes** (policies, procedures, standards)[4].

### 2. OWNER AND BUSINESS CONDITIONS

The most important role in the management of data security belongs to the owner of the company. Understanding the data security risk can influence the subsequent actions designed to reduce the risks and volume of investment. A major problem occurs when there is a **risk of not understanding the risk**.



**Figure 1. Types of attacks**

The main attributions of the owner (or owners) of the business in ensuring data security are:

1. Responsible for material assets (tangible and intangible) of the company.
2. Responsible for establishing the priorities and to define the level of impact upon the assets.
3. Defining the acceptable level of risk.

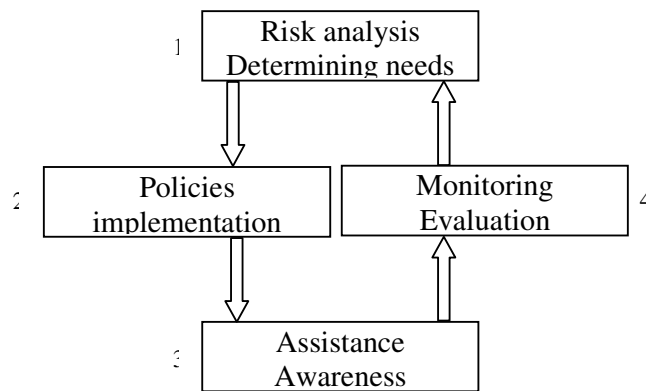
The business owner is the one who knows best, and can objectively evaluate the good in the company's heritage. Determining the value of goods is a very subjective operation. This is because, for intangible assets it is difficult to assess their value. For these reasons, the assessment of a tangible good is based on its replacement value, and when the good is intangible it is made by determining the impact created by the loss of the concerned asset.

The impact generated by the data loss is given by their belonging to a certain category of data: administrative, financial, customers, research, private. The value of the impact will be calculated taking into consideration the impact on each of the elements that are defining the security at the network level (identity, integrity, confidentiality, availability and audit).

Finally, the business owner will define what is the acceptable risk level for the company.

With these input data, the persons responsible for ensuring data security in the company will move to implementation of the cycle management of security risk.

In most cases, the cycle of risk management is divided into four different phases. Making a comparison between the two main approaches in the field, it can be distinguished common elements from the point of view of the goal (Figure 2)[1].



**Figure 2. Risk management cycle**

Risk analysis can be done using one of the most frequently used methods: qualitative analysis or quantitative analysis. If quantitative analysis works with statistical data in the field and it is very laborious, qualitative analysis uses estimations and it's less laborious, this being referred to small and medium companies. The implementation of the risk management cycle must have the owner's accept. The stages of the risk management process, particularly the risk analysis and necessity determination, are great consumers of resources and must have the owner's accept. This is why sometimes some of these steps are outscored.

If for the risk analysis generally speaking the most important role belongs to the owner of the resources, for risk analysis at the level of details, besides these there are people in IT management who can assess the real value of a good from a certain field. The owner determines what is important for his business and he defines an acceptable risk for the company's business. The security group designated by the Board, will assess the risks, will define security requirements imposed by the owner and will measure the effectiveness of the proposed solutions. The IT group will be the one that will work on the design and implementation of security solutions and also exploiting and support for them.

Following these tests the vulnerabilities the company must face will be indicated. For this the company should adopt measures to eliminate, limit and control these risks. This involves the allocation of financial resources for the acquisition of security technologies that will be implemented on the company. Implementation of security measures at company level is a difficult operation. Firstly the business owner must be aware that an investment in security means an investment in the future of the company's business. Adopting data security measures within the company does not have immediate visible benefits but their absence can sometimes generate irretrievable losses.

The volume of investment in data security depends on how much the business owner understands the existence of possible security risks in the field or in the current crisis of liquidity, by the amounts that may be available for the security. If these things are understood and the amounts can be allocated then there are no possible problems. But if not understood and the allocation of amounts for ensuring an optimal security level is not possible then the business will take place both in risk conditions of the business environment and in security risk conditions, and the consequences can be unpredictable. In quite many cases especially at small and medium companies in our country, the owners blame the absence of providing security measures on the IT&C staff „which complicates things” now on „the financial crisis”.

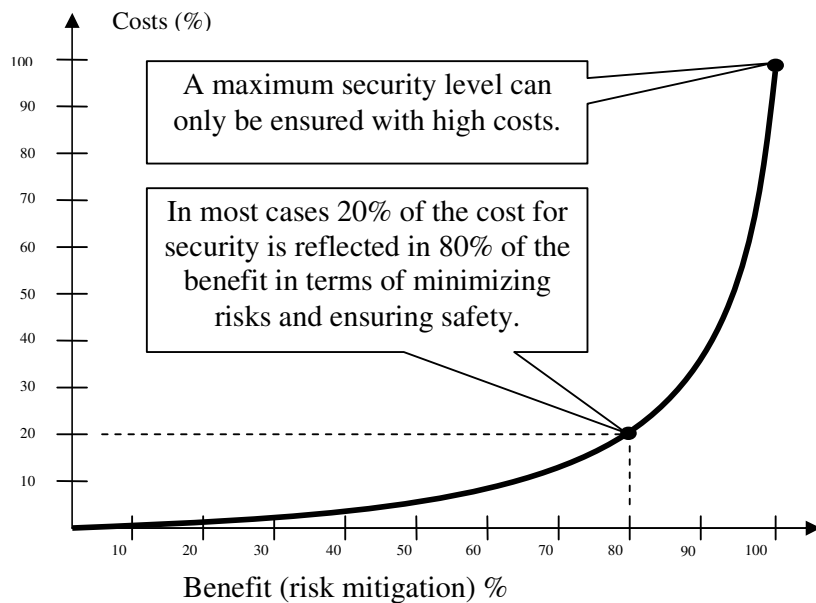
How much should be invested in the control measures? Does the company have such amounts to cover the costs? From the analysis that were made in this area results that allocating 20% of the cost for security is reflected in 80% of the benefit in terms of minimizing risks and ensuring safety. To ensure maximum efficiency costs are prohibitive (Figure 3)[3].

Even in this case the business owner is hardly convinced to invest in something that does not bring profit directly or invest in terms of lack of liquidity. In these circumstances, it must be ensured a security which control measures costs does not exceed a limit amount which was allocated. There is a financial security required. There are two alternatives to solve this situation:

1. covering the most likely threats by keeping the initial control methods;
2. covering all the threats and reducing the control measures costs.

The first measure will allow a maximum level of security for some threats, but will leave some other threats partially or totally vulnerable. Take this option only if the second option to resolve can not be adopted.

The second measure will require reducing the expenditure necessary to ensure the controls for covering all possible threats. This could be reflected in the change and configuration of the control measures. This second measure is the first choice because it does not leave uncovered vulnerabilities.



**Figure 3. Benefit and security costs**

Trying to implement and monitor the security system from the inside can be an expensive and complicated process. Recruiting and hiring personnel is very difficult, and keeping this personnel is even more difficult because of the demand and the value from the market for specialists working in the security field. Costs of permanent training with such personnel are also high because of the depth of knowledge needed in this field. If we add the requirement to maintain a complex software and hardware upgrade, we will see that this is not at the reach of many companies and therefore they recourse to outsourcing the security services as a way to provide the security requirements.

In this second measure to solve the problem we may appeal at a specialized company in order to take a good part of the tasks of ensuring the security but at prices much lower, these prices being within the allotted limits.

This company can make the necessary study for implementing the security measures and the implementation of the measures that are resulted after the study has been made or it can make only the study following that the implementation to be made with their own forces. Usually we call on specialized companies when the company is small and does not have specialized staff or when the costs for maintaining the qualification level of the personnel involved in keeping the security are high.

Outsourcing the security services represent the company's option for ensuring the security services by another company. In this case, there is a Management Security Services Provider (MSSP). This will provide both security services and their management. The Security Services Management (SSM) will not be done by the company but by the service provider. Most MSSP provides a range of services for a monthly fee which implies a certain level of installation, consulting, controlling 24 hours a day, seven days out of seven, so as the ads say, „you can focus on business while we look on the security”

The main services from the most offers of MSSP are focused on firewall management services and on the following features[3]:

- the risks analysis;
- the architecture analysis;
- the perimeter's protection;

- configuration and implementation firewall;
- virus detection;
- VPN;
- web filtering;
- detecting and monitoring the incidents;
- evaluation and testing vulnerability;
- leading security services.

Risk analysis, generally speaking, and security risk analysis must be made by the manager of the firm. For security risk analysis must be a strong collaboration between the manager of the firm and the IT staff charged with this. Risk analysis supposes analyses and laborious calculus which involved time and staff. The embezzlement of resources for risk analyses will have an impact upon business unfurling. Because of this, they appeal to specialized firms.

The security elements provided from the outside can be very important for the company. There are many benefits that aim to outsourcing and have the effect reducing the costs required to ensure the security inside the company. In this way we can avoid high costs of developing and maintaining a security system-including finding and hiring specialized staff needed to manage and administer the security policy of the company. It can reduce the total cost for maintaining a security infrastructure, including the costs associated with monitoring and maintaining security 24 hours a day, seven days out of seven, 365 days a year (24/7/365) (Figure 4).

This economy depends on the size of the company. If the company is big, the economy may be small, it may not be the most cost-effective security services to be provided from within, without fear that the data security is entrusted to persons outside the company. Outsourcing the security services is addressed in general to small and medium companies that either do not have the sufficient funds for the service, or do not have a specialized person in this field.

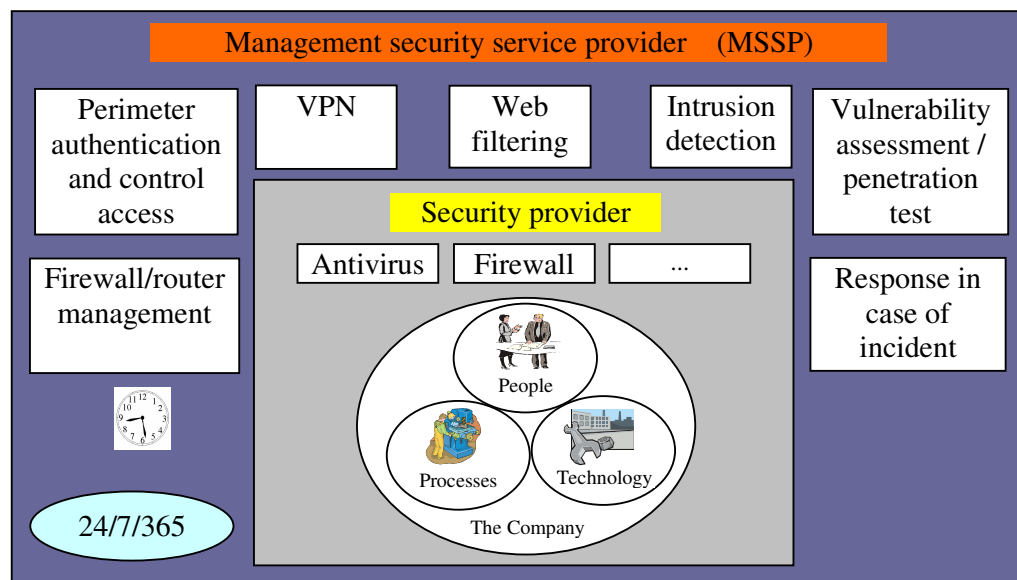


Figure 4. Outsourcing

From the financial point of view, especially for smaller companies, calling for the security services providers is a good choice. But not only the financial factor can count in a choice. Other elements that can determine the company to call for security service providers are the following: requirements, opportunities of the business environment, the bad training of the internal staff, supplier's professionalism, supplier's experience, time.

Selection of a provider of security management services is a difficult operation. The MSSP is a „security partner” that should be integrated to some of the IT&C processes and business of the corporation. If the provider fails to provide the services in which was agreed there should be penalties.

Time is maybe one of the elements which gives us care and troubles. Why wasting time, as a manager or an owner, with finding of security solution which I'm not good, to the prejudice of business, when I can call a specialized firm?

These are the points which plead for the outsourcing of security services. We must take into account some other aspects. We must reckon how much from a vital process, as the security insurance is, it is wanted to be ascertained to someone who is not an employee of the firm, so it is harder to be controlled. No provider can fully assume the responsibility of security requests of the firm, and this thing is not to be long – expected.

There will be needed members of staff able to understand the business and the politics which govern the firm's security. It's better to appeal to security insurance by specialized firms only for simple technical things at the beginning, leaving the politics and the vital devices to the proper staff. Most part, the list of services available to providers is usually limited to these. These providing firms don't assume a global responsibility. They accept contracts for tasks regarding security and operational processes. Any MSSP who suggest to talk the responsibility of the whole security program of the firm, must be continuously dwelt upon.

## CONCLUSIONS

An understanding of the risk by the owner of the business will have as effect an adequate investment in ensuring the company's data and a stable market presence. The lack of understanding of the security risk will have as result that the company's business will be vulnerable, and the business will not have potential clients. What business partner would want to share data with this company knowing that there is a possibility that they are made public? Who will let his money into a bank knowing that it is vulnerable to disclosure of data?

A minimum investment in security is not necessarily the optimum. Always the investments that will ensure an optimum are obviously higher than those designed to ensure minimum. Minimum investment can be deceptive, leaving open many security holes.

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## PRACTICAL SOLUTIONS FOR MANAGING BANKING RELATED RISKS

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***Abstract:** Modern BI tools are designed to meet the requirements for a new class of enterprise BI solutions. They are designed to bring greater business visibility and insight to the broadest audiences of users, allowing any user in a bank to have Web-based selfservice access to up-to-the-moment, relevant, and actionable intelligence. A BI tool delivers a comprehensive set of capabilities that span ad-hoc query and analysis, OLAP analysis, interactive dashboards, reporting, proactive intelligence and alerts, mobile analytics, and more. It offers a unified view of Enterprise Information; empowers business users and analysts with pervasive insight; and combines real time and historical intelligence with alerting to drive actions to improve business performance and manage risks.*

**Key words:** risk; business intelligence; reporting; banking; data.

### 1. INTRODUCTION

To deal with the growing complexity of the financial industry, systemic threats and current economic downturn, a new solution should be considered in order to establish a more sophisticated framework for banks to measure risk and set aside sufficient capital to cover losses from market, credit, and operational risk.

This framework will impact the entire spectrum of financial services, including corporate finance, retail banking, asset management, payments and settlements, commercial banking, trading and sales, retail brokerage, and agency and custody services.

Most institutions will need to enhance their systems partly or wholly in terms of integration, data capture, data storage, security, and reporting because of the sheer volume of data to be sourced, extracted, stored, calculated, reconciled and reported to comply with new requests. There are three imperatives [5]:

- risk management processes must be integral to everything the entire organization does;
- risk metrics and methodologies must be consistent - globally and locally;
- in many jurisdictions all the business must comply completely, or none of the business complies at all.

There are three strategic considerations in planning the expansion and integration of data management systems to achieve this status [4]:

- **Scalability** - The complexity and granularity of account level data which needs to be captured and analyzed require scalable database and data management resources - not least because the huge amount of data to be stored and accessed can be expected to continue to grow massively over time - this is true regardless of the size of the institution;

- **Availability** - Continuity of high-levels of system performance, together with proven database reliability will be essential to ensure that regulatory data is complete and accurate, and fully reconcilable with the General Ledger (GL). Systems will also need to prove themselves robust by rigorous back- and stress-testing;
- **Security** - Utilizing data to the degree of detail and granularity required by the new solution inevitably puts the spotlight on data integrity and confidentiality. Complex security issues are also raised by the need to consolidate and standardize data across multiple locations and subsidiaries, so that a complete picture of risk across all trading relationships can be reported.

## 2. OVERVIEW OF BUSINESS INTELLIGENCE TOOLS

Business Intelligence (BI) tools are designed to meet evolving business needs. They are designed to bring greater business visibility and insight to the broadest audiences of users, allowing any user in an organization to have Web-based self-service access to up-to-the moment, relevant, and actionable intelligence.

A modern BI tool is designed to meet the requirements for a new class of enterprise BI solutions. It consists of a broad set of capabilities including ad-hoc query and analysis, interactive dashboards, reporting, proactive intelligence and alerts, mobile analytics. A modern BI tool is designed around the following primary principles [1], [3]:

- **Unified Enterprise View of Information:** Virtually every organization has information fragmented in multiple repositories and enterprise applications. A BI tool enables organizations to define a single, consistent, and logical view of enterprise information across these heterogeneous systems such as Data Warehouses, multidimensional sources, and operational transaction systems. It provides the business with a unified, enterprise view of their information;
- **Unified Semantic View of Information:** A BI tool allows an organization to model the complex information sources of their business as a simple, semantically unified, logical business model. It provides facilities to map complex physical data structures including tables, derived measures, and OLAP (Online Analytical Processing) cubes into business terms - abstracting how a business user expresses calculations. Also, it translates familiar, easy-to-understand business concepts into the technical details required to access the information;
- **Pervasive Access to Information:** A BI tool provides business users with the ability to access the information they need without having to wait for professional analysts. Because end-users work with the unified, semantic view of the information, they can access analyses across multiple devices via multiple delivery channels while maintaining a consistent definition of the information. Business users only need to learn one semantic layer. This semantic layer is a business-user friendly perspective and intuitive way to view their information;
- **Real-time Information Access:** With technologies like trickle feed ETL (Extract, Transform and Load), Business Activity Monitoring, Business Event Management and federated data access directly from transaction processing systems, a modern BI tool allows users to combine historical and real-time information to get an up-to-the-minute view of their business. In addition, a modern BI tool should combine data from real-time systems with data in the DataWarehouse to give unparalleled insight into the business;



- **Insight-driven Action:** The pro-active intelligence facilities are designed to help business users navigate information quickly and to effectively troubleshoot problems and take action in response to business events;
- **Unified Infrastructure:** A BI tool represents an integrated suite sharing a common data access services, a common analytic and calculation infrastructure, common metadata management services, a common semantic business model, a common security model and user preferences and common administration tools which improve access to information and lower operational costs;
- **Pre-built Analytic Solutions:** A modern BI tool is designed to facilitate the development of BI applications quickly and easily;
- **Hot Pluggable:** A BI tool is “hot pluggable” into any existing data sources, any major business application and any security infrastructure. It works alongside an organization’s existing software tools to allow organizations to deploy BI tool without having to replace existing investments.

### 3. HOW TO USE A BUSINESS INTELLIGENCE TOOLS FOR RISK MANAGEMENT

In order to demonstrate how BI tools can be used to manage risk, by collecting and storing data, providing calculation and performing analyses and reports, Oracle BI solution - Oracle BI Suite (OBI) - will be employed.

In the present case study, the portfolio of a bank has been analysed. We consider the loan category products for assets side and the deposit category products for liabilities side. For these products we have stored at the database level different measures, such as balance, average balance, expense, income, and other facts. In order to provide quantitative analysis of the financial data, we will calculate derived measures as follows: decile analysis, balances breakdown, seasonality analysis, and trend analysis.

#### 3.1. UNIFIED ENTERPRISE VIEW OF INFORMATION

OBI enables [2] organizations to combine enterprise data from multiple databases, enterprise applications, OLAP sources, and unstructured data sources in a single unified Enterprise View of Information and in a single calculation. It allows an organization to model the complex information sources of their business in a simple, understandable, semantically unified, logical business model. This model-centric view (as compared to report-centric view of information) allows organizations to share the same definition for analytic measures/information across disparate users who may be calculating this information from disparate data marts and warehouses.

A central Data Warehouse of all relevant internal and external data - with the power and scalability to provide multiple views across mass data volumes - will ensure a single view of the truth.

The solution should provide a complete, consolidated overview of the bank’s totality of relationships with customers, suppliers and counterparties.

An integrated architecture for data extraction and storage will support wider enhancements across management and statutory reporting.

#### 3.2. CALCULATION SOLUTION

Banks need to be able to use best-of-breed applications to ensure the detailed requirements of new solution for risk and capital calculation are met. A single view of the truth enables the

required reconciliations, and the control and traceability. They need structured interest rate risk analysis, balance sheet forecasting and market valuation, trend analysis, decile analysis.

OBI allows [2] complex calculations at different components level:

**Oracle BI Server** is a highly scalable, highly efficient query, reporting, analysis, and calculation server that provides services that enable the other components of the OBI such as Answers, Dashboards, Data Mining, Reporting, and Analytic Applications.

Oracle BI Server also optimizes performance and minimizes network traffic by exploiting the native capabilities of the available relational database platforms. When generating SQL (Structured Query Language) or other query languages, the Oracle BI Server is aware of the functions and language constructs that the database supports and generates highly optimized target-specific SQL. The Oracle BI Server “function-ships” this optimized SQL to the database conducting as much processing as possible in the database itself. Examples of such differences between databases include string processing, statistical and mathematical functions; logical if-then-else statements; expression maps in HAVING clause; and others. Conversely, if the database platform does not support a function or a SQL feature, the Oracle BI Server will itself compensate for the missing functionality using its own computation and data processing engine. By doing so, it exploits the advances in query optimization, indexing, data partitioning and other technologies in relational databases. Note that the Oracle BI Server can perform a superset of the data manipulation and calculation capabilities of SQL-92 compatible database products. This ability to customize the query language to the platform and to compensate for missing functionality is unique to the Oracle BI Server.

**Oracle BI Answers** - provides end users with broad ad-hoc query and analysis capabilities. It is a pure Web-based environment that is designed for users who want to create new analyses from scratch or modify and change existing analyses that appear on a dashboard page.

It allows users to select complex business measures — such as market share changes versus a year ago or sales percentage changes versus a year ago — in calculations.

Some of the key features of Oracle BI Answers are:

- Complex Business Measures are a challenge to compute in SQL or in most commonly used reporting products because they either: (i) involve "row to row" comparisons, something SQL was not designed to do, or (ii) involve queries that combine multiple levels of aggregation. Oracle BI Answers allows complex business measures to be calculated query execution time without having to pre-calculate and store data;
- Eliminates Time-based Reporting Tables: Oracle BI Answers eliminates the need to create and store complex time-based reporting tables. For instance, most organizations have tables structured with N\*M columns representing the last N periods of data for M measures plus N\*M more showing the variance from last year and so on. Oracle Answers makes these measures available by simply defining them in metadata, thereby eliminating the need to build and maintain such tables;
- Derived Measures: Oracle BI Answers simplifies the use of derived measures that are measures that are computed on a query result set such as ranks, Ntiles, standard deviations, running totals, moving averages, and moving medians. These derived measures are difficult to compute in SQL but are very useful — moving average and moving median are valuable functions for smoothing data and discerning trends. Oracle BI Answers allows users to define new formulas using existing measures.

The following derived measures are considered using Oracle Business Intelligence Suite to illustrate calculation capabilities of the tool [6], [7]:

**a) Current Balances Breakdown**

Balances breakdown represents products balances for each product subcategory and percentage of each product in its category. Also balance breakdown includes average balance per account.

Current balance breakdown was provided for deposits category [7] and results are displayed in Table 1.

**Month**

 ...

**Category**

 ...

---

**2B011 Current Balances Breakdown**  
Time run: 06/04/2009 15:11:12

C003 Coa Lv3 Desc	Current Bk Bal (M.)	%	# Of Accts	Avg per Acct
000 - DDA	20.95	49.5%	6,076	3.45
500 - Other Consumer Checking	6.95	16.4%	2,010	3.46
000 - Regular Consumer Checking	6.12	14.4%	1,427	4.29
500 - Other Business Checking	4.82	11.4%	1,416	3.40
000 - Regular Business Checking	3.52	8.3%	1,009	3.49
<b>Checking Accounts Total</b>	<b>42.35</b>	<b>100.0%</b>	<b>11,938</b>	<b>3.55</b>
000 - IRA	9.82	100.0%	2,077	4.73
<b>Retirement Accounts Total</b>	<b>9.82</b>	<b>100.0%</b>	<b>2,077</b>	<b>4.73</b>
000 - Other Consumer Savings	72.44	39.1%	2,417	29.97
500 - Savings And Money Market	53.86	29.1%	1,638	32.88
000 - Other Business Savings	20.20	10.9%	613	32.95
500 - Regular Business Savings	19.54	10.6%	608	32.14
500 - Regular Consumer Savings	19.18	10.4%	604	31.75
<b>Savings Accounts Total</b>	<b>185.22</b>	<b>100.0%</b>	<b>5,880</b>	<b>31.50</b>
500 - TCDs	49.92	74.7%	2,232	22.37
500 - Regular Tod < 100K	10.67	16.0%	490	21.78
000 - Regular Tod > 100K	6.21	9.3%	278	22.33
<b>Term Deposit Accounts Total</b>	<b>66.80</b>	<b>100.0%</b>	<b>3,000</b>	<b>22.27</b>
500 - Trusts	3.23	100.0%	578	5.59
<b>Trusts Total</b>	<b>3.23</b>	<b>100.0%</b>	<b>578</b>	<b>5.59</b>

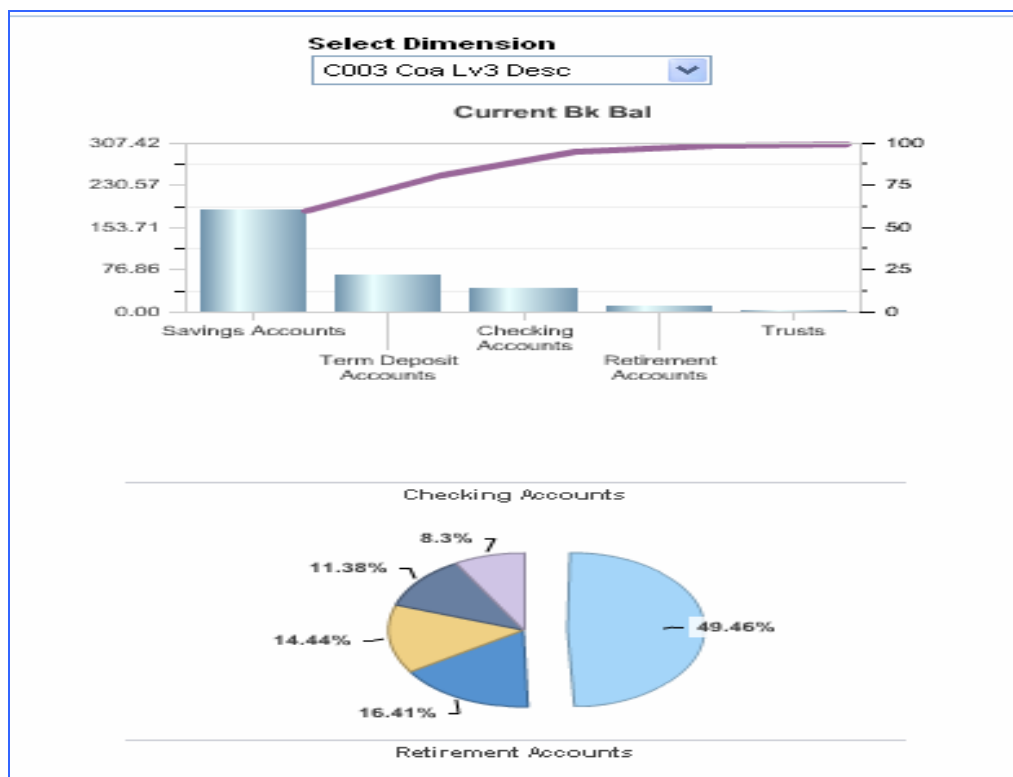
**Table 1. Current balances breakdown**

This analysis emphasises customers preferences towards deposit products types. Based on this analysis results that from Total Accounts balance (Figure 1) [7]:

- 60% represents Saving Accounts;
- 22% represents Term Deposit Accounts;
- 14% represents Checking Accounts;

- 3% represents Retirements Accounts;
- 1% represents Trusts.

From Total Checking Accounts balance 49.46% is represented by product "000 – DDA."



**Figure 1. Product types percentage in total value**

### b) Decile Analysis

Decile analysis represents a method of splitting up a set of ranked data into 10 equally large subsections. This type of data ranking is performed as part of many academic and statistical studies in the finance field. The data may be ranked from largest to smallest values, or vice versa.

When an analyst or statistician ranks data and then splits them into deciles, it is in an attempt to discover the largest and smallest values by a given metric. For example, by splitting the entire Standard & Poor's (S&P) 500 Index into deciles (50 firms will be in each decile) by the Price-Earnings (P/E) multiple, the analyst will discover the companies with the highest and lowest P/E valuations in the index.

Decile analysis was provided for deposits and loans products and results are displayed in Figure 2 [7].

Based on this analysis we can conclude the following:

- For deposit category, 40% of the total average balance is represented by 10% of the deposits (last decile);
- For loan category, 48% of the total average balance is represented by 10% of the loans (last decile);
- For both deposit and loan categories, last 4 deciles take over threshold value of 5%.

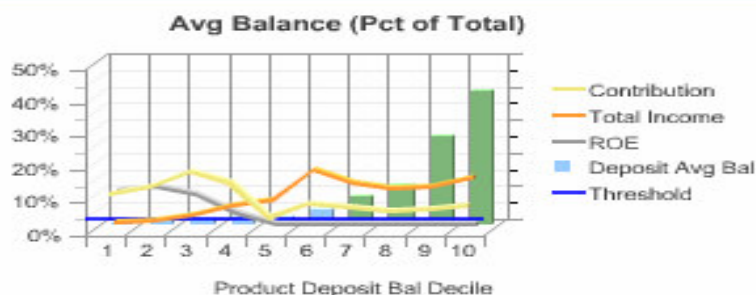
**Month**

**Set Threshold**



### 2B071 Deposit Bal Decile KPIs Breakdown

Time run: 06/04/2009 15:26:15

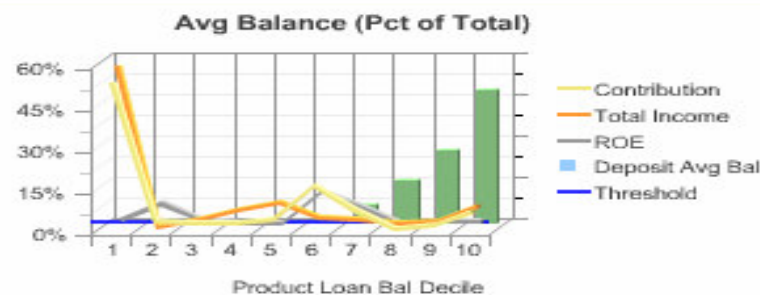


1	2	3	4	5	6	7	8	9	10	Tot.
1%	1%	2%	2%	3%	5%	8%	12%	27%	40%	100%



### 2B072 Loan Bal Decile KPIs Breakdown

Time run: 06/04/2009 15:26:15



1	2	3	4	5	6	7	8	9	10	Tot.
0%	0%	0%	0%	1%	1%	7%	15%	27%	48%	100%

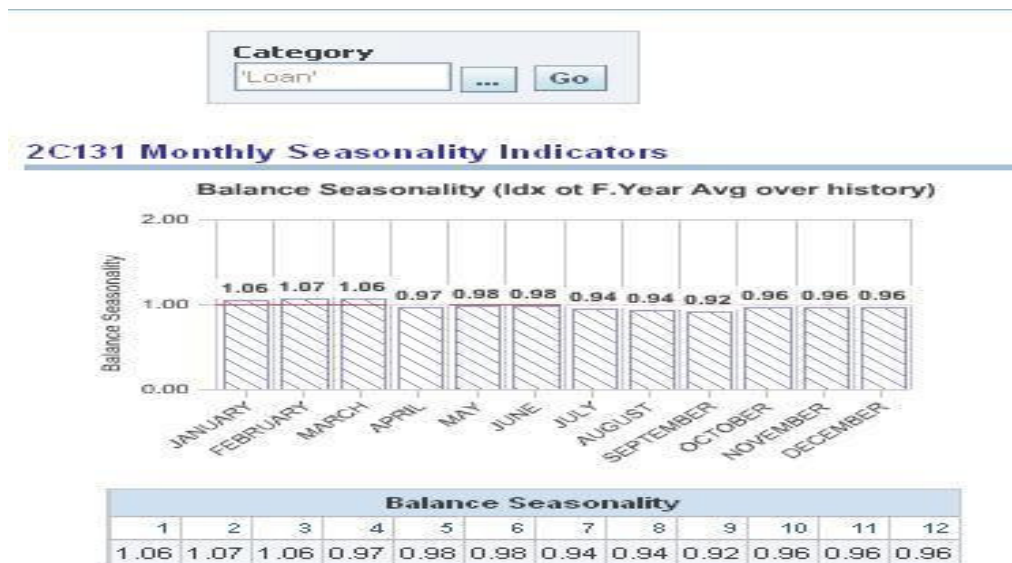
**Figure 2. Decile analysis**

#### c) Seasonality Analysis

Seasonality means a characteristic of a time series in which the data experiences regular and predictable changes which recur every calendar year. Any predictable change or pattern in a time series that recurs or repeats over a one-year period can be said to be seasonal.

Note that seasonal effects are different from cyclical effects, as seasonal cycles are contained within one calendar year, while cyclical effects (such as boosted sales due to low unemployment rates) can span time periods shorter or longer than one calendar year.

Seasonality analysis was provided for loans products and results are displayed in Figure 3 [7].



**Figure 3. Monthly seasonality indicators**

Based on the results, the following costumers' behaviour was identified:

- At the beginning of the year, from January untill March, there is a costumers' preference for loans;
- Starting with April untill June, the costumers' preference for loans decreases;
- During summer holiday, from July untill September, it is the lowest level related to loan aquisition;
- Starting with October, loans consume increases, but it's still under the level from the beginning of the year.

**d) Top N Products Increases over 3 Months**

Trend analysis represents an aspect of technical analysis that tries to predict the future movement of a stock based on past data. Trend analysis is based on the idea that what has happened in the past gives traders an idea of what will happen in the future.

Trend analysis tries to predict a trend like a bull market run and ride that trend until data suggests a trend reversal (e.g., bull to bear market). Trend analysis is helpful because moving with trends, and not against them, will lead to profit for an investor.

For deposit accounts was analysed percent average balance variation as follows:

- Current month to one month ago;
- One month ago to two months ago;
- Two months ago to three months ago;
- Average variation of the three months;

Variation ranks [7] are presented in the Table 2 and have the following interpretation:

- Product "000-IRA" from subcategory "Retirement Accounts" ranks first position over three months. Current value is 9,818,841 and it increased 6.6% per month in average over past three months;
- Product "000 - Other Business Savings" from subcategory "Savings Accounts" ranks second position over three months. Current value is 20,196,705 and it increased 5.5% per month in average over past three months;
- Product "500 - Regular Consumer Savings" from subcategory "Savings Accounts" ranks third position over three months. Current value is 19,177,348 and it increased 5.2% per month in average over past three months.

'2007 / 12' 
 'Deposit' 
 3

 **2B111 Top N Products Increases over 3 months**  
 Time run: 06/04/2009 15:38:52

D15 Common Coa Id	D10 Instruments	Variation Ranks				Percent Variation				Avg Bk Bal			
		Curr to 1M	1M to 2M	2M to 3M	Avg 3 Mths ▲	Curr to 1M	1M to 2M	2M to 3M	Avg 3 Mths	Current Mth	Mago	2Mago	3Mago
000 - IRA	Retirement Accounts	6	2	3	1	▲7	▲4	▲8.5%	▲6.6%	9,818,841	9,176,318	8,786,743	8,098,628
000 - Other Business Savings	Savings Accounts	7	5	2	2	▲4	▲4	▲8.8%	▲5.5%	20,196,705	19,393,436	18,717,934	17,205,775
500 - Regular Consumer Savings	Savings Accounts	11	1	6	3	▲3	▲5	▲7.7%	▲5.2%	19,177,348	18,593,484	17,730,838	16,465,343
500 - Savings And Money Market	Savings Accounts	8	3	8	5	▲4	▲4	▲6.9%	▲4.9%	53,859,400	52,002,284	49,884,019	46,677,634
000 - Regular Consumer Checking	Checking Accounts	1	10	13	10	▲11	▼-2	0.7%	▲3.3%	6,115,163	5,508,757	5,615,172	5,574,893
000 - DDA	Checking Accounts	3	12	14	11	▲9	▼-1	0.2%	▲2.6%	20,947,618	19,188,190	19,461,296	19,426,735
000 - Regular Business Checking	Checking Accounts	2	8	12	14	▲10	▼-3	-0.7%	▲2.1%	3,517,125	3,203,631	3,292,584	3,316,826
500 - Other Consumer Checking	Checking Accounts	5	7	15	15	▲8	▼-3	0.0%	▲1.9%	6,951,878	6,415,279	6,600,764	6,597,660

**Table 2. Top N products increases over three months**

### 3.3. REPORTING SOLUTION

Reporting benefits [2] from the single view of the truth as well as common processes of data management throughout the data extraction, storage, calculation and reporting cycle.

**Oracle BI Answers** component of OBI provides end users with broad ad-hoc query and analysis capabilities. It is a pure Web-based environment that is designed for users who want to create new analyses from scratch or modify and change existing analyses that appear on a dashboard page. Users interact with a logical view of the information - completely hidden from data structure complexity - and can easily create charts, pivot tables, reports, gauges, and dashboards, all of which are interactive and drillable and can be saved, shared, modified, formatted, or embedded in the user's personalized Dashboard or Enterprise Portal. Oracle BI Answers is the solution for ad-hoc query and analysis, and for creating the reports that will be used on Dashboards.

**Oracle BI Interactive Dashboard** component makes it easy for business users to access their BI information. Oracle BI Interactive Dashboard runs within a pure Web architecture and provides users with a rich, interactive experience by providing information that is filtered and personalized to a user's identity or role. This makes information intuitive and easy to understand and helps guide users in their decision making. Much of the content on the Dashboards is created from within Oracle BI Answers. Users work with live reports, prompts, charts, tables, pivot tables, graphics, and tickers. They have the ability to quickly and easily navigate to the information they need; drill in place for further analysis; modify calculations; and interact with results. Users have the ability to quickly and easily aggregate structured data from relational databases; legacy data from mainframe and other systems; as well as unstructured content from a wide variety of sources, including the Internet, shared file servers, and document repositories.

**Oracle BI Publisher** offers a highly efficient, scalable reporting solution with a central architecture for generating and delivering reports from multiple data sources, in multiple document formats, via multiple delivery channels, securely.

Oracle BI Publisher offers a highly scalable reporting server that generates and delivers reports from multiple data sources, in multiple document formats, via multiple delivery channels. Utilizing a set of familiar desktop tools such as Adobe Acrobat and Microsoft Office users can create and maintain their own report formats based on data extracts supplied by a multitude of sources, including the Oracle BI Server. Oracle BI Publisher provides developers with precision control over report format, layout, and output, enabling the creation and distribution of “pixel-perfect” reports, regardless of graphical complexity. It is fully integrated with the other components of OBI and shares common metadata, security, calculation, caching, and intelligent request generation services.

#### 4. CONCLUSION

Financial institutions that take an enterprise-wide view of risk and assign economic capital on a risk-adjusted basis will benefit greatly, but those that don't will soon discover that they must in order to survive.

Business Intelligence tools are designed to meet evolving business needs. They are designed to bring greater business visibility and insight to the broadest audiences of users, allowing any user in an organization to have Web-based self-service access to up-to-the moment, relevant, and actionable intelligence.

Financial institutions will have a single view of the truth supported by standardised data management processes, based on an infrastructure able to interrogate mass account level data, consistently, across the enterprise. All aspects of customer, supplier and counterparty relationships will be made much clearer.

All these elements provide a powerful environment for more effective and profitable business management.

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## **THE CONCEPT OF INFORMATION SYSTEM OF THE TRADING COMPANY OR OF A COMPANY WHICH INFLUENCES LOGISTICS**

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***Abstract:** The achievement of a complete, efficient and qualitative information, as well as its development cannot be conceived but within an adequate information system. A component of the management of trading companies, the information system has an influence upon the action and the efficiency of the trading company or of the respective one.*

***Key words:** information system, information flow, logistic system*

### **1. THE DEFINITION OF THE INFORMATION SYSTEM**

A first step in approaching the problems of the information system is represented by its definition.

The information system represents the set of information, information currents, procedures and means of dealing with the information meant to contribute to the achievement of the main objectives of the trading company.

The information system is seen as a complex of practical people and activities, equipment and methods, oriented towards the modeling of processes with the help of certain operations of elaborating information, based on using the mechanization methods of calculation and economic analysis, programming, the improvement of processes and the working out of foreseeing models, as well as the standardization of some schemes of information system at the management level, of its immediate assistance, their subordinates and employees of the trading company.

The information system assures the knowledge of the trading company's reality, it contributes to the working out and the achievement of the objectives imposed by the manager. By its means, one obtains the necessary information for the fundament of strategic decisions and of economic politics, one provides the data necessary for the economic growth of the company; the information is gathered and worked out, transmitted in order to achieve the goals, the objectives; one measures the intensity of connections regarding collaboration, or one determines the eventual deviations and their causes.

### **2. REQUIREMENTS FOR THE INFORMATION SYSTEM**

The working out and the efficiency of the information system depends on the observance of some basic requirements. The first one deals with the necessity of defining the objectives, the trading company, the complex activity according to the information rules.

Also, it is necessary to correlate the information system with the process of management of the trading company and on the basis of it, the general requirements, specific for the information system should be settled. A very important requirement refers to the necessity and efficient correspondence between the real needs of information and the ones provided by its direct assistance.

Within this, the manager gets both technical, operational information and economic information. As a rule, the economic information represents a synthesis of the technical, operational information.

To assure a higher degree of veracity and the efficiency of economic information it is compulsory to insist upon the quality of evidence, upon which it depends. This relation of dependence characterizes also the information and the level of working out data. The factory life proves the fact that the information basis of the management is superior when the working out of data takes place more complexly and more variously.

A final requirement refers to the liveness and adaptability of the information system. Those requirements have their source in the dynamics of the problems that the information system has to face.

### **3. THE CLASSIFICATION OF THE INFORMATION SYSTEMS**

There are several criteria of classification of the information system. A first one refers to the hierarchical lever at which the information is used, according to which they distinguish themselves into 2 groups:

- a) the macro-economic information system which deals with the level and the tendencies of development of national economy and its branches;
- b) the micro-economic information system, which represents an instrument for the management and offers information upon the economic activity progress;

Another criterion of classification has in view the structure:

- a) the internal information system which serves the function of a management member;
- b) the external information system which deals with processes outside its sphere.

The organization system represents another criterion of classification of information system. Thus:

- a) the functional information system which caters completely for a function (supplies, production, sale, research-development, staff)
- b) the integrated information system which has in view the connection of the process to those of information as well as the combination of the system of working out data with the utilization of control production by means of electronic calculator.

A final criterion of classification refers to the means it uses:

- a) information system which uses only human operator to gather, work out and transmit information;
- b) semiautomatic information system which uses human operators and equipments;
- c) automatic information system which is based upon the utilization of automatic equipment only.

### **4. THE COMPONENTS OF THE INFORMATION SYSTEM**

#### **Information**

The main component of the information system, information, can be defined as an element of notice which produces upon the manager and the other leading members reactions which release decisions and actions.

The information, utilized by the management, is a result of the conscious action of the staff charged with the communication of new elements of knowledge of some realities of the trading

company or of the conditions of certain events (phenomena, facts or processes) which refers to the past, present or future. They are the reflection of the interests and will of the manager and his employees.

Within the trading company, the information provides data regarding the productive activity and it highlights the management position about the problems to be solved. With the help of information one can settle down the immediate contract and the management addresses itself directly to the employees who have their role in achieving the target.

### **The information flow**

The second component of the information system, the information flow represents the way an information goes over between the sender and the receiver. Once in the hold of the receiver, the information has the conditions for its utilization, process or of execution by means of logistics.

According to different phases of the managing process, the information flow can be divided into the following component phases:

- a) the settling of the general course of the economic politics of the trading company;
- b) the settling of the trading company in the perspective conceived by the administration board (the operative system of the trading company);
- c) the choice of strategy in achieving the operative phases;
- d) the mobilization of resources and the best utilization of these resources of the trading company.

In the trading company, the information flow circulates between AGA and the director committee, between the latter and the production sections and the functional machine, between these and the employees.

The information flows can be external and internal.

They connect the participants and offers them the possibility to offer their forces and means and to achieve their roles. The basis of information relations is constituted by the common character of work forms and methods, of the functional participants.

### **The information methods**

By these we understand the totality of elements by which one settles the modalities of gathering, recording, transmitting and working out information.

With their help, one establishes:

- a) the support of information, that is the material used to register it and its characteristics;
- b) the means used to gather, record, transmit and work out the information;
- c) the succession of the treatment of information, as well as the operations they undergo, the calculation methods and formulas.

As the main characteristics of information methods we mention:

- a) mathematical, economic, statistics and sociological methods to work out the information;
- b) the higher degree of formalization, underlined by the huge stress laid upon stylization, standardization and encoding of information and of information situations;
- c) the stressed operative character, able to assure a rapid treatment of information, with consequences upon the plan of decision and action;
- d) the pronounced savings, produced by transporting in fact the principle of exceptions and priorities.

### **The means of discussing information**

The functional performance of the information system is conditioned to a great extent by the technical support of the respective information system, respectively by the means of gathering, working out and transmitting the information.

The gathering of information begins with the documentation and ends with its transposition of the mecanographical support. In the management activity the technical operative evidence planning, statistics, accounting need a huge amount of work and the main role is played by the human factor. To easy his effort, one uses printed documents, as well as numerous means and mechanical and automatic equipment (control devices of consummation or of production, office machines or computers). The action conceived by the manager to gather information is made up of a series of operations:

- a) the decision regarding the gathering of information;
- b) the planning for gathering information;
- c) the immediate activity of gathering information;
- d) the management of gathering information;
- e) the checking of the way the gathering is made;

In its turn, the work out of the information requires a big time consumption and an intense intellectual effort from the part of the human factor.

The work out of information consists of the following actions:

- a) the settling of the goals of information work out;
- b) the systematization of the gathered facts;
- c) the tracing out of the content of the facts and causes which produce the deficiencies;
- d) the theoretical substantiation of conclusions and their generalization;
- e) the judging and the analysis of the worked out information.

No matter what the means by which working out the information is done may be, the results of the respective process must be transmitted to the interested people rapidly, with a view to their utilization in taking decisions or operative measures.

The utilization of information is an important phase and its aim is using the received information to establish the measures necessary for the improvement of the manager's work, of his assistance, his sub-units and his employees.

Regarding the possibility that information can offer to be utilized, it becomes a factor of the management of the trading company, of acquiring new knowledge and of influencing the behavior and the conceptions of the whole staff.

## **5. THE ROLE OF THE INFORMATION SYSTEM**

It is that to offer the knowledge elements which are necessary to the management in order to co-ordinate efficiently the trading company.

The information system represents the premises of the decisions adopted by AGA, by the administration board or the managing committee. In this context, there have to be formulated the requirements regarding the modality, the context and the periodicity of the information to be provided by the information system.

We start from the premises that the quality of information and its modality of processing influence the quality of decisions and, this way, the efficiency of the process of development of the trading company.

On the basis of the data it provides, the information system allows the precise diagnose of the current situation in the economy of the trading company, evidentialing the vulnerable points

and the germs of some negative phenomena and indicating the necessary measures to annihilate them.

At the same time, the information system represents an instrument to enforce the discipline adequate for the financial field and to augment responsibility at all managing levels of the company.

The information system contributes as well to the valorification of the current reserves in the company with a view to the augmentation of the efficiency of the whole activity in the company.

### **The need for improvement of the information system**

As a side of the management of the trading company, the information system represents a problem which trains the entire managing staff of the company. In the improvement process, the decisive role belongs to the manager, the director committee and the administration board. We have to keep in mind that the information system will not be able to work rightly as long as the staff is not accustomed to the formalization of their conceptions and to the counting of the objectives which are to be transposed into precise options and instructions.

## **6. THE INFORMATION SYSTEM OF THE LOGISTIC ACTIVITY**

One of the important changes both in economic theory, strategic management and in the logistic field is the transition from the enterprise conceived as a citadel to the one seen as “an archipelago” which must administrate multiple interfaces with other enterprises and the individual successes of which is directly linked to the reactions, competences and success of the others. This evolution is accompanied by the reconsideration of the strategic role of the administration of the flows upon the logistic function, the logistic responsibilities, inter-functions organizational frontiers and external interfaces.

The development of the logistic management has allowed the transition from an operational and reactive approach of the administration of flows to a conceptual and pro-active approach. In practice, we can notice that the inter-organizational dimension is not taken into consideration ever since its phase of conception and formulation of strategy, but it imposes itself according to the performance in terms of cost, quantity, reliability, deadlines, level of information.

For logistics this evolution is accompanied by a significant change of paradigm<sup>70</sup>. After searching for solutions of improvement which laid stress on finding the best solutions, logistics has oriented itself to the cognitive rationalization which laid stress on the coordination of actors and administration of the interfaces between them, mainly on the search of a productivity as a whole.

All these mutations have been possible by the development of the information and communication technologies (ICT), which has triggered and quickened the evolution of logistic devices, making possible a big member of “dreams” in logistics<sup>71</sup>

The logistic ICT of the enterprise LICTE has allowed reconsidering the limits of space and time which characterizes the logistic system, authorizing international forms of organization with pulled and pushed flows which allow rapid gratification of customers, low costs and a strong operational and strategic flexibility.

The great majority of information systems have been conceived in a strictly inter-organizational perspective. An enterprise network under formation cannot be of performance

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<sup>70</sup> David B, „Les trois âges de la logistique: mémoire d’une expérience pédagogique”, A doua conferință GRAAL cu tema „Changements: système logistique et dynamique des organisations”, Bordeaux, 1997, p 86-102.

<sup>71</sup> Fabbe-Costes N., „Le rôle transformatif des SIC et TIC sur les interfaces multi-acteurs de la distribution et de la logistique”, în lucrarea „Faire de la recherche en logistique et distribution?”, Vuibert Fnege, Paris, 2000, p.171-194

from a logistic point of view if it limits to changes between individual information system (more precisely between individual LICTE). The guidance of the logistic system does not impose a transformation of the informational system according to the development of the enterprise, but an a priori inter-organizational conception.

The European Commission<sup>72</sup> shows that the role of the logistic system is that of improving logistic flows, being centered on 3 categories of flows: the flow of products from the source to the final consumer, the financial flow and the information flow.

This synthetic definition explains the importance of the information system in the flows guidance. By the whole of the logistic system we understand a network of actors bound among them through vertical, horizontal and diagonal interdependences<sup>73</sup>, a network in which it is impossible for a member to guide all these flows, but we cannot exclude the existence of some local leaders on certain segments on the logistic system. The logistic system or chain includes 2 principal elements: the time and number of participant actors whose objectives should be co-conception and co-guidance<sup>74</sup>, in order to succeed to coordinate the action, much more than a control of it.

The phases of the logistic flow guidance:

1. The conception of processes and devices (the network, the functional and evolution modalities construction) which supposes communication with respect to the products structure (conception, differentiation, required competence);
2. The foreknowledge of activities, especially those before hand, fluctuations and possible mutations, modalities to make flexible the logistic chain;
3. The definition of the targeted objectives and of the value to create (the assignation of criteria and of performance levels, of measuring and dividing of the required value modalities);
4. The efficient planning and coordination of activities (checking of the compatibility of the administration rules, of the synchronization possibilities for the circulation rhythms of the different flows, the flow guidance possibilities, the capacity to react in unexpected situations);
5. Following the activity (definition of the required traceability level, measuring the obtained performances, reviewing the unexpected situations and the way of reaction to them);
6. The evaluation of the processes and the supervising of the environment, fundamental aspects for the evolution in time.

Communication within the logistic chain has to allow the component parts the change of opinions autonomously conceived (what each actor wants to do), their confrontation (the way each actor sees the logistic chain and which he thinks his contribution is) and the working out of a common project. These changes of opinions show that individual visions are sometimes parted and that numerous disfunctionalities are linked to the splits between the individual representations of the actors and the effective functionality of the actors and the effective functionality of the logistic chain (that is a mutual ignorance). The communication will allow the extension of the individual visions upon the entire logistic chain, the improvement of the inter-organizational interfaces and the working out of common projects if, for instance, we take the car

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<sup>72</sup> European Commission, „Transport&Logistics in Europe”, European Commission & PriceWaterhouseCoopers, Bruxelles, 1999

<sup>73</sup> Joffre P., Koenig G., „Gestion stratégique. L'entreprise, ses partenaires-adversaires et leur univers”, Litec, Paris, 1992

<sup>74</sup> Avenier M.J., „La stratégie „chemin Faisant””, Economica, Paris, 1997

industry, every new model, and every technological novelty implies the re-evaluation of all the key-points previously suggested.

This plea for total communication within the logistic chain can seem an utopia and for this reason we mention that even when there is an a priori minimal communication between the actors, conflicts and crises cannot be excluded, as well as reticence towards the sharing of some “strategic” information. A review of the information system in terms of logistic flows administration shows that enterprises began by using different parted applications, then they adopted function specialized applications and in the end they chose the integrated solutions with a view to the whole of the information needs of the enterprise (for example ERP<sup>75</sup>). The difficulty to administer interfaces among interdependent applications (using the same information or exploiting the results of other application) explains the necessity of integrating SIC with the help of SGBD<sup>76</sup>. This integration has to face 3 difficult gaps:

1. the augmentation of the enterprises size and the internationalization of their activity rises the problem of the distribution of activities in space;
2. the acquisition and fusion operations rise problems related to the compatibility of different information systems from a physical and conceptual point of view, before rising problems related to the change of information;
3. the externality and/or the subcontracting of some activities, partnership and cooperation suppose the information change among different autonomous systems, which remain in spheres with different responsibilities. The intra-organizational coherence is difficult, but it can be obtained and the inter-organizational coherence presents a much more complexity and has different bets.

The evolution of the logistic information system has not been very different from the one of administration systems on their whole. Logisticians have caped rather problem related to the inter-functional coordination than related to the information change among the different entities of enterprises (sometimes heterogeneous enough) or among the different enterprises of the same logistic chain if this integration has much improved in the latest years, due to the reviewing of information system (caused by the year 2000, the adoption of euro, the intranet appearance, adoption of ERP), the inter-organizational integration remains vulnerable point in the logistic chain.

The administration of the relations between the component enterprises of the logistic chain comprises also the communication which surpasses the sphere of simple transactions. The more multiple the relations between partners are, the more the enterprises see the limits of the logistic information system and confront problems related to the evolution (not always synchronized) of the interfaces of the partner systems.

The transition from transactional to relational in conceiving a logistic informational system means the refusal to consider the actors outside the system. From the point of view of the development of the information system such an approach makes present again the traditional methods of conception of the system. Thinking the relations before action, and the communication before internal methods, rises again the problem of the existence of a common language necessary in the information change and in the development of the common data basis. The transition from a transactional paradigm to a relational one is not simple, it supposes the surmontation of the fragmented approach of the information system, the actualizing of the frontiers and imagining new forms of organization.

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<sup>75</sup> Enterprise Resource Planning

<sup>76</sup> Sisteme de gestiune a bazelor de date

## Information system of the logistic management

They use:

- internal information regarding:

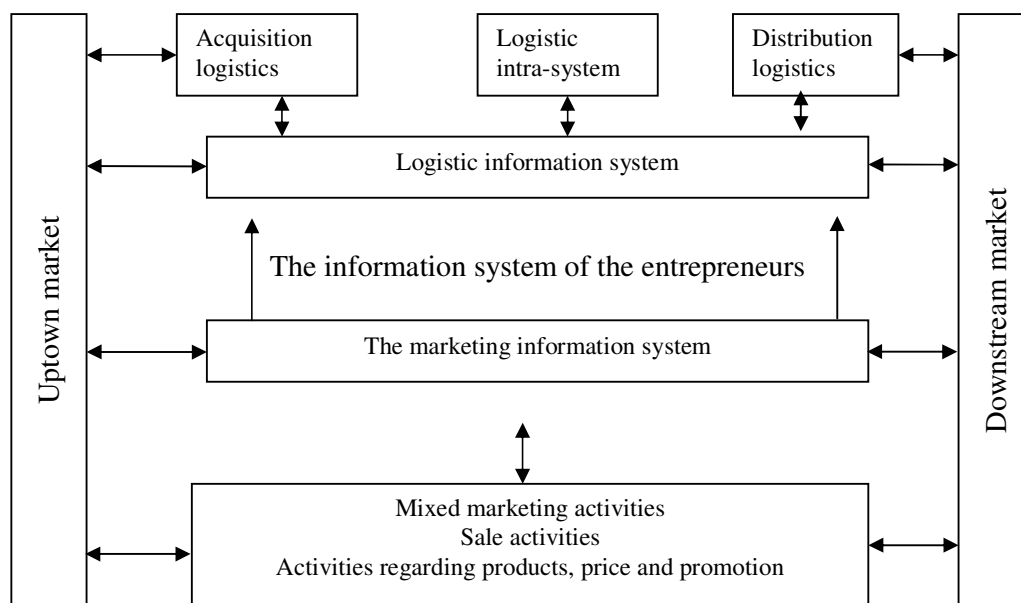
- The logistic system: deposits, means of transportation;
- The marketing politics: prices, sales, conditions of presentation (display for the products)
- Production: capacity, method of work-out
- Financial domain: interest, currency, auto-financing, capacity
- Human resources domain: the planned development and the limits of hiring staff

-external information regarding:

- Actual and potential customers: locations, ordered quantities, requests of transportation, packing.
- The logistic system of the competition;
- The macro-logistic system.

An information system of the logistic activity must be structured on two distinct modules: the logistic one which provides information about the planning and the orientation of deliveries and of the movement of merchandise to honor the orders; the transactions one which provides the information related to the movement of the delivery and payment papers; this module shows the intersection with the economic system of merchandise.

The progress recorded in the field of working out data and communication technologies has opened new possibilities for the development of an integrated management of the activities of the distribution channel and of the distribution logistics. The distribution information system cannot be seen nowadays isolated, they must be included in the EIS.



**Figure. 1 The integration of the logistic information system in the information system of the enterprise**



The logistic manager must deal with 2 types of information:

- regarding the manifestation of the acquisition function;
- regarding the motivation of the members of the distribution channel in order to reach a common aim.

The process of gathering, working out, distribution and using the information which serves as element of fundamentation for the decisions in the domain of management of distribution must take place within each enterprise which is a member of the distribution channel.

After its origin, information can be:

- internal (within the distribution channel) and external. The internal one must characterize the objectives of the institutional components of the distribution channel. The external one refers to the economic environment.

It can come out of a primary source (by observation, experiment or inquiry) or out of a secondary source, gathered by people or by other external institutions for other aims (articles published in the media; accomplished by research institutes). In the unintegrated distribution channels, the information of each institutional component serves mainly its own goals and not the general one of the management of the distribution channel.

By this integration one can obtain an augmentation of the efficiency of the whole distribution system.

### **The inter-organizational information system (IOIS)<sup>77</sup>**

The concept appeared at the beginning of the '80s. The first approach insists upon the motion of shared information system<sup>78</sup>, distinguishing 5 levels of participation in an IOIS, from the distant access (WEB pages or the change of information forms) to its function in real time (simultaneous sessions in real time used by the car constructors). Some IOIS appear as a result of the actors' emergent collaboration, determining new ways of functioning, a transformation of work and of business relations, others appear as a result of the new forms of cooperation between little and medium enterprises to cope with big enterprises.

The logistic chains are unstable networks which evolve, with partners' ins and outs, with these circumstances, IOIS must not stop this evolution, even if the information and communication technologies bring some rigidity.

There are several phases to make an IOIS work:

- ***The desire to build one.*** In certain cases, there is a series of difficulties for the enterprise to surpass. The fragmentation of activities implies new changes of information, and the quality of communication, the degree of openness of the system depend greatly on the power relations and the cooperation degree among the actors. Numerous projects have failed because of lack of a leader or of a powerful customer who could bring a change. This does not mean that only in the hierarchical systems (within which there are pivot companies) we can create an IOIS. Recent research regarding strategy<sup>79</sup> shows that a common will and a pilot – enterprise to take over the management of such a project. The question is risen here is related to the asymmetry of information or intended distortions to the advantage of some people. If we are to take car industry, we notice that for the force intercourse cannot stay out of equilibrium for too long.

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<sup>77</sup> În funcție de autori îl mai găsim sub următoarele forme: IIS – Interorganizational Information System sau IOS – Inter-Organisational System

<sup>78</sup> Barrett S, Konsynski B. – Interorganisational Information Sharing Systems, MIS Quartely, Special Issue, 1982, p.93-105

- ***The articulation of information system and of information logistic system and their connection with the IOIS.*** This can be done by identifying and modeling the collective process. It is not about a total affiliation but a coordination of the domains defined as making the object of cooperation.

- ***The architecture or design of the network.*** By this we understand a sort of gangway which allows the system the access to the useful and pertinent information.

A wonderful poet and a Christian writer, Traian Dorz, the creator of a vast work, has created some real pearls of wisdom and knowledge: “Out of this experience and conviction I said then and I’m saying it again now to many of those who have brought and shown their poetical trials that in order to write something which should move and remain in time, one should read much to sweat much, to pray much, to cry much – and especially to suffer much. Without these, letters do not shine, cords do not vibrate, tears do not rise”.

Without being considered philosophy, the same great writer talks about Truth, which, as he considers, should enlighten and guide any letter, any word, any piece of writing and saying.

God is the Absolute, Entire, Definite, Eternal and Infinite Truth.

This unique Truth is made up of thousand true things, regarding God, fellows and ourselves.

All this divide into 3 parts:

1) Truths we don’t know and therefore we cannot utter them.

This is the greatest part of the truth.

2) Truths we know but which we cannot utter from various reasons.

This is also a great part of the truth.

3) Truths we know and we can utter.

This is the smallest part of the truth, but it requires necessarily an open mind and a true heart both from the one who tells it and from the one who listens to it, as without wisdom and honesty the one who tells it, spoils it and the one who hears it, flouts it.

This reference has been made to show and underline the vastness of the domain of management, the little we know and the more we have to discover.

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## INFORMATION SOCIETY & KNOWLEDGE SOCIETY. APPROACHES AND CHARACTERISTICS

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***Abstract:** The rapid development of information technology and communications has a great impact on society and the world economy through fundamental changes in patterns of production and distribution, of nature of work and by default on the ground of individual in society and the legal issues, cultural, political and administrative. Thus, in the beginning of the millennium, the world economy is in a complex process of transition from predominantly industrial society to a society of information and knowledge whose premises are dictated by the dynamics of digital technologies that enable accessing, processing, storage and transmission of information quickly and cheaply. Along the paper, after an analysis of information and knowledge society concepts, I present the interdependency between them with a parallelism between information and industrial society and few characteristics of the new kind of society.*

**Key words:** information society, knowledge society, conscience society

### INTRODUCTION

Currently, information technologies, where the Internet is the reference point, are present in all areas of contemporary human activity and widespread exchange of electronic information has led to the universal communication. Communication is facilitated and encouraged by the growing importance of information content which removes cultural borders and, in the beginning of the century, announced major changes in consumers' behaviour, generated by the development of digital technology. Bill Gates believes that this century will be the promoter of a new concept - "digital nervous system" - which offers a steady stream of perfectly integrated, best directed, and a combination of hardware and software that supports digital processes which, at the firm will allow a faster reaction and more efficiently by boosting the firm relations with customers and business partners, and with its employees [6].

### 1. INFORMATION SOCIETY - CONCEPTS

In unanimously, the experts consider that early information society can be defined with sufficient precision in the early'90 once with the rapid and exponential growth of Internet communication, socio-technical phenomenon more media at the end of the millennium with decisive impact on society and of its future. Thus, the recent years have produced major changes in information technologies and communication, which allowed profound and irreversible transformations in the whole society that led to the formation of a technological environment characterized by widespread computer work, the development of large capacity storage and transmission of information, switching to digital documents etc. The core element of the information society development is universal access to information and creating informational ether to remove the borders of any kind, in the digital transformation of information into

economic and social value, creating new industries, adjusting the existing ones and deeply affecting the life of all citizens [2].

Regarding the concept of information society, it must be analyzed in conjunction with the concept of knowledge society, because the literature offers various views of specialists in the field that is providing a vision of integrating these two concepts, or define them.

In general, the information society can be defined as a society in which production and consumption of information is the most important type of activity, information is recognized as a primary resource, information technology and communications technologies are the basic information and the information environment with the social and the ecological - a living human environment. According to some sources, on the basis that in a knowledge society, knowledge is a major creative force and the key elements of this concept, distinguishing for the century just beginning, are based on information and knowledge circulating through the media, it is a common area of these notions.

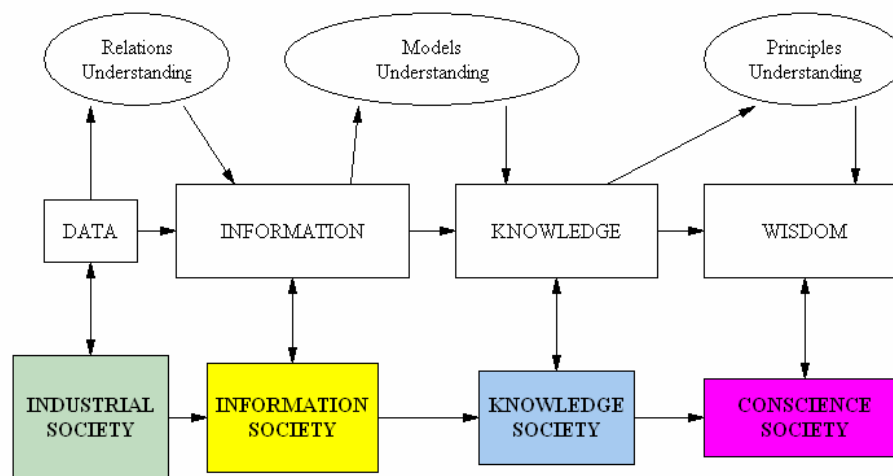
Romanian scientific thinking has its own contributions to understanding the substance and trends of this phenomenon. First I studied the literature defined two aspects of these contributions. Starting from the idea that the most important resource of human knowledge is to know and to know you must inform, it may delimit a first aspect, namely that of a combination between information society and knowledge society, distinguishable from specialists from the Academy of Economic Studies which hold that society based on information and knowledge involves the intensive use of information and knowledge in all spheres of human existence and activity, with economic and social impact significantly. Starting from the definition of information society and knowledge society, and given that currently the economic, social, cultural and all other human activities are dependent on a large volume of knowledge and information, an idea supported by Angela Ioniță, researcher from Institute of Artificial Intelligence Research [8], to distinguish the two key elements of the concept of society: knowledge and information.

## **2. TO THE INFORMATION SOCIETY, BASED ON KNOWLEDGE. CONCEPTS**

The idea is supported by specialists from the Romanian Academy, which is showing in one of the developed projects that advance to the information society, based on knowledge is considered worldwide as a necessary development to ensure sustainable development in the context of "new economy", based in principle on the products and intellectual-intensive activities and to achieve a socio-human advanced civilization. In their vision, the information society based on knowledge means more than progress of technology and information and communications applications, and integrating the social dimension (the impact on health care, solidarity and social protection, employment and labour market, continuing education and training, etc.), environmental dimension (impact on resource use and environmental protection), cultural dimension (the impact on conservation and development of the national cultural heritage and international, to promote cultural pluralism, multimedia development industry) and not least the economic dimension (to develop new paradigms of the digital economy and new knowledge based economy, innovation, entrepreneurial culture and management) [11]. In fall the same vision and opinions of European Commission specialists which show that our society is now defined as "information society", a society in which information and communication technologies are currently used or as "the knowledge society", to highlight that the most important asset is investment in human and social capital, and the key factors are knowledge and creativity [12].

A second aspect is that experts define the concepts of knowledge society and information society, as seen in the work of teachers H. Dragomirescu and Philip Gh. which show that the

evolution from the information society to knowledge society appears as a complex process of societal becoming [5] or as academician Drăgănesu M. says the information age comprises three stages, namely the information society, knowledge society and, in perspective, the conscience society [2-3].



**Figure 1. The evolution from the industrial society to the conscience society**

Demarcation is not strict and can not appreciate that they may do so, on the contrary many specialists show that these three stages of the information age will interpenetrate because, under the process of informing individuals and computerization of processes and the creation of models in the information society, it is building the knowledge society which aimed at identifying, producing, processing, use and dissemination of information to build and apply knowledge for the development of human consciousness [10].

I believe that the concept of knowledge society or knowledge-based society is more than the information society, encompassing one, in fact, and while this is a phase shift from industrial society to the knowledge, characterized by complexity development technological vectors and the functional (knowledge management, knowledge culture, intelligent assistance activities in the economy, administration, education, health care, environment protection).

That switching to this type of society is a priority, is demonstrated by the special attention given by the various national and international institutions for the formation of strategic vision for implementation of information leverage. Marked the first event linked to the concept of "information highway" is dated in 1992, when vice-president since the United States, Al Gore, has shown the importance of technological progress resulted in the creation of equipment and systems that provide pathways faster and more efficient transmission of information. As a response to the American challenge, the European Union specialists made a report entitled "Europe and Global Information Society. Recommendations for European Council" have realised a specialized organism, "the Council for the Information Society", which developed the first European action plan in the field titled "Europe Road to the Information Society".

### **3. COMPARISON BETWEEN THE INDUSTRIAL AND INFORMATION SOCIETY CHARACTERISTICS**

Regardless of the theoretical approaches of these concepts, the fact is for almost two decades we have entered a new stage of development of human society, respectively the information society. This spectacular "evolution" is a key moment in the mankind history, marking the transition from an industrial type of society to information society.

The main points that define the transition from industrial society to information society are levied at both the firm and the global society. At microeconomic level, changes of approach to the business objectives in information era compared with the industrial era are numerous: mass production becomes mass customization; individually marketing replaces mass marketing, supply chain information is optimized with suppliers and customers; virtual globalization is more important than physical location, create a proactive attitude to the business environment etc. And at the macroeconomic level, economic, social, cultural and all other activities are dependent on a very large volume of information thus the revolution of information and communication technologies is a new stage in the development of human civilization.

Different conceptualization of the term information society is based on a *comparative approach*: the post-industrial vs. information society; mass communication vs. new communication technologies, capital and labour vs. knowledge, information and communication.

In essence, a comparison between the information society and the industrial society characteristics creates a picture of it (Table 1).

**Table 1 Comparison between the industrial and information society characteristics**

Features	Industrial Society	Information Society
Main factors of production	Capital and labour	Information and professional training of employees
Manufacturing technology	Big consuming energy machinery, technological equipment, power plants, transport networks and communications	Low energy consuming and environmentally friendly production technologies, computers connected to the network, software, services and communications
Employment	Labour productivity growth is proportional to the increase in unemployment	Simplification of work processes, creating activities that enable online and remotely work, able to absorb labour
Company Type	Enterprise	Virtual Company
Spending destination	Manufacturing activity	Design activity
The exchange of goods	Resulting in slowness training stocks	On-line, allowing zero stocks
Exchange and access to information	Using specialized utilities	User directly over the Internet
Local area	National area	Entire world

Economy based on information technology, the central pillar of the information society, represents a new type of economy, different type of economy to industrial or post-industrial and present many features [9]:

- production proliferation of equipments and symbolic products (computer software, electronic cards, mobile communications, etc.) to eliminate mass production to dispose needs for the purposes of concentrating large amounts of natural and human resources in a firm in order to achieve economic performance
- usually concentrated information in a database is an important input from other resources, for which have a decisive impact on the functioning and performance of economic processes, eliminating the barriers between business, sector, industry, national and global economy by increasing huge communication opportunities vertically and horizontally on the basis of information technologies, and even Extranet and Intranet, which provides a quickly transfer of knowledge in any field.
- economic activities are based primarily on intangible resources as knowledge and intelligence of employees, and the concentration of economic activities are increasingly being removed

- from the original purpose: namely the production of goods to processing and handling of information science, knowledge accumulation and production of intangible assets-knowledge;
- increased number of small and medium enterprises because they can adapt more quickly to economic evolution if they have the necessary information support.

#### 4. INFORMATION SOCIETY CHARACTERISTICS AT COMPANY LEVEL

These characteristics are reflected directly in companies where the information system is the key that takes from the environment all the major changes of the information society. Thus, the functioning of information system has some very important aspects of transition economies from an industrial society to the information one:

- *proliferation of communications systems based on Internet and Intranet.* The Internet provides, via bus information, connection to operations at many companies providing the professional information as connection information, and economic management with other companies - customers, suppliers, banks, etc. Using the www provides the company access to information, advice and purchase of products, etc. in terms of time and costs - as often - the traditional net superior. The Internet has a major share in running the business for many companies: payments, receipts, advertising, promotion and product sales, personnel selection, etc. Intranet consists essentially in applying the Internet and its protocols to the business components.
- *shaping virtual company* whose core element is the informal coupling of individual independent agents to achieve a flexible management centre [1]. Virtual company is a transitional form towards knowledge-based company and only flexible companies characterized by the influence of many "zero" [4] (zero defects, zero inventory, zero delays, zero accidents) will be able to survive, tending to ideal created by information technology;
- informational management crystallisation becomes a necessity as we can consider the informational processes of the firm as a separate subsystem with its own characteristics and should lead the unit to capitalize on many of its maximum values. Further development of this type of management it is possible and can be influenced by the following elements: the computerization of all compartments of the firms, increasing the number of specialists with a new attitude towards information, the transformation of information into a base resource of the company; amazing development of communications etc.;
- *dematerialisation and non-brokering information.* Although the process of dematerialisation began long ago, it is now scaling because of widespread occurrence of appropriate instruments, such as technical computing, modern information technologies, the establishment of databases, Internet and intranet. Dematerialization of information refers to the separation of a large part of information by physical support and present of those symbols by moving to appropriate users, most often independent of products and services. Non-intermediation allows the user to access information directly from the manufacturer to the knowledge of a product or service, thus eliminating the intermediate companies or persons (e.g., electronic commerce, virtual exhibition of products);
- *changing work loads and staff training* for use of computing equipment. Thus, is shaping two components: the older workers who haven't done studies in this regard and that further refine and young employees who have solid training in science and will be co-opted into teams of research and development and coordination of users activities;
- *the Informational outsourcing* assumes the company purchase of products and / or services, which in the previous period were provided inside. Outsourcing can be achieved by partnership aimed at long-term collaboration between firms and is based on sharing tasks and gains involved, using multiple suppliers which refers to the concomitant use of several

services of informational firms commitments through flexible engagements, using a provider service-based contracts where the firm identifies a service provider competent information services that provide long term and that ended a very detailed and precise;

- *Implementation of new models of companies' organization* with a strong informational size. For most industrial companies information side activities determine a flexible organization that grows the company's ability to prevent fluctuations in quantity and quality of product demand through information technologies for the management of stocks in real time and with the implementation of total quality management;
- *expansion of electronic commerce* that has become one of the most important informational changes with direct implications on contemporary companies. E-commerce is an integrated concept, designed to unify a wide range of business services, materialized in the commercial systems from home convenient and electronic systems for making payments at a distance;
- *Online and remotely work development*, as conduct of current activities of a predominantly information outside the company. These activities can be performed by online employees or on their own and run their home work on remote sites or sites that change frequently as needed.

## CONCLUSIONS

At the beginning of the third millennium, in the context of increasing global competitiveness and innovation, more intelligent standing systems causes businesses to redesign processes and informational production and management that are essential for development and even survival of many firms.

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## WEB APPLICATIONS MODELING USING RATIONAL UNIFIED PROCESS AND “4+1” VIEW MODEL OF SOFTWARE ARCHITECTURE

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***Abstract:** Maintaining the companies competitiveness in the virtual markets implies providing as complex as possible Web solutions and e-services efficiency. This is possible by designing a reliable architecture, an attractive graphic user interface and an easy navigation. All these require an e-business model meaning a simplified view of a complex reality based on which decisions are made with regards to goals priority establishment, proper resources allocation and subcontractors negotiation. This paper presents a combination of two Web applications design methods, that is: Rational Unified Process and “4+1” View Model of Software Architecture. These methods have been used in designing the dynamic Web site of “Bogdan Vodă” University.*

***Key words:** Web applications modeling and design, rational Unified Process, the “4+1” View Model of Software Architecture, user interface, navigation*

### 1. INTRODUCTION

The world wide market globalization implied by the technology and Internet development impose business people to adapt to new business logic. This determines the nowadays business deployment to be more competitive then ever. Maintaining the companies competitiveness in the virtual markets implies providing as complex as possible Web solutions and e-services efficiency [Eriksson & Penker, 2000].

This is possible by designing a reliable architecture, an attractive graphic user interface and an easy navigation. All these require an e-business model meaning a simplified view of a complex reality based on which decisions are made with regards to goals priority establishment, proper resources allocation and subcontractors negotiation. Those simplified views allow the insignificant details to be ignored and facilitates the focusing on one or more aspects at a time. An e-business model might represent the basics for other models, different information system which sustains the e-business.

The e-business model determines the business deployment and the way the business processes are improved. It consists of processes that deserve the operational requirements needed for goals achievement [Rusu et. all, 2007].

Modelul afacerii poate fi privit ca un plan de derulare a afacerii. Modelul de afacere prezintă o importanță deosebită, întrucât pe baza lui se iau decizii privind stabilirea priorității scopurilor, obținerea resurselor corecte sau negocierea cu subcontractorii. Modelul nu poate oferi toate răspunsurile necesare dar reprezintă o strategie sau un plan de bază care poate fi urmat.

This paper presents a combination of two Web applications design methods, that is: Rational Unified Process and “4+1” View Model of Software Architecture. These methods have been used in designing the dynamic Web site of “Bogdan Vodă” University.

## 2. RUP (RATIONAL UNIFIED PROCESS)

UML (Unified Modeling Language) is an object oriented graphic modeling language that offers the syntax for describing the major elements (*artifacts*) from a software system [Ariadne, 2001].

As any software, the e-business is characterized by a life cycle, consisting of several phases. UML can be used in each phase of life cycle and it represents a method for model designing that does not provide information about the system development. This insufficiency is covered by UML-RUP complementarity.

RUP specifies the needed models, the reasons for which they are needed and their design method. It also represents a software development method having the following features [Ivan, 2005]:

- *incremental and iterative* – it implies a progressive approach of the problem. Each iteration is evaluated and the next iteration entries are determined;
- *use-case oriented* – the use-cases provide the functional requirements of the system for each phase of the product development;
- *architecture centered* – the RUP process integrates the support for an early system architecture development, facilitating the parallel activities.

The RUP is oriented towards the risks minimizing by their early elimination. Risks refer to the aspects that can arise and obstruct the system development and can be of technical or functional nature [Ivan, 2005].

The unified process allows the customization of each process phase [Ariadne, 2001] [Kovács, 2007]. The RUP model represents a process framework that can be adapted and expanded according to the needs of the companies that has adopted it, being designed, developed, provided and maintained as any other software instrument. RUP also meets several software products features as follows [Kruchten, 2004]:

- there are regular releases of upgrades by IBM;
- it is provided on-line using Web technologies;
- it can be customized for specific needs;
- it is integrated in the software development tools within Rational IBM.

RUP can be approached and analyzed from a two dimension perspective [Ivan, 2005]:

- *time dimension* – referring to the life cycle splitting into phases and iterations;
- *structural dimension* – referring to the process components (analysis, design, implementation, testing) that determines the creation of a set of elements (documents, diagrams) and well defined activities.

The interval between two milestones of the process, within a series of objectives are met and a set of artifacts is made, is called “phase”. From the time dimension perspective, a project is divided into four phases [Ariadne, 2001][Ivan, 2005]:

- *inception* – the process goal and overview are set. Within this phase, the customer requirements are analyzed, the criteria leading to the business success are set, financial forecasts could be made, the returns on investments are estimated, an initial risk evaluation could be run and a project plan can be prepared.
- *elaboration* – the purpose of this phase is the problem analysis, the plan development and the risks zones elimination. Also, at the end of this phase it should exist an entirely project understanding, although it is not about a detailed understanding. At this phase level, two of the UML models are very important: the use-case models and the class diagrams.

- *construction* – the product is made in this phase. The construction phase runs in a non-linear manner, the product being made through a series of iterations, each iteration representing a waterfall model. It is recommended that these iterations to be as short as possible.
- *transition* – this phase focuses on end product placement among the customers. The activities that characterize this phase are: beta version release in order to be tested by the users, testing within the company, data import, databases conversion in different formats, new users training, marketing, distribution, sales, etc.

Each phase period differs from project to project, but there should be the following proportions: 10% inception, 30% elaboration, 50% construction and 10% transition [Ariadne, 2001].

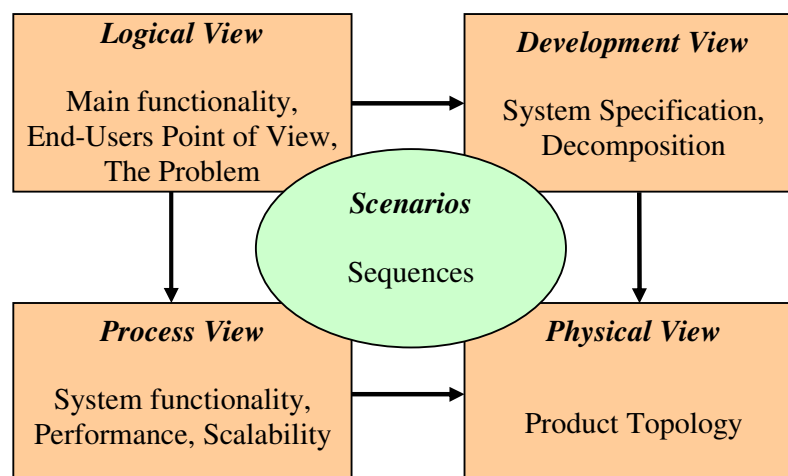
### 3. THE “4+1” VIEW MODEL OF SOFTWARE ARCHITECTURE

The software system architecture could be described using the “4+1” model. Thus, the first four views are based on modeling decisions of the developers [Robal et. all, 2002]:

- *Logical view* – presents the system from the end-user perspective;
- *Development view* – realizes a system description for programmers and managers;
- *Process view* – emphasizes the functionality, performance, possibilities for integrating with other systems;
- *Physical view* – shows the product description from end-user perspective.

The purpose of the five views is to illustrate and validate the design decisions, using scenarios (Figure 1).

The advantage of the multiple view usage is represented by the possibility to discuss with each architecture stakeholder individually (end-user developer, project manager, etc.) [Robal et. all, 2002].



**Figure 1. The software architecture design using 4+1 views**

(Source: [Robal et. all, 2002])

### 4. USE OF RUP IN THE “4+1” VIEW MODEL

Next, a combination of RUP and 4+1 view model is presented, using examples from the modeling of the “Bogdan Vodă” University dynamic Web site.

Building a Web application is not a problem with a preponderant engineering feature; it is also a communication problem within the marketing techniques should provide added value in

order to face the competitiveness and the interaction techniques play an essential role in quality standards satisfying. Thus, the three directions of the engineering, communication and esthetics should be properly combined in the Web application development process [Pastor, 2004].

Since its inception, the UML language rapidly has become the standard modeling language for the software development, but it can be used in Web application development, as well. Generally, the Web applications does not consist of the object oriented pure components. For example, the CGI scripts are represented as simple programs, having a minimal number of ramifications and decisions, although they appeal to object usage [Vultur, 2008].

#### 4.1. THE LOGICAL VIEW

The system functionality can be described using classes and use-cases. The non-functional requirements, as the creation of a specific terms glossary, represent the core of the logical view. The main purpose of this view is [Robal et. all, 2002]:

- clear definition of the tasks to be solved;
- detailed analysis of the Web site;
- functionality and system's users representation, using use-case diagrams (Figure 2);
- the definition of the objects and their states within the system, using class and state diagrams.

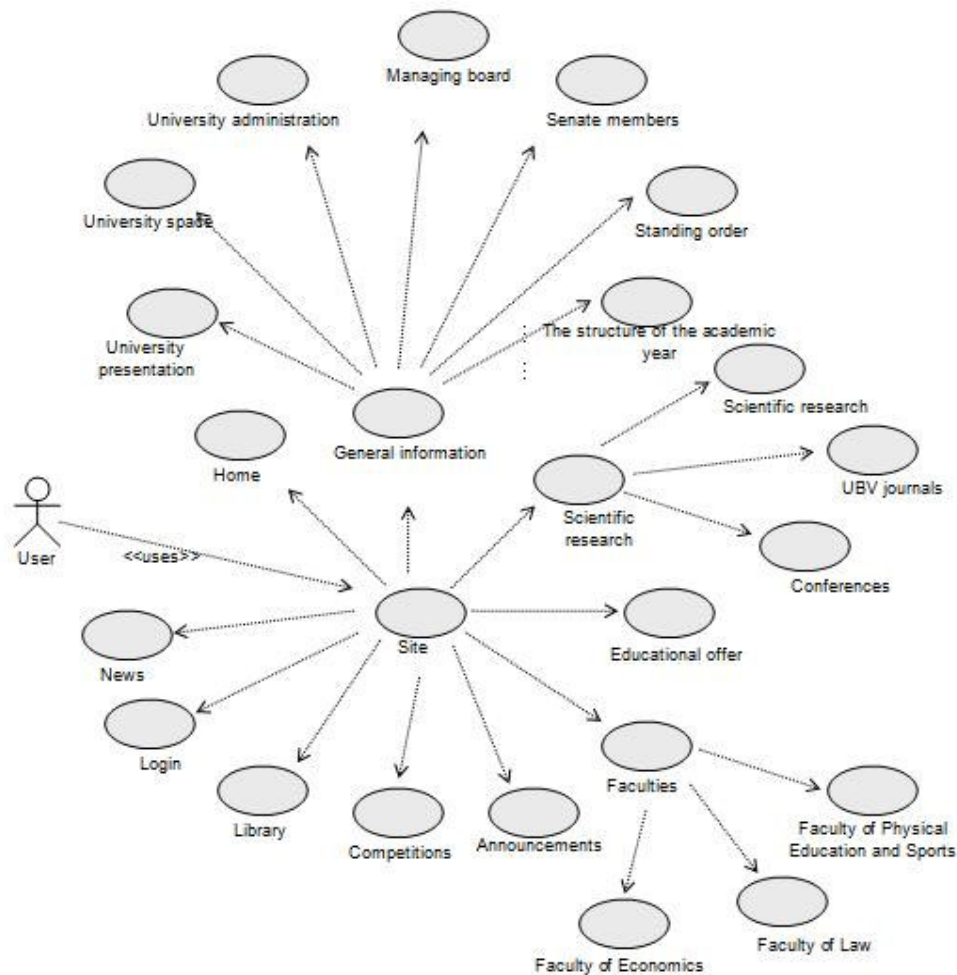
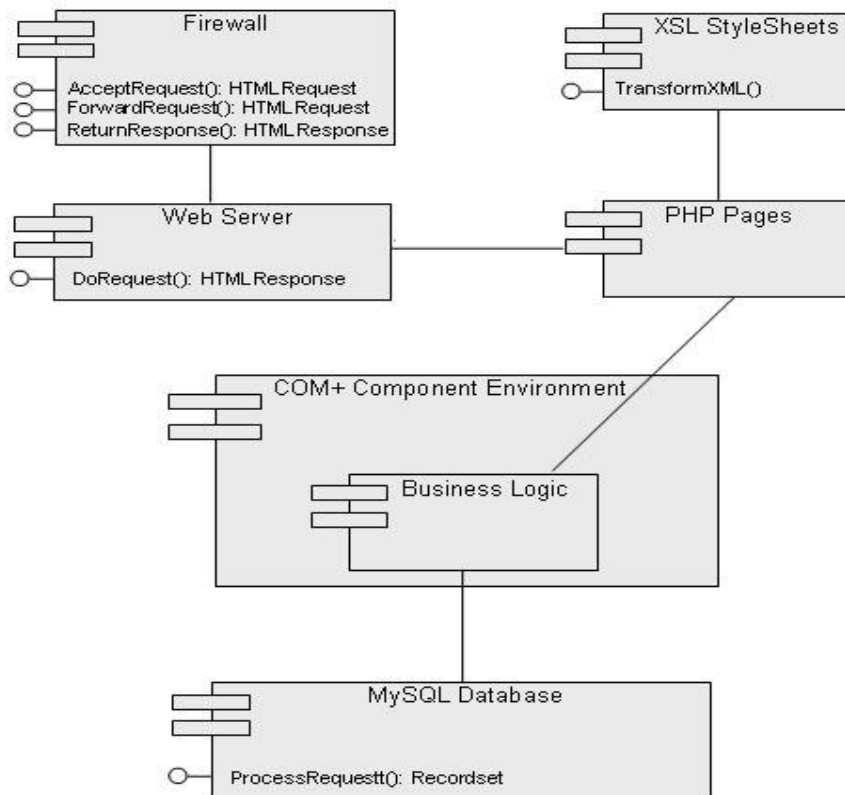


Figure 2. The system functionality and users (using use-case diagrams)

#### 4.2. THE DEVELOPMENT VIEW

The software modules organization is performed using the subsystems diagrams and the modules (Figure 3).

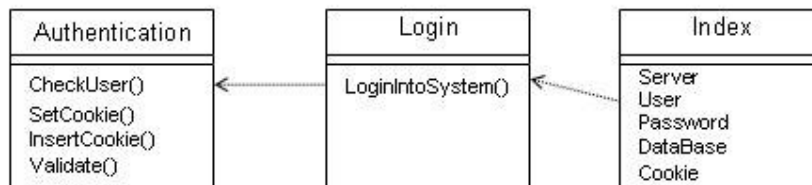
The main purpose of the view is to specify the principal applications used to build the Web site (apache, PHP, MySQL, etc.) [Robal et. all, 2002].



**Figure 3. System components (using module and sub-system diagrams)**

#### 4.3. THE PROCESS VIEW

This view describes the classes and methods in charge of the system functionality (Figure 4), the non-functional requirements regarding the functionality implementation, an initial prototype of the user interface, the final prototype and the full map of the Web site.



**Figure 4. Functional specification in Login use-case(using class diagrams)**

#### 4.4. THE PHYSICAL VIEW

The physical view combines the elements of the logical, process and development view with the non-functional requirements of the system (as reliability, performance, etc.). These elements could be combined in different configurations that can be used in Web application.

#### 4.5. SCENARIOS

The scenarios contain the elements of the four views, the interactions between objects being represented using scenario diagrams (Figure 5).

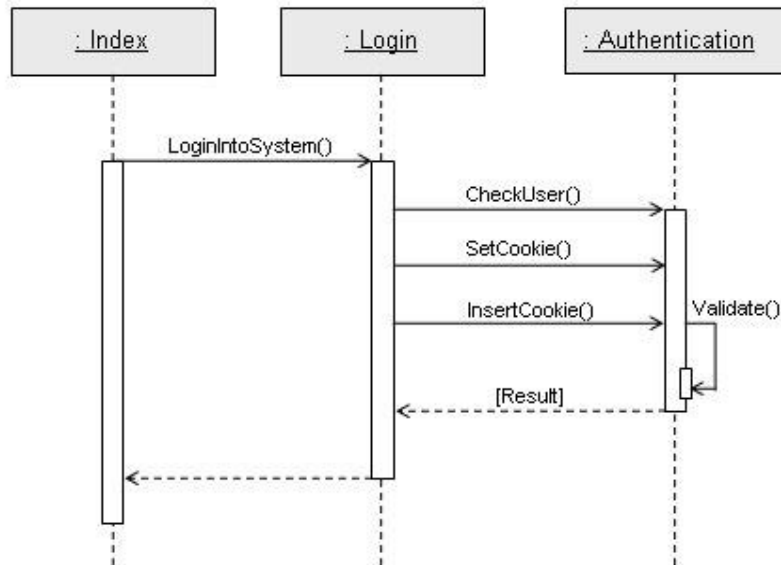


Figura 5. Logging into system scenario (using scenario diagrams)

### 5. USER INTERFACE AND NAVIGATION CONTROL

The graphic user interface and the navigation control represent important elements in Web site building and essential factors in users maintaining. The purpose of the navigation is to provide feed-back to the user, helping him/her to find the required information and to understand the way the Web site is organized.

#### 5.1. GRAPHIC USER INTERFACE DEVELOPMENT

The development of the graphic user interface represents an iterative process that involves: browser, Web site structure and graphic requirements specification, Web site map and graphic elements presentation, initial and complete prototyping of the user interface and the full Web site map.

#### 5.2. NAVIGATION FORMS

The navigation within the Web site could be performed in four ways, thus resulting four forms:

- *the top navigation* – the menu elements are placed on an horizontal bar;
- *the vertical navigation* – the menu elements are placed on a vertical column, usually placed in the left frame of the interface;

- *the top-vertical navigation* – represents a combination of the first two forms;
- *the split navigation* – represents a more complex form of navigation and it is used when the other types don't allow the display of all menus and submenus. The menu represents a hierarchic structure and when a level is selected, it is separated from the rest of the menu.

In designing of the “Bogdan Vodă” University Web site, it has been used a split navigation form, as the main menu consists of ten elements, some of which containing submenus with up to three options each.

## CONCLUSIONS

The world wide market globalization implied by the technology and Internet development impose business people to adapt to new business logic. This determines the nowadays business deployment to be more competitive then ever.

Maintaining the competitiveness of the companies in the virtual markets is conditioned by the providing of complex Web solutions and efficiency of Web services these solutions provide. They require time in inception, elaboration, construction and transition phase.

There are different methods of Web application development, one of which being described in this paper and combines the Rational Unified Process with the “4+1” View Model of Software Architecture.

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## USING BLOGGING AND MICRO-BLOGGING PLATFORMS AS COST EFFICIENT NICHE MARKETING TOOLS

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**Abstract:** *In this paper are presented the reasons for which niche marketing is a cost-efficient approach. Then reasons for which the Internet is such a good medium for niche marketing are presented, including particularities that make possible Long Tail approaches. As tools for niche marketing, blogging and micro-blogging platforms are presented. At the end of the paper a look is taken at trends in the usage of blogging and micro-blogging platforms.*

**Key words:** Niche, Marketing, Blogs, Micro-Blogs, Trends.

### 1. NICHE MARKETING - SEGMENTING THE MARKET MAKES SENSE

The idea of targeting a small segment of the market has been around for many years. It's an important part of every marketing strategy. As Kotler points out in his book Principles of Marketing, as marketing, the markets and the consumers evolved, companies have to leave behind the idea of targeting everybody with their marketing efforts and focusing, instead, on smaller segments. The classical example is Procter & Gamble, a giant company and a marketing machine that doesn't sell just one brand of detergents, it sells 6-7-8, depending on the market, each being targeted at a particular group of consumers. This tendency of narrowing down the segments in order to be able to better satisfy the more and more demanding consumers has various reasons among is the evolution of the mediums that a marketer can use to target its customers.

The American Marketing Association (AMA) defines marketing *as activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large* (source AMA's website Marketingpower.com). A significant part of all marketing efforts are directed at passing along a message to existing or potential clients, telling them about the company's products, values, goals. Not long ago Chris Anderson coined the term of The Long Tail with which he described the niche strategy of companies like Amazon that managed to sell very specific, almost unique items to a relatively small number of customers. These books and music appeal to a very small group of people. There are two things that are amazing about these approaches:

- They made a significant profit on these Long Tail items;
- They were able to do what brick-and-mortar stores could not afford.

Amazon was able to fully profit from the Pareto 80:20 rule, in which the 20% part was fully exploited and not ignored. The oddballs became something profitable. The reason why companies like Amazon are able to serve the Long Tail is that they make use of an incredible versatile medium, which is the Internet.



## 2. THE INTERNET IS AN APPROPRIATE MEDIUM FOR TARGETING NARROW NICHES

When a company chooses a niche it usually looks at 4 criteria: geographic, demographic, psychographic, and behavioral. By mixing these 4 criteria a company can target a larger or narrower niche. Sometimes these criteria are themselves barriers for targeting what you desire. If a too narrow niche is created, then there may be a problem in reaching enough people with a reasonable amount of resources.

Let's take as example old dos games. For many people the first contact with a computer was though some form of a computer game. As little as 15 years ago people played games that the teenager of today would not be caught dead playing. However there are enough people that would love to replay those small arcade games that got them into computers. A brick-and-mortar store is unlikely to have success. However, put these on a web site, promote it a little bit, make it easy for people to find it and it might attract enough people to do well. Such an example is the website *Abandonia.com*. It managed to be highly successful at what it does, targeting its very narrow niche of computer geeks old enough to have played these games. It now has over 80000 registered members which brings the website enough revenue to make it continue its efforts and evolve. What is fascinating about the website is that the activity peaks around holidays like Christmas and New Years, when people sit around and have time to remember the good old days. It is highly unlikely that anyone would get out and go to a store to buy a CD on New Year's Eve, but it is very easy to do a few clicks and get what they want.

This brings us to the characteristics of the Internet that make is such an efficient medium for niche marketing

- ch1.** No geographical barriers;
- ch2.** Ease of receiving feedback;
- ch3.** Round the clock availability;
- ch4.** Instant access;
- ch5.** Low costs.

Among these, the two most important characteristics for the niche marketing approach is the removal of any geographical barriers, as far as communicating with the client goes and the ease with which feedback is received. These two make the Internet the powerful niche marketing tool it is. *Abandonia.com* has its website translated in more the 20 languages and all this was done by the community. Only by gathering people from all around the world in one place was possible to have a community which is 80000 strong.

## 3. REACHING OUT TO A NICHE AUDIENCE IS COST EFFECTIVE

One of the major disadvantages of mass marketing is the high cost. It is very expensive to reach out to everybody. To do this a marketer must resort to mediums such as television, newspapers and magazines, radio and any other medium that has a very large audience. The cost of using these mediums is high. As consumers become better informed and are flooded with more and more information every second from companies that try to attract their attention just enough to send out their message, a form of advertising immunity is developed. Consumers start ignoring more often the messages companies are pushing through all the available mediums. The result is that companies need to put in even more effort in pushing their messages and compete with each other for the attention of the consumer. Flooding the media channels with yet another message does not help too much, the consumer are already developing a sort of immunity to these messages. Just think about how many billboards, TV and radio commercials you ignore

every day. The obvious solution is to push a message that the consumer is looking for and at the moment when he is listening for such messages.

This is the genius behind Google's advertising model. Google's ads for car dealerships are displayed when users are searching for car related topics. In this case both conditions are met. The consumer wants the message and listens for it. What this approach does is segmenting the market. Even more, if we look at the Google ads, advertisers can choose their target audience to minute details, including geographical location. Niche marketing is not just Google AdSense and is not just advertising but this example helps illustrate a very important aspect. Companies can avoid fighting for the consumers' attention on overcrowded media channels where nobody wants to listen and instead focus on what consumers want.

By defining very clearly the niche in which it operates a company makes it easier to push a message to its audience. A lot of effort and ultimately costs are saved, costs that can be focused on other aspects of the niche marketing efforts. A very important part of these efforts is communicating with the clients.

#### **4. COMUNITIES ARE A POWERFUL MARKETING TOOL**

In a traditional approach feedback is received only from the sales force or by conducting expensive market researches. Web applications give the possibility not only to monitor user behavior but to engage them in discussion by using forums, comment sections, chat rooms, feedback forms and surveys. By using and analyzing this data invaluable knowledge is gathered that helps in improving the services provided.

A big part of the marketing efforts are dedicated to communicating with the customers be it returning, new or potential. We need to push to them who we are, our philosophy, our idea, our brand and products and give them the reasons why they should buy from us. In return we will get orders and feedback. Both are of great value. A good marketing approach will strive to create a community around the companies' brand, a series of followers that are die-hard fans which spread the word about the brand more effectively than any marketing campaign. Apple is one of the brands with some of the most fanatic followers acting as evangelist to the rest of the world. This great community gives Apple a powerful, hard to reproduce marketing tool. Google is another company the uses the power of the community. It is well known that Google rarely spends any money on advertising; most of the publicity is being done through word of mouth. A great example of the power of the community is Gmail. When it was launched no ads were put up. It was just announced. Google's users spread the word about it and soon everybody knew about Gmail. The touch of genius, or maybe chance, was that Google made the service invitation based and the invitations every user had were few. Soon these invitations became something everybody desired. These two examples show how communities can be powerful marketing tools. They give both the means for to spread a message and a way for to get feedback. What has to be noted is that it's not needed to have a million people to form a community. Seth Godin argues in his book Tribes [GODI08] that 1000 active members give enough momentum to build a thriving community. If a very narrow niche is targeted, 1000 people is a significant number.

#### **5. BLOGS ARE TOOLS FOR STARTING A CONVERSATION**

So the question that arises is how can a community be built around a brand? To do this, companies need to communicate. And blogs help do just that. A blog is nothing more than a website that makes it very easy to post new articles, organize them and gives people the ability to comment. The cost of setting up a blog can be zero, as there are many free blogging platforms like the highly praised WordPress.Org or the Google-owned Blogger.

On these, and on many others, anyone can setup a blog in minutes. Costs arise from customizing these blogs and ultimately it's up to the owner how much money he is willing to put in it.

Once the blog is up and running, the niche is known, a great product exists and the audience is known, the only thing left is to speak up. Results will probably not be instant, they rarely are, but if the communication is done right and the community is engaged correctly then everything is set up for a conversation. A great example of a company that is great at creating conversations is Zappos. They have taken communication with their clients and customer service to the form of art and their success speaks for itself.

## **6. MICRO-BLOGS ARE GOOD FOR MONITORING TRENDS**

Another tool for spreading a message, as a company, and receiving feedback is micro-blogging. This is a fairly new concept that makes its way into mainstream use. The best known micro-blogging platform is Twitter with allegedly 8 million users. Micro-blogging consists of posting very short messages. In the case of Twitter, only 140 characters long. What these platforms bring new is the social-media feel. On Twitter users can follow the updates of any other user and anybody can follow their updates. Comparing this to blogs, when a user follows somebody, they subscribe to his RSS feed. Because of the look and feel, these platforms are considered to be closer to social-media.

Micro-blogging has some advantages over blogging:

- a1.** Ease of use;
- a2.** News spread very quickly;
- a3.** Perfect environment for starting a viral marketing campaign;
- a4.** Very good platform for monitoring trends.

Among these advantages the most powerful are proving to be the possibility to monitor trends and the speed with which news spread. Micro-blogs give the possibility to listen to the community. Companies are starting to use blogs more as they should be used - as a center point of communicating, both ways, with the community. Microsoft uses its employee's blogs, which vary in topics, but mostly focus on technology. They had to embrace the wave of blogs that began a few years ago and, instead of fighting it, they accepted it. Now these blogs create a community around the company's culture, highly valued by the developers' community.

## **7. BLOGS AND MICRO-BLOGS ARE COST EFFECTIVE NICHE MARKETING TOOLS**

The cost of setting up a blog starts from zero, as many free platforms exist and in five minutes the blog can be up and running. Many micro-blogging platforms are free of charges and the setup of an account is even easier. The real cost of these platforms is in the commitment companies must take when these tools are implemented. It's not enough to set up a blog and a micro-blog account. A lot of effort must be put in using these tools properly and becoming a valuable member of the community in which the company is interested, or even building the community from zero. Seth Godin is saying that you, the person who delivers the message, needs to become the leader of a tribe, build its tribe and lead it. He uses the word tribe which many consider yet another buzz word, but if we replace it with community we see this point.

However, once the community has reached a critical mass communication efforts are going down substantially. Jay Levinson in his Guerrilla Marketing book underlines several times that the cost of using such tools as blogs, e-mail news-letters, podcasts are very low. If a company can reach 1000 interested and eager customers any second with the cost of posting an article or sending an e-mail, than this can be hardly be beaten by any mass marketing approach.

Micro-blogs make it even easier. All that is needed is a well devised 140 characters long message that will engage in the right way the community.

The bottom line is that blogs and micro-blogs are in the hands of marketers are cheap and many times even more efficient alternatives to mass marketing approaches. It is a mistake for marketers to ignore these tools but it is an even greater mistake to misuse them. Seth Godin has been asked many times by the community why he, one of the most successful marketing blog writers, does not take on micro-blogging. And his answer to the community was that he feels that he won't be able to be the best at it, while with his blog he managed to be the best. And nobody can tell him that he doesn't have a point. Even his blog he uses in a different way than most, by disabling comments on his posts. He is always accessible by e-mail, so the conversation is always two ways, but he cut off what some see one of the essential features of blogs.

## **8. TRENDS IN THE EVOLUTION OF BLOGGING AND MICRO-BLOGGING PLATFORMS**

With the appearance of micro-blogs some tendencies can be seen in the evolution of these tools:

**t1.** *Trend monitoring.* One of the powerful tools that are starting to be used is trend monitoring. Platforms like Twitter make it very easy to see what people are talking about at any given moment. Applications like TweetDeck implement modules that highlight the most disused words in the form of a tag cloud. One look and you can tell what is happening in the world.

**t2.** *Real time Search engine.* This is very closely related to the point t1. Micro-blogging platforms consist of real-time short message streams. These are indexed and searchable which gives the power to see, at any moment, in real time, what people are saying about a particular problem. For example, a company that launches a product has the power to see what people are saying about it, all over the world in real time. The influential tech weblog TechCrunch has stated in an article from the 5th of March 2009 [ARRI09] that such a search is and may be beyond the capabilities of search engines of the type of Google. And the good thing for any company is that if they blink and miss it they can always come back and search for it.

**t3.** *Aggregating the conversations.* While micro-blogs are very fast, easy to use and the perfect way to spread a viral campaign, conversation on blogs tend to be more thorough. There are many other services that create conversations, like social networks and user generated content websites like YouTube. The trick is to track a conversation started in one place as it jumps from platform to platform. Here tools like uberVU start to appear. uberVU is a Romanian start-up that is getting more and more attention. Their product wants to unite all these conversations, from around the web, in one place. This will be a powerful tool in the niche marketer's toolbox for engaging the community.

An increasing number of companies and professionals are becoming present online, through blogs and micro-blogs. On services like Twitter, as the number of users grows, the percentage of tech savvy early adopters is giving way to business, from marketing specialists to lawyers, doctors and doors salesmen. An example is the Romanian theater Masca, which is present on various micro-blogging platforms.

## 9. CONCLUSION

Marketing is very much about listening to the customers, understanding them and communicating to them that what the company does is indeed what they need. As mediums evolve and with them the consumers, it is becoming more easy and necessary to target smaller niches. The effort needed is less and less and the effect is greater and greater. Blogs and micro-blogs are proven tools for targeting niche audiences and creating communities. The continuous evolution of the medium that is the Internet is making possible and very cost-effective real time monitoring of the brand-perception. This encourages more companies to start taking advantage of these tools. As with every technology it is very important to remember that the underlying principles of niche marketing have not changed. If mistakes are made, no technology will help. All these tools should be perceived as nothing else then tools that will amplify the effects of any actions marketer takes, be those good or bad.

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