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THE RISKS AND ADVANTAGES OF THE DECISIONAL PROCESS STRATEGICALLY ASSOCIATED TO THE ROMANIAN COMPANIES

TIBERIU CRISTIAN AVRĂMEȘCU, EMILIA UNGUREANU *

ABSTRACT: *In the present, the Romanian companies are faced with a phenomenon consisting in increasingly taking decisions based on uncertainty and risk as a result of the permanent process of transforming the economy, and as a consequence of carrying out the activities of privatization, restructuring and internationalization of activities. As a result of its complexity, many risks are come along with it. But, mention can be made of important advantages in the case of the Romanian companies that make use of the strategic decisions.*

KEY WORDS: *strategic decisions, strategic management, external environment, risk, uncertainly.*

In a market economy, a company's survival and development depends, to a great extent, on its capacity to react to change as well as on the nature of its relations with the external environment. Especially in the last two decades, it was subjected to deep changes.

The companies are interested in strategy and this is due to the fact that the external environment has become increasingly dynamic and unpredictable. This has made the company influence the evolution of its economic environment. Therefore, we witness the strengthening of the links between the company and its external, national and international environment, made up of a wide range of variables. The action of these variables influences the economic, commercial and managerial behavior of the company. A realistic, coherent and explicit strategy is of utmost importance for the company, for its future and for reducing the uncertainty. The firm must not limit to react to changes, but also to anticipate the evolution of the environment in which they carry out their activity.

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Being a primary component of the decisional system, the decision represents the most important element of the management, a specific tool when taking action. The qualitative level of management is best characterized by assessing the scientific arguments and methods used in the case of the elaborated and enforced decisions.

The strategic decisions represent the most important result of the management process. The strategic decisions are vital for the activity of the company and have in view long periods of time (3-5 years). They influence the structural and gradual components of the company. The strategic decisions are enforced when a new product is introduced on the market, when some investments- acquisition or merging- are made. Taking such a decision implies a complete analysis of the company and of its environment to diminish the risks as much as possible. In the case of the strategic decisions (which can have in view global or partial strategies), a company resorts to all possible techniques (market research, the yield of investments, financing plan).

In the case of **the decision making process**, we can identify three cases:

- **certainty**, characterized by the maximum probability of achieving the goal that is followed making use of the established means. In this case, the variables can be controlled, their characteristics known and their evolution can be foreseen with a high degree of precision;
- **uncertainty**, when the probability of achieving the goal is high but there are uncertainties in point of the way of action. This case is characterized by a large number of variables, many of them can be controlled, some of them are not enough studied; therefore, one can not foresee their evolution;
- **risk**, when the goal can be achieved, with a high probability, but the most adequate means to be followed have the highest degree of uncertainty.

The companies are faced with **certain, uncertain and risky cases of decision**, which come up and are solved by making certain decisions. An example would be the risk generated by the high number of uncontrolled variables or variables which are difficult to be controlled. They may appear in the case of some actions that have in view the increase of efficiency or when introducing the scientific and technical progress, when penetrating new market shares or new international markets, as well as when privatizing and reorganizing a company. The term when a certain decision can be taken and can be expected to have efficient results, is limited. This decision will be too late and lacking efficiency once the optimum interval has been exceeded, once the identification of the exogenous and endogen factors in the managerial system has been made.

The strategic decisions are adopted in uncertain circumstances (the external and internal information system, their quantitative and qualitative system, have in view an uncertain future), highly risky circumstances (endanger the respective company's future); choosing a strategy is a unique decision, by means of which the manager chooses the way the company will go from that moment on.

The entire strategic attempt is dynamic and continuous in the sense that setting up the strategy, enforcing and updating are made continuously. Thus, the strategies are continuously changed and adapted to the new cases. Thus, one must always keep in

mind the new human, cultural and organizational realities as well as the unpredictable changes that occur in the external environment of the firm. In any decisional process carried out at the level of the company, there are simultaneously involved a sum of economic, technical, juridical, human and managerial variables. Many risks are attached to it, just like in the case of the increasing contextual determination.

The main types of risk associated to the Romanian companies can be grouped in the following categories:

Economic risks: The economic factors are the sum of economic elements that can influence a company's activity. The economic factor influences especially the strategy adopted by the respective company, because of the fact that it includes the market. A company's survival and development depend, first of all, on the existence on the market. The economic risks are caused by the respective company's contextual evolutions and by the qualitative level of the economic activities carried out in it. The most frequent economic risks, that influence all decisions that have been taken, are:

- the risk consisting in the inflation that goes up;
- the risk of increasing the credit interest rate;
- the risk of changing the currency exchange rate;
- the risk of economic exploitation referring to the inclusion in the breakeven point ;
- the investment risk.

Financial risks: They are generated by getting and using borrowed and equity capitals. The most frequent ones are:

- the risk of having no liquidities, a case that is accounted for the variability of the financial results indicators generated by the company's financial structure;
- the risk of not obtaining return because of bankruptcy and of some very large expenses;
- the risk of excessive indebtedness.

The financial risk is a characteristic of the variability of a company's results, as a result of the influence of the financial structure of a company's capitals. The financial risk is an extra risk generated by the fact that the company resorts to credits for financing. It appears because it may happen that the positive flows of liquidity do not cover the respective negative flows. The level of the financial risk depends on the financial structure of the capitals. A higher degree of indebtedness implies a higher financial risk. The indebtedness, in point of degree and actions generated, influences the variability of the company's results.

Commercial risks: They are associated with the supplying and selling operations on the internal and external markets. Among the most important commercial risks, mention can be made of:

- the price risk;
- the transport risk;
- the selling risk.

Manufacturing risks: Are generated by technological and organizational disturbances in the case of the production activity. They can be considered manufacturing risks, which have an increased intensity:

- the risk of non-respecting the predicted qualitative level;
- the risk of not achieving, from the quantitative point of view, the predicted production;
- the risk of overcoming the specific standardized consumption;
- the risk of producing wastes and of refusing orders (consequence of not obeying the quality);
- the risk generated by the possibility of producing labor accidents;
- the invisible technological risk (chemic, toxic, nuclear).

Political risks: The political factors, very important, act directly or indirectly, influencing the strategies and the policies of the firms as well as the decisions of achieving the goals which are set by them. The political risks are caused by the changes that occur in the case of the political factors' strategy and current actions they undertake in their own country (at national, regional and local level), in the countries with which the company has direct and indirect contracts. The most frequent political risks are independent of the company's actions. Among them, mention can be made of:

- risks of limiting the imports and/or exports;
- the risk of limiting the currency transfer;
- the risk of refusing to admit the company's products on the territory of certain states;
- the risk referring to sequestration and/or buying certain goods belonging to some foreign economic agents;
- the country risk, reflecting not only political factors, but also economic and social ones.

Social risks: They refer to these risks which influence the managerial decision as a result of the relations established with the company's staff and as a result of its behavior. Among these types of risks, mention can be made of:

- the risk of not motivating the staff;
- the risk of increasing the expenses for the staff above the maximum admitted limit;
- the risk of losing the managerial positions by the leaders;
- the risk of forming an anti-economic organizational culture.

Juridical risks: They are mainly caused by the national legislation and, more seldom, by the international one which refers to a company's activities. They can be:

- the risk of losing or destroying the goods and products;
- the risk of not encasing the money the sums which are to be encased for certain economic activities.
- the risk of paying extra or increased taxes ;
- the risk of economic or law penalty;
- the risk of having the business blocked.

Natural risks: They are caused by natural calamities or other disasters in which the natural factors prevail:

- fire risks;
- earthquakes risks;
- flood risks.

The usefulness of strategic management is influenced by its advantages which can contribute to improving the managerial process, to increasing the companies' competitiveness and to their profitable adaptation to the new requests and challenges. Thus:

- the strategic management and the use of strategic decisions is the most adapted managerial approach for the anticipation of the future problems which the respective firm may be faced with, for the opportunities and threatens it will be faced with under the circumstances in which, in many fields of activity, there is an increase in the speed in point of changes. The companies have to adopt the principles and the objectives of the strategic management under the pressure of change and of the need to give a successful answer. The strategic management makes the managers think strategically and be aware of their action changes.

- the strategic management approach makes up the necessary framework for the active involvement of all managers in a company, starting with the lower level and up to the general management of the company. All managers, irrespective of the hierarchical level they occupy, must be involved in the actions of creating, setting, enforcing and assessing the overall strategy and of the other elements that come from this. Each manager's involvement is in accordance with the role it was granted to him/her in the strategic management process, with the authority that was granted to him/her and with the accepted responsibility. Thus, the strategic management ensures the conception unity and action at all hierarchical levels in a company. By the elements it has, the company's strategy forms the basis for describing in detail the elements to be found at the level of each unit or subunit, at all management levels. At the same time, the strategic decisions based on the massive involvement of managers and experts acting on various hierarchical levels, ensures the development of the team spirit, a more precise delimitation of individual and group responsibilities, a more rigorous consolidation of the strategic variants and a better choice of the strategy to be enforced.

- the most important advantage of the strategic management model results from the fact that, when it is enforced in a proper way, it allows the improvement of the financial-economic results of the company, the rapid development and the consolidation of its position on the market, the significant increase of competitiveness. The firms that enforce the strategic management are more efficient than those companies which are not interested in this form of management. At the same time, the employees of a company that makes use of the strategic management are more motivated than the employees of a company that does not make use of this form of management.

The utility of a strategy is measured by its profitability and by the advantages the respective strategy generates at the level of a firm.

The advantages of the Romanian companies that make use of strategies can be divided into two categories:

a) advantages at the *company level*:

- allow the precise description of the strategy to be followed so that the company's activity goes up for a rather long period.
- diminish the negative effects of some risky events (the strategy takes into account the potential risks);
- are a logic argument for consolidating the tactic and current decisions;
- encourage competition;
- consolidate the position of the respective company in the system it carries out its activity, from the point of view of the resource and results level;
- allows the assessment and the increase of the competitive advantage of the company;
- their purpose is always to contribute to the company's viability, by increasing its performance and ensuring a proper level of its liquidities.

b) advantages at the *macroeconomic level*:

- bigger contributions to the national budget will be generated as a result of increasing the turnover, the profit and the value added;
- the encouragement of the development at regional and national level;
- the increase of the performance indexes at the level of the national economy (gross domestic product, national income).

In the case of the Romanian companies, the use of proper strategies must take into account the new domestic and international circumstances in which they carry out their activity. The success or the failure of the companies carrying out their activities in our country is influenced by the way in which they will face the various environmental changes.

Both setting up coherent strategies which involve the participation of all decision-making factors, and the connection between setting up and enforcing strategies, contribute to increasing the employees' motivation and to diminishing the resistance to change, to creating favorable circumstances for developing and increasing the company's performances. In their turn, these performances form an important basis for the potential of the national economy, contributing to its increase.

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THE DEVELOPMENT OF SUSTAINABLE ROMANIAN TOURISM IN THE BLACK SEA ZONE, A CHANCE FOR HIS INTEGRATION ON THE TOURISTIC WORLD MARKET

GRAȚIELA BRÂNZĂ *

ABSTRACT: *Romanian seaside tourism has to resolve a lot of problems, such as: improvement of services quality, diversification of entertainment supply, modernization of touristic structures with function of accommodation, rehabilitation of general infrastructure, investments for development, a fair quality-price ratio, strong competition from other littoral destinations from Europe, promotion actions. Due to this fact, romanian seaside is not an attractive touristic market. These problems need to be solved in order to facilitate the integration of romanian seaside tourism on the touristic world market.*

KEY WORDS: *romanian seaside, seaside tourism, development, Black Sea, integration, touristic world market*

1. CHARACTERIZATION OF ROMANIAN SEASIDE TOURISTIC SUPPLY

Currently, the romanian seaside of Black Sea has to face a serious problem, because his touristic supply does not satisfy the present level of external markets demands, being necessary measures of rehabilitation, modernization and promotion. The studies elaborated by World Tourism Organisation, based on the informations and market analyses realised in the european countries which have big touristic fluxes, as well as on the investigations undertaken to foreign tourists which visit Romania, characterize the touristic offer of romanian seaside through the following aspects:

- all types of programs offered by the romanian seaside are confronted with a strong competition from other littoral destinations from Europe;
- the romanian littoral supply is relatively limited, including some resorts and as part of these, just a few hotels;

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- services quality is lower than that of competitors' destinations, as: Bulgaria, Turkey, Greece or Ciprus;
- the entertainment offer can't compete against other destinations offer;
- road infrastructure is an inadequate one;
- regarding quality-price ratio, romanian seaside is not an attractive touristic market.

Synthesizing the main causes that determined the lowest economic performances of tourism industry on the romanian seaside, comparative with those of central and east european countries and the European east, we can mention:

- the lack of a coherent and stable program of actions concerning the development of tourism in the seaside zone;
- the lack of investments for development, modification and rehabilitation of general infrastructure, due to the slow and complicated process of privatisation, to an inadequate fiscality, to a lack of facilities in the area of banking credits and others;
- with some exceptions, the touristic area wasn't so attractive for foreign investors;
- practising high interest rate in the same time with the permanent depreciation of national currency, as well as with the persistence of a high inflation rate;
- a big duration necessary for the reconstitution of private property in the case of national assets;
- the reduction of buying power of the population and the reorder of priorities;
- the system of professional formation both for second cycle and academic education, and for the adult formation;
- the reorientation of a part of internal touristic demand to external destinations.

2. STRATEGY OF ROMANIAN TOURISM DEVELOPMENT

In his strategy of romanian tourism development, elaborated in the year 2006, National Authority for Tourism proposes a lot of strategic directions, actions and procedures in the sight of development of romanian seaside tourism, considering the necessity of his integration on the touristic world market.

Firstly, the development of tourism supposes the development of general infrastructure (building of freeways, modernization of railway transport and the airport „Mihail Kogălniceanu” and others.

Secondly, it is necessary the diversification of touristic supply through: the consolidation and the development of the best known tourism forms - rest and entertainment, balneary cure; the promotion of other forms of tourism as: itinerant tourism, with cultural and religious valences, rural tourism and agroturism, business and reunions tourism, specialized tourism (horsemanship, scientifically, speoturism, naturism etc.); the diversification of entertainment supply (nautical, cruises, immersions, sports, pools etc.).

Thirdly, romanian littoral tourism can launch again on external market through the growth of general attractiveness of the resorts, what means: the modernization of all bases of treatments from the seaside resorts, increasing of touristic services quality (yearly training for all employees) mainly in the touristic structures with function of

accommodation, respectively food structures from hotels; the modernization of hotels which have bases of treatments and their endowment with systems of heating for the enlargement of operation period; the elimination of the old equipments and endowments of entertainment and their replacement with modern equipments.

Fourthly, tourism development involves the growth of services quality offered on the seaside beaches – respecting the Blue Flag criteria by all beaches.

Fifthly, the development of romanian tourism means the protection of natural and builded environment, especially of coast environment which is most predisposed to degradation of natural and human created factors.

Sixthly, the integration in European and international programs for Black Sea and especially in the policy of tourism development in the Black Sea basin represents an another strategic desideratum for the development of littoral tourism.

Not last, the accentuation of touristic supply promotion, the development of training and informational actions for population considering the relation tourism-environment and the environment protection represent important strategic directions of action for the launch of romanian tourism from the Black Sea zone on world market.

3. CORRELATION TOURISM POLICY – NATIONAL ECONOMIC POLICY

The launch of romanian tourism, inclusive tourism in the Black Sea zone, implies the necessity of correlation tourism policy with national economic policy, through the settlement of legislative proposals and the complete measures which facilitate the development of tourism. In this frame are important: fiscal and budgetary policy, regional and local development policy, policy for the development of general infrastructures and the structural and organizational reform.

In what it looks the fiscal and budgetary policy, the state haven't done much to stimulate the growth of quality and to attract investors in tourism area. Comparatively, Greece and Turkey created a very good climate for the investors which shall develop businesses in tourism. Credits are reasonable, the conditions are excellent and the state offers support through generous amount for promotion.

In Turkey and Greece, fees are smaller 4 or 5 times than in Romania, because the authorities apprehended that besides tourism sector can develop another related areas. The operators from coast zone pay 29 different taxes. This depends, also, by the fact that tourism has to be treated as any another area, concerning the fees.

World Tourism and Travel Council (WTTC) recommends the government to assure the fiscal regime in tourism which encourages the growth, the export, the investments, the infrastructure, the innovations in business and the creation of labour places. The principle payment-benefit should be implemented, so that the funds collected from tourism to be used for infrastructure and touristic promotion. It is important for the romanian authorities to remember the principles and the lines WTTC of Intelligent Fee - that recommends equity, efficiency, simplicity, correct generation of incomes and increase stimulation.

The policy for the development of general infrastructures refers, in forerank, to transports and telecommunications.

For the development of efficient and modern systems of transport is enforced the rehabilitation and the modernization of national roads and railways network in order to facilitate the circulation and the access toward the zones of touristic interest. Is necessary also the conception of a relaunch programs and the development of airports and ports, the modernisation of railways transport, as well as the development of multimodal transport systems. Not last, it is important the relaunch of development program for maritime and fluvial fleet, with implications in the diversification of touristic services supply and in capitalization of elements of the touristic potential of country finded out in a reduced or non-existent stage of capitalization (the internal course of Danube Delta, touristic programs on Black Sea and others).

The modifications to the level of digital economy are essential for the enterprises to become and to maintain themselves competitive. The spread of internet facilitations and of personal computers is one of the most poor from Europe. From Eurostat point of view, the number of romanian enterprises, which hire more of nine employees, approaching internet, in the year 2004 were only 13%, comparative with an average of 52% in 25 countries members of the European Union.

Tourism and travels, view as an intensive technological industry, can help Romania to obtain and to apply the technological systems of information and the telecommunications at a competitive level. A good example is the telecommunications. A biggest part of tourism and travel operations, as well as all the virtual operations of sale and distribution communicate through telecommunications systems. Where there is a monopoly on telecommunications, exists frequently restrictions concerning the access, the big costs and the unreasonable conditions of operations. Conversely, it limits the potential of tourism and travel expansion toward market, having negative effects both at national level and international, regarding the costs, the operational efficiency and customer services.

The recommendation of WTTC is that romanian government follows, afterwards, the policy of an open market of telecommunications, which will generate small costs and services of better quality for tourists and tourism companies.

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CORPORATE GOVERNANCE MODELS

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ABSTRACT: *In essence, the concept of corporate governance refers to the coordination of interests of the various stakeholders of the company: shareholders, managers, employees, creditors, customers, suppliers, state, etc. In every company's environment there is a set of specific relationships between the physical or legal persons who have an interest ("stake") in the business. In pursuit of entrepreneurial activity, the management or the governance of the company must take into account the inherent conflicts produced by the coexistence of multiple interests in the corporation. This paper focuses on the corporate governance concept and on three principal models for the corporate governance system.*

KEY WORDS: *stakeholder, shareholder, corporate governance, manager, agency theory.*

The most important conflict of interest, in terms of impact on corporate performance and firm value, is the one between the owners and the managers of the company. The agency theory shows that the manager is not concerned only with maximizing shareholders' wealth, as he himself has his own utility function to maximize. This implies the need to establish an adequate and strict control over the way in which managers take out their contractual duties. However, such a measure may lead to a decrease in executive efficiency, by creating a tense atmosphere in the workplace, inadequate for reaching performance.

The first studies on the system of corporate governance appeared in the 1930's, based on the research undertaken by Berle and Means (1932). They analyzed the value creating separation between shareholders and management. This scientific concern occurred during the decline of traditional family businesses, whose owners and managers were the same persons. These companies were subsequently replaced by companies with dispersed capital ownership, in which there was a clear separation between ownership and control.

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Shareholders provide the financial funds to specialized human capital, to their efficient management. The agency problem is caused by the difficulties faced by investors to ensure that they will not be stripped of the money allocated, or that their resources will not be wasted by investment projects with negative net present value (Dragotă, 2006). The shareholder-manager relationship is defined through a contract of mandate, but it is always incomplete: the likely consequences of this relationship cannot be accurately predicted. In pursuing their own interest, managers will exploit the “gaps” from the contracts. Thus, in firm governance related debates managers “play” a very important role: they are the main “actors” of the process of creating value and have the ability to influence the distribution of wealth in the corporation.

Persistent problems of conflict between shareholders and managers show weak corporate governance, resulting in: restriction of current activity; reduction of profitability and dividends granted; stock price decrease for listed shares; excessive mobility of staff, etc. Lastly it may come to bankruptcy and liquidation of the enterprise. In an optimistic vision, it will be taken over by another company, and the management will be replaced in order to work more efficiently.

In literature there are still many controversies on how appropriate or inappropriate are various mechanisms of corporate governance. In general it is considered that the governance systems of companies from the United States of America, Germany, Japan and Great Britain are the most effective ones, in a world level built hierarchy. On the other hand, for countries in transition to a market economy, as well as for weakly developed countries, corporate governance mechanisms are practically non-existent (Shleifer, Vishny, 1997, pp. 737-783).

In a broader sense (Feleagă, Vasile, 2006, pp. 21-30) corporate governance refers to a coherent ensemble of devices and institutional practices, which allow the legitimization of authority functions which are exercised directly by leaders and hierarchic delegates. Coherency is achieved between, on the one hand, processes that provide the legitimate authority for the leaders and, on the other hand, performance yielding processes, developed by the firm.

We consider being the **most representative definition of corporate governance** the one provided by the specialists from the World Bank, because it refers both to the manner of implementing corporate governance and the areas affected (Onofrei, 2007). In this sense, corporate governance is a combination of laws, regulations and codes of conduct adopted on a voluntary basis, which provides the company the opportunity to operate efficiently, ensuring its survival at the same time by generating long-term value for its shareholders and for society.

In the developed economies of the world, corporate governance rules define the fundamental components of the business environment. In order to increase competitiveness and the quality of the information provided to the capital market, in each country a *code of corporate governance* is issued. It is a set of principles, standards and best practices of governance, whose application is not necessarily compulsory, but optional (Robu, 2004).

The preoccupation of designing corporate governance codes has intensified after the Asian financial crisis that occurred during the years 1997-1998. Withdrawal of investors' capital led to focusing the attention of the international business community on investor confidence and on the basic principles of corporate governance regarding transparency, accountability and the fair treatment of shareholders.

Studying the functioning mechanisms of corporate governance is relevant only for large organizations, where there is a flat divide between the shareholders and the directors of the entrepreneurship. The legal form of organization for this type of arrangement is that of joint stock companies, mostly listed on organized capital markets. For small sized organizations, in which a small number of investors are involved in coordinating the business, corporate governance is reduced to harmonizing the company's relations with the employees, creditors, suppliers, etc.

Analyzing governance structures in the developed countries allows the identification of particular characteristics in the Anglo-Saxon, European and Asian countries. Literature identifies three main models of corporate governance (Onofrei, 2007):

- traditional model;
- co-determination model;
- stakeholder model.

The **traditional model** is specific to the North American system and unfolds on three hierarchical levels: shareholders, directors and managers. Managers' authority derives from the authority of directors. Under U.S. law, the right of shareholders to influence the current activity of the enterprise is limited to the election of members for the Board of Directors. Shareholders do not have the right to make direct decisions regarding the business (e.g. payment of dividends); they can act only indirectly, namely through the Board of Directors, to alter managers' attitudes and decisions. But the owners may decide to stop financing the company, by refusing to increase the equity. In the absence of financial support from the shareholders, in extreme cases, the Board of Directors may proceed to replace the CEO or other members of top management teams. In literature, this proceeding is called management turnover (Hart, 1995, pp. 678-689).

The **co-determination model** is specific to the countries of Western Europe; participants are ranked on four levels: shareholders, directors, managers and employees. The model is representative for Germany, whose economic system is based on social co-determination, in the sense that different social categories make efforts in order to raise social welfare (Onofrei, 2007). Compared to the traditional model, this model introduces a system of participatory management, starting from the premise that business risk is lower for shareholders than for employees; the latter can not diversify their investment portfolio, but can make recommendations to the Board of Directors in order reduce the risk, giving the decision-making process a democratic tint.

The **stakeholder model** is specific for the states in Southeast Asia, being characterized by four hierarchical levels too. It differs from the model of co-determination by the complexity of the relationships that are formed. The model gives due weight to each stakeholder and does not clarify the scope of rights and obligations. This keeps a balance between the decision-making process and the levels on which it is based.

Although these corporate governance models are specific to large companies, they can also be applied by smaller sized enterprises, listed on the stock market (Ionescu, 2004).

In Romania, as in the other countries of Central and Eastern Europe, companies are characterized by a corporate governance model based on internal control, directed at employees and operational management teams (Robu, 2004).

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THE PARTICULARITIES OF THE DEVELOPMENT OF THE CORPORATIONS IN DIFFERENT COUNTRIES, AS JUDICIAL AND ECONOMIC CATEGORY

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ABSTRACT: *The reform program has been slowed down in the Eastern Europe companies, as a following of the inability of the States to perform enough their control in the initial phases of the privatization and restructuring improper human and financial resources and badly managed.*

The main problem to which Eastern Europe has to cope has been the insurance of the efficient mechanisms for restructuring the shard interest limited societies. There are requested direct forms of restructuring of administration and management of the corporations in which the investors play an active role in the restructuring, this being a feature of the system of internal type, and not of that one of external type.

KEY WORD: *the human and financial resources, mechanisms for restructuring, the managerial decisions*

1. OVERVIEW OF THE INTERNAL CONTROL

The internal control is connected to the propriety by the corporation, but some parts of the financial sector are to be requested to ensure the large part of the surveillance and control, and especially the banks.

The first impulse has to come from the State, which has to be responsible for the creation of the adequate levers (different institutions, the judicial and ruling system, banking reform). The International Agencies may supply the incentives and the resources of the change, may encourage the development of the conditions necessary for some adequate markets of capital and products.

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The place and the role of the Board of Management and of the managers when acting for leading the corporations is a very important one, is decisive for the economic increase, creation of places of work, of products and services and it is reflected, generally, in the evolution of the society, of the institutionalization of the political and economical politics, which has marked the ascendant evolution of the mankind along the history.

2. THE ADMINISTRATION AND THE MANAGEMENT OF THE CORPORATIONS

The administration and the management of the corporations represent the organizational structure by which a commercial society attends and represents the interests of its investors.

The shareholders of a limited commercial society tend to increase their number and to reduce the number of the shares. The appearance of the societies with a high number of shares has implied the separation of the owners interests from the interests of the managers of the company from more and more reasons : the revenues of the managers are different comparing to the ones of the owners, taking in account the salaries or wages and the dividends or quotas, the managers do not assume any risks and responsibilities as the shareholders do – the shareholders invest only a small part from their wealth in a corporation while the managers invest their human capital which is much more concentrated when acting in their own company.

Some of the shareholders may have benefits for free from the efforts of some other shareholders or managers – that ones that survey the corporation (the problem of “the clandestine voyager”).

Therefore, the basic function of the administration and management of a corporation is to guarantee the leading of those companies in conformity with the interests of its investors.

The groups of investors are quite different. Sometimes the financing is provided from debts and shares, and the disputes of interests among the creditors and the shareholders are the most important. The interests of the shareholders represent the mirror image of the interests of the lenders or creditors.

There are also indirect investors, such as the suppliers specialized on a certain domain of professional preparation, the purchasers and also the local communities which are affected by the profitability of the company and even the environment which overtakes the toxic agents and the wastes.

All together, the shareholders, lenders, suppliers, purchasers, employees and local communities are known under the name of procurators in a corporation. The question to be asked is which group of procurators has indeed the right of legal representative?

The stress is put on the functioning of the markets. The foundation of the institutions that are able to finance, survey and control the enterprises represents a premise for the successful development of the Eastern –European economies.

The forms of organization of the administrative and management systems of the shared limited companies may be divided in:

- board of managers of the corporations
- overtaking of existing assets
- contests for empowering as mandatory representative
- bankruptcy by insolvability of the societies

The largest used mechanism for bringing closer the interests of the managers and investors consists in the employment of some agents responsible for maintaining their interests, who have to be the members of the boards of management, even without having executive positions within the company.

In Germany, the structure of the board of managers is ruled under the law. In Great Britain there aren't laws concerning the number of the members without executive positions or functions or of the chairmen of the company, and the functions of general manager and chairman are cumulated, while in Germany these functions are quite different. The separation of the propriety and of the control is not applicable to France, Germany, Korea, Italy, Sweden or Switzerland or at least not applicable as it is in United States of America and United Kingdom.

The structure of the administration and management of a German company reflects its transforming role within the economy.

The idea that a company is much more than an instrument in the hands of the shareholders represents a fundamental difference between the legislation of the continental Europe on one hand, and between the English or Britain – American on the other hand.

In Great Britain the implication of the financial institutions is not very powerful within the activity of the corporations. The banking control has in Germany a special importance in the societies where the property is dispersed.

The systems of shared interests' limited societies from continental Europe are dominated by the companies without quotation at the stock-exchange, and not by the ones with quotation. In Great Britain and U.S. A. there is a great number of quoted societies, where the property is dispersed and the great shareholders are only a few, but they are the ones who execute the indirect control of the societies, too, by the means of the members of the Board of Managers.

The solution against the excessive concentration of the power, of the negligence and corruption, at the system of internal type, is the mutual control of the managers, and the absence of the transparency of an internal system leads to a low efficiency, the best antidote being the competition.

The main advantages are therefore, the direct control on the shared - interest societies and a higher stability of them.

At the system of external type, the control of the investments is more efficient than that one exercised by a big number of small investors. A second problem would be that it is based on the activity of the members of the boards of managers without executive functions and on the markets. The investments on long term are encouraged by the system of internal type.

3. CONCLUSIONS

A powerful State may create the premises of a successful transition. It has to be insured the competition, a real market on which the companies have to be functioning.

The absence of an external powerful control determines that the control internal mechanism – the board of managers of the corporation, to be much more important during the period of the transition.

The creation and the insurance of the conditions for functioning the free market economy in Romania have imposed with great necessity the accomplishment of a judicial framework which should be able to rule the new economical agents status and the judicial reports to which these participate.

In this context, an important step has been the adoption of the law concerning the commercial societies (L.31/1990), under which it has been established the judicial rule of the different forms of commercial societies, and therefore of the corporations or of the shared interested limited societies, as being the most representative organization of an economic agent within the market economy.

It is necessary a knowledge of the functioning of the shared limited companies, as they contribute to the corresponding appliance of the legal norms within the law state, in conformity with the economical realities moving continuously, in the period of the transition from the planned economy to the market economy.

A decisive role is that one of the knowledge of the management when administrating and leading or managing the corporations, by its functions, especially due to its control function.

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IMPLEMENTING XML STRATEGIES IN BUSINESS ENVIRONMENTS

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ABSTRACT: *Aligning XML strategies with business goals is an absolute necessity. In fact, many successful companies are already committed to XML and embracing it with its associated tools. One of the better paths to successful implementation of XML follows an innovative, value-added, customer-centric XML strategy. The business perspective is more pertinent to building a successful XML business architecture than it is to developing a technical XML implementation. This approach may yield a better definition of core competencies and value propositions in an XML context from the perspective of the customer desires.*

KEY WORDS: *XML strategies, strategy plan, business, data exchange, informatics technologies*

1. INTRODUCTION

Aligning XML strategies with business goals is an absolute necessity. In fact, many successful companies are already committed to XML and embracing it with its associated tools. One of the better paths to successful implementation of XML follows an innovative, value-added, customer-centric XML strategy. XML (eXtensible Markup Language) is different from HTML format, intent, content, and presentation. The business perspective is more pertinent to building a successful XML business architecture than it is to developing a technical XML implementation.

A strategic plan must go beyond the current solutions in order to be successful with XML in developing new and imaginative opportunities that can be brought to market early as competitive advantages. The first step in implementing an XML strategy requires examining the predominant audience: the customer.

Right up front, the focus of the strategy is not the competition. The goal of a company is not to beat the competition, but to enhance the customer and make a good

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profit. So the first focus of an XML implementation strategy is the customer—the customer’s requirements, needs, wants and desires.

2. XML FEATURES – CUSTOMER FOCUSED STRATEGY

From the customer’s perspective, XML is like any business innovation. How will this innovation help the customer to improve his business and to make a profit? What problems will XML solve, what solutions and options will it provide, and what value does it add? An XML business strategy must address these questions for the customer from the beginning, because the next question is the most important one from the customer’s viewpoint: “Who has the best strategy and the best value proposition to support an XML business implementation?” Addressing that question can make or break an opportunity to win new customers.

Business partners are the next group to focus on. As a new and complex technology, XML requires collaboration to implement successfully. The minimal collaboration involves use of industry standard documents type definitions (DTD’s), schemas, and document elements. Use of these standards improves capabilities for data transactions, information exchange, and interoperability. Successful collaborative business alliances will bring in new competencies and visibility from new customers, potentially resulting in new business opportunities.

The third area of concentration is the core competency. A core competency is not what the corporation believes it is best at. A core competency is a unique competitive advantage as perceived by the marketplace.

A discussion of customer perceptions may be beneficial and prudent in order to define the corporate core competency because the corporate value proposition should be built on this definition. And the value proposition is what the customer is interested in. The customer wants to know: What value-added capability will an XML strategy provide? Who can best support or supply these capabilities to help me be more profitable? After these questions are answered, a company is ready to explore the building blocks for justifying and creating an XML implementation strategy.

After customer needs have been evaluated and the appropriate questions have been addressed, the next building block of the XML strategic foundation is to approach the features of XML not as a new technology but as a new business strategy. The technical approach involves a shallow method of converting a few Web pages from pure HTML to an XML hybrid without building a vision of the desired outcome and benefits. It demonstrates technical skill without business experience.

An XML strategy leverages the deeper business opportunities and value buried in the innovation. Leveraging XML may involve redefining core competencies, customer relationships, and business partnerships to mine the innovation for its mother lode. The most successful companies will uncover many opportunities and will polish a few facets to reveal the most profitable activities for providing the best solutions. They will align their XML business strategies and their business goals to achieve an early opportunity to stake their claims.

The best strategy builds on the business objectives. An XML implementation or migration plan is inserted into the existing business context. This method provides an existing vision with a direction for implementation and metrics for success. It is flexible because it starts from a solid foundation. The strategy should inherit and extend the value propositions and competitive advantages built into the corporate business strategy. XML is not a differentiator, but it is an enabler for building better market differentiation. With a business-based XML strategy in place, a corporation may be able to overtake the competition.

3. XML TECHNOLOGIES

The ability of the XML document language to abstract meta-data about information in an open format will increase the capabilities of Web sites and intranets. A single, unifying, omnimorphic data format facilitates the reuse and repurposing of information and data across a variety of applications. Because XML documents enable easy analysis by a variety of applications, knowledge workers can spot and understand trends among collections of data, or drill down for relevant information in related documents for data sources with a greater capability than before XML.

Users and novice developers will not need to learn all the protocols and acronyms because the tools will hide the unnecessary details. The tools may even hide the concept of programming in order to make development more like word processing or graphics design; the underlying details may be transparent to all but advanced developers. Nonprogrammers will think of an XML application as browsing or searching for information. And in most applications, that's what it will be: information searching or data mining.

XML also provides a number of methods for importing other files and defining macros and shortcuts. In an XML document, namespaces are used, especially in a DTD, to assign a URL to a name. Named entities are used to assign a string or macro to a name. In an XSL document, named styles are used to assign a style to a name and inline styles are used to define brief, local styles.

The World Wide Web Consortium (W3C) defined the XML effort in three steps:

1. XML - the syntax rules
2. XLink - the linking rules
3. XSL - the presentation and transformation rules.

Some of the tools that support XML include DTDs, schemas, XSL, XSLT, DOM, XLink, XPointer, XPath, Namespace, SOAP, SAX, and XHTML. Some of these tools are shown in Figure 1.

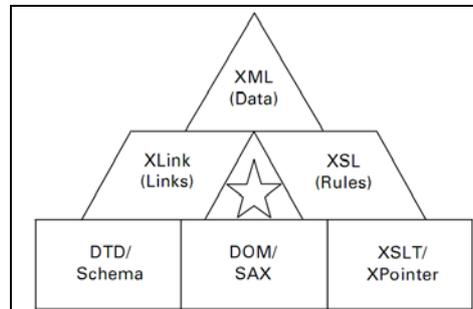


Fig.1 Some of the basic tools that support XML

DTD - The Document Type Definition defines the XML document, structures, rules, and elements. The DTD is used to define the elements and tags in a document. The tags in XML correspond to tags in HTML and they identify components in the document. Typically, the DTD is placed at the top of a document, where its tags, rules, and definitions can easily be interpreted by an XML parser or browser. The DTD is optional. It can be shared from another application or it can be used to define unique tags that are required in a specific document. Once tags are defined, they can be used anywhere and other users can copy them onto their own documents. Tags define document elements, entities, and attributes. Entities are the physical structure, and elements are the logical structure. Attributes specify qualifiers for elements.

Schemas - Schemas carry the same function as DTDs but in a different format and structure. While DTDs follow the SGML syntax, schemas follow the XML syntax. Because schemas follow the XML syntax, applications can easily manipulate schemas, extending the dynamic features, flexibility, and ability to customize an XML document. This capability is in contrast to DTDs, which have a difficult syntax to modify by computer. Therefore, schemas will add to the extensibility of XML documents over the current DTD methods.

XSL - The eXtensible Stylesheet Language refers to formatting objects that are similar to the Cascading Style Sheets (CSSs) in HTML. However, XSL provides scripting, conditional, and decision capabilities that are not available under CSS. So, XSL can be used to customize the presentation of an XML document for a variety of users and purposes.

XSLT - The eXtensible Stylesheet Language Transformations is a scripting and pattern matching language, which includes features such as templates, patterns, scripting, and tree processing. XSL is a more general language for building flexible style sheets. XSLT is a subset of XSL, which includes processing instructions beyond what is conventionally considered style sheet capabilities. In addition to providing a mechanism for presenting XML documents, XSLT instructions can be used to build scripts that can transform XML documents and data to work between other documents,

other DTDs, and other schemas, by extracting information and data from the source document and converting them to another format.

DOM - The Document Object Model (DOM) is an Application Programming Interface (API) that defines the standards for developing interactions with XML tree structured elements. The DOM supplies a uniform method for external applications to interact with XML. The DOM stores the XML document information in a predictable format so that an application can easily extract pertinent information and data.

XLink - XML Linking Language (XLink or XML) specification provides a functional approach to document linking using XML. XLink includes flexible linking capabilities such as bi-directionality and custom linking capabilities. XPointer is used for internal page access to specific locations or elements. XPath defines the pathname to the specific locations or elements.

XML Namespaces - Namespaces are used to collect data from multiple sources into one document and to tag the information with its respective source. An XML namespace is a collection of universal resource identifier (URI) names. The XML namespace specification provides the context for labelling and disambiguating tags with similar names but different intents. For example, <Material> could refer to cloth, to a type of witness in a legal investigation, or to the products in a bill of materials. In speaking, the context would be clear. Now, with XML Namespace, the context will also be clear for computers.

SOAP - The Simple Object Access Protocol (SOAP) increases the interoperability among applications and platforms by making legacy applications available through XML. As lightweight protocol for information exchange in a decentralized, distributed environment, SOAP provides intraprocess information and data transfer across computers.

SAX - The Simple Application Programming Interface (API) for XML (SAX) is a standard interface for event-based parsing of XML. In contrast to DOM, SAX is an interface for processing a stream of XML data rather than an entire XML document. It supports the use of parsers, browsers, and other applications to interface with XML documents and applications.

XHTML - XHTML is the translation of HTML 4.0 as an XML application language. XHTML provides the foundation for the extensibility and portability needed to support a wide range of new functions that are compatible with XML.

4. THE BUSINESS MODEL

From the business perspective, profit puts bread on the table. It is the bottom line. While the big question is how to use XML to provide value to the customer as part of his long-term objectives, the next question is what business model makes an XML strategy viable and provides a reasonable profit. Corporate profit models change over time as the relationship with the customer changes.

One advantage of XML is the ability to develop easily and modify quickly. XML applications and documents can be reused and repurposed. An XML

implementation that provides value for one customer may provide value to another customer with minor modifications. A general solution can generate one level of profits, while a customized solution generates significantly more profits with minimal marginal costs. A classic example occurs in the airline industry.

An XML implementation strategy can consider opportunities to leverage existing products and provide customized solutions with significant increases in profits. One opportunity that will emerge is the need to port legacy data to a more open, XML-based format. Initially, this activity will be very resource intensive. With time and experience, tools will simplify the process. However, the opportunity for varying service prices with correspondingly increased profits is clear. One rate covers a simple port, another rate covers a rapid port, and a third rate covers migration plans, with additional rates for training and maintenance. The window for this opportunity is open now, but it may close within the next five years as corporations update their legacy data.

The Internet provides a new economic environment with many new opportunities. Traditional profit models may not be the best. XML provides a significant new twist on a cutting edge technology and encourages experimenting with new profit models

5. E-BUSINESS DECISIONS

As you begin your journey into the e-business arena, you need to prepare a foundation for guiding the company through new territory. Although most Internet activities have profit potential, any new venture can fail when not managed. Therefore, make sure that any department or company that engages in e-business also has financial accountability for its efforts.

In addition, continue to assess and measure various e-business initiatives to learn from failures and to extract best practices from successes. The idea of failing quickly cannot be overemphasized. Assume success, but plan for failure, then learn, regroup, and try again.

The new paradigm for e-business is collaboration and relationships. Collaboration with partners, collaboration with vendors, collaboration with customers, and even collaboration with competitors. These collaborations should bring new opportunities to the relationship that are profitable or at least beneficial for all parties. Partnering and collaboration imply equal sharing of benefits. Determine if collaboration, and what type of collaboration, would benefit your company.

There are different types of collaborations. Procurement collaborations, benefit the major partners, but do not detract from the competitive environment. Collaborators agree on certain standards in the supply chain, but how these standards are leveraged within the corporation is up to each company. Any way that companies can collaborate and make profits is possible. Strategic collaborations allow a group of companies to gain a larger foothold in a marketplace. These alliances can lead to dominance in the marketplace, raising the red flag of monopoly to the government.

6. XML DOCUMENT IMPLEMENTATION PLAN STUDY

Figure 2 outlines an example of the 10 steps used to build an XML document; these steps are neither mandatory nor comprehensive. They provide a guide for requirements, analysis, and implementation needed for applying XML to a small, trade study type of activity.

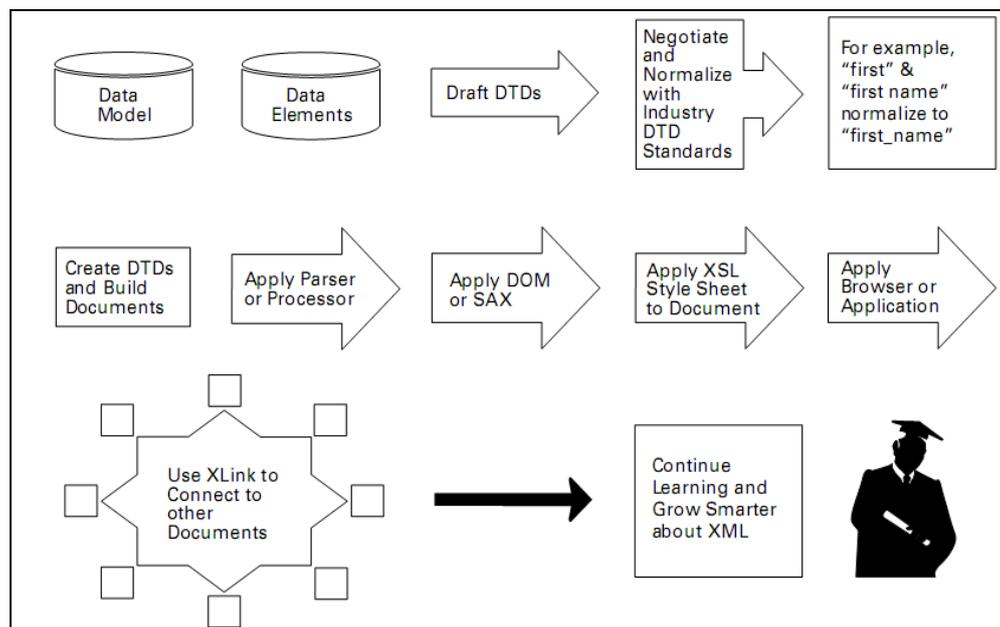


Fig. 2 Outline of an example XML Document Implementation Plan

Step 1: Data Model. XML is all about data, so the most logical first step is to construct a data model of the project. A process map of the data flow would also be handy. The data model provides the guidance needed to create the data elements that are used to define the tags in the XML documents.

Step 2: Data Elements. The data model provides a list of data types used in the project. The data types have interrelationships that can be represented as a hierarchy. Some data types may be combined with others to form a more general data type. Perform the analysis to address these issues. Then create a set of XML data element types that correspond to the project data types from the data model.

Step 3: Draft DTDs. Use the data element types to draft a set of documents type definitions (DTDs) or schemas. It is outside of the scope of this book to describe the details of programming DTDs or schemas, but there are plenty of excellent books for the interested developer. The draft DTD will be a model to use when investigating industry DTDs.

Step 4: Negotiate Industry DTDs. One of the major goals of XML is interoperability, so explore existing standards before building new ones. Compare the draft DTD to existing industry DTDs and schemas and attempt to modify the draft to match the industry standards. It is terrific if industry standards will fit the project, but be prepared for a combined solution that uses industry parts and draft parts. Then create the final DTD or schema.

Step 5: Create DTDs. This step is essentially the same as Step 3. This time, the DTD or schema is a combination of existing standards and generated DTDs. After they have been integrated, build a test XML document and validate it.

Step 6: Apply Parser. The way to validate the XML document is to run it through a parser. The parser will either generate a hierarchy or an error. After all errors are debugged, the XML document will parse with no problems and will be validated in relation to the DTD. A valid XML document is ready for use.

Step 7: Apply Document Object Model (DOM). Steps 7, 8, and 9 are closely woven details for using an XML document. It is not necessary to use all steps or even use them in order. However, each step provides useful experience. The output of a DOM is a hierarchy that is useful for other applications that locate data and relationships within the XML document.

Step 8: Apply XSL. XSL and XSLT can be used to modify the presentation or format of the document. Like writing DTDs, writing XSL scripts requires the talents of a developer. However, example scripts are always popping up all over the Web. The XML Web sites at Microsoft and IBM have a set of interesting samples that may be useful for this step.

Step 9: Apply Application. This step is unique to the business. The application can be inventory tracking, database manipulation, or spreadsheet analysis, etc. This step is important for gaining experience with the capabilities of XML. Database access is a good candidate application to explore because databases are a core part of business data repositories and e-business capabilities.

Step 10: Distribute by Using XLink. This step is wishful thinking. At the time of this writing, XLink is about to be released as a standard. The general information is available, but specific implementations are hard to come by. If anyone has them, then Microsoft will have released a beta MSXML in order to incorporate the XLink standard into Internet Explorer 5.x. IBM and Intel may also have information when it is available. A developer who has gone through all of these steps has accomplished a great deal.

7. ELECTRONIC DATA INTERCHANGE

Before Business-To-Business there was Electronic Data Interchange (EDI). EDI was where e-commerce truly began. By using EDI, a company could build electronic communication and business transaction systems that processed orders and transferred invoices between organizations. The pure EDI architecture is too cumbersome for the Web because transactions were direct computer-to-computer links

from a database on one mainframe to another database on a mainframe in a different organization. The interactions were transacted over privately leased lines as opposed to the open Web networking.

EDI was an important method of communicating data transactions between companies. Before the Web, this was the main digital form of B2B. However, B2B is real time, in contrast to EDI's batch processing. In addition, EDI communications were fixed to specified partners connected across a Value Added Network (VAN), not a World Wide Web that enables B2B communications with any corporation across the globe. To summarize, in comparison to EDI, B2B communications are real time, automated, and open to the world.

An EDI implementation was based on an explicit two-step agreement between two companies. First, a specific industry or a group of cooperating companies negotiated on the data element types and formats used for the transactions. Second, the transactions and data formats were implemented in the EDI systems. Because of the complexity of the EDI implementations, each trading and transaction agreement was specific to a set of partners. With each new set of trade agreements and business partners came a new EDI application.

EDI structures can be used as a basis for XML communications, allowing both EDI and XML users to share the system. Corporations do not have to write off all of their EDI investments and make a complete switch to XML. After a few test cases are developed for selected departments, an EDI/XML system can propagate throughout the corporation addressing yesterday's systems, today's problems, and tomorrow's opportunities.

Although EDI is typically a limited transaction between two companies, the EDI structures are applicable to B2B efforts. B2B is typically an open and unlimited trading agreement that can change fluidly and dynamically. EDI was also based on building a consensus among trading partners. On the Internet, this is a near impossibility, given the global nature and culture differences among partners.

Business-To-Business e-commerce is based on an ephemeral community of trading partners, vendors, and suppliers, who join and leave the community as needed. This fluctuating environment requires a robust foundation, such as XML, to maintain the dynamic stability required for today's interactions.

Because of the cost and complexity of EDI systems, companies are looking to XML as a method for cheaper and simpler data transfer. The companies that use XML will have an uphill battle trying to persuade companies entrenched in EDI to try something new like XML. The popularity of B2B has helped to drive the XML market. The growing market means a growing demand for conversion services, which include XML and EDI. To address this potential crossover, a growing number of companies are developing EDI/XML tools that work with both systems. In addition, many EDI vendors see the handwriting on the walls and are beginning to offer translation applications that convert EDI transactions into XML documents.

Even though an XML document is a data file, it was not originally developed as a replacement for EDI or as an enabler of B2B e-commerce. It was designed to

provide developers with extensible mark-up, so that they could build interoperable systems, seamless data exchanges, and application-independent information that could be displayed on any device. These noble design goals barely hint at the transactions typical of EDI, and they are silent on e-commerce. However, developers can exploit XML to define business meta-data, vocabularies, rules, and transactions.

XML and B2B efforts do not abruptly eliminate EDI. They gradually incorporate lessons and best practices from EDI experiences and make adjustments in the B2B e-commerce model to accommodate these experiences and practices.

8. CONCLUSIONS

XML offers many advantages to organizations, software developers, Web sites, and end users. As an industry standard for expressing structured data, XML will open key markets such as advanced database searching, on-line banking, e-business, and other fields. Extraordinary opportunities result from sharing actual data rather than simply presenting the data. XML revolutionizes end-user functionalities on the Internet by implementing a rich array of business applications. XML DTDs can be used to mark-up existing information on Web sites. These DTDs will help corporations exchange information between customers and suppliers. Development tools are being developed, but there is a growing need for more tools that support collaborative Web sites. Legacy data is another area of opportunity. Tools for generating XML data from legacy database information and from existing user interfaces will fill a significant need. As a corporation collects lessons learned during an XML implementation, the tools and experience developed during the effort might be shared with other corporations for considerable profit.

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THE ANALYSIS OF THE GREEN PRODUCE CONSUMER'S BEHAVIOUR IN ROMANIA

CAMELIA BURJA, VASILE BURJA *

ABSTRACT: *The paper presents aspects regarding the study of green produce's consumer's behaviour on the Romanian market. The study used the correlation chart and the variance analysis in order to identify essential aspects which influence the demand for green produce. The obtained results are useful for producers and other economic agents who turn into account green produce.*

KEY WORDS: *consumer's behaviour, green produce, variance analysis, agricultural marketing, market research*

1. INTRODUCTION

The studies regarding the green produce's consumer's behaviour in Romania are relatively few and the explanation lies in the short time period in which the legal and institutional framework was created to be capable to stimulate the development of the organic sector for the production and commercialization of agricultural produce. Even at the European level the analysis that target the green produce consumption are only a few and their results can't be generalized and serve as a rough guide for other countries. When it comes to the used research methods, they differ very much according to the targeted groups, the purposes and the targeted market segments. [Zanoli, 2007].

The analysis techniques used in agricultural marketing researches are a useful work instrument and when they are used for the study of the green produce consumption they facilitate a better knowledge of the distinctive elements of this market, which is at its starting point in Romania. At the same time, the analysis methodology for the demand manifested on the produce market is meant to identify the

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specific elements of the marketing mix, which can ensure through development the growing exigency of the consumers regarding quality, the economic success of the producers and an advantage in front of the competitors [Savides, Savvakis, 2000].

Conducting marketing research firstly requires organization for collecting and recording data, it requires specifying the characteristics which will serve to the community's structuring and the processing of the data through various statistical methods in order to underline the essential aspects and the interaction between two or more analyzed characteristics.

Another study method of the dependency relation existence and the intensity of the relations between the green produce demand's characteristics is the variance analysis technique, which is based on the F test (Fisher).

2. COLLECTING THE DATA REGARDING THE GREEN PRODUCE DEMAND

In order to identify the characteristics of the green produce's consumers on the Romanian market, a marketing research was conducted on a sample of 351 persons selected randomly. The statistic investigation was based on a phone interview with the persons willing to answer for 15 minutes to a questionnaire with 12 questions [Burja, 2008].

The questions and the choices of answers have several *goals*. The first goal of the marketing study is the knowledge of the demand's characteristics in Romania set on the basis of the information collected about the existence of preferences for green products, about the motives of manifestation on the specific market, the dimension of the demand for agricultural produce, the structure of the green product's consumption and the elements that the buyers appreciate, etc. Another goal of the marketing research is to identify the significant influence factors of the demand for green produce consumption.

Because the green produce market is only in its first stage in Romania, a realistic approach in the study of the consumer's behaviour is to take into consideration the financial component, with the specification that as the green produce market develops and matures, the analysis can be extended to other factors which will be meaningful on this market segment, such as: knowing the importance of green agriculture, the interest for the environment, the green education's level, the civilization's degree, etc.

By selecting the family income as a determinant factor for the frequency with which the Romanian consumers manifest on the market, a part of the collected information refers to the time frames in which the consumers supply themselves with produce and the income group they belong to.

The question regarding the type of the preferred farm produce (question no. 1: What food products do you prefer to consume?) reveals that a relatively big segment of the interviewed population prefers green produce (16%), yet the overall majority is represented by the traditional products' consumers.

Because of various reasons, not all the buyers with preferences for green produce actually buy it, only a small proportion of them form the demand for green products (2%, according to the answers received at question no. 2: Do you or another member of your family buy green products?).

Among the reasons why green products are not bought (question no. 3: If no, which are the reasons your family doesn't eat green products?), most answers suggest they are too expensive and are not well represented on the shelf with the logo for green products and thus are confused with traditional products.

In return, the main green produce consumers have a high knowledge level regarding ecological issues and they choose these products because they are less harmful for the health and for the environment (question no. 4: If yes, which are the reasons your family eats green products?), most of them are satisfied with their quality (question no. 7: How do you appreciate the quality of green products?) and are strongly influenced by their aspect and presentation form (question no. 8: When buying, how much does it influence you the aspect of the product and its presentation?). So far as the green produce consumers are satisfied with their quality, they will inform their friends about them and thus extend the range of potential buyers (question no. 10: If you appreciate the green products' quality, do you think it's good to recommend them to other people?).

As for the acquisition frequency for green produce, it varies a lot, most buyers stock up monthly, followed by those who buy every two months (question no. 5: How often do you buy green products?).

The consumers' preferences are directed towards dairy and vegetal green products (question no. 6: What type of green products do you buy?).

The investigation underlines that most consumers don't know the necessary information about the ingredients of green produce. Not knowing the harm that some elements found in traditional products can have on the human health, like additives, preservatives or genetically modified organisms, they purchase many of these products, and this can be an explanation for the low demand for green products (question no. 9: Do green products contain alimentary additives, conservations or genetically modified organisms?).

From the gathered answers arises that approximately two thirds of the green produce buyers have a medium income for a big family (question no. 11: In which group can be included the incomes of your family ?).

The last question of the questionnaire gathers information about the possible observations the buyers have and shows that a large number recommends a better marketing for green produce as a method to promote their characteristics and advantages. Another observation is the necessity to extend their commercialization in other types of stores, rather than just supermarkets and hypermarkets.

3. PROCESSING AND ANALYZING THE DATA

In order to establish an inter-conditioning relation between two characteristics included in the marketing research program, a combined grouping of the data is conducted.

The statistical characteristics of interest are the X variable, which is an independent characteristic and a grouping factor for the data named “income size”, and the Y variable, which is a dependent characteristic represented by the “supplying period of the population (number of days)”.

The incomes are separated in three groups – low incomes, medium incomes and high incomes – and the supply period, which has amplitude set between 0 and 120 days, is studied for 12 spans of time, each group having a 10 days period.

The information collected about the statistic collectivity is structured in table no. 1 [Burja, 2008].

Table 1. The grouping of the green produce consumers according to the size of the income and the supply frequency (representative sample, 2008)

The income	The supply period (days)											
	0-10	10-20	20-30	30-40	40-50	50-60	60-70	70-80	80-90	90-100	100-110	110-120
High	91	86	27	15	-	10	-	-	-	-	-	-
Medium	-	-	6	-	12	46	23	10	-	-	-	-
Low	-	-	-	-	-	-	3	-	7	9	4	2

The display of the consumers’ frequency according to income and supply period in the *correlation chart* shows an inverse ratio between the two characteristics, which means that as the income decreases, the period for purchasing green produce broadens. The connection between the studied variables seems to be powerful enough because the frequencies have an agglomerate display around the diagonal of the chart.

For the statistic populations studied on the basis of a few collected data, we can use *the variance analysis* to underline the relations between their statistical characteristics (statistical variables), which is also useful in estimating the effect generated by an independent variable over the dependent variable.

For the variables which have a numeric expression, the variance analysis techniques allow the material measurement of the influence that the independent characteristic has over the resulted variable. If the statistical observation program includes the recording of statistical characteristics expressed in words, then with the help of the variance analysis we will find out if there is a determination relation between different defining characteristics of the collectivity and the studied phenomenon.

The variance analysis models, known under the name of *F test*, were introduced by the statistician R.A. Fisher. The uni-factorial models ensure the estimation of the influence of a single factor over the resulted variable, and for the effects’ study of at least two factors we use multi-factorial models.

In order to provide an answer to the second goal of the marketing research, such as finding if the financial power of a family is a major factor for the demand of green produce, the extent in which the size of the incomes influences the time frame for purchasing green produce is verified.

The use of the variance analysis needs to cover a few phases which are exemplified below [Voineagu, 2006].

a) The hypothesis is formulated:

- Null hypothesis: $\mu_1 = \mu_2 = \mu_3$, where μ_i $i = 1, 2, 3$ is the income group;
- Alternative hypothesis: $\mu_i \neq \mu_j$ $i \neq j$

b) The (\bar{y}_i) averages are calculated for each income group i ($i = 1, 2, 3$). They represent the average period for the consumption demand for each income group:

$$\bar{y}_1 = \frac{\sum_{j=1}^{12} y_{1j} \cdot n_{1j}}{\sum_{j=1}^{12} n_{1j}} = \frac{2295}{25} = 91,8 \text{ days} \quad (1)$$

$$\bar{y}_2 = \frac{\sum_{j=1}^{12} y_{2j} \cdot n_{2j}}{\sum_{j=1}^{12} n_{2j}} = \frac{5465}{97} = 56,3 \text{ days} \quad (2)$$

$$\bar{y}_3 = \frac{\sum_{j=1}^{12} y_{3j} \cdot n_{3j}}{\sum_{j=1}^{12} n_{3j}} = \frac{3495}{229} = 15,2 \text{ days} \quad (3)$$

The demand manifests the strongest for the population with large incomes which purchases green produce at approximately every two weeks, the lowest frequency manifests among the population with low income (approximately every three months).

c) The average is calculated for the entire collectivity, which means the average day's number between two supplies (the frequency of the demand for the collectivity as a whole):

$$\bar{y} = \frac{\sum_{i=1}^3 \bar{y}_i \cdot n_i}{\sum_{i=1}^3 n_i} = \frac{91,8 \cdot 25 + 56,3 \cdot 97 + 15,2 \cdot 229}{351} = 32 \text{ days} \quad (4)$$

For each group the variance (D_i) is determined. The variance shows the synthetic size of the variation for the income variant of each group for its average:

$$D_1 = \frac{\sum_{j=1}^{12} (y_{1j} - \bar{y}_1)^2 \cdot n_{1j}}{\sum_{j=1}^{12} n_{1j}} = \frac{4344}{25} = 173,76 \quad (5)$$

$$D_2 = \frac{\sum_{j=1}^{12} (y_{2j} - \bar{y}_2)^2 \cdot n_{2j}}{\sum_{j=1}^{12} n_{2j}} = \frac{12725,93}{97} = 131,19 \quad (6)$$

$$D_3 = \frac{\sum_{j=1}^{12} (y_{3j} - \bar{y}_3)^2 \cdot n_{3j}}{\sum_{j=1}^{12} n_{3j}} = \frac{33785,16}{229} = 147,53 \quad (7)$$

The consumption behaviour with the biggest non-uniformity degree (the most oscillatory) is found in consumers with low incomes.

The systemic variation between the income groups (D_s) is:

$$D_s = \sum_{i=1}^3 (\bar{y}_i - \bar{y})^2 \cdot n_i = (91,8 - 32)^2 \cdot 25 + (56,3 - 32)^2 \cdot 97 + (15,2 - 32)^2 \cdot 229 = 211311,5 \quad (8)$$

The residual variation is:

$$D_r = \sum_{i=1}^3 D_i \cdot n_i = 173,76 \cdot 25 + 131,19 \cdot 97 + 147,53 \cdot 229 = 50853,8 \quad (9)$$

The variance systemically rectified is:

$$D_{sc} = \frac{D_s}{3-1} = \frac{211311,5}{2} = 105655,7 \quad (10)$$

The variance residually rectified is:

$$D_{rc} = \frac{D_r}{351-3} = \frac{50853,8}{348} = 146,13 \quad (11)$$

The F test:

$$F_{calculated} = \frac{D_{sc}}{D_{rc}} = \frac{105655,7}{146,13} = 723 \quad (12)$$

From the charts we can see the value of the F function is $F_{0,05;2;388} = 3,07$

Because the obtained value for the F repartition with 2 freedom degrees and a significant level of 0.05 is much bigger ($F_{calculated} > F_{chart}$), the null hypothesis is rejected, so the real hypothesis is considered the alternative hypothesis, meaning the average supplying period practiced by the studied population differs significantly according to incomes, thus the income represents one of the determinant factors for the consumption demand for this type of products.

4. CONCLUSIONS

The results obtained in the marketing research lead to the identification of specific aspects regarding the buyers' direction towards products considered healthier and less damaging for the environment, which can be considered current features of the green produce market in Romania.

Although the domestic demand for green produce is relatively low, an encouraging factor is the fact there are a number of people who demand green products and thus contribute to the functioning of this market segment. The fact that most consumers who don't buy green products give as a reason their high price also explains the relatively low frequency of the demand in the low income categories of the population. Another cause for the low demand can also be the insufficient knowledge regarding green agriculture, the differences between green products and conventional ones, the benefits for the health and the environment which the green produce has, etc.

The current segmentation of the green produce market in Romania registers in the European model of consumption, which means there are a small number of buyers who purchase regularly green products and a large number of buyers who only buy them occasionally [Niggli, 2007].

The observations formulated by the buyers suggest as a necessity the intensification of the marketing actions through activities like: promotion, publicity, the diversification and extension of the commercialization places, the green produce's differentiation on the shelf by logo, actions to educate the population about protecting the environment and forming an ecological conscience.

So far as the consumers opt for ecological solutions, a behaviour of specific ecological consumption will also be formed, so that at a general level a shift of the economic actions towards performance aspects takes place [Danciu, 2006]. In close connection with the birth of an ecological behaviour we find their correct information, meaning a responsible attitude of the companies towards the production and commercialization of green produce [Istudor, 2008].

The intensification of the economic agents' and consumers' concerns about the environment can constitute an alternative strategic marketing approach, which will lead to the growth of the added value for the turning into account chain of green produce. The improvement of the ecological practices of the producers and of the consumers becomes a potential source for a comparative economic advantage, which has beneficial consequences for the economical and ecological efficiency [Lozada, 2003].

In the future, as the awareness degree about the importance of consuming healthier products improves and as the concerns of the economic agents from the green sector grow, we can foresee a development of the green produce market in Romania and the growth of the agricultural sector contribution to putting into effect the concept of sustainable development.

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CODE OF ETHICS FOR INTERNAL AUDITORS HARMONISED WITH THE INTERNATIONAL STANDARDS FOR INTERNAL AUDIT

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ABSTRACT: *The Code of Ethics is binding for the internal auditor profession, since, at the end of the internal audit activity, the internal auditors, based on the tests and analyses carried out, express their opinion on the quality of the internal control system of the audited activity. The Code of Ethics stipulates four fundamental principles, as follows: integrity, constitutes the base for the trust granted to internal auditors; objectivity, directly related to independence; confidentiality, absolutely necessary, except for certain situations stipulated by law; competence, which implies ongoing updating of theoretical and practical knowledge.*

KEY WORDS: *internal audit, code of ethics, integrity, objectivity, confidentiality, competence.*

The Code of Ethics is binding for the internal auditor profession, since, at the end of the internal audit activity, the internal auditors, based on the tests and analyses carried out, express their opinion on the quality of the internal control system of the audited activity.

The thoroughness of the professional judgement adopted by the internal auditors throughout the missions is even more obvious, since they manage not to use the permissive parts of the International Standards of internal audit.

The fairness of the internal auditor's opinion is extremely important for the beneficiaries of the internal audit work.

In case, throughout their mandate, the internal auditors do not comply with the provisions of the Code of Ethics, the credibility of their opinions is questioned, with negative consequences on the audited entity.

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1. CODE OF ETHICS - A CONDITION IMPOSED BY THE INTERNATIONAL STANDARDS OF INTERNAL AUDIT

Ethics is a set of principles or moral values which people takes as a reference and which determines them to act in a certain way. From an ethimological point of view, the term "ethics" comes from Greek, and is the equivalent of the word "ethos" which means character. And the character is the totality of the fundamental psychical features of the human being.

According to modern interpretation, ethics is a set of moral values or principles, which represents a reference point when people act in a certain way.

The Josephson American Ethics Institute defined the following ethical principles:

(1) Credibility is the aggregated outcome of the following factors:

- a) Honesty which means acting in good faith with the view to highlighting the truth.
- b) Integrity which means that a person acts only in compliance with their own consciousness, irrespective of the situation they are in.
- c) Reliability which implies that a person should make all due efforts to accomplish an engagement accepted.
- d) Loyalty which means being held accountable for promoting and protecting the interests of certain individuals or legal entities.

(2) Respect represents an accumulation of concepts such as politeness, manners, dignity, tolerance and acceptance. In practice, a person is considered respectful when they treat those in the environment around them with consideration and accepts the different opinions and individual beliefs of the others without prejudice.

(3) Responsibility relies in the capacity of one person to assume accountability for their own actions and to show certain moderation, as well as to pursue excellence and motivation through their personal example, including perseverance and engagement in an effort of continuous improvement.

(4) Equity and justice refer to aspects such as equality, honesty and due thoroughness, impartiality and proportionality. To have an equitable behaviour means to approach identically two or several similar situations.

(5) Empathy refers to the genuine interest shown for the welfare of the others and is the result of an altruist behaviour and a proof of good will.

(6) Civic spirit is the result of a person's compliance with the law and of all actions they undertake to contribute to the development of the society they live in.

Taking into account the above-mentioned, we may consider that compliance with the Code of Ethics represents the assurance that the information included in the internal audit reports is reliable, therefore it is useful for the management of the entity.

In Romania, internal auditors have a pre-established role in the evaluation of the control systems and in the promotion of the internal audit function. The fundamental principles governing the internal auditors' activity are similar to the principles used for organising their personal lives, the ethical behaviour cannot be the

result of mere theoretical education, but rather the result of the training process of the human factor (figure 1).

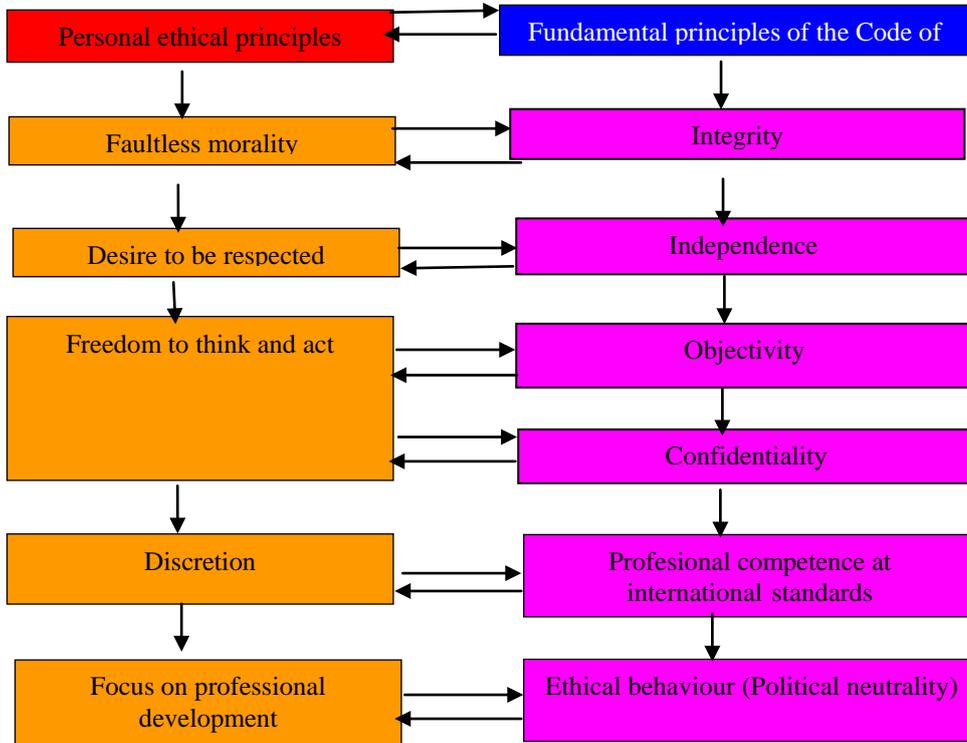


Figure 1. Correspondence between personal ethical principles and fundamental principles of the Code of Ethics

The internal auditor's Code of Ethics has the purpose to create the ethical framework required to undertake the internal audit profession, so that the internal auditor may accomplish their tasks professionally, loyally, correctly and thoroughly and refrain from any act which might harm the entity where they work.

Following the analysis of the code of ethics, we think that among all the fundamental principles governing the internal audit activity, the most important ones are independence associated to the professional competence.

Independence and objectivity derive from the use of personal qualities of each internal auditor. In case the internal auditor undertakes their activity based on some principles such as: freedom of thinking and acting without accepting any external bias, focus on professional training, these ones may be considered principles of the Code of Ethics for the Internal Auditor.

The activity carried out by the internal auditors is very demanding, i.e. their behaviour should be much stricter than the conduct of the rest of the employees of the

entity. Under these circumstances, internal auditors should have a moral and professional attitude above that imposed by law, which is a requirement in order to have the management confide in the services they provide.

Taking into account the aspects presented before, we consider justified the endeavours carried out by various bodies in the field of internal audit, to develop a Code of Ethics for internal auditors, which, alongside professional norms, should facilitate the undertaking of internal audit missions at a high performance level.

Also, we mention that these norms of ethics are not the only way to influence the internal auditors' behaviour, with a view to improving their activity. There are other factors which contribute to this, such as:

- an overall quality assurance and improvement programme for the internal audit activity,
- a supervision procedure, throughout the internal audit mission, by an experienced auditor which is not directly involved in the mission,
- professional training programmes etc.

2. PRINCIPLES OF ETHICS AND PROFESSIONAL BEHAVIOUR FOR INTERNAL AUDITORS HARMONISED WITH THE INTERNATIONAL STANDARDS FOR INTERNAL AUDIT

An effective internal audit activity works as an objective and independent consultancy and assurance service with the role to add value and improve the management of an entity. Also, the internal audit activity helps the entity to achieve its objectives through a systematic and disciplined approach, by evaluating and improving the performance of risk management, control and governance processes.

Since 1978, The Standards of the Institute of Internal Auditors - IIA and the Code of Ethics have established the required behaviour, principles and the approach which internal auditors apply in their activity. Being adopted by the international organisations in the public and the private sectors, as well as by the IIA members, the Standards and the Code of Ethics are the base of the internal audit profession and represent a criterion of quality assessment. By complying with the IIA Standards and the Code of Ethics, the internal auditors may provide an independent and effective consultancy and assurance service to the entity.

Standards describe the nature of the internal audit and the characteristics of the structures undertaking internal audit activities. At the same time, they offer quality criteria to assess the performance of the internal audit against.

Purpose, authority and responsibility of the internal audit activity should be formally defined in a CHARTER, in compliance with the IIA Standards, and approved by the internal audit committee.

Internal audit function should be independent and internal auditors should be objective when they undertake internal audit activities. All internal audits should be carried out with competence and due diligence. Collective internal audit activity should

have or acquire knowledge, skills, and other necessary competence to comply with the responsibilities assumed.

The Code of Ethics represents a declaration on the values and principles which should guide internal auditors' everyday activity and practice.

The Code of Ethics is more than a definition of internal audit, including two major components:

- Fundamental principles suitable for the internal audit profession and practice;
- Conduct rule, describing the norms for expected behaviour from internal auditors.

The Code of Ethics stipulates four fundamental principles, as follows:

- integrity, constitutes the base for the trust granted to internal auditors;
- objectivity, directly related to independence;
- confidentiality, absolutely necessary, except for certain situations stipulated by law;
- competence, which implies ongoing updating of theoretical and practical knowledge.

Ethical principles rely on 12 rules of conduct, which may be presented in brief as follows:

- to undertake the missions correctly;
- to comply with the law;
- not to take part in illegal activities;
- to respect the ethics;
- to be unbiased;
- not to accept anything which might compromise of influence decisions;
- to highlight significant facts;
- to protect the information;
- not to pursue personal benefits;
- to do only what can be done;
- to focus on competence improvement;
- to respect the standards in the field.

These rules of conduct guide the internal auditors throughout the mission and represent a due diligence path which internal auditors should follow. Of course, their application into practice is not easy, especially in a transition period from one system to another, when the issues related to ethics are shadowed by the priorities related to setting up the primary capital in a competition-based market economy, a situation faced by Romania today.

However, throughout their mandate, internal auditors should not deviate from these principles, as, if not, the internal audit function will no longer achieve its purpose stipulated in the standards.

2.1. Integrity

Integrity represents the internal auditor's quality to be honest, intangible and incorruptible, implying a moral way to express their opinion. American professional

bodies consider integrity as a fundamental character feature for professional acknowledgment. This aspect is not neglected by the internal auditor when they collect and process information, evaluate internal control systems, and express their opinion on this assessment. In fact, this attribute represents a professional's skill to resist external pressure, having the capacity to maintain their point of view.

This is why, throughout an internal audit mission, the audit team should develop an environment which should provide trust on the activities undertaken.

Integrity is a complex concept which imposes a faultless behaviour on the auditor's side. Under these circumstances, they should be very careful as regards the activity undertaken, since they should not take intentionally part in illegal activities or engage in dishonouring acts to the internal audit profession or to the entity they are part of.

Throughout their mandate the internal auditor should be consistent in thoughts and actions. We consider that, when the internal auditor accepts exaggerated services from the audited structure, they can no longer have the image of a person working in accordance with the law and professional rules, in the eyes of the staff in that department.

Also, the internal auditor should make proof of ongoing use of audit tools and techniques. For instance, during an audit mission, where the auditor should audit identical activities undertaken by different people, the auditor should audit only one activity, which they consider to have the maximum risk associated. Even if the internal auditor is not bound to justify their activity, at the end of the audit mission they should imply to the audited structure that the sampling criteria used belong to professional judgement and are not of a different nature.

To conclude, we consider that internal auditors should use integrity in all aspects of their work, which means that they should work as a team. Also, the relations between them and their colleagues and friends should be based on fairness and honesty.

2.2. Objectivity

Objectivity is a state of mind, an attitude which allows us to analyse information impartially, with no influence from personal opinions and interests or other people's appreciations. Internal auditors should see things as they are, independent from collateral facts, and shape their own opinion.

Objectivity is a core quality of an internal auditor, involving coexistence of brilliant intellectual capacities and exemplary fairness, unspoiled by any conflicts of interests. This quality is used by auditors both for analysis and decision-making purposes.

Internal auditors should be objective throughout the entire internal audit mission, with a view to strengthening credibility required when presenting findings, recommendations, and conclusions. Thus, they should refrain from any activity which might compromise their professional judgement. Also, they should communicate all

material facts they are aware of, and which, if not communicated, would impact on the accuracy of the activities examined in the report.

2.3. Confidentiality

Confidentiality represents a key internal audit principle, since, in practice, the internal auditor is aware of all significant details related to the entity, the publication of which might be detrimental to the organisation.

The purpose of this fundamental principle is for internal auditors to preserve the information received during their missions. Actually, it is not allowed to reveal any information related to the entity without prior agreement from the latter.

This principle should be respected *ad literam*, since, during their missions, internal auditors have at their disposal written and oral data on the financial statements, real estate, production and delivery policies, as well as information on management approaches. This information often represents the base for sustainable development of the entity, and finding this out by unauthorised people might be very detrimental to the entity. Thus, this information should not be revealed or commented, but used or discussed by the team.

Another aspect related to confidentiality of information acquired during the missions refers to its use for personal gain purposes by internal auditors.

However, there are certain situations when internal auditors are brought to court, to clarify certain aspects found during the audit missions. Under these circumstances the internal auditor should answer positively to the request of the court, without infringing the confidentiality principle.

Confidentiality as a fundamental principle does not refer only to the use of information. This principle also covers the careful treatment which the internal auditor should apply in case of documents collected and especially documents reflecting negative aspects about the entity. These documents should not be available anytime and for anybody.

2.4. Competence

Professional competence represents an indicator which reflects, on the one hand, the internal auditors' level of professional training, and, on the other hand, their thoroughness, due diligence and professional care used by the professional in the field.

Professional competence is the result of a long process of knowledge gathering (in the field of accounting, management, taxation, mathematics, administrative and commercial law, financial management, mathematical analysis, statistics etc.) both during the faculty years and later, while carrying out the activity.

In their activity, internal auditors should apply the provisions of the international audit standards. In this sense, they should only do the work for which they have the required knowledge, skills and experience. In case they need to audit a

new field, they should contract specialists in that area. But this does not mean that they should not be interested in ongoing professional training.

Internal auditors have the responsibility to update their knowledge periodically. They should get information on progress made and current evolutions in the field of audit norms, procedures and techniques. Also, they should make an effort to improve effectiveness and quality of their work.

Taking into account the fundamental principles used to guide the internal auditors' activity, we may conclude that internal auditors should have an unbiased attitude throughout their entire mission and especially when writing the Internal Audit Report, in compliance with the Code of Ethics for the internal auditor.

A constituent part of the professional practice advisories, The Code of Ethics has been adopted in Romania as well, first for the public sector through a legal act, and then also for the private sector, through the assimilation of the International Audit Standards as national internal audit norms by the Chamber of Financial Auditors in Romania.

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METHODOLOGY TO DETERMINE THE ENTERPRISE'S PROFITABILITY

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ABSTRACT: *The profitability represents the efficiency of operational activity, considered on it's aggregate stages. It is a efficiency stage confirmed by obtained of some incomes higher then the afferent expenses, so the process to obtain the profit. Profitability is splitting in two major categories: a) the profitability of expenses, which illustrates the operational activity's legal competence to generate results by making expenses; b) the profitability of incomes, which illustrates the efficiency of capitalization the operational activities, through the incomes capacity to generate results.*

The analysis of profitability for operational activity follows the profitability of incomes and expenses of operational activity on forming steps: the exploiting activity, the current activity, the global activity.

KEY WORDS: *profitability from exploiting activity, profitability of exploiting in financial terms, current activity profitability, global activity profitability*

1. THE ANALYSIS OF PROFITABILITY FROM EXPLOITING ACTIVITY

Profitability of exploiting activity measures the capacity of this activity to generate profit through the consumption of resources and products capitalization. We could talk about the exploiting incomes profitability and the exploiting expenses profitability. For industry area enterprises it is possible to split profitability on activities: only commercial activity and productive activity.

a) Profitability of activities only with commercial character

Activities only with commercial character are related to wares acquisition in order to resell. Difference between the incomes from goods sell and expenses related to goods is the commercial margin (the commercial addition). Based on commercial margin it is possible to define the profitability of incomes from goods sale and profitability of expenses made with the goods.

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Profitability rate of expenses made with the goods represents the commercial margin expressed in the side of expenses achieved from goods sale and illustrates the efforts efficiency made in market activity of the goods /wares.

$$R_{pcc} = \frac{M_c}{Ch_m} \quad (1)$$

where:

M_c - commercial margin

Ch_m - expenses made with the wares

Incomes profitability instalment/rate from wares sell represents the commercial margin expressed in ratio with incomes from wares sell and express the commercial activity of wares sale efficiency. It is named also the rate of commercial margin.

$$R_{pvc} = \frac{M_c}{V_{vm}} \quad (2)$$

where:

V_{vm} - revenues from wares sale

In the case of enterprises with industry features, the indicators don't present a high informational value. However, a dynamic increase of commercial margin in ratio to incomes and expenses afferent to wares commercialization will have a good effect over exploiting activity efficiency.

b) Profitability of activities with production feature

The production activity is tied by the basic activity for industry enterprises. The difference between the incomes and the expenses afferent to this activity represents the profit of basic activity.

Expenses profitability instalment/rate from basic activity represents the capacity of base activity that, by consumption to generate profit. It shows the profit obtained to a currency unit expensed in this activity. This value has to oscillate around the average costs profitability margin value.

$$R_{pcb} = \frac{R_{ab}}{Ch_{ab}} \quad (3)$$

where:

R_{ab} - result of base activity

Ch_{ab} - expenses afferent to the base activity

Incomes profitability instalment/rate from base activity represents the profit which comes to an income unit, expressed the efficiency of capitalization for this activity. The higher it is, the higher is the efficiency.

$$R_{pvb} = \frac{R_{ab}}{V_{ab}} \quad (4)$$

where:

V_{ab} - incomes from base activity

The indicators present a highly importance for the enterprises with profile different by the commercial type.

c) Global profitability of exploiting activity

It is determined by comparison between the incomes, the expenses and exploiting result. This possibility is global and offers general information thanks to structure of incomes and expenses from exploiting activity and it is possible not to be always significantly.

An other possibility to approach the commercial profitability is represented by the commercial profitability, a margin indicator very often used.

The general profitability of exploiting expressed in the economical terms

1. Profitability of exploiting expenses

- The exploiting expenses profitability instalment/rate (R_{pce}) shows the exploiting profit which comes to a unit of expenses from exploiting activity. The indicator is more significantly then the current and global profitability, especially in the case when there are financial and exceptional operations, and their dimensions mislead the global indicator.

$$R_{pce} = \frac{R_e}{Ch_e} \quad (5)$$

where:

R_e - exploiting result

Ch_e - expenses from exploiting activity

- Profitability of exploiting consumption resources instalment/rate (R_{prce}) illustrates the exploiting profit which comes to an expenses unit and measure the resources consumption from exploiting activity (Ch_{ec}). This resources consumption has to be the afferent one to achievement of sales/turnover. The rate measures the exploiting resources capacity to generate profit by consumption.

$$R_{prce} = \frac{R_e}{Ch_{ec}} = \frac{CA - Ch_{ec}}{Ch_{ec}} \quad (6)$$

2. Profitability of exploiting incomes

• The exploiting incomes profitability rate (R_{pve}) measures the exploiting activity capacity to generate profit through the incomes.

$$R_{pve} = \frac{R_e}{V_e} = \frac{V_e - Ch_e}{V_e} \quad (7)$$

• The commercial profitability rate (R_{pc}) illustrates the exploiting profit which comes for unit of turnover. The indicator express the efficiency of society products capitalization and characterise the commercial and prices policy efficiency.

The rate increasing illustrates a positive situation and takes place when the profit index is higher then the turnover index. The main reserves of commercial rentability increasing: the sale increase, the sale structure adjustment, increasing of rotate speed for stocks, the expenses optimisation.

Are calculated under many forms:

- by ratio the exploiting result to CA, being more an orientate indicator

$$R_{pc} = \frac{R_e}{CA} \quad (9)$$

- by ratio the result afferent to Ca (R_e^*), at CA as being the more important form

$$R_{pc} = \frac{R_e^*}{CA} \quad (10)$$

If there is major differences between these 2 indicators, then it is the problem of the way how is generate the exploiting incomes, this could be a signal for no common activity situations. In this case the exploiting incomes could be generating in an anomalous manner, and the major structure may not be detained by CA.

In the cases of industry enterprises could be evidentiate he connections between the commercial profitability, the strictly commercial activity and the efficiency of production activity.

$$R_{pc} = \frac{R_e}{CA} = \frac{R_{ab} + M_c}{P_v + V_{vm}} \quad (11)$$

$$R_{pc} = \frac{Pr_v}{CA} \cdot \frac{R_{ab}}{P_v} + \frac{V_{vm} \cdot}{CA} + \frac{M_c \cdot}{V_{vm}} \quad (12)$$

$$R_{pc} = (P_v \% \cdot R_{pvb}) + (V_{vm} \% \cdot R_{mc}) \quad (13)$$

where:

R_{ab} - result of base activity

P_v - the sale production

V_{vm} - incomes from wares sale

Pr_v - sale price

2. THE GENERAL PROFITABILITY OF EXPLOITING IN FINANCIAL TERMS

1. Profitability of efforts

• Rate of profitability for expenses payable in exploiting activity (R_{pcpe}) illustrates the profit of exploiting (R_{ei}) which comes to a unit of expense payable from exploiting (Ch_{ep}).

From the expenses and incomes of exploiting are deducted all the calculated elements, in order to illustrate in cash terms the activity efficiency. Practically, it illustrates the income profit which comes to an unit of expense payable in exploiting activity.

$$R_{pcpe} = \frac{R_{ei}}{C_{hep}} = \frac{V_{ei} - C_{hep}}{C_{hep}} \quad (14)$$

• Rate of exploiting payments payable (R_{rpe}) illustrates the cash-flow of exploiting (F_{ne}) which comes on payments unit made in exploiting (E_e). It is a form of profitability on flows base, which use the cashes and payments from exploiting.

$$R_{rpe} = \frac{F_{ne}}{E_e} = \frac{I_e - E_e}{E_e} \quad (15)$$

2. Profitability of effects obtained

• The rate of exploiting incomes profitability (R_{pvie}) illustrates the profit of exploiting (R_{ei}) which comes to a unit income from exploiting activity (V_{ei}). It illustrates in cash terms the efficiency of activity capitalization. This rate illustrates the profit which comes to a unit of income from exploiting activity.

$$R_{pvie} = \frac{R_{ei}}{V_{ei}} = \frac{V_{ei} - Ch_{ep}}{V_{ei}} \quad (16)$$

• The rate of commercial profitability illustrates the exploiting result in cash terms which comes to a unit of turnover.

It can be calculated under many forms:

- the gross margin rate which illustrates the surplus gross from exploiting (EBE) afferent to CA. The indicator expresses the efficiency of products capitalization in potential terms of exploiting cash-flow.

$$R_{mb} = \frac{EBE}{CA} \quad (17)$$

• Rate of cash from exploiting margin which connects the exploiting cash flow afferent to the turnover CA. The indicator illustrates the efficiency of products capitalization in effective terms of exploiting cash.

$$R_{mne} = \frac{F_{ne}}{CA} \quad (18)$$

- the effective rate of commercial profitability illustrates the exploiting profit which comes to an unit of cash CA. It illustrates the efficiency of products capitalization in concrete terms.

This rate is compared with the commercial profitability rate computed on the base of result account

$$R_{epc} = \frac{R_{ei}}{CA_i} \quad (19)$$

• Rate of payment for revenues from exploiting activity (R_{rie}) illustrates the exploiting activity cash flow (F_{ne}) which comes to a unit of incomes made in exploiting (I_e). This rate illustrates how much cash was consumed by the afferent payments.

$$R_{rie} = \frac{F_{ne}}{\hat{I}_e} = \frac{I_e - E_e}{I_e} \quad (20)$$

Not all the rates based on flow express the profitability, thanks to the fact that in their computation come other elements also, so it must be compared with the rates calculated on the results account base.

3. THE ANALYSIS OF CURRENT ACTIVITY PROFITABILITY

The current activity is formed from exploiting activity and the financial activity.

Table 1. Forming of current activity results

Indicators	Activity		
	Exploiting	Financial	Current
Incomes	V_e	V_f	$V_c = V_e + V_f$
Expenses	Ch_e	Ch_f	$Ch_c = Ch_e + Ch_f$
Results	$R_e = V_e - Ch_e$	$R_f = V_f - Ch_f$	$R_c = V_c - Ch_c = R_e + R_f$

• Rate of current expenses profitability (R_{pcc}) illustrates the current profit which comes to a unit of current expenses and measures the current activity capacity to generate current profit through the expenses.

$$R_{pcc} = \frac{R_c}{C_{hc}} = \frac{V_c - Ch_c}{C_{hc}} = \frac{R_e}{C_{hc}} \times \frac{C_{hc}}{\frac{R_e}{R_c}} \quad (21)$$

• Profitability of current incomes (P_{vc}) express the general efficiency of current activity, measured by the current profit which comes to total current incomes. It illustrates the efficiency of current activity capitalization.

$$P_{vc} = \frac{R_c}{V_c} = \frac{V_c - Ch_c}{V_c} = \frac{R_e}{V_e} \times \frac{\frac{V_e}{R_e}}{\frac{R_e}{R_c}} \quad (22)$$

The indicators are important only in measure in which the major ratio from the current incomes and expenses is hold by the exploiting ones.

4. ANALYSIS OF GLOBAL ACTIVITY PROFITABILITY

The operational activity is forming from the current activity and the exceptional activity. Obtaining of exploiting incomes is conditioned by exploiting expenses made, while in the case of financial and exceptional activities don't exist such a connection.

Table 2. Forming of global results

Indicators	Activity		
	Current	Exceptional	Operational
Incomes	$V_c = V_e + V_f$	V_x	$V_t = V_e + V_f + V_x = V_c + V_x$
Expenses	$Ch_c = Ch_e + Ch_f$	Ch_x	$Ch_t = Ch_e + Ch_f + Ch_x = Ch_c + Ch_x$
Results	$R_c = V_c - Ch_c = R_e + R_f$	$R_x = V_x - Ch_x$	$R_b = V_t - Ch_t = R_e + R_f + R_x = R_c + R_x$

The economic principle

1. Profitability of expenses

• Rate of total expenses profitability illustrates the gross profit of exercise which comes to a unit of total expenses. In progress, the rate increasing illustrates a positive situation and takes place when the gross profit index is higher than the total incomes index.

The major reserves of incomes profitability increase are: incomes increasing, adjust of incomes structures, the expenses optimization.

$$R_{prt} = \frac{R_b}{V_t} = \frac{R_e + R_f + R_x}{V_e + V_f + V_x} = \frac{V_t - Ch_t}{V_t} \quad (22)$$

• Rate of net incomes profitability illustrates the general activity efficiency measured through the net profit (Pn) of the exercise/period which comes to the total incomes (V_t)

$$R_{pnt} = \frac{P_n}{V_t} \quad (23)$$

The financial principle

1) The principle of cash effort

• Rate of real expenses profitability illustrates the net profit of exercise/period that could be cashed (R_{ni}) and comes to total expenses unit payable (Ch_{tp}).

$$R_{prep} = \frac{R_{ni}}{C_{htp}} \quad (24)$$

• Rate of cash operational payments illustrates the cash flow from administration operations (F_{nog}) which comes to a payment unit (E_{og}).

$$R_{rpo} = \frac{F_{nog}}{E_{og}} \quad (25)$$

2) The cash effect principle

• Rate of real profitability cash incomes illustrates the net profit of exercise which could be cashed and who comes to a total income unit. Measures the capacity of capitalisation of all activities in cash terms

$$R_{prvi} = \frac{R_{ni}}{V_{ti}} \quad (26)$$

• Rate of operational cash inputs illustrate the cash flow from administration operations (F_{nog}) which comes for a unit of cash inputs (F_{og}). It illustrates also how much cash is consumption by outputs

$$R_{rpo} = \frac{F_{nog}}{I_{og}} = \frac{I_{og} - E_{og}}{I_{og}} \quad (27)$$

The special forms of profitability for operational activities

The net margin rate (rate of commercial net profitability) (R_{mn}) illustrates the net profit of the exercise/period which comes to the turnover (CA). This expresses the net efficiency of products capitalization and shows how much net profit are forming to an unit of achieved CA.

The commercial rentability measures the activity efficiency developed by the firm for a financial exercise period.

$$R_{mn} = \frac{R_n}{CA} \quad (28)$$

The rate of self-financing capacity illustrates the self-financing capacity of the exercise/period (C_{af}) which comes to the turnover (CA). It illustrates how many potentially self-financing resources are forming by a unit of achieved turnover.

$$RC_{af} = \frac{C_{af}}{CA} \quad (29)$$

The rate of operational cash illustrates the administration cash flow which comes to the turnover. This expresses the net efficiency of capitalization the society's activity and illustrates how much cash are forming by an achieved turnover unit.

$$RF_{nog} = \frac{F_{nog}}{CA} = \frac{C_{af} - \Delta N_{fr}}{CA} \quad (30)$$

The low level of probability doesn't mean automaton a low performance. A firm could work with low margins, in order to obtain high rotations. The amount loss to the margin could be recover and surpass through rotations.

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MERGER AND ACQUISITION - A STRATEGIC OPTION FOR COMPANIES

ANDREEA CEAUSESCU *

ABSTRACT: *Business strategy is not a finished artefact, it is a work in progress. Even if its main purpose is profit, another one is growth. Growth, as a strategic choice, can be reached either by organic growth, by strategic alliances or by merger and acquisition (they are risky because of the incompatibility of different companies). In the paper below, we analyze merger and acquisition from the juridical and economic point of view, its international implication for companies in terms of advantages and disadvantages and also, a comparison between Romanian framework for merger and acquisition and EU acquis requirements.*

KEY WORDS: *merger, acquisition, strategy, strategic option*

1. INTRODUCTION

In business there is one simple rule: grow or die.

Companies on a growth path will take away market share from competitors, create economic profits, and provide returns to shareholders. Those that do not grow tend to stagnate, lose customers and market share, and destroy shareholders value.

Mergers and acquisitions are a vital part of any healthy economy and importantly, the primary way that companies are able to provide returns to owners and investors. This fact combined with the potential for large returns; make acquisition a highly attractive way for entrepreneurs and owners to capitalize on the value created in a company.

2. WHY MERGER AND ACQUISITION?

Starting a company and selling it can be the fastest way to create substantive wealth. While it is difficult to start a successful company, the economic rewards are tremendous.

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Mergers and acquisitions have played a variety of roles in corporate history, ranging from the “greed is good” corporate raiders buying companies in a hostile manner and breaking them apart, to today’s trend to use mergers and acquisitions for external growth and industry consolidation.

During the 1980’s, nearly half of all U.S. companies were restructured, over 80.000 were acquired or merged, and over 700.000 sought bankruptcy protection in order to reorganize and continue operations. The 1980’s featured swashbucklers and aggressive tactics to gain control over targets. The 1990’s were equally dynamic in terms of companies evolving through upsizing and growth, downsizing, roll-ups, divestitures, and consolidation, but with a different focus on operational synergies, scale efficiencies, increases in customers bases, strategic alliance, market share, and access to new technologies. This period, however, came to a crashing end with the bursting of the tech bubble and the global recession that followed.

The more recent wave of M&A activity seen since mid-2004 has been driven by the general microeconomic and macroeconomic recovery and several key trends.

First, many companies have exhausted cost cutting and operational efficiencies as a means to increase profitability, and are looking to top-line growth as a primary enabler of shareholder return. The increased pressure to grow highlights the opportunity to achieve growth through acquisition.

Second the M&A market has been supported by the return of corporate profits and with it improved stock price valuation. The improved valuations have enabled corporations to leverage their internal currencies to acquire target companies who are willing to swap their illiquid private stock for valuable public company shares.

Third, interest rates have hovered at historical lows, enabling firms to cost-effectively utilize debt to finance acquisition-based growth.

In addition to the aforementioned macroeconomic forces, many large industries have seen strong consolidation trends, with energy and power, financial services, and telecommunications leading the way by deal value, and high technology leading in terms of the total number of deals.

There is no more complicated transaction than a merger or acquisition. The various issues raised are broad and complex, from valuation and deal structure, to tax and securities laws. The industries affected by this rapid activity are also diverse, from banking and computer software companies, to retailers and healthcare organizations. It seems that virtually every executive of every major industry faces a buy or sell decision at some point during his or her tenure as leader of the company. In fact, it is estimated that some executives spend as much as one third of their time considering merger and acquisition opportunities and other structural business decisions.

The federal government’s degree of intervention in these transactions varies from administration to administration, depending on the issues and concerns of the day.

Successful merges and acquisitions are neither an art nor a science but a process. In fact, regression analysis demonstrates that the number one determinant of

deal multiples is the growth rate of the business. The higher the growth rate, the higher the multiple of cash flow the business is worth.

A study of deals that close with both buyer and seller satisfied show that the deal followed a sequence, a pattern, and a series of steps that have been tried and tested.

A transaction, as complex as a merger or acquisition, is fraught with potential problems and pitfalls.

Many of these problems arise either in the preliminary stages, such as forcing a deal that shouldn't really be done; as a result of mistakes, errors, or omissions owing to inadequate, rushed, or misleading due diligence; in not properly allocating risks during the negotiation of definitive documents; or closing. These pitfalls can lead to expensive and protracted litigation unless an alternative method of dispute resolution is negotiated and included in the definitive documents.

Nobody ever plans to enter into a bad deal. But many well-intentioned entrepreneurs and business executives enter into a mergers and acquisitions that they later regret. Classic mistakes include a lack of adequate planning, an overly aggressive timetable to closing, a failure to really look at possible post-closing integration problems, or, worst of all, the projected synergies that were intended to be achieved turn out to be illusory.

As evident, to opt in for a merger and acquisition solution, it should be some motivation for both parties involved.

For seller the key "motivators" in an acquisition usually include one or more of the following:

- Ownership nearing retirement or ready for an exit;
- Inability to complete as an independent concern;
- The need or desire to obtain cost saving through economies of scale;
- Access to the greater resources of the acquiring company;

For the buyer, the key "motivators" in an acquisition usually include one or more of the following:

- Revenue enhancement;
- Cost reduction;
- Vertical and/or horizontal operational synergies or economies of scale;
- Growth pressures from investors;
- Underutilized resources;
- A desire to reduce the number of competitors (increase market share and reduce price competition);
- A need to gain a foothold in a new geographic market (especially if the current market is saturated);
- A desire to diversify into new products and services.

It is important to note that a merger is a different animal from an acquisition and thus a different set of objectives typically emerges for either party:

- To restructure the industry value chain;
- To respond to competitive cost pressures through economies of scale and scope;
- To improve process engineering and technology;
- To increase the scale of production in existing product lines;
- To find additional uses for existing management talent;
- To redeploy excess capital in more profitable or complementary uses;
- To obtain tax benefits.

In a classic merger, there is no buyer or seller, though one party may be quarterbacking the transaction or have initiated the discussion. Therefore, the culture and spirit of the negotiations are different from those for an acquisition.

In a merger, data gathering and due diligence are two-way and mutual, with each party positioning its contribution to the post-merger entity to justify its respective equity share, management, and control of the new company.

3. MERGERS AND ACQUISITIONS IN ROMANIA

In Romania, mergers and acquisitions are regulated by:

- Law no 31/1991, known as Company Law (articles 238 up to 251, as well as all articles relating to shares transfer);
- Law no 82/1991, known as Accounting Law;
- Law no 571/2003, known as Fiscal Code (articles 27, 27.1 and 128 paragraph 7, as well as all articles relating to capital gains);
- Ministry of Finance Order no 1376/2004 regarding the accounting treatment of merger, division, dissolution and liquidation of companies, as well as presentation of shareholder withdrawn or exclusion and its fiscal treatment.

In accordance with Romanian law, a merger may also be carried out between companies of different types, being the operation whereby:

- One or more companies is/are dissolved without going into liquidation and transfers/transfer its/their patrimony to another company, in exchange for the distribution of shares to the beneficiary companies and, possibly, for a cash payment of maximum 10% of the nominal value of the shares so distributed; or
- More companies are dissolved without going into liquidation and transfer all their patrimony to another company which they constitute, in exchange for the distribution of shares to the beneficiary companies and, possibly, for a cash payment of maximum 10% of the nominal value of the shares so distributed among the shareholders of the divided company.

On EU level, it is in force CEE Directive 78/885/EEC from 9 October 1978 regarding company's merger.

Between Romanian and EU framework there are some differences. For example, Romanian law:

- Doesn't specify any different treatment for different kind of entities;
- Limits the powers of the board of directors to propose a merger project;

- Doesn't require the project to make any specification regarding the rights of shareholders of the merged company to the dividends;
- There is no definition of merger premium and capital gain;
- The merger is approved in the Exceptional Shareholder Meeting and not in the General Meeting, as the Directive require;
- Doesn't cover the situation of merger through absorption;
- The administrator should present there opinion on matters that require specific expertise (a valuator and/or a certified accountant);
- Merger financial statement has the same treatment as the annual financial statement, which is contra to EU framework;
- There is no regulation regarding one person that acts in his name, but on other company account (as an agent);
- How the Company Registrar checks if the guarantees provided to creditors are valid or not.

In case of a merger or an assets transfer (acquisition), Romanian Fiscal Law offers a comfortable framework: all transactions are not subject of corporation tax, unless in specific situations and also, all transaction doesn't fall under VAT coverage area.

4. ADVANTAGES AND DISADVANTAGES OF MERGERS AND ACQUISITIONS

Advantages of mergers or acquisitions are directly linked to their purpose:

- Marketing advantages (buy in new products, buy a market presence, unify departments, obtain scale economies, eliminate competition, protect an existing market);
- Production advantages (increase productivity, buy technologies and skills, safeguard supplies, economies of scale);
- Finance and management advantages (high quality management team, obtain cash flow resources, obtain tax advantages);
- Risk spreading;
- Independence;
- Overcome barriers to entry on a market.

But, on the other hand, mergers and acquisitions can raise problems (disadvantages):

- Cost (too expensive, resistance of directors of targeted companies);
- Customers, corporate financiers and banks might resent a suddenly takeover;
- Incompatibility (differences of organization culture);
- Asymmetric information;
- The process may be driven by personal goals;
- Poor success recorded by acquisitions;
- Not taking into account the non-financial factors (human resources).

5. CONCLUSION

Finally, with merger and acquisition activity continuing to grow at rapid rates, entrepreneurs and venture capitalists continuing to form new entities and pursue new market opportunities, it is critical to have a firm grasp and the key drivers and inhibitors of any potential deal. With so much money on the line, it is essential to understand how to maximize price and valuation goals while ensuring the transaction is successfully consummated.

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A STRUCTURAL EQUATION MODEL: THAILAND'S INTERNATIONAL TOURISM DEMAND FOR TOURIST DESTINATION

CHUKIAT CHAIBOONSRI, PRASERT CHAITIP *

ABSTRACT: *Structural equation modelling (LISREL 8) was used to test the causal relationships between tourist travel motivations (travel cost satisfaction and tourist demographics) and tourist destination (tourism product, tourism product attributes, and tourism product management). A survey containing Likert-type scales was used in collecting data from 203 international tourists who had travelled to Thailand. Using factor analysis, dimensions were identified for scales used in the study: travel cost satisfaction, tourist demographics, tourism product, tourism product attributes, and tourism product management. Results indicated that the travel cost satisfaction of international tourists had a positive influence on tourism product attributes at 0.07 ($t=1.96$) with statistics significant at the level of 0.05. Also the travel cost satisfaction had a positive influence on tourism product management at 0.13 ($t=4.02$) with statistics significant at the level of 0.05. And the tourist demographics had a positive influence on tourism product at 0.11 ($t=3.47$) with statistic significant at the level of 0.05. As well as tourist demographics, which had a positive influence on tourism management at 0.11 ($t=3.57$) with statistics significant at the level of 0.05. The results of the research suggested that if the tourist destinations in Thailand are improved in quality then not only will international tourists revisit Thailand but also the numbers of tourists travelling to Thailand will increase.*

KEY WORDS: *Thailand; international tourism demand; SEM model*

1. INTRODUCTION

Tourism is an important part of the economy in many developing countries. According to the World Trade Organization (WTO), India, Sri Lanka, Indonesia, and Thailand combined make up 3% of the world's tourism market, and Asia Pacific was the world's fastest growing tourism region in 2004 (Crey, 2005 and Pimtong et. al,

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2007). In Thailand alone, the tourism industry accounts for 5.1% of National Gross Domestic Product (Tourism Authority of Thailand, 2005). Development and promotion of Thai international tourism started during the 1970s (Siriporn and Wang, 2007). The National Economics and Social Development Plan (NESDP) serves as a master plan for providing direction to the economics and social development of Thailand (Siriporn and Wang, 2007). Recently, Sasin Institute, at Chulalongkorn University, in Thailand, and Northwestern University and Kellogg School of Management, in the USA, conducted their Holiday Destination Survey from December 2002 to January 2003 via e-questionnaires from 121 people in 30 countries around the world. Thailand was selected 1st in the “Best hospital-City to visitors” category and 1st in the “Country with greatest value for money: shopping” category. Most importantly, Thailand placed 1st in the “Tourism Capital of Asia” category at 34%, while China was second at 17% and Japan third at 13% (Foreign Office The Government Public Relations Department, 2005). Moreover, the study of Rittichainuwat et al. (2001) found that Thailand had a positive image as a safe travel destination and for adventure activities, scenic natural beauty, rich culture, good-value cuisine and hotels, easy access, and good shopping. Pimtong, Qu and Ryan (2007) found that the positioning of Thailand as a traveler destination is still positive and can be competitive with other countries. Travelers have a positive image of many attributes that Thailand hospitality businesses provide to them. And the unique cultural and natural attractions and high quality accommodation, restaurants, and services are important indicators for increasing Thailand's positioning.

The Thai government has started many projects to support the tourism industry in Thailand. For example, the project “Amazing Thailand” was launched for the years 1998 and 1999, the project “Unseen in Thailand” was launched for the years 2003 and 2004, the project “Thailand Happiness on Earth” was launched for the year 2005, and the project “Unforgettable Thailand” was launched for the year 2006. According to information presented above, in order for the Thai tourism industry to reach its potential, the industry needs to continue to develop. The main idea to develop in this study focuses on tourist destinations in Thailand. Because tourist destinations are very importance to attract international tourist arrivals to Thailand (Yau and Chan (1990), Rittichainuwat et al. (2001), Pimtong, Qu and Ryan (2007)). In this research design the tourist destination must consist of tree parts: 1) tourism product, 2) tourism product attribute, and 3) tourism product management. If these three parts are continually developed following international tourist demand then not only will international tourist revisit Thailand but also the number of international tourists travelling to Thailand will increase (Yau and Chan (1990), Rittichainuwat et al. (2001), Pimtong, Qu and Ryan (2007), Siriporn and Wang, 2007)). Therefore, this study focuses on Thailand’s international tourism demand for tourist destination in Thailand based on a structural equation model approach (LISREL 8).

2. RESEARCH AIM AND OBJECTIVE

This research has the aim and objective of seeking to know and develop a structural equation mode of Thailand's international tourism demand as well as to use this model to explain international tourist behaviour in Thailand.

3. SCOPE OF THE RESEARCH

The scope of this research is the period 2007(Q1)-2007(Q2) and mostly the data was primary data. This data was colleted from international tourist arrivals to Thailand in this period by survey and the totally number of questionnaires used for this method was 203. The countries used for analysis in this research were the major countries for the international tourism industry of Thailand, namely Malaysia, Japan, China, Singapore, Taiwan, Korea, England, America, Germany, Australia, France, Sweden and Canada. Almost all of them had an influence on the income of the international tourism industry of Thailand in the same period (source: Thailand's tourism organization). The areas used to collect data were Bangkok, Chiang-Mai province, Chiang Rai province, Kon Kaen province and Chonburi province which are well-known to international tourists (source: Thailand Tourism Organization).

4. LITERATURE REVIEW

4.1 The Concept Background of the International Tourism Demand Model

The concept of the theory has been used in international tourist demand since 1950 but the estimation in international tourist demand by econometric method was used for the first time by Artus (1972). After that a lot of research about international tourist demand function used the econometric method. The researcher studied research such as Archer (1976), Crouch (1994), Walsh (1996), Lim (1997), Inclair (1998), Lise & Tol (2002), McAleer (2001,2003) Resina and Aruna (2004). Growth in international tourism is closely aligned to economic variables, which at a microeconomic level influence the consumer's decision to undertake overseas travel. Empirical research on international tourism demand has overwhelmingly been based on aggregate time series data which permits estimation of income and price elasticity on inbound tourism (see Lim, 1997 and McAleer (2001, 2003)). A simple origin-destination demand model for international tourism can be written as: (equation number (1)).

$$D_t = f (Y_t \ TC_t \ P_t) \quad (1)$$

where:

D_t - a measure of travel demand at time t ;

Y_t - a measure of income of the tourist-generating or origin country at time t ;

TC_t - a measure of transportation costs from the origin to destination country at time t ;

P_t - a measure of tourism price of goods and services at time t in destination country;

And assume that (+ Y_t), (- TC_t), (- P_t) and explain that when income at time t is increasing then the demand for international tourism is increasing simultaneously. When the measure of transportation costs from the origin to destination country at time t is increasing then the demand for international tourism decreases. And when the measure of tourism price of goods and services is increasing then the demand for international tourism is decreasing. Moreover in term of (- P_t) explain that when the measure of tourism price of goods and service is decreasing then the satisfaction of tourist for goods and service is increasing (Yi, 1990) (see more detail in topic of Customer Satisfaction). Based on a review of the literature above in terms of international tourism demand model, all of them have already been referred to again from Chukiat et al (2006). This research also expects higher travel cost satisfaction status to have a positive impact on total expenditure due to preference for tourism product or tourism destination.

4.2 Demographic or Socio-economics Segmentation

Key factors such as age, gender, income, employment and education are often important and interrelated determinants of demand which often change over time (Ritchie, 2006). Weaver et al (1994) and Cottrell (2003) found that age was a discriminating demographic variable that influenced holiday behaviour and choices. Younger people tend to be interested in adventurous activities such as wildlife viewing and beach holidays. With advances in age, individuals search for holiday activities that can give them more knowledge and understanding of issues outside their usual environment of life, particularly cultural activities (BongKoo, 2001). Like age, occupation and education enhances the need for an individual to learn more about other people and how they live in different environments (Mok and Armstrong, 1996). Therefore, travellers who are better educated and have high ranked occupations tend to search for more specific activities and experiences (Zimmer et. al., 1995). Higher socio-economic status increases the possibilities of engaging in people-centered activities due to greater access to information and increased awareness (Odunga and Folmer, 2004). Also more income enables individuals to spend more money during holidays. High-income earners prefer high-class activities and facilities (Odunga and Folmer, 2004). This research also expected higher Demographic or socio-economic status to have a positive impact on total expenditure due to preference for higher quality tourism product or tourism destination.

4.3 Customer Satisfaction and Travel Cost Satisfaction

It is indicated that those factor such as personality, expectation, motivation, decision making, accommodation, and activities influence tourists' behaviour and determine the level of satisfaction (Jafar Jafari, 2000). Customer satisfaction is a central concept in marketing because it is crucial to meeting the needs and wants of customers (Spreng et al., 1996; Yi, 1990). Firms deliver a product as well as

satisfaction to customer, and obtain profits in return (Yi, 1990). While customer satisfaction has been defined in many ways, researchers generally agree that an evaluation process is an essential element underlying customer satisfaction (Yi, 1990). Hunt (1997) defined satisfaction as “an evaluation rendered that the consumption experience was at least as good as it was supposed to be” (p.459). Based on previous theoretical and empirical evidence, Engel and Blackwell (1982) conceptualized satisfaction as “an evaluation that the chosen alternative is consistent with prior beliefs with respect to that alternative” (p. 501). In term of economics cost can be regarded as monetary service price and service time during which a service is provide (Murphy and Enis, 1986). The effect of price is called price sensitivity, which is similar to price elasticity, which influence customers’ purchase intention and behaviour (Dodds et al., 1991; Monroe, 1990; Zeithaml, 1988). Based on the comparison among benefits and costs, if the cost is higher than the benefit, customers may lose their purchasing intention and shift from the present service firm to another (Lee & Cunningham, 2001). According to a review of the literature above the travel cost satisfaction of tourists is higher when the cost of travel is lower. On the other hand, if the travel cost satisfaction of tourist is lower then it is depict that the cost of tourist’ travel is higher. One again this research also expected higher travel cost satisfaction status to have a positive impact on total expenditure due to preference for tourism product or tourism destination.

4.4 Tourism Product, Tourism Product Attributes and Tourism Product Management

The tourism product is the synergistically perceived experience of an attraction, facilitated by a number of heterogeneous services. Apart from the attraction, the key services are transport, accommodation and hospitality (Gnoth, 2005). The tourism product such as support services and attraction and tourist resources with one day’s return travel time (WTO, 2002). Brass (1997) suggests that tourism products can be classified into two main components: attractions and facilities. Attractions are those natural and human-made features and events that stimulate people to visit a destination. Together, the mix of destination attractions and facilities create a set of intangible “subjective experiences” for tourists known as a tourism product (Tourism Research Group, 1992). The tourism product includes physical goods, services, experiences, events, persons, places, properties, organizations, information and ideas contribute to the satisfaction of travelers. (Smith, 2001; Kother, 2001). The tourism products from the industry stance can be apprehended on two levels: a) The total tourism product, consisting of a combination of all the service elements consumed by the tourist from the time he/she sets off from home, to the time of return. This product can be an idea, an expectation, or a frame of mind, at the point of sale. b) The explicit products such as attractions, accommodation, transport and other facilities, are elements of the total tourist product. The product attributes refer to the various characteristics of product that influence a customer’s decision to purchase or not to purchase the product

(Swanson and Horridge, 2004). Also based on the definition of the product attributes above in term of tourism product attributes is the various characteristics of tourism product that influence a tourists' decision to purchase or not to purchase the tourism product. The various characteristics of tourism product such as cleanliness, beauty, safety and environmentally friendly. The tourism product management or the tourism destination management (Ritchie (2003)), consists of three part: 1) destination competitiveness is the competitiveness of one destination relative to other destinations. 2) destination performance such as economic measures, sustainability measures, visitor satisfaction measures, quality of management action measures. 3) successful goal achievement with respect to goals set by destination stakeholders. The destination management or tourism product management can be defined as "a system of managerial skills and activities used for coordinated planning and organizing of tourism for a particular destination" (Jane ková & Vašítková 1999). The destination management or tourism product management must address: a) Attractions: the motivators for the visit: (built (e.g. cathedrals/monuments), cultural (e.g. museums) and emotional or experiential triggers. b) Amenities: basic infrastructure such as utilities and roads direct services, accommodation, visitor information, catering and shopping facilities. c) Accessibility, d) Image and c) Price: (the cost of transport to and from the destination, accommodation, attractions, food and tour services) (Carter and Fabricius, 2007). The destination management or tourism product management is creating competitive advantage for your destination in long term also is advancing sustainable development of competitive tourism in your destination (Lengyel, 2007). In this research focus on the destination management or tourism product management is the attraction of the tourism product, the amenities of the tourism product, the accessibility to the tourism product, the image of the tourism product, the price of the tourism product and the competitiveness of the tourism product. This research also expected both higher travel cost satisfaction and tourist demographics status to have a positive impact on total expenditure due to preference for tourism destination (tourism product, tourism product attributes and tourism product management).

5. CONCEPTUAL FRAMEWORK

Based on the literature review and research model (see Figure 1), this research sought the relationship among travel cost satisfaction, tourist demographics, tourism product, tourism product attributes and tourism product management in a structure equation model of Thailand's international tourism demand for tourist destination. The two hypotheses tested in this research are presented below:

- *Hypothesis 1:* Travel cost satisfaction will have a positive influence on tourism destination (tourism product, tourism product attributes and tourism product management)
- *Hypothesis 2:* Tourist demographics will have a positive influence on tourism destination (tourism product, tourism product attributes and tourism product management)

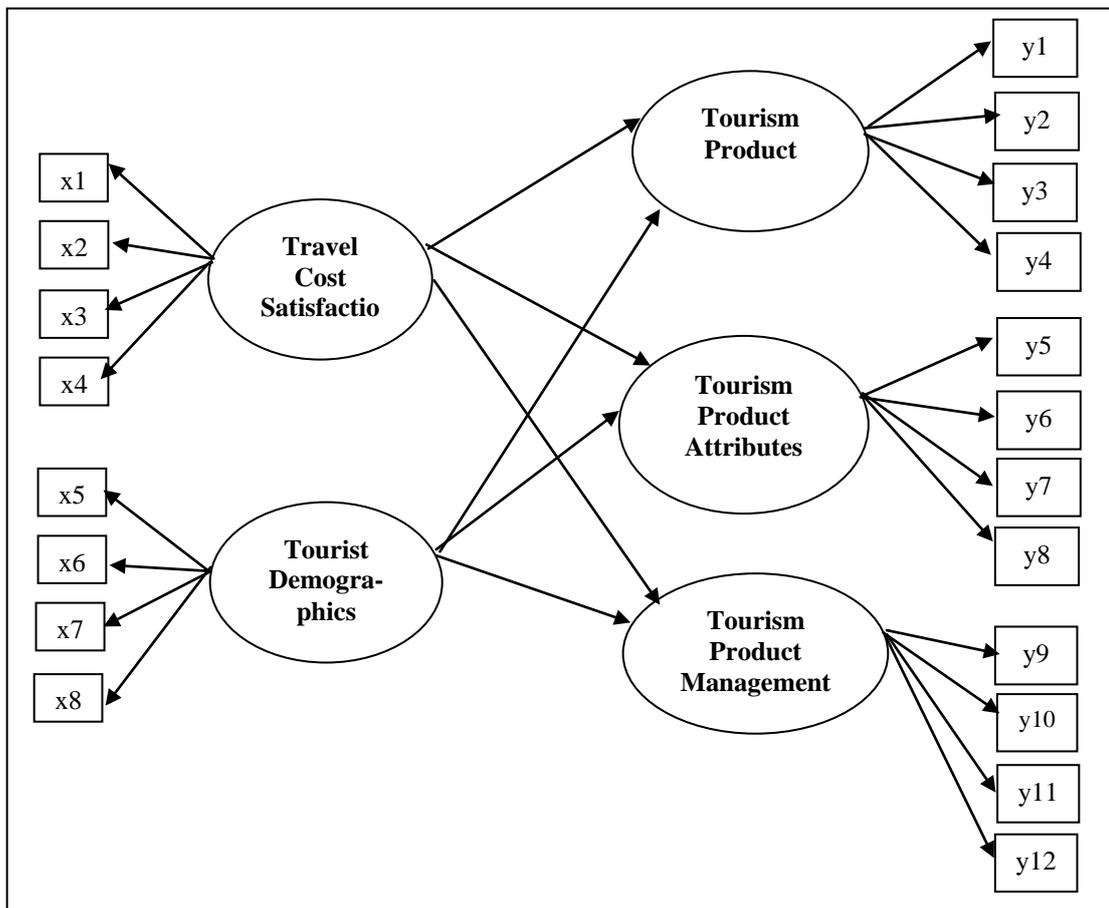


Figure 1. Hypothesized relationships between independent variables (Travel Cost and Tourist Demographics) and dependent variables (Tourism Product, Tourism Product Attributes and Tourism Product Management)

Source from: K. Swanson and Patricia E. Horridge (2004) and modified by Chukiat (2007)

6. RESEARCH METHODOLOGY

Jöreskog and Sörbom (1982) developed the LISREL Model Approach for creating structural equation models with confirmatory factor analysis (Jöreskog & Sörbom, 1989). This approach is also very famous for use for data analysis in both social research and economics research (Nongrak, 1992). The LISREL model (Jöreskog, Karl and Sörbom, 2001), in its most general form, consists of a set of linear structural equations. Variables in the equation system may be either directly observed variables or unmeasured latent (theoretical) variables that are not observed but relate to observed variables. It is assumed in the model that there is a causal structure among a

set of latent variables, and that the observed variables are indicators of the latent variables. The model consists of two parts, the measurement model and the structural equation model:

- The measurement model specifies how latent variables or hypothetical constructs depend upon or are indicated by the observed variables. It describes the measurement properties (reliabilities and validities) of the observed variables.
- The structural equation model specifies the causal relationships among the latent variables, describes the causal effects, and assigns the explained and unexplained variance.
- The LISREL method estimates the unknown coefficients of the set of linear structural equations. It is particularly designed to accommodate models that include latent variables, measurement errors in both dependent and independent variables, reciprocal causation, simultaneity, and interdependence.

The method includes as special cases such procedures as: Confirmatory factor analysis, Multiple regression analysis, Path analysis, Economic models for time-dependent data, Recursive and non-recursive models for cross-sectional/longitudinal data, Covariance structure models and Multi-sample analysis.

Description of the Model. The full LISREL model for single samples is defined, for deviations about the means, by the following three equations.

The structural equation model: $\mathbf{h} = \mathbf{B}\mathbf{h} + \mathbf{G}\mathbf{x} + \mathbf{z}$

The measurement model for \mathbf{y} : $\mathbf{y} = \mathbf{L}_y\mathbf{h} + \mathbf{e}$

The measurement model for \mathbf{x} : $\mathbf{x} = \mathbf{L}_x\mathbf{x} + \mathbf{d}$

The terms in these models are defined as follows:

- \mathbf{h} is a $m \times 1$ random vector of latent dependent, or endogenous, variables
- \mathbf{x} is a $n \times 1$ random vector of latent independent, or exogenous, variables
- \mathbf{y} is a $p \times 1$ vector of observed indicators of the dependent latent variables \mathbf{h}
- \mathbf{x} is a $q \times 1$ vector of observed indicators of the independent latent variables \mathbf{x}
- \mathbf{e} is a $p \times 1$ vector of measurement errors in \mathbf{y}
- \mathbf{d} is a $q \times 1$ vector of measurement errors in \mathbf{x}
- \mathbf{L}_y is a $p \times m$ matrix of coefficients of the regression of \mathbf{y} on \mathbf{h}
- \mathbf{L}_x is a $q \times n$ matrix of coefficients of the regression of \mathbf{x} on \mathbf{x}
- \mathbf{G} is a $m \times n$ matrix of coefficients of the x -variables in the structural relationship
- \mathbf{B} is a $m \times m$ matrix of coefficients of the h -variables in the structural relationship. (\mathbf{B} has zeros in the diagonal, and $\mathbf{I} - \mathbf{B}$ is required to be non-singular)
- \mathbf{z} is a $m \times 1$ vector of equation errors (random disturbances) in the structural relationship between \mathbf{h} and \mathbf{x}

Assumptions. The random components in the LISREL model are assumed to satisfy the following minimal assumptions:

- \mathbf{e} is uncorrelated with \mathbf{h}
- \mathbf{d} is uncorrelated with \mathbf{x}
- \mathbf{z} is uncorrelated with \mathbf{x}
- \mathbf{z} is uncorrelated with \mathbf{e} and \mathbf{d} .

- Covariance Matrices.**
- $\text{Cov}(\mathbf{x}) = \mathbf{F} (n \times n)$
 - $\text{Cov}(\mathbf{e}) = \mathbf{Q}_e (p \times p)$
 - $\text{Cov}(\mathbf{z}) = \mathbf{Y} (m \times m)$
 - $\text{Cov}(\mathbf{d}) = \mathbf{Q}_d (q \times q)$

Implied Covariance Matrix. The assumptions in the previous section imply the following form for the covariance matrix of the observed variables:

$$\Sigma = \begin{pmatrix} \Lambda_y \Lambda (\Gamma \Phi \Gamma' + \Psi) \Lambda' \Lambda_y' + \Theta_\epsilon & \Lambda_y \Lambda \Gamma \Phi \Lambda_x' \\ \Lambda_x \Phi \Gamma' \Lambda' \Lambda_y' & \Lambda_x \Phi \Lambda_x' + \Theta_\delta \end{pmatrix}$$

where Λ is inverse($\mathbf{I} - \mathbf{B}$).

Fixed, Free and Constrained Parameters. The general LISREL model is specialized by fixing and constraining the parameters that compromise the elements in \mathbf{L}_y , \mathbf{L}_x , \mathbf{B} , \mathbf{G} , \mathbf{Y} , \mathbf{F} and \mathbf{Q}_d . The elements are of three kinds:

- Fixed parameters - assigned specific values
- Constrained parameters - unknown but equal to a function of one or more other unknown parameters
- Free parameters - unknown and not constrained to be equal to other parameters

7. THE RESULTS OF THE RESEARCH

7.1 International Tourist Profile Based on Surveying Method

A survey was conducted among international tourists to Thailand in the tourist areas of Bangkok, Chiang-Mai, Chiang-Rai, Kon Kaen and Chonburi. These provinces are famous for international tourist arrivals to Thailand (Source: Thailand's Tourism Organization).

Table 1 (see more detail in appendix A) shows descriptive statistics of Thailand's international tourists in terms of both their socio-economics and their demographics. Out of the 203 respondents, 55% were male, 44% were female and the remaining respondents preferred not to state their gender. About 52% were between the ages of 21 to 30, 22% were between the ages of 31 to 40, 11% were between the ages of 41 to 50, 8% were over 50, 5% were under 20 and 2% did not state their age.

About 73% were single, 26% were married and 2% did not state their marital status. About 42% held a bachelor's degree, 31% held a diploma degree, 17% held a degree higher than a bachelor's degree, 7% had not completed grade 12 high schools and 3% did not state their level of education. About 24% of respondents were company officers, 19% were students, 15% were retired, 13% were general employees, 12% were involved in commerce or private businesses, 8% were in the government service or staff of state enterprises, 4% were unemployed, 3% were housewives/husbands, 1%

were farmers and 2% did not state their occupation or profession. About 25% of respondents reported an average income per month under \$1,000, 21% of respondents reported an average income per month between \$2,001-\$3,000, 19% between \$1,001-\$2,000, 15% between \$3,001-\$4,000, 7% over \$4,000 and 13% did not report their average income per month. About 24% of respondents reported average total spending per visit to Thailand of between \$501-\$1,000, 23% over \$2,000, 19% of respondents reported average total spending per visit to Thailand under \$500, 16% of respondents reported average total spending per visit to Thailand between \$1,001-\$1,500, 13% between \$1,501-\$2,000 and 7% did not state their average total spending per visit to Thailand. About 24% of respondents reported that no body came with them to Thailand, 32% of respondents reported that only one person, 14% of respondents reported two people, 26% of respondents reported three or more people, and 4% did not state the number of people that came with them to Thailand. In terms of the purposes of international tourists' visits to Thailand, the survey showed that about 49% came for relaxation, 24% to find out about the culture/traditions, 15% for seminars, 13% did not state their purpose, 6% for personal business, 5% to visit relatives, 5% to see heritage buildings, 4% for their education and 3% for sport.

Table 2 (see more details in appendix A) shows descriptive statistics of Thailand's international tourists in term of their travel behaviour. About 49% of respondents reported that they came to Thailand because of word of mouth, 38% of respondents reported that guide books influenced them, 37% of respondents reported internet advertisements, 14% of respondents reported magazines, 8% of respondents reported newspapers, 7% of respondents reported television programs, 6% of respondents reported brochures by tour-operators, 5% of respondents reported television advertisements and 9% of respondents reported none of the above influenced them to come to Thailand. About 32% of respondents reported that they are likely to come back to Thailand again, 32% of respondents reported that they are very likely to come back to Thailand again, 19% of respondents reported that they will certainly come back to Thailand again, 12% of respondents reported that they are somewhat likely to come to Thailand again, 2% of respondents reported that they are unlikely to come back to Thailand again and 3% did not state whether they will come to Thailand again or not. About 35% of respondents reported that pre-trip planning is important when coming to Thailand, 34% of respondents reported that it is somewhat important, 15% of respondents reported that it is very important, 9% of respondents reported that it is not important, 3% of respondents reported that it is extremely important, and 3% did not state their opinion. About 48% of respondents reported that they stayed in Thailand over 10 days, 28% of respondents reported 7-10 days, 18% of respondents reported 4-6 days, 3% of respondents reported 1-3 days and 4% did not report how many days they stayed in Thailand. About 41% of respondents reported that they were visiting Thailand for the first time, 25% of respondents reported that they had visited more three times, 19% of respondents reported that they were visiting for the second time, 11% of respondents reported that they were visiting for the third time and 3% did not respond.

About 72% of respondents reported their travel arrangements for this trip as individual tour, 20% of respondents reported an organized group tour and 8% of respondents reported other travel arrangements for this trip. About 42% of respondents reported that the total cost of their travel to Thailand was not expensive, 41% of respondents reported that it was somewhat expensive, 9% of respondents reported that that it was expensive, 7% of respondents reported that it was very expensive and 1% of respondents reported that it was high very expensive. About 43% of respondents reported that the cost of air travel in Thailand is not expensive, 38% of respondents reported that it was somewhat expensive, 14% of respondents reported that it was expensive, 3% of respondents reported that it was very expensive and 1% of respondents reported that it was very expensive. About 45% of respondents reported that the shipping cost of their travel in Thailand was not expensive, 35% of respondents reported that it was somewhat expensive, 16% of respondents reported that it was expensive, 3% of respondents reported that it was very expensive and 1% of respondents reported that it was very expensive. About 58% of respondents reported that the cost of public service vehicles on their travels in Thailand was not expensive, 31% of respondents reported that it was somewhat expensive, 8% of respondents reported that it was expensive, 2% of respondents reported that it was very expensive and 1% of respondents reported that it was very expensive.

About 50% of respondents reported that the cost of hotels and guesthouses on their trip to Thailand was not expensive, 36% of respondents reported that it was somewhat expensive, 11% of respondents reported that it was expensive, 3% of respondents reported that it was very expensive and 1% of respondents reported that it was very expensive. About 54% of respondents reported that the cost of goods and services purchased in Thailand on their trip were not expensive, 36% of respondents reported that they were somewhat expensive, 9% of respondents reported that they were expensive and 2% of respondents reported that they were high very expensive. About 42% of respondents reported that the total cost of their trip to Thailand was not expensive, 37% of respondents reported that it was somewhat expensive, 17% of respondents reported that it was expensive, 3% of respondents reported that it was very expensive and 1% of respondents reported that it was high very expensive.

Table 3 (see more detail in appendix A) shows descriptive statistics of Thailand's international tourists in term of their opinions on tourism products or tourist destinations in Thailand. About 57% of respondents reported that they agreed with the quality of tourist destinations (Mountain or Eco-tourism), 24% of respondents reported that they neither agreed nor disagreed with the quality of tourist destinations, 11% of respondents reported that they strongly agreed with the quality of tourist destinations, 7% of respondents reported that they disagreed with the quality of tourist destinations and 2% of respondents reported that they strongly disagreed with the quality of tourist destinations. About 62% of respondents reported that they agreed with the quality of tourist destinations (Cities, Hotels, Guesthouses, Department stores, Market place and Restaurants), 16% of respondents reported that they neither agreed nor disagreed with the quality of tourist destinations, 14% of respondents reported that they strongly

agreed with the quality of tourist destinations, 5% of respondents reported that they disagreed with the quality of tourist destinations and 3% of respondents reported that they strongly disagreed with the quality of tourist destinations.

About 61% of respondents reported that they agreed with the quality of tourist destinations (Rural areas, Resorts in rural areas and Home stays), 24% of respondents reported that they neither agreed nor disagreed with the quality of tourist destinations, 8% of respondents reported that they disagreed with the quality of tourist destinations, 6% of respondents reported that they strongly agreed with the quality of tourist destinations and 2% of respondents reported that they strongly disagreed with the quality of tourist destinations. About 56% of respondents reported that they agreed with the quality of tourist destinations (Sea, Beaches, Resorts on beaches and Islands), 20% of respondents reported that they neither agreed nor disagreed with the quality of tourist destinations, 19% of respondents reported that they strongly agreed with the quality of tourist destinations, 3% of respondents reported that they disagreed with the quality of tourist destinations and 3% of respondents reported that they strongly disagreed with the quality of tourist destinations.

About 60% of respondents reported that they agreed with the quality of tourist destinations (Culture, traditions, Thai lifestyle and Thai service), 20% of respondents reported that they strongly agreed with the quality of tourist destinations, 16% of respondents reported that they neither agreed nor disagreed with the quality of tourist destinations, 2% of respondents reported that they disagreed with the quality of tourist destinations and 2% of respondents reported that they strongly disagreed with the quality of tourist destinations. About 56% of respondents reported that they agreed with the quality of tourist destinations (Thai food, Thai souvenirs and Thai Health or Medical tourism), 16% of respondents reported that they neither agreed nor disagreed with the quality of tourist destinations, 3% of respondents reported that they disagreed with the quality of tourist destinations and 2% of respondents reported that they strongly disagreed with the quality of tourist destinations.

About 58% of respondents reported that they agreed with the quality of tourist destinations (Heritage buildings or Traditional buildings), 17% of respondents reported that they neither agreed nor disagreed with the quality of tourist destinations, 19% of respondents reported that they strongly agreed with the quality of tourist destinations and 3% of respondents reported that they disagreed with the quality of tourist destinations and 3% of respondents reported that they strongly disagreed with the quality of tourist destinations. About 51% of respondents reported that they agreed with the quality of the tourist destinations and that they would come back to those tourist destinations again, 38% reported that they strongly agreed with the quality of the tourist destinations and that they would come back to those tourist destinations again, 9% reported that they neither agreed nor disagreed with the quality of the tourist destinations and maybe they would come back to those tourist destinations again, 3% reported that they strongly disagreed with the quality of the tourist destinations and that they would not come back to those tourist destination again and 1% reported that they

disagreed with the quality of the tourist destinations and that they did not want to come back to those tourist destinations again.

Table 4 (see more detail in appendix A) shows descriptive statistics of Thailand's international tourists in term of their opinions on tourism products attributes or tourist destinations attributes in Thailand. About 50% of respondents reported that they agreed with the attributes of tourist destinations (Mountain or Eco-tourism: Clean, Beautiful, Safe and not destroying the environment), 34% of respondents reported that they neither agreed nor disagreed with the attributes of tourist destinations, 9% of respondents reported that they strongly agreed with the attributes of tourist destinations, 7% of respondents reported that they disagreed with the attributes of tourist destinations and 2% of respondents reported that they strongly disagreed with the attributes of tourist destinations.

About 54% of respondents reported that they agreed with the attributes of tourist destinations (Cities, Hotels, Guesthouses, Department stores, Market places and Restaurants: Clean, Beautiful, Safe and Not destroying the environment), 27% of respondents reported that they neither agreed nor disagreed with the attributes of tourist destinations, 10% of respondents reported that they disagreed with the attributes of tourist destinations, 7% of respondents reported that they strongly agreed with the attributes of tourist destinations and 2% of respondents reported that they strongly disagreed with the attributes of tourist destinations. About 56% of respondents reported that they agreed with the attributes of tourist destinations (Rural areas, Resorts in rural areas and Home stays: Clean, Beautiful, Safe and Not destroying the environment), 28% of respondents reported that they neither agreed nor disagreed with the attributes of tourist destinations, 9% of respondents reported that they disagreed with the attributes of tourist destinations, 5% of respondents reported that they strongly agreed with the attributes of tourist destinations and 2% of respondents reported that they strongly disagreed with the attributes of tourist destinations.

About 54% of respondents reported that they agreed with the attributes of tourist destinations (Sea, Beaches, Resorts on beaches and Islands: Clean, Beautiful, Safe and Not destroying the environment), 26% of respondents reported that they neither agreed nor disagreed with the attributes of tourist destinations, 9% of respondents reported that they strongly agreed with the attributes of tourist destinations, 9% of respondents reported that they disagreed with the attributes of tourist destinations and 2% of respondents reported that they strongly disagreed with the attributes of tourist destinations. About 56% of respondents reported that they agreed with the attributes of tourist destinations (Heritage building or Traditional building : Clean, Beautiful, Safety and Not destroying the environment), 24% of respondents reported that they neither agreed nor disagreed with the attributes of tourist destinations, 12% of respondents reported that they strongly agreed with the attributes of tourist destinations, 6% of respondents reported that they disagreed with the attributes of tourist destinations and 2% of respondents reported that they strongly disagreed with the attributes of tourist destinations.

From table 5 (see more detail in appendix A) give descriptive statistics of Thailand's international tourists in term of their opinions on tourism products management or tourist destinations management in Thailand. About 58% of respondents reported that they agreed with the management of tourist destinations (Mountain or Eco-tourism), 25% of respondents reported that they neither agreed nor disagreed with the management of tourist destinations, 9% of respondents reported that they strongly agreed with the management of tourist destinations, 7% of respondents reported that they disagreed with the management of tourist destinations and 1% of respondents reported that they strongly disagreed with the management of tourist destinations.

About 66% of respondents reported that they agreed with the management of tourist destination (Cities, Hotels, Guesthouses, Department stores, Market place and Restaurants), 20% of respondents reported that they neither agreed nor disagreed with the management of tourist destinations, 8% of respondents reported that they strongly agreed with the management of tourist destinations, 5% of respondents reported that they disagreed with the management of tourist destinations and 2% of respondents reported that they strongly disagreed with the management of tourist destinations. About 61% of respondents reported that they agreed with the management of tourist destinations (Rural areas, Resorts in rural areas, Home stays), 27% of respondents reported that they neither agreed nor disagreed with the management of tourist destinations, 6% of respondents reported that they strongly agreed with the management of tourist destinations, 5% of respondents reported that they disagreed with the management of tourist destinations and 1% of respondents reported that they strongly disagreed with the management of tourist destinations.

About 50% of respondents reported that they agreed with the management of tourist destinations (Sea, Beaches, Resorts on beaches and Islands), 32% of respondents reported that they neither agreed nor disagreed with the management of tourist destinations, 13% of respondents reported that they strongly agreed with the management of tourist destinations, 3% of respondents reported that they disagreed with the management of tourist destinations and 2% of respondents reported that they strongly disagreed with the management of tourist destinations. About 52% of respondents reported that they agreed with the management of the Thai tourism industry, 27% of respondents reported that they neither agreed nor disagreed with the management of the Thai tourism industry, 15% of respondents reported that they strongly agreed with the management of the Thai tourism industry, 5% of respondents reported that they disagreed with the management of the Thai tourism industry and 2% of respondents reported that they strongly disagreed with the management of the Thai tourism industry. About 49% of respondents reported that they agreed with the management of heritage buildings in Thailand, 33% of respondents reported that they neither agreed nor disagreed with the management of heritage buildings in Thailand, 15% of respondents reported that they strongly agreed with the management of heritage buildings in Thailand, 2% of respondents reported that they strongly disagreed

with the management of heritage buildings in Thailand and 2% of respondents reported that they disagreed with the management of heritage buildings in Thailand. About 43% of respondents reported that they agreed with the management of private company's impact on Thailand's tourism industry, 37% of respondents reported that they neither agreed nor disagreed with the management of private company's impact on Thailand's tourism industry, 11% of respondents reported that they strongly agreed with the management of private company's impact on Thailand's tourism industry, 8% of respondents reported that they have disagreed with the management of private company's impact on Thailand's tourism industry and 2% of respondents reported that they strongly disagreed with the management of private company's impact on Thailand's tourism industry. About 49% of respondents reported that they agreed with the management of the Thai government's impact on Thailand's tourism industry, 31% of respondents reported that they neither agreed nor disagreed with the management of the Thai government's impact on Thailand's tourism industry, 11% of respondents reported that they strongly agreed with the management of the Thai government's impact on Thailand's tourism industry, 7% of respondents reported that they have disagreed with the management of the Thai government's impact on Thailand's tourism industry and 2% of respondents reported that they strongly disagreed with the management of the Thai government's impact on Thailand's tourism industry.

7.2 Results of a Structural Equation Model for Thailand's International Tourism Demand for Tourist Destinations Based on the LISREL Model Approach

Each of the observable variables was measured by several questions and the items for each variable were checked for construct validity and reliability using SPSS (see more details in Appendix B, Table 6 and Table 7). Construct validity was established by checking the result of the factor analysis, with all the items representing one factor accounting for about at least 66% of variance. Reliability refers to the degree of stability of the scale (Jackson et al., 1997). Reliability of the construct is demonstrated by checking the Cronbach alpha for the items for each construct and the correlation among the items for the construct. Typically, a scale is said to be reliable if alpha is 0.70 or higher (Sim, Mak and Jone, 2006). Table 7 gives the validity and reliability indices for the questionnaire items for each variable. All the items had reliability coefficients higher than 0.82.

To test hypotheses 1 and 2 for causal relationships, the LISREL 8 program was used (for details concerning LISREL 8.53, see Jöreskog and Sörbom 2001). The LISREL model consists of a measurement model and a structural model (Jöreskog and Sörbom 2001). Figure 1 illustrates how latent variables-tourism products, tourism product attributes, tourism product management, travel cost satisfaction, and tourist demographics-were measured (the measurement model) and how the latent variables were proposed to relate among one another (the structural equation model). According to Diamantopoulos and Siguaw (2000), the measurement model (1) specifies how the latent variables are measured in terms of the observed variables and (2) describes

measurement properties (validities and reliabilities) of the observed variables. The structural equation model (1) specifies the causal relationships among the latent variables and (2) describes the causal effects and amount of unexplained variances (Diamantopoulos and Siguaw 2000; Jöreskog and Sörbom 2001).

This research tested the model in Figure 1. and the final model is given in Figure 2 (see more detail at appendix c). Significant relationships in the model are indicated by solid arrows and insignificant relationships are indicated by dotted arrows. The chi-square statistic test whether the observed data fit the hypothesis if the proposed model, and a smaller chi-square value indicates a better fit (Sim, Mak and Jone, 2006). However, for a small sample size that might have slightly departed from normality, the chi-squares are not good model fit indicators (Sim, Mak and Jone, 2006). The chi-value in Figure 2 is significant (X^2 with 160 degree of freedom = 284.92($p < 0.05$)). Other measures of fit include the goodness of fit index (GFI) and normed fit index (NFI). Both the GFI and NFI are always between zero and one, with one indicating a perfect fit while any value above 0.9 suggesting a good fit (Bentler & Bonett, 1990). The model has a GFI of 0.98 and a NFI of 0.97. This shows a good fit and the adjusted goodness of fit (AGFI) is 0.97 also this again shows a good fit. Similarly, the non-normed fit index (NNFI) and the comparative fit index (CFI) are two additional measures ranging from 0 to 1, where values close to or greater than 0.9 represent a reasonable mode fit (Sim, Mak and Jone, 2006). The NNFI and CFI for the model are 0.98 and 0.99, respectively and finally, the root-mean squared residual (RMSR) shows the proportion of the variance not explained by the model. In general, a root mean squared residual of 0.08 or below indicates a reasonable model fit (Sim, Mak and Jone, 2006). The model has a RMSR of 0.04 also overall speaking, the GFI, AGFI, NFI, NNFI, CFI, and RMSR all indicate that the model has a good fit.

A review of the LISREL estimates and residuals in table 8 reveals non-significant observed variables related to travel cost satisfaction: x1 and x3. And the LISREL estimates and residuals in the same table reveals non-significant observed variables related to tourism product: y1 and y3 as well as the LISREL estimates and residuals in the same tables reveals non-significant observed variables related to tourism product attributes: y5 and y7. Once again the LISREL estimates and residuals in the same Tables reveals non-significant observed variables related to tourism product management: y9, y10 and y11.

In the hypothesis 1 testing, the model showed that travel cost satisfaction has a positive influence on tourism product attributes at 0.07 ($t=1.96$) with statistical significance at the level of 0.05 (see more details in Figure 2). Also, the model showed that travel cost satisfaction has a positive influence on tourism product management at 0.13 ($t=4.02$) with statistical significance at the level of 0.05 (see more detail Figure 2). In the hypothesis 2 testing, the model showed that tourist demographics have a positive influence on tourism product at 0.11 ($t=3.47$) with statistical significance at the level of 0.05. The model also showed that tourist demographics have a positive influence on tourism management at 0.11 ($t=3.57$) with statistical significance at the level of 0.05 (see more details in Figure 2).

8. CONCLUSION AND IMPLICATIONS

This study attempted to determine the relationships between travel motivation (travel cost satisfaction and tourist demographics) and tourist destinations in Thailand (tourism product, tourism product attributes, and tourism product management). To test the causal relationships between these variables, a LISREL model incorporating measurement and structural equation modelling was developed and tested. In our sample of 203 international tourists, a positive effect was found between travel cost satisfaction and tourist destinations (tourism product attributes and tourism product management). Also a positive effect was found between tourist demographics and tourist destinations (tourism product and tourism product management).

There are two conclusions and recommendations that emerge from the empirical analysis based on LISREL Model Approach ((Jöreskog and Sörbom (1982)), (Jöreskog & Sörbom (1989) and (Jöreskog, Karl and Sörbom (2001))). First, travel cost satisfaction has a positive influence on tourism product attributes at 0.07 ($t=2.35$) with statistical significance at the level of 0.05 (see more details in Figure 2). Also travel cost satisfaction has a positive influence on tourism product management at 0.13 ($t=4.02$) with statistical significance at the level of 0.05 (see more details in Figure 2). If a generalization can be made for future years, then it suggests that both the private tourism sector and the Thai government tourism sector should maintain the attributes of tourist destinations such as keeping tourist destinations clean, keeping tourist destinations beautiful, keeping tourist destinations safe and to protect the environment of tourist destinations. As well, it is suggested that both the private tourism sector and the Thai government tourism sector should maintain good management of tourist destinations in Thailand. Such as maintaining the amenities of the tourism products, keeping good accessibility to the tourism products, keep a good image of tourism products, keeping the right price of tourism products and keeping the competitiveness of tourism products. Also this result was similar with the results of previous empirical studies of tourist destinations in Thailand ((Yau and Chan (1990), Ritichainuwat et al. (2001) and Pimtong, Qu and Ryan (2007))). Their research results suggested that Thailand has a positive image as safe travel destinations and for adventure activities, scenic natural beauty, rich culture, good-value cuisine and hotels, easy access, good shopping, beautiful beaches, reasonable prices, friendly people and various attractions such as amusements and nightlife entertainment.

Second, tourist demographics have a positive influenced on the tourism product at 0.11($t=3.47$) with statistical significance at the level of 0.05. Moreover, tourist demographics also have a positive influenced on tourism management at 0.11 ($t=3.57$) with statistical significance at the level of 0.05 (see more detail Figure 2). If a generalization can be made for future years, then it suggests that both the private tourism sector and the Thai government tourism sector should keep on improving both the quality and management of tourist destinations in Thailand. Such as to develop tourist destinations in Thailand, provide educational tourism to people in the industry and decrease the negative image of tourist destinations in Thailand (Ritichainuwat et

al., 2001) because Thailand has some negative images such as prostitution, AIDS, crowding, a gap between the rich and poor, and traffic jams (Ritichainuwat et al., 2001). Moreover Travel agencies and the Thai government could launch an active marketing campaign, promoting Thailand's exclusive culture and natural beauty through every channel especially the internet, and high quality accommodation, restaurants, and services. Also this result was similar with the results of previous empirical studies of tourist destinations in Thailand ((Yau and Chan (1990), Ritichainuwat et al. (2001) and Pimtong, Qu and Ryan(2007)). Yau and Chan (1990), found that Thailand was perceived as a safe destination with beautiful beaches, reasonable prices, friendly people, and various attractions such as amusements and nightlife entertainment. The study of Rittichainuwat et al. (2001) assessed the current image of Thailand and identified strengths and weaknesses of Thailand as international travel destinations. Positioning Thailand as a shopping paradise put Thailand more directly in competition with Singapore and Hong Kong SAR of PRC. They also found that Thailand had a positive image as a safe travel destination and for adventure activities, scenic natural beauty, rich culture, good-value cuisines and hotels, easy access, and good shopping. Pimtong, Qu and Ryan (2007) found that the positioning of Thailand as a traveller destination is still positive and can be competitive with other countries. Travellers have positive images of many attributes such as the Thai hospitality that businesses provide. And the unique cultural and natural attractions and high quality of accommodation, restaurants, and services are important indicators for increasing Thailand's positioning.

9. LIMITATIONS AND FUTURE RESEARCH

Firstly, this study collected data from 203 international tourist during the period 2007(Q1) to 2007(Q2). This number of respondents may not be sufficient to ascertain the overall trends of tourist. Future research should collect data from a sample of at least 1,000 people.

Secondly, this study collected data from tourist areas in some provinces only, namely Bangkok, Chiang-Mai, Chiang-Rai, Kon Kaen and Chonburi. However, may be not enough to accurately represent the image of all tourist destinations in Thailand. Future research should extent the data collection area to provinces such as Phuket, Krabi and Surathanee.

And thirdly, this study investigated destination image perception only from an international tourist's perspective. Future research should examine the point of view of travel agents and tour operators. These groups have an influence on the perceived image of a particular destination because they create the tour packaging and marketing campaigns (Balogu & Mangaloglu, 2001).

Appendix A

The summary data of tourists international arrival to Thailand by surveying method in during period 2007 (Q1) – 2007 (Q2)

Table 1. Demographic Summary of the Research Sample

From: computed.

Characteristics	Categories	Respondents (%)
Gender	Male	55.2
	Female	43.8
	Did not respond	1.0
Age group	Under 20 years	4.9
	21-30 years	51.7
	31-40 years	22.2
	41-50 years	10.8
	Over 50 year	8.4
	Did not respond	2.0□
Marital status	Single	72.9
	Married	25.6
	Did not respond	1.5
Education	Less than grade 12	6.9
	Diploma or equivalent	31.0
	Bachelor's degree	41.9
	Higher than Bachelor's degree	17.2
	Did not respond	3.0
Occupation or Professional	Student	18.7
	Company officer	23.6
	Government service/State enterprise	7.9
	House husband/House wife	2.5
	General employee	12.8
	Commerce/Personal business	12.3
	Unemployed	3.9
	Farmer	1.0
	Otherwise	15.3
	Did not respond	2.0□
Average income per month (US dollar)	Under 1,000	25.1
	1,001-2,000	18.7
	2,001-3,000	21.2
	3,001-4,000	14.3
	Over 4,000	7.9
	Did not respond	12.8□
Average total spending per visit to Thailand (US dollar)	Under 500	18.2
	501 - 1,000	23.6
	1,001-1,500	15.8
	1,501-2,000	12.8
	Over 2,000	23.2
	Did not respond	6.4□

Characteristics	Categories	Respondents (%)
Totally of people are travelling to Thailand with you	None	24.1
	One person	32.0
	Two person	14.3
	More than three persons	25.6
	Did not respond	3.9□
The purpose of your visit to Thailand	Relaxation	49.0
	Education	3.9
	Personal Business	6.4
	Seminar	14.8
	Sport	3.4
	Visit relatives	5.4
	Get know culture/tradition	24.1
	To see heritage building	5.4
	Otherwise	13.3

Table 2. Travel Behaviour Summary of the Research Sample

From: computed.

Characteristics	Categories	Respondents (%)
The Information suggested you come to Thailand	Newspapers	8.4
	Magazines	14.3
	TV programs	6.9
	Internet advertisements	36.9
	TV advertisements	5.4
	Guide Books	37.9
	Brochures of tour-operators	6.4
	Word of mouth	47.8
	Otherwise	9.4
The chance that you will travel to Thailand again	Unlikely	2.0
	Somewhat likely	11.8
	Likely	32.0
	Very likely	32.0
	Certain	19.2
	Did not respond	3.0□
The level of importance was your pre-trip planning when coming to Thailand	Not important	9.9
	Somewhat important	34.0
	Important	35.0
	Very important	14.8
	Extremely important	3.0
	Did not respond	3.4□
Your time stay in Thailand in total on this trip	1-3 days	1.0
	4--6 days	18.2
	7-10 days	28.1
	Over 10 days	48.3
	Did not respond	4.4□

Characteristics	Categories	Respondents (%)
How many time had you visited Thailand before this trip	None	41.4
	Once	18.7
	Twice	10.8
	More than twice	25.6
	Did not respond	3.4□
The description of your travel arrangements for this trip	Organized group tour	20.0
	Individual tour	71.8
	Otherwise	8.2□
Total cost of your travel to Thailand	Not expensive	41.8
	Somewhat expensive	40.7
	Expensive	9.3
	Very expensive	7.2
	High very expensive	1.0□
Airline costs in Thailand	Not expensive	42.6
	Somewhat expensive	37.8
	Expensive	14.4
	Very expensive	3.2
	High very expensive	2.1□
Shipping costs in Thailand	Not expensive	45.3
	Somewhat expensive	34.7
	Expensive	15.9
	Very expensive	2.9
	High very expensive	1.2□
Public service vehicle costs in Thailand	Not expensive	58.0
	Somewhat expensive	31.4
	Expensive	8.0
	Very expensive	1.6
	High very expensive	1.1□
Hotel cost and guesthouse costs for your trip	Not expensive	49.7
	Somewhat expensive	36.3
	Expensive	10.9
	Very expensive	2.6
	High very expensive	0.5□
Total cost of good and service purchased in Thailand	Not expensive	53.6
	Somewhat expensive	36.1
	Expensive	8.8
	Very expensive	1.5
	High very expensive	0.0
Total cost of your trip in Thailand	Not expensive	42.3
	Somewhat expensive	37.1
	Expensive	17.0
	Very expensive	3.1
	High very expensive	0.5□

Table 3. Summary of International Tourist's Opinions on Tourism Products or Tourist Destinations in Thailand

From: computed.

Characteristics	Categories	Respondents (%)
I was satisfied with the quality of tourist destinations: Mountain or Eco-tourism.	Strongly Disagree	2.1
	Disagree	6.8
	Neither Agree nor Disagree	24.1
	Agree	56.5
	Strongly Agree	10.5□
I was satisfied with the quality of tourist destinations: Cities, Hotels, Guesthouses, Department stores, Market place and Restaurants.	Strongly Disagree	3.1
	Disagree	5.2
	Neither Agree nor Disagree	16.1
	Agree	62.0
	Strongly Agree	13.5□
I was satisfied with the quality of tourist destinations: Rural areas, Resorts in rural areas, Home stays.	Strongly Disagree	1.6
	Disagree	7.5
	Neither Agree nor Disagree	24.2
	Agree	60.8
	Strongly Agree	5.9□
I was satisfied with the quality of tourist destinations: Sea, Beaches, Resorts on beaches and Islands.	Strongly Disagree	2.7
	Disagree	2.7
	Neither Agree nor Disagree	20.3
	Agree	55.6
	Strongly Agree	18.7□
I was satisfied with the quality of tourist destinations: culture, traditions, Thai people's life style and Thai people's service.	Strongly Disagree	1.6
	Disagree	2.1
	Neither Agree nor Disagree	15.7
	Agree	60.2
	Strongly Agree	20.4□
I was satisfied with the quality of tourist destinations: Thai food, A souvenirs of Thailand and Health or Medical tourism of Thailand.	Strongly Disagree	2.1
	Disagree	2.6
	Neither Agree nor Disagree	15.7
	Agree	55.5
	Strongly Agree	24.1□
I was satisfied with the quality of tourist destinations: Heritage building or Traditional building.	Strongly Disagree	2.6
	Disagree	3.2
	Neither Agree nor Disagree	17.4
	Agree	57.9
	Strongly Agree	18.9□
In light of the above, I will come to Thailand again.	Strongly Disagree	2.7
	Disagree	0.5
	Neither Agree nor Disagree	8.5
	Agree	50.5
	Strongly Agree	37.8□

Table 4. Summary of International Tourist's Opinions on Tourist Products Attributes or Tourist Destinations Attributes in Thailand

From: computed.

Characteristics	Categories	Respondents (%)
I was satisfied with the attributes of tourist destinations: Mountain or Eco-tourism.(Clean, Beautiful, Safety and Not destroying the environment)	Strongly Disagree	2.1
	Disagree	7.4
	Neither Agree nor Disagree	33.7
	Agree	47.9
	Strongly Agree	8.9□
I was satisfied with the attributes of tourist destinations: Cities, Hotels, Guesthouses, Department stores, Market place and Restaurants.(Clean, Beautiful, Safety and Not destroying the environment)	Strongly Disagree	2.1
	Disagree	10.4
	Neither Agree nor Disagree	26.6
	Agree	54.2
	Strongly Agree	6.8□
I was satisfied with the attributes of tourist destinations: Rural areas, Resorts in rural areas, Home stays. (Clean, Beautiful, Safety and Not destroying the environment)	Strongly Disagree	1.6
	Disagree	8.9
	Neither Agree nor Disagree	28.3
	Agree	56.0
	Strongly Agree	5.2□
I was satisfied with the attributes of tourist destinations: Sea, Beaches, Resorts on beaches and Islands. (Clean, Beautiful, Safety and Not destroying the environment)	Strongly Disagree	2.1
	Disagree	8.9
	Neither Agree nor Disagree	25.5
	Agree	54.2
	Strongly Agree	9.4□
I was satisfied with the attributes of tourist destinations: Heritage building or Traditional building. (Clean, Beautiful, Safety and Not destroying the environment)	Strongly Disagree	1.6
	Disagree	6.3
	Neither Agree nor Disagree	24.3
	Agree	56.1
	Strongly Agree	11.6□

Table 5: Summary of International Tourist's Opinions on Tourism Product Management or Tourist Destinations Management in Thailand

From: computed.

Characteristics	Categories	Respondents (%)
I was satisfied with the management of tourist destinations: Mountain or Eco-tourism.(Attraction, Amenities, Accessibility, Image, Price and Competitive).	Strongly Disagree	1.1
	Disagree	7.4
	Neither Agree nor Disagree	25.4
	Agree	57.7
	Strongly Agree	8.5□
I was satisfied with the management of tourist destinations: Cities, Hotels, Guesthouses, Department stores, Market place and Restaurants. (Attraction, Amenities, Accessibility, Image, Price and Competitive).	Strongly Disagree	1.6
	Disagree	5.2
	Neither Agree nor Disagree	19.4
	Agree	66.0
	Strongly Agree	7.9□
I was satisfied with the management of tourist destinations: Rural areas, Resorts in rural areas, Home stays.(Attraction, Amenities, Accessibility, Image, Price and Competitive).	Strongly Disagree	1.1
	Disagree	4.8
	Neither Agree nor Disagree	26.5
	Agree	61.9
	Strongly Agree	5.8□
I was satisfied with the management of tourist destinations: Sea, Beaches, Resorts on beaches and Islands.(Attraction, Amenities, Accessibility, Image, Price and Competitive).	Strongly Disagree	1.6
	Disagree	3.2
	Neither Agree nor Disagree	32.1
	Agree	50.0
	Strongly Agree	13.2□
I was satisfied with the management of Thailand's tourism industry.(Attraction, Amenities, Accessibility, Image, Price and Competitive).	Strongly Disagree	1.6
	Disagree	4.8
	Neither Agree nor Disagree	26.5
	Agree	51.9
	Strongly Agree	15.3□
I was satisfied with the management of Heritage building in Thailand.(Attraction, Amenities, Accessibility, Image, Price and Competitive).	Strongly Disagree	2.1
	Disagree	1.6
	Neither Agree nor Disagree	33.2
	Agree	48.9
	Strongly Agree	14.2□
I was satisfied with the management of private company's impact on Thailand's tourism industry (Attraction, Amenities, Accessibility, Image, Price and Competitive).	Strongly Disagree	1.6
	Disagree	7.9
	Neither Agree nor Disagree	36.8
	Agree	43.2
	Strongly Agree	10.5□
I was satisfied with the management of Thai government's impact on Thailand's tourism industry (Attraction, Amenities, Accessibility, Image, Price and Competitive).	Strongly Disagree	1.6
	Disagree	7.3
	Neither Agree nor Disagree	30.9
	Agree	49.2
	Strongly Agree	11.0□

Appendix B

The Item Within the Questionnaire and Reliability and Validity of the Items in the Model

Table 6. The items within the questionnaire were used in a structure model

Variable	Item	Questions
Tourism Product	PRODUCT 1 (y1)	I was satisfied with the quality of tourist destinations: Mountain or Eco-tourism.
	PRODUCT 2 (y2)	I was satisfied with the quality of tourist destinations: Cities, Hotels, Guesthouses, Department stores, Market place and Restaurants.
	PRODUCT 4 (y3)	I was satisfied with the quality of tourist destinations: Sea, Beaches, Resorts on beaches and Islands.
	PRODUCT 5 (y4)	I was satisfied with the quality of tourist destinations: culture, traditions, Thai people's life style and Thai people's service.
Tourism Product Attributes	ATTRIBU1 (y5)	I was satisfied with the attributes of tourist destinations: Mountain or Eco-tourism.(Clean, Beautiful, Safety and Not destroying the environment).
	ATTRIBU2 (y6)	I was satisfied with the attributes of tourist destinations: Cities, Hotels, Guesthouses, Department stores, Market place and Restaurants.(Clean, Beautiful, Safety and Not destroying the environment).
	ATTRIBU4 (y7)	I was satisfied with the attributes of tourist destinations: Sea, Beaches, Resorts on beaches and Islands. (Clean, Beautiful, Safety and Not destroying the environment).
	ATTRIBU5 (y8)	I was satisfied with the attributes of tourist destinations: Heritage building or Traditional building. (Clean, Beautiful, Safety and Not destroying the environment).
Tourism Product management	MANAGE1(y9)	I was satisfied with the management of tourist destinations: Mountain or Eco-tourism (Attraction, Amenities, Accessibility, Image, Price and Competitive).
	MANAGE2 (y10)	I was satisfied with the management of tourist destinations: Cities, Hotels, Guesthouses, Department stores, Market place and Restaurants (Attraction, Amenities, Accessibility, Image, Price and Competitive).
	MANAGE4 (y11)	I was satisfied with the management of tourist destinations: Sea, Beaches, Resorts on beaches and Islands (Attraction, Amenities, Accessibility, Image, Price and Competitive).
	MANAGE6 (y12)	I was satisfied with the management of Heritage building in Thailand. (Attraction, Amenities, Accessibility, Image, Price and Competitive).
Travel Cost	COST1 (x1)	Total cost of your travel to Thailand.
	COST2 (x2)	Airline costs in Thailand.
	COST5 (x3)	Hotel cost and guesthouse costs for your trip.
	COST7 (x4)	Total cost of your trip in Thailand.
Tourist demographic	AGE (x5)	Age of international tourist arrival to Thailand.
	EDUCAT (x6)	Education of international tourist arrival to Thailand.
	INCOME (x7)	Average income per month of international tourist arrival to Thailand. (US. Dollar)
	SPEND (x8)	Average total spending per visit to Thailand of international tourist (US. Dollar)

Table 7. The reliability and validity of the items were used in a structure model

From: computed

Variable	Item	Corrected item Total Correlation	Factor Loading
Tourism Product	PRODUCT 1	0.53	0.82
	PRODUCT 2	0.53	0.80
	PRODUCT 4	0.58	0.85
	PRODUCT 5	0.50	0.78
	Alpha = 0.82		1 factor 66% of variance
Tourism Product Attributes	ATTRIBU1	0.62	0.85
	ATTRIBU2	0.64	0.87
	ATTRIBU4	0.66	0.89
	ATTRIBU5	0.56	0.78
	Alpha = 0.86		1 factor 72% of variance
Tourism Product management	MANAGE1	0.61	0.83
	MANAGE2	0.61	0.84
	MANAGE4	0.67	0.89
	MANAGE6	0.57	0.80
	Alpha = 0.86		1 factor 70% of variance
Travel Cost	COST1	0.65	0.90
	COST2	0.50	0.74
	COST5	0.59	0.83
	COST7	0.61	0.86
	Alpha = 0.85		1 factor 70% of variance

Appendix C
A Structural Model for Thailand's International Tourism Demand

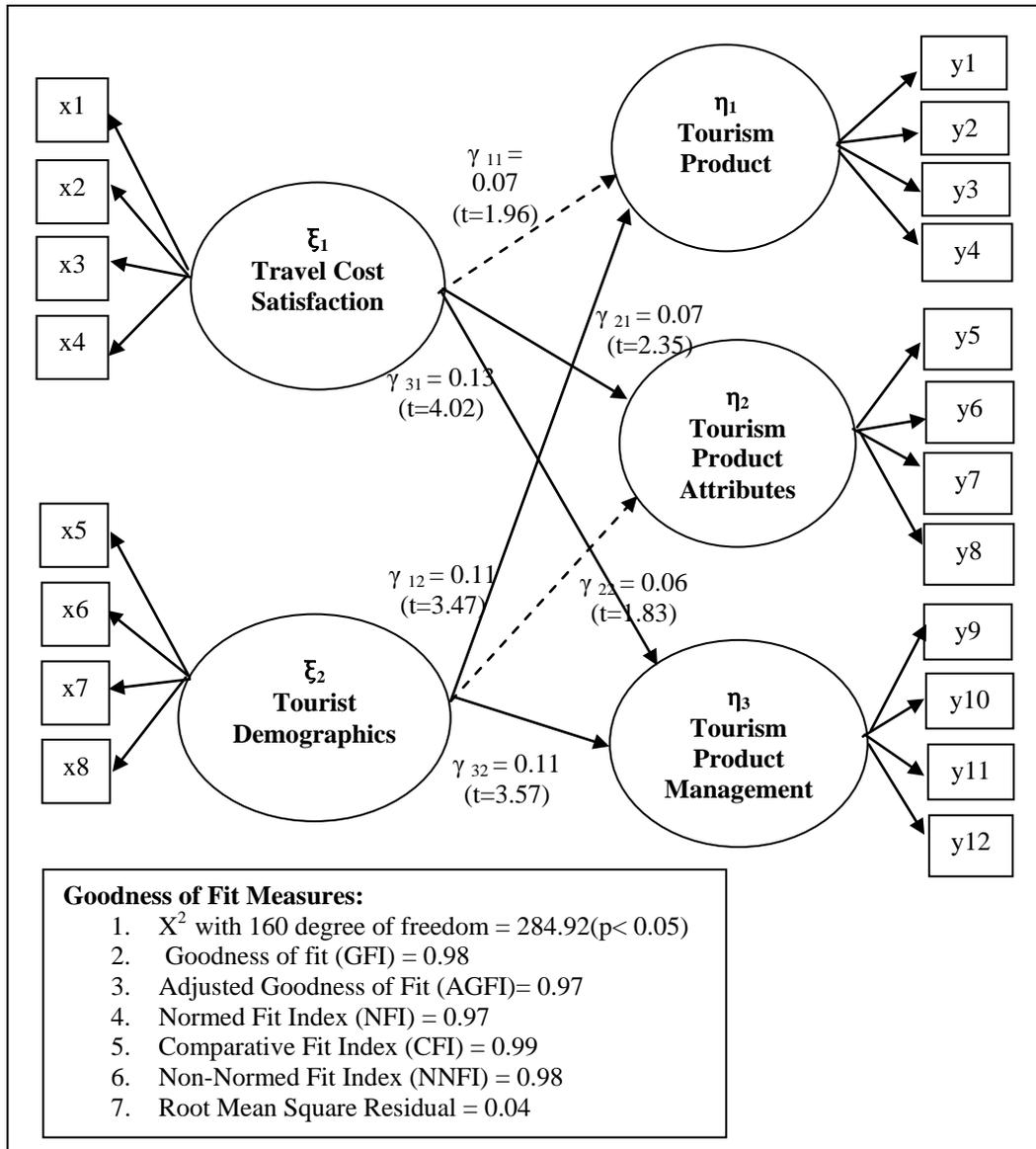


Figure 2. Final Model for Relationship among Travel Cost Satisfaction, Tourists Demographics, Tourism Product, Tourism Product Attributes and Tourism Product Management*

* Significant relationships are denoted as solid arrow and insignificant relationship are denoted as dotted arrow.

Table 8: LISREL estimates for measurement model (Relations of indicator variables to latent variables)

Construct	Indicator	Path	LISREL Estimates ^a	T-value	Residual	LISREL Estimates ^a	T-value
η_1 Tourism Product	y1	λ_{11}	0.73	9.74	ε_1	0.26 ^b	1.86
	y2	λ_{21}	0.68	7.11	ε_2	0.32	2.33
	y3	λ_{31}	0.73	7.27	ε_3	0.26 ^b	1.90
	y4	λ_{41}	0.52	6.43	ε_4	0.31	2.42
η_2 Tourism Product Attributes	y5	λ_{52}	0.70	9.93	ε_5	0.21 ^b	1.51
	y6	λ_{62}	0.65	6.54	ε_6	0.30	2.28
	y7	λ_{72}	0.75	6.84	ε_7	0.22 ^b	1.55
	y8	λ_{82}	0.64	6.51	ε_8	0.27	2.00
η_3 Tourism Product Management	y9	λ_{93}	0.62	10.20	ε_9	0.22 ^b	1.64
	y10	$\lambda_{10,3}$	0.50	5.47	ε_{10}	0.20 ^b	1.56
	y11	$\lambda_{11,3}$	0.68	5.87	ε_{11}	0.13 ^b	0.96
	y12	$\lambda_{12,3}$	0.62	5.68	ε_{12}	9.27	2.07
ξ_1 Travel Cost	x1	λ_{11}	0.89	10.82	δ_1	0.07 ^b	0.39
	x2	λ_{21}	0.63	9.42	δ_2	0.48	3.32
	x3	λ_{31}	0.64	9.56	δ_3	0.28 ^b	1.89
	x4	λ_{41}	0.67	9.81	δ_4	0.32	2.14
ξ_2 Tourist Demographics	x5	λ_{52}	0.52	8.53	δ_5	0.79	5.91
	x6	λ_{62}	0.21	3.85	δ_6	0.68	5.67
	x7	λ_{72}	0.97	10.05	δ_7	0.75	3.37
	x8	λ_{82}	0.96	10.04	δ_8	1.22	5.61

a = LISREL estimates significant, $p < 0.05$; *t* values are in parentheses.

b = LISREL estimates insignificant.

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A PANEL UNIT ROOT AND PANEL COINTEGRATION TEST OF THE MODELING INTERNATIONAL TOURISM DEMAND IN INDIA

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N. RANGASWAMY ***

ABSTRACT: *This paper sought to find the long-run relationships between international tourist arrivals in India with economic variables such as GDP, transportation costs and the exchange rate for the period from 2002-2006. The cointegration techniques used was based on Panel Cointegration Test as well as both the OLS estimator and DOLS estimator were used to find long-run relationship of the international tourism demand model for India. This paper used the five standard method test for Panel Unit Root Tests such as Levin, Lin and Chu (2002), Breitung (2000), Im, Pesaran and Shin (2003), Maddala and Wu (1999) and Choi (2001) and Handri (1999). The long-run results indicate that growth in income (GDP) of India's major tourist source markets has a positive impact on international visitor arrivals to India. These empirical results imply that when GDP of international major tourist source market such as England, America, Canada, France, German, Japan, Malaysia, Australia, Singapore and Korea increasing 1% then the number of international visitor arrivals to India increasing about 3% to 4%. As well as when transportation cost of these country increasing 1% then the number of international visitor arrivals to India increasing about 0.3% to 0.6%. Finally when the value of India's currency strong than the value of these country's currency increasing 1% then the number of international visitor arrivals to India decreasing 0.003% to 0.006%. Furthermore mostly findings were consistent with economic theory and the implications of the model can be use for policy making.*

KEY WORD: *India; tourism demand, Panel Unit Root Test, Panel Cointegration Test, Long-run relationship*

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1. INTRODUCTION

Tourism is a major engine of economic growth in most parts of the world. Several countries have transformed their economies using the tourism potential to the fullest. Tourism has great capacity to create large scale employment to diverse kind-from the most specialized to the unskilled (India tourism, Annual Report, 2001-02, p.34). The international tourism business entered an interesting period for many countries in Asia between 1997-1998 (Lim (2003)). Also recently in India international tourism industry is very interesting because the number of international tourists arrivals to India increasing every year since 2000-2005. In 2000 the number of international tourists arrivals to India was 26 lakhs (Government of India, 2001a) and in 2002 the number of international tourists increased to 2.38 million contributing an income of 2,923 million US.\$ to the India economy. In 2004, the number of international tourists increased to 3.46 million and the income increased to 4,769 million US \$. The following year there were 3.92 million tourists and the income was 5,731 US.\$(India tourism statistics, 2005). As soon as from above information presented that international tourism industry of India will be importance impact on India economy.

The results of why international tourism industry attractive foreign tourists come to India. Because India, with its cultural, spiritual and natural richness, offers an experience unparalleled in any other country: traditions, lifestyles, cultural heritage and colorful fairs and festivals all serve to make India a unique tourist destination. Moreover, the country offers a wide choice of tourism activities-for example, eco-tourism, adventure tourism, science tourism, spiritual tourism, heritage tourism and health tourism (Richa, 2005). For a long time now, economists have tried to understand the international tourist consumer behavior through demand models.

For example, Barry and O'Hagan (1972): studied the demand of British tourists going to Ireland; Jud, G.D. and Joseph, H., (1974): studied the demand of international tourist going to Latin American; Uysal and Crompton (1984): studied the demand of international tourists going to Turkey. Summary (1987): studied the demand of international tourists going to Kenya, Kulendran, N. (1996): studied the demand of international tourists going to Australia; Lim C. and M. McAleer (2000): studied the demand of international tourist going to Australia; Durbarry (2002): studied the demand of international tourists (French tourists) going to the UK, Spain and Italy. As well as Paresh Kumar and Narayan (2004) and Resina Katafono and Aruna Gounder (2004): who studied the demand of international tourists going to Fiji. Richa (2005): studied tourist arrivals in India how important are domestic disorders. Parsert, N. Rangaswomy and Chukiat (2006): studied the modeling international tourism demand in Thailand. Based on many articles, the aim of this paper is to find out the international tourist consumer behavior in coming to India during the period 2002-2006 through demand modeling. The consumer behavior information gathered from this research will help in developing the international tourism industry in India.

2. RESEARCH AIM AND OBJECTIVE

This research has the aim and objective of seeking to know how factors may affect international tourist demand arrivals to India in the long-run and to use the international tourism demand model to explain international tourists' behavior in India.

3. SCOPE OF THIS RESEARCH

The scope of this research is the period 2002-2006 and mostly the data was secondary data. The countries used for analysis in the modeling international tourism demand in India were the major countries for the international tourism industry of India, namely England, America, Canada, France, German, Japan, Malaysia, Australia, Singapore and Korea. Almost all of them had an influence on the income of the international tourism industry of India in the same period (source: India's tourism organization).

The variables used in this research were economic variables, for example the numbers of international tourist arriving in India, the GDP of major countries of international tourists coming to India, the world price of Kerosene-Type Jet Fuel, and the exchange rate of India in relation to the exchange rates of major countries of international tourists.

4. THE METHODOLOGY AND RESEARCH FRAMEWORK

4.1 The concept back ground of International Tourism Demand Model

The concept of theory has been used in international tourist demand since 1950 but the estimation in international tourist demand by econometric method beginning from the first time by Artus (1972). After that a lot of research about international tourist demand function used the econometric method. The researcher studied research such as Archer (1976), Crouch (1994), Walsh (1996), Lim (1997), Inclair (1998), Lise&Tol (2002), McAleer (2001, 2003), Resina and Aruna (2004), Narayan (2004), Parsert, Rangaswamy and Chukiat (2006). Growth in international tourism is closely aligned to economic variables, which at both microeconomic level and macroeconomics level influence the consumer's decision to undertake overseas travel. Empirical research on international tourism demand has overwhelmingly been based on aggregate time series data which permits estimation of income and price elasticity on inbound tourism (see Lim,1997 and McAleer (2001,2003) and Parsert, Rangaswamy and Chukiat (2006)). A simple origin-destination demand model for international tourism can be written as: (equation number (1))

$$D_t = f (Y_t \ TC_t \ P_t) \quad (1)$$

where:

D_t = is a measure of travel demand at time t ;

Y_t = is a measure of income of the tourist-generating or origin country at time t ;

TC_t = is a measure of transportation costs from the origin to destination country at time t ;

P_t = is a measure of tourism price of goods and services at time t ;

And assume that $(+ Y_t)$, $(-TC_t)$, $(- P_t)$ and explain that when income at time t is increasing then the demand for international tourism is increasing simultaneously. When the measure of transportation costs from the origin to destination country at time t is increasing then the demand for international tourism decreases. And when the measure of tourism price of goods and services is increasing then the demand for international tourism is decreasing. And the equation (1) can be expressed in log-linear (or logarithmic) form equation number (2).

$$\ln D_t = \alpha + \beta \ln Y_t + \gamma \ln \{F1_t \text{ or } F2_t\} + \delta \ln \{RP_t, ER_t \text{ or } RER_t\} + \phi \ln D_{t-1} + \theta \ln CP_t + u_t \quad (2)$$

where:

$\ln D_t$ = logarithm of short-term quarterly tourist arrivals (or demand) from the origin to destination country at time t ;

$\ln Y_t$ = logarithm of real GDP in original country at time t ;

$\ln F1_t$ = logarithm of real round-trip coach economy airfares in Neutral Units of construction (NUC) between original country and destination country at time t ;

$\ln F2_t$ = logarithm of real round-trip coach economy airfares in original country currency between original country and destination country at time t ;

$\ln RP_t$ = logarithm of relative prices (or CPI of destination country/CPI of original country) at time t ;

$\ln ER_t$ = logarithm of exchange rate (original country per destination country) at time t ;

$\ln RER_t$ = logarithm of real exchange rate [or $CPI(\text{destination country})/CPI(\text{original country}) * 1/ER$] at time t ;

$\ln CP_t$ = logarithm of competitive prices [using $CPI(\text{destination country})/(\text{other destination country})$];

u_t = independently distributed random error term, with zero mean and constant variance at time t ;

$\alpha, \beta, \gamma, \delta, \phi, \theta$ = parameters to be estimated; $\beta > 0, \gamma < 0, \delta < 0, 0 < \phi < 1, \theta > 0$ (substitutes) and $\theta < 0$ (complements).

Above of information mostly focus on international tourism demand function based on time series analysis. Recently a lot of research about international tourist demand function used the econometric method based on the panel data analysis. The researcher studied research such as Durbarry (2000), Munoz and Amaral (2002), Naude and Saayman (2004), Eilat and Einav (2004), Chin and Pan (2004), Proenca and Soukiazis (2005) and Maloney and Rojas (2005). Furthermore this research or the "A Panel Unit Root and Panel Cointegration Test of Modeling International tourism Demand in India" focus on both the panel unit root test and the panel cointegration test. And above of researcher have not used both the panel unit root test and the panel cointegration test for estimated international tourism demand function. Also the models

were used in this research has been modified from equation (2) and can be written as equation (3), (4) and (5).

$$\ln D1_{it} = \alpha + \beta \ln(GDP_{it}) + u_{it} \quad (3)$$

$$\ln D1_{it} = \rho + \gamma \ln(PO_{it}) + u_{it} \quad (4)$$

$$\ln D1_{it} = \eta + \theta \ln(ER_{it}) + u_{it} \quad (5)$$

where:

i = cross-section-data (the number of country arrival to India)

t = time series data

$\ln D1_{it}$ = logarithm of tourist arrivals (or demand) from the origin countries number i to destination country (India) at time t;

$\ln GDP_{it}$ = logarithm of real GDP in original countries number i at time t ;

$\ln PO_{it}$ = logarithm of price of Jet Fuel of original countries number i at time t ;

$\ln ER_{it}$ = logarithm of exchange rate of original country number i per destination country(India) at time t;

u_{it} = independently distributed random error term, with zero mean and constant variance number i at time t ;

$\alpha, \rho, \eta, \beta, \gamma, \theta$ = parameters to be estimated, $\alpha > 0, \rho > 0, \eta > 0, \beta > 0, \gamma < 0, \theta < 0$.

Furthermore the equation of international tourism demand model each of country has been modified from equation (3), (4) and (5) to be equations (6), (7) and (8) as well as these equation can presented below that:

$$\begin{aligned} \ln D1_{it} = & \alpha_1 + \beta_1 \ln(GDP_{it}) + \beta_2 (D_2 * \ln(GDP_{it})) + \beta_3 (D_3 * \ln(GDP_{it})) \\ & + \beta_4 (D_4 * \ln(GDP_{it})) + \beta_5 (D_5 * \ln(GDP_{it})) + \beta_6 (D_6 * \ln(GDP_{it})) + \beta_7 (D_7 * \ln(GDP_{it})) + \\ & \beta_8 (D_8 * \ln(GDP_{it})) + \beta_9 (D_9 * \ln(GDP_{it})) + \\ & \beta_{10} (D_{10} * \ln(GDP_{it})) + u_{it} \end{aligned} \quad (6)$$

$$\begin{aligned} \ln D1_{it} = & \alpha_2 + \beta_{11} \ln(PO_{it}) + \beta_{12} (D_2 * \ln(PO_{it})) + \beta_{13} (D_3 * \ln(PO_{it})) \\ & + \beta_{14} (D_4 * \ln(PO_{it})) + \beta_{15} (D_5 * \ln(PO_{it})) + \beta_{16} (D_6 * \ln(PO_{it})) + \beta_{17} (D_7 * \ln(PO_{it})) + \\ & \beta_{18} (D_8 * \ln(PO_{it})) + \beta_{19} (D_9 * \ln(PO_{it})) \\ & + \beta_{20} (D_{10} * \ln(PO_{it})) + u_{it} \end{aligned} \quad (7)$$

$$\begin{aligned} \ln D1_{it} = & \alpha_3 + \beta_{21} \ln(ER_{it}) + \beta_{22} (D_2 * \ln(ER_{it})) + \beta_{23} (D_3 * \ln(ER_{it})) + \beta_{24} (D_4 * \ln(ER_{it})) + \\ & \beta_{25} (D_5 * \ln(ER_{it})) + \beta_{26} (D_6 * \ln(ER_{it})) + \beta_{27} (D_7 * \ln(ER_{it})) + \\ & \beta_{28} (D_8 * \ln(ER_{it})) + \beta_{29} (D_9 * \ln(ER_{it})) + \beta_{30} (D_{10} * \ln(ER_{it})) + u_{it} \end{aligned} \quad (8)$$

where:

i = cross-section-data (the number of country arrival to India);

t = time series data;

$\ln D1_{it}$ = logarithm of tourist arrivals (or demand) from the origin countries number i to destination country (India) at time t;

$\ln \text{GDP}_{it}$ = logarithm of real GDP in original countries number i at time t ;
 $\ln \text{PO}_{it}$ = logarithm of price of Jet Fuel of original countries number i at time t ;
 $\ln \text{ER}_{it}$ = logarithm of exchange rate of original country number i per destination country (India) at time t ;
 u_{it} = independently distributed random error term, with zero mean and constant variance number i at time t ;
 $D_2 = 1$ is England, $D_2 = 0$ is otherwise;
 $D_3 = 1$ is America, $D_3 = 0$ is otherwise;
 $D_4 = 1$ is Canada, $D_4 = 0$ is otherwise;
 $D_5 = 1$ is France, $D_5 = 0$ is otherwise;
 $D_6 = 1$ is German, $D_6 = 0$ is otherwise;
 $D_7 = 1$ is Japan, $D_7 = 0$ is otherwise;
 $D_8 = 1$ is Malaysia, $D_8 = 0$ is otherwise;
 $D_9 = 1$ is Australia, $D_9 = 0$ is otherwise;
 $D_{10} = 1$ is Singapore, $D_{10} = 0$ is otherwise;

And defined that $\beta_1, \dots, \beta_{30}$ and α_1, α_2 and α_3 = parameters to be estimated;
 $\beta_1, \dots, \beta_{10} > 0$, $\beta_{11}, \dots, \beta_{20} < 0$ and $\beta_{21}, \dots, \beta_{30} < 0$;

4.2. Panel Unit-Root Tests

Recent literature suggests that panel-based unit root test have higher power than unit root test based on individual time series, see Levin, Lin and Chu (2002), Im, Persaran and Shin (2003), and Breitung (2000) to mention a few of popular test purchasing power parity (PPP) and growth convergence in macro panels using country data over time. This research focus on five type of panel unit root test such as Levin, Lin and Chu (2002), Breitung (2000), Im, Pesaran and Shin (2003), Fisher-Type test using ADF and PP-test (Maddala and Wu (1999) and Choi (2001)), Hadri (1999).

4.2.1. Levin, Lin and Chu (2002)

Levin, Lin and Chu (2002) start panel unit root test by consider the following basic ADF specification: (see equation (9)).

$$DY_{it} = \alpha Y_{it-1} + \sum_{j=1}^{p_i} \beta_{it} DY_{it-j} + X_{it}^* \delta + \varepsilon_{it} \quad (9)$$

where:

DY_{it} = difference term of Y_{it} ;

Y_{it} = Panel data;

$\alpha = \rho - 1$;

p_i = the number of lag order for difference terms;

X_{it}^* = exogenous variable in model such as country fixed effects and individual time trend;

ε_{it} = the error term of equation (9).

Define DY^*_{it} by taking DY_{it} and removing the autocorrelations and deterministic components from equation (9) as well as can be rewritten and give by equation (10) (equation (10) has been called that first set equation).

$$DY^*_{it} = DY_{it-1} + \sum_{j=1}^{p_i} \beta^*_{it} DY_{it,j} + X^*_{it} \delta^* + \varepsilon_{it} \quad (10)$$

And define the analogous \hat{y}_{it-1} using the second set of coefficients and it has been presented give by equation (11).

$$\hat{Y}_{it-1} = Y_{it-1} + \sum_{j=1}^{p_i} \beta^*_{it} DY_{it,j} - X^*_{it} \delta \quad (11)$$

After that take both DY^*_{it} and \hat{y}_{it-1} dividing by the regression standard error (S_i) also can express more detail of these variable following that: (see both equation (12) and (13)).

$$D\hat{Y}_{it} = (DY^*_{it} / S_i) \quad (12)$$

$$\hat{Y}_{it} = (\hat{y}_{it-1} / S_i) \quad (13)$$

Where S_i are estimated standard error from each ADF in equation (9) and lastly an estimate of the coefficient α may be obtained from equation (14).

$$D\hat{Y}_{it} = \alpha \hat{Y}_{it} + \eta_{it} \quad (14)$$

LLC (2002) show that under the null hypothesis , a modified t-statistics for the resulting $\hat{\alpha}$ is asymptotical normally distributed as well as it has been presented give by equation (15).

$$t^* = [t-(N \check{T})S_N \sigma^{\wedge -2} Se(\hat{\alpha})_{\mu m T^*}] / [\sigma m T^*] \rightarrow N(0,1) \quad (15)$$

where:

t^* = the standard t-statistic for $\hat{\alpha} = 0$;

$\sigma^{\wedge 2}$ = the estimated variance of the error term η ;

$Se(\hat{\alpha})$ = the standard error of $\hat{\alpha}$;

$\check{T} = T-(\sum_i p_i / N)-1$.

LLC (2002) panel unit root test has null hypothesis as panel data has unit root as well as can present below that:

- H_0 : null hypothesis as panel data has unit root (assumes common unit root process)
- H_1 : panel data has not unit root.

If t^* is significant then conclusion that reject null hypothesis or panel data has not unit root. Otherwise If t^* is not significant then conclusion that accept null hypothesis or panel data has unit root.

4.2.2. Breitung (2000)

Breitung (2000) suggested that use of the following equation (16) start to test panel unit root.

$$(DY_{it})^* = S_t [DY_{it} - (1/T-t)(DY_{i,t+1} + \dots + DY_{iT})] \quad (16)$$

where:

$t = 1, \dots, T-1$;

$S_t = (T-t)/(T-t+1)$;

$Y_{it}^* = Y_{i,t-1} - Y_{i0} - ((t-1)/T)(Y_{iT} - Y_{i0})$;

DY_{it} = panel data has been differenced;

i = cross-section data;

t = time series data and $t = 2, \dots, T^2$.

The panel unit root test for null hypothesis proposed by Breitung (2000) is to reject the null for small values of the following statistic: (see equation (17)).

$$B_{nT} = [((\hat{\sigma}^2)/(nT^2)) \sum_{i=1}^n \sum_{t=2}^{T-1} (Y_{i,t-1}^*)^2]^{-1/2} [(1/\sqrt{nT}) (\sum_{i=1}^n \sum_{t=2}^{T-1} (DY_{it})^* Y_{i,t-1}^*)] \quad (17)$$

or

$$B_{nT} = [B_{2nT}]^{1/2} B_{1nT} \quad (17)$$

where:

$\hat{\sigma}^2$ = it is consistent estimator of σ^2 ;

B_{nT} = Breitung(2000) t-statistic and it has been used to test panel unit root.

The B_{nT} (Breitung (2000) t-statistic) has non-stationary as null hypothesis as well as to show below that:

- H_0 : null hypothesis as panel data has unit root (assumes common unit root process)

- H_1 : panel data has not unit root

If B_{nT} is significant then conclusion that rejects null hypothesis or panel data has not unit root. Otherwise If B_{nT} is not significant then conclusion that accepts null hypothesis or panel data has unit root.

4.2.3. Im, Pesaran and Shin (2003)

Let Y_{it} be the observation on the i^{th} cross-section unit at time t and suppose that it is generated according to following simple dynamic linear heterogeneous panel data model and can be written in equation (18).

$$Y_{it} = (1 - \phi_i) + \phi_i Y_{i,t-1} + \varepsilon_{it} \quad (18)$$

where:

$i = 1, \dots, N$ are cross-section unit or series;

$t = 1, \dots, t$ are observed over periods;

ε_{it} = error term of equation (18);

Y_{it} = panel data.

And $\varepsilon_{it} = \gamma_i \mathbf{f}_t + \varepsilon_{it}$ in which \mathbf{f}_t is the unobserved common effect as well as ε_{it} is the individual-specific error. It is convenient to rewrite equation (18) to be equation (19) follow up :

$$DY_{it} = \alpha_i + \beta_i Y_{i,t-1} + \gamma_i \mathbf{f}_t + \varepsilon_{it} \tag{19}$$

where

DY_{it} = differential into Y_i ;

$\alpha_i = (1 - \phi_i)$;

$\beta_i = - (1 - \phi_i)$;

γ_i = coefficient of \mathbf{f}_t ;

ε_{it} = error term of equation (19).

The null hypothesis or unit root hypothesis of interest, $\phi_i = 1$, can now be expressed as $H_0: \beta_i = 0$ for all i and against the null hypothesis as $H_1: \beta_i < 0$, $i=1,2,\dots,N_1$, $\beta_i = 0$, $i= N_1 +1, N_2 +2, \dots, N$. The average of the t-statistics for α_i received from equation 11I by estimated also this t-statistics can show below that: (see equation (20)).

$$t^*_{NT} = (\sum_{t=1}^N t_{ix}(p_i)) / N \tag{20}$$

The properly standardized t^*_{NT} has an asymptotic standard normal distribution and also it was rewritten to be new t-statistics as well as can show below that: (see equation (21)).

$$W_{t^*_{NT}} = \sqrt{n} [(t_{NT} - N^{-1} \sum_{t=1}^n E(t_{ix}(p_i)))] / \sqrt{(N^{-1} \sum_{i=1}^n \text{var}(t_{ix}(p_i)))} \tag{21}$$

Where $W_{t^*_{NT}}$ is W-statistics has been used to test panel data based on Im, Pesaran and Shin (2003) techniques. Also this technique has non-stationary as null hypothesis as well as to show below that:

- H_0 : null hypothesis as panel data has unit root (assumes individual unit root process)
- H_1 : panel data has not unit root

If $W_{t^*_{NT}}$ is significant then conclusion that reject null hypothesis or panel data has not unit root. Otherwise If $W_{t^*_{NT}}$ is not significant then conclusion that accept null hypothesis or panel data has unit root.

4.2.4. Fisher-Type Test using ADF and PP-Test (Maddala and Wu (1999) and Choi (2001))

Madala and Wu(1999) proposed the use of the Fisher (P_λ) test which is based on combining the P-values of the test-statistics for unit root in each cross-sectional unit. Let p_i are $U[0,1]$ and independent, and $-2\log_e p_i$ has a χ^2 distribution with $2N$ degree of freedom and can be written in equation (22).

$$P_\lambda = -2 \sum_{i=1}^N \log_e p_i \quad (22)$$

where:

P_λ = Fisher (P_λ) panel unit root test;

N = all N cross-section;

$-2 \sum_{i=1}^N \log_e p_i$ = it has a χ^2 distribution with $2N$ degree of freedom.

In addition, Choi (2001) demonstrates that: (see more detail of Choi (2001) demonstrates that in equation (23)).

$$Z = (1/\sqrt{N_{i=1}})[\sum_{i=1}^N \phi_i^{-1}(p_i)] \rightarrow N(0,1) \quad (23)$$

where:

Z = Z-statistic panel data unit root test;

N = all N cross-section in panel data;

ϕ_i^{-1} = the inverse of the standard normal cumulative distribution function;

p_i = it is the P-value from the i^{th} test.

Both Fisher (P_λ) Chi-square panel unit root test and Choi Z-statistics panel data unit root test have non-stationary as null hypothesis as well as to show below that:

- H_0 : null hypothesis as panel data has unit root (assumes individual unit root process)
- H_1 : panel data has not unit root

If both Fisher (P_λ) Chi-square panel unit root test and Choi Z-statistics panel unit root test are significant then conclusion that reject null hypothesis or panel data has not unit root. Otherwise both If Fisher (P_λ) Chi-square panel unit root test and Choi Z-statistics panel unit root test are not significant then conclusion that accept null hypothesis or panel data has unit root.

4.2.3. Hadri (1999)

The Hadri (1999) panel unit root test is similar to the KPSS unit root test, and has a null hypothesis of no unit root, and has null hypothesis of no unit root in any of the series in the panel data. Like the KPSS test, the Hadri test is based on the residuals from the individual OLS regressions of Y_{it} on a constant, or on a constant and trend. For example if include both the constant and a trend and derive estimates from equation (24).

$$Y_{it} = \delta_i + \eta_{it} + \varepsilon_{it} \quad (24)$$

where:

Y_{it} = panel data where $i = 1, 2, \dots, N$ are cross-section unit or series and $t = 1, 2, \dots, T_i$ are observed over periods;

δ_i = constant term of equation (24);

η_{it} = co-efficient of t or trend;

ε_{it} = the residuals term.

And give the residuals $\hat{\varepsilon}_{it}$ from the individual regressions as well as form the LM_1 statistic: (see more detail from equation (25)).

$$LM_1 = (1/N) [\sum_{i=1}^N ((\sum_t S_i(t)^2 / T^2) / \bar{\varepsilon}_o)] \quad (25)$$

where:

$$S_i(t) = \sum_{s=1}^t \hat{\varepsilon}_{is}$$

$\bar{\varepsilon}_o = \sum_{i=1}^N \bar{\varepsilon}_{io} / N$ (average of individual estimators of the residual spectrum at frequency and see detail in KPSS(1992)).

An alternative form of the LM_2 statistics allows for heteroskedasticity across i : (see more detail in equation (26)).

$$LM_2 = (1/N) [\sum_{i=1}^N ((\sum_t S_i(t)^2 / T^2) / \bar{\varepsilon}_{io})] \quad (26)$$

So Hadri (1999) uses LM_1 based on homoskedasticity assume as well as he uses LM_2 that is heteroskedasticity consistent. And also he uses Z-statistics test for panel data as well as Z-statistics can be written in equation (27).

$$Z = [\sqrt{N} (LM - E)] / x \rightarrow N(0,1) \quad (27)$$

where:

N = the number of observation in panel data;

$E = 1/16$ and $x = 1/15$, if the model only includes constant, and $E = 1/15$ and also $x = 11/6300$, otherwise.

The Hadri (1999) test for panel data has the hypothesis to be tested is H_0 is null hypothesis and H_1 is against null hypothesis and can show below that:

- H_0 : null hypothesis as panel data has not unit root (assumes common unit root process)
- H_1 : panel data has unit root

If Z-statistics is significant then conclusion that rejects null hypothesis or panel data has unit root. Otherwise If Z-statistics is not significant then conclusion that accepts null hypothesis or panel data has not unit root.

4.3. Panel Cointegration Test

Kao (1999) uses both DF and ADF to test for cointegration in panel as well as this test similar to the standard approach adopted in the EG-step procedures. Also this test start with the panel regression model as set out in equation (28).

$$Y_{it} = X_{it} \beta_{it} + Z_{it} \gamma_0 + \varepsilon_{it} \quad (28)$$

where Y and X are presumed to be non-stationary and: (see equation (29))

$$\hat{e}_{it} = \rho \hat{e}_{it} + v_{it} \quad (29)$$

where $\hat{e}_{it} = (Y_{it} - X_{it}\hat{\beta}_{it} - Z_{it}\hat{\gamma})$ are the residuals from estimating equation (28). To test the null hypothesis of no cointegration amounts to test $H_0 : \rho = 1$ in equation 211 against the alternative that Y and X are cointegrated (i. e., $H_1: \rho < 1$). Kao (1999) developed both DF-Type test statistics and ADF test statistics were used to test cointegration in panel also both DF-Type (4 Type) test statistics and ADF test statistics can present below that:

$$DF_{\rho} = \frac{\sqrt{NT}(\hat{\rho} - 1) + 3\sqrt{N}}{\sqrt{51/5}}, \quad (30)$$

$$DF_t = \sqrt{\frac{5t_{\rho}}{4}} + \sqrt{\frac{15N}{8}}. \quad (31)$$

$$DF_{\rho}^* = \frac{\sqrt{NT}(\hat{\rho} - 1) + \frac{3\sqrt{N}\hat{\sigma}_v^2}{\hat{\sigma}_{0v}^2}}{\sqrt{3 + \frac{36\hat{\sigma}_v^4}{5\hat{\sigma}_{0v}^4}}}, \quad (32)$$

$$DF_t^* = \frac{t_{\rho} + \frac{\sqrt{6N}\hat{\sigma}_v}{2\hat{\sigma}_{0v}}}{\sqrt{\frac{\hat{\sigma}_{0v}^2}{2\hat{\sigma}_v^2} + \frac{3\hat{\sigma}_v^2}{10\hat{\sigma}_{0v}^2}}}, \quad (33)$$

$$ADF = \frac{t_{ADF} + \sqrt{6N}\hat{\sigma}_v/2\hat{\sigma}_{0u}}{\sqrt{\hat{\sigma}_{0v}^2/2\hat{\sigma}_v^2 + 3\hat{\sigma}_v^2/10\hat{\sigma}_{0v}^2}} \quad (34)$$

where:

N = cross-section data;

T = time series data;

$\hat{\rho}$ = co-efficiencies of (29);

$t_{\rho} = [(\hat{\rho} - 1) \sqrt{(\sum_{i=1}^N \sum_{t=2}^T e^{*\ast}_{it-1})}] / \text{Se}$;

$\text{Se} = (1/NT) \sum_{i=1}^N \sum_{t=2}^T (e^{*\ast}_{it} - \hat{\rho} e^{*\ast}_{it-1})^2$;

$\hat{\sigma}_u^2$ = variance of u;

$\hat{\sigma}_v^2$ = variance of v

$\hat{\sigma}_u$ = standard deviation of u;

$\hat{\sigma}_v$ = standard deviation of v;

$t_{ADF} = [(\hat{\rho} - 1) (\sum_{i=1}^N (e' Q_i e_i))^{1/2}] / S_v$.

Pedroni (1995) provides a pooled Phillips and Perron-Type test and these test have the null hypothesis of no cointegration. The panel autoregressive coefficient estimator, $\hat{\gamma}_{N,T}$, can be constructed as follow: (see equation (35)).

$$\hat{\gamma}_{N,T}^{-1} = [\sum_{i=1}^N \sum_{t=2}^T (e_{i,t-1} \Delta e_{i,t-1} - \lambda_i)] / \sum_{i=1}^N \sum_{t=2}^T (e_{i,t-1}^2) \quad (35)$$

where:

N = cross-section data;

T = time series data;

$e_{i,t-1}$ = error term of model;

λ_i = a scalar equivalent to correlation matrix.

And also Pedroni (1995) provides the limiting distributions of two test statistics as well as can be written in equation (36):

$$\text{PP-statistic} = [T \sqrt{N} (\hat{\gamma}_{N,T}^{-1})] / \sqrt{2} \rightarrow N(0,1) \quad (36)$$

And this research focus on ADF test statistic based on residual-based test follow concept of Kao (1999) to test cointegration in panel and also this research focus on PP-test statistic based on concept of Pedroni (1995) to test cointegration in panel. Both ADF-statistics and PP-statistic have same null hypothesis of no cointegration in panel.

4.4. Estimating panel cointegration model

The various (casually single equation) approach for estimating a cointegration vector using panel data such as Pedroni (2000, 2001) approach, Chiang and Kao (2000, 2002) approach and Breitung (2002) approach. The various estimators available include with-and between-group such as OLS estimators, fully modified OLS (FMOLS) estimators and dynamic OLS estimators. FMOLS is a non-parametric approach to dealing with corrections for serial correlation, serial correlation, while OLS and DOLS are a parametric approach which DOLS estimators include lagged first-differenced term are explicitly estimated as well as consider a simple two variable panel regression model: (see detail calculated of OLS, FMOLS and DOLS in equation (38), (39) and (41)).

$$Y_{it} = \alpha_i + \beta_i X_{it} + \varepsilon_{it} \quad (37)$$

A standard panel OLS estimator for the coefficient β_i given by :

$$\hat{\beta}_{i, OLS} = [\sum_{i=1}^N \sum_{t=1}^T (X_{it} - X_i^*)^2]^{-1} \sum_{i=1}^N \sum_{t=1}^T (X_{it} - X_i^*) (Y_{it} - Y_i^*) \quad (38)$$

where:

i = cross-section data and N is the number of cross-section;

t = time series data and T is the number of time series data;

$\hat{\beta}_{i, OLS}$ = A standard panel OLS estimator;

X_{it} = exogenous variable in model;

X_i^* = average of X_i ;

Y_{it} = endogenous variable in model;

Y_i^* = average of Y_i .

To correct for endogeneity and serial correlation, Pedroni (2000) has suggested the group-means FMOLS estimator that incorporates the Phillips and Hanseri (1990) semi-parametric correction to the OLS estimator to adjust for the heterogeneity that is present in the dynamics underlying X and Y . Specifically, the FMOLS statistics is: see equation (39)).

$$\hat{\beta}_{i, FMOLS} = N^{-1} \sum_{i=1}^N [\sum_{t=1}^T (X_{it} - X_i^*)^2]^{-1} [\sum_{t=1}^T (X_{it} - X_i^*) Y_{it}^+ - T Y_i^{\wedge}] \quad (39)$$

where:

i = cross-section data and N is number of cross-section data;

t = time series data and T is number of time series data;

$\hat{\beta}_{i, FMOLS}$ = Full modified OLS estimator;

X_{it} = exogenous variable in model;

X_i^* = average of X_i^* ;

Y_{it} = endogenous variable in model;

Y_i^* = average of Y_i^* ;

$Y_{it}^+ = \square X_{it} - X_i^* - [(\Omega_{21i}^{\wedge} / \Omega_{22i}^{\wedge}) \Delta X_{it}]$ and Ω^{\wedge} is covariance.

In contrast to the non-parametric FMOLS estimator, Pedroni (2001) has also constructed a between-dimension, group-means panel DOLS estimator that incorporate corrections for endogeneity and serial correlation parametrically. This is done by modifying equation (37) to include lead and lag dynamics: (see equation (40)).

$$Y_{it} = \alpha_i + \beta_i X_{it} + \sum_{j=-k}^{ki} \gamma_{ik} \Delta X_{i,t-k} + \varepsilon_{it} \quad (40)$$

$$\hat{\beta}_{i, DOLS} = [N^{-1} \sum_{i=1}^N (\sum_{t=1}^T Z_{it} Z_{it}^*)^{-1} (\sum_{t=1}^T Z_{it} Z_{it}^{\wedge})] \quad (41)$$

where:

i = cross-section data and N is number of cross-section data;

t = time series data and T is number of time series data;

$\hat{\beta}_{i, DOLS}$ = dynamics OLS estimator;

Z_{it} = is the $2(K+1) \times 1$;

$Z_{it}^{\wedge} = \square X_{it} - X_i^*$;

X_i^* = average of X_i^* ;

$\Delta X_{i,t-k}$ = differential term of X .

According to above of these methods were used to estimating panel cointegration model mostly these methods developed by Pedroni (2000, 2001). But this research focus on both the OLS estimator and the DOLS estimator for estimating panel cointegration of the modeling international tourism demand in India (see the stage of panel unit root and panel cointegration test apply to estimating cointegration model at appendix A).

5. THE EMPIRICAL RESULTS OF THE RESEARCH

5.1 The empirical results of the panel unit root test

This paper was used the panel unit root test of the variables by 5 standard method tests for panel data. Namely Levin, Lin and Chu (2002), Breitung (2000), Im, Pesaran and Shin (2003), Fisher-Type test using ADF and PP-test (Maddala and Wu (1999) and Choi (2001)) and Hadri (1999). Table 1 presents the results of panel unit root tests based on 5 method tests for all variables were used in modeling international tourism demand in India. The Levin, Lin and Chu (2002) method test indicate that $LDEM_{it}$, $LGDP_{it}$, LPO_{it} and LEX_{it} are significance level for reject null of a unit root. The Breitung (2000) method test indicate that $LGDP_{it}$ is significance level for reject null of a unit root but $LDEM_{it}$ and LEX_{it} have unit root. The Im, Pesaran and Shin (2003) method test indicate that $LDEM_{it}$, $LGDP_{it}$, LPO_{it} and LEX_{it} have a unit root. Maddala and Wu (1999) and Choi (2001) method test indicate that LPO_{it} and LEX_{it} are significance level for reject null of a unit root but $LDEM_{it}$ and $LGDP_{it}$ have unit root. Hadri (1999) method test indicate that $LDEM_{it}$, $LGDP_{it}$, LPO_{it} and LEX_{it} have unit root because this method has null hypothesis of no unit root. From this results of panel unit root test can not be conclusion that all variables were used in this model have unit root or all variables have not unit root. So all variables should be take first differing or take second differing as well as when take first differing in all variables then the results of panel unit root test based on 5 methods can presented in table 2. The Levin, Lin and Chu (2002) method test indicate that $LDEM_{it}$, $LGDP_{it}$, LPO_{it} and LEX_{it} are significance level for reject null of a unit root. The Breitung (2000) method test indicate that $LDEM_{it}$ and LPO_{it} are significance level for reject null of a unit root but $LGDP_{it}$ and LEX_{it} have unit root. The Im, Pesaran and Shin (2003) method test indicate that $LDEM_{it}$, $LGDP_{it}$, LPO_{it} and LEX_{it} are significance level for reject null of a unit root. Maddala and Wu (1999) and Choi (2001) method test indicate that $LDEM_{it}$, LPO_{it} and LEX_{it} are significance level for reject null of a unit root but $LGDP_{it}$ has unit root. Hadri (1999) method test indicate that $LDEM_{it}$, $LGDP_{it}$, LPO_{it} and LEX_{it} have unit root because this method has null hypothesis of no unit root. Finally when take first differing in all variables then clearly that all variables were used in modeling international tourism demand in India are significance level for reject null of a unit root.

5.2 The empirical results of panel cointegration test

Table 3 present the results of panel cointegration test of the modeling international tourism demand in India based on ADF statistic and PP statistic. Both ADF statistic and PP statistic indicate that all variables were used in this model are significant at the reject of the null hypothesis (no cointegration). The empirical results imply that all variables were used in modeling international tourism demand in India has cointegration with each other. Moreover ADF statistic indicates the rejection of the

null hypothesis (no cointegration) at the 0.10 level of significance and PP statistic indicates that rejection of the null hypothesis (no cointegration) at the 0.05 level of significance as well as for more information of these methods test should look at Kao (1990) and Kao, Chiang and Chen (1999).

5.3 The empirical results of estimating panel cointegration model

5.3.1. The empirical results of estimating panel cointegration model with all country of international tourists arrival in India based on both OLS- estimator and DOLS-estimator

Table 4 present the results of the long-run relationship of the modeling international tourism demand in India based on OLS-estimator and DOLS-estimator ($\ln D_{it}$ is dependent variable). And the empirical results of the long-run tourism demand model for India's ten international main tourist source countries (England, America, Canada, France, German, Japan, Malaysia, Australia, Singapore and Korea.), obtained by normalizing on visitor arrivals, are presented on table 4. All variables appear with both the correct sign and incorrect sing. Clearly, income of origin countries, travel costs of origin countries and exchange of origin countries are influential in determining international visitor arrivals to India based on both OLS-estimator and DOLS-estimator. The results of all variable were used in this research impact on the international visitor arrivals to India during 2002 (M1) – 2006 (M12) showed that.

In ten country as in long-run base on OLS-estimator to estimating panel cointegration model suggested that LEX_{it} has negative impact on international tourist arrival to India excepted $LGDP_{it}$ and LPO_{it} have positive impact on international tourist arrivals to India. The empirical results imply that in long-run when LEX_{it} increasing 1 % then the number of tourists from ten country arriving in India decreasing 0.003%. Otherwise when $LGDP_{it}$ increasing 1% then the number of tourists from ten country arriving in India increasing 3.32% and when LPO_{it} increasing 1% then the number of tourists from ten country arriving in India increasing 0.55%.

In ten country as in long-run base on DOLS-estimator to estimating panel cointegration model suggested that LEX_{it} has negative impact on international tourist arrival to India excepted $LGDP_{it}$ and LPO_{it} have positive impact on international tourist arrivals to India. The empirical results imply that in long-run when LEX_{it} increasing 1 % then the number of tourists from ten country arriving in India decreasing 0.006%. Otherwise when $LGDP_{it}$ increasing 1% then the number of tourists from ten country arriving in India increasing 4.43% and when LPO_{it} increasing 1% then the number of tourists from ten country arriving in India increasing 0.29%.

5.3.2. The empirical results of estimating panel cointegration model with each country of international tourists arrival in India based on OLS-estimator

Table 5 present the results of the long-run relationship of the modeling international tourism demand in India based on OLS-estimator by each country ($\ln D_{it}$ is dependent variable). And the empirical results of the long-run tourism demand model for India's ten international main tourist source countries (England, America, Canada, France, German, Japan, Malaysia, Australia, Singapore and Korea), obtained by normalizing on visitor arrivals, are presented on table 5. Mostly all variables appear with both the correct sign and incorrect sing. Clearly, income of origin countries, travel costs of origin countries and exchange of origin countries are influential in determining international visitor arrivals to India based on OLS-estimator. The results of all variable were used in this research impact on the international visitor arrivals to India during 2002 (M1) - 2006 (M12) showed that.

In United Kingdom as in long-run base on OLS-estimator to estimating panel cointegration model suggested that LEX_{it} has negative impact on international tourist arrival to India excepted $LGDP_{it}$ and LPO_{it} have positive impact on international tourist arrivals to India. The empirical results imply that in long-run when LEX_{it} increasing 1 % then the number of United Kingdom's tourists arriving in India decreasing 1.10%. Otherwise when $LGDP_{it}$ increasing 1% then the number of United Kingdom's tourists arriving in India increasing 0.22% and when LPO_{it} increasing 1% then the number of United Kingdom's tourists arriving in India increasing 0.59%.

In America as in long-run base on OLS-estimator to estimating panel cointegration model suggested $LGDP_{it}$ and LPO_{it} have positive impact on international tourist arrivals to India. The empirical results imply that in long-run when $LGDP_{it}$ increasing 1% then the number of American tourists arriving in India increasing 0.16% and when LPO_{it} increasing 1% then the number of American tourists arriving in India increasing 0.67%.

In Canada as in long-run base on OLS-estimator to estimating panel cointegration model suggested that LEX_{it} has negative impact on international tourist arrival to India excepted $LGDP_{it}$ and LPO_{it} have positive impact on international tourist arrivals to India. The empirical results imply that in long-run when LEX_{it} increasing 1 % then the number of Canadian tourists arriving in India decreasing 1.102%. Otherwise when $LGDP_{it}$ increasing 1% then the number of Canadian tourists arriving in India increasing 0.039% and when LPO_{it} increasing 1% then the number of Canadian tourists arriving in India increasing 0.36%.

In France as in long-run base on OLS-estimator to estimating panel cointegration model suggested that LEX_{it} has negative impact on international tourist arrival to India excepted $LGDP_{it}$ and LPO_{it} have positive impact on international tourist arrivals to India. The empirical results imply that in long-run when LEX_{it} increasing 1 % then the number of France's tourists arriving in India decreasing 1.103%. Otherwise when $LGDP_{it}$ increasing 1% then the number of France's tourists arriving in India

increasing 0.04% and when LPO_{it} increasing 1% then the number of France's tourists arriving in India increasing 0.37%.

In German as in long-run base on OLS-estimator to estimating panel cointegration model suggested that LEX_{it} has negative impact on international tourist arrival to India excepted $LGDP_{it}$ and LPO_{it} have positive impact on international tourist arrivals to India. The empirical results imply that in long-run when LEX_{it} increasing 1% then the number of German's tourists arriving in India decreasing 1.10%. Otherwise when $LGDP_{it}$ increasing 1% then the number of German's tourists arriving in India increasing 0.036% and when LPO_{it} increasing 1% then the number of German's tourists arriving in India increasing 0.38%.

In Japan as in long-run base on OLS-estimator to estimating panel cointegration model suggested that LEX_{it} has negative impact on international tourist arrival to India excepted $LGDP_{it}$ and LPO_{it} have positive impact on international tourist arrivals to India. The empirical results imply that in long-run when LEX_{it} increasing 1% then the number of Japanese tourists arriving in India decreasing 1.08%. Otherwise when $LGDP_{it}$ increasing 1% then the number of Japanese tourists arriving in India increasing 0.032% and when LPO_{it} increasing 1% then the number of Japanese tourists arriving in India increasing 0.07%.

In Malaysia as in long-run base on OLS-estimator to estimating panel cointegration model suggested that LEX_{it} has negative impact on international tourist arrival to India excepted $LGDP_{it}$ and LPO_{it} have positive impact on international tourist arrivals to India. The empirical results imply that in long-run when LEX_{it} increasing 1% then the number of Malaysian tourists arriving in India decreasing 1.084%. Otherwise when $LGDP_{it}$ increasing 1% then the number of Malaysian tourists arriving in India increasing 0.028% and when LPO_{it} increasing 1% then the number of Malaysian tourists arriving in India increasing 0.21%.

In Australia as in long-run base on OLS-estimator to estimating panel cointegration model suggested that LEX_{it} has negative impact on international tourist arrival to India excepted $LGDP_{it}$ and LPO_{it} have positive impact on international tourist arrivals to India. The empirical results imply that in long-run when LEX_{it} increasing 1% then the number of Australian tourists arriving in India decreasing 1.11%. Otherwise when $LGDP_{it}$ increasing 1% then the number of Australian tourists arriving in India increasing 0.030% and when LPO_{it} increasing 1% then the number of Australian tourists arriving in India increasing 0.321%.

In Singapore as in long-run base on OLS-estimator to estimating panel cointegration model suggested that LEX_{it} and $LGDP_{it}$ have negative impact on international tourist arrival to India excepted LPO_{it} has positive impact on international tourist arrivals to India. The empirical results imply that in long-run when LEX_{it} increasing 1% then the number of Singaporean tourists arriving in India decreasing 1.08% and when $LGDP_{it}$ increasing 1% then the number of Singaporean tourists arriving in India decreasing 0.008%. Otherwise when LPO_{it} increasing 1% then the number of Singaporean tourists arriving in India increasing 0.20%.

And in Korea as in long-run base on OLS-estimator to estimating panel cointegration model suggested that $LGDP_{it}$ has negative impact on international tourist arrival to India excepted LEX_{it} and LPO_{it} have positive impact on international tourist arrivals to India. The empirical results imply that in long-run when $LGDP_{it}$ increasing 1 % then the number of Korean tourists arriving in India decreasing 0.07%. Otherwise when LEX_{it} increasing 1% then the number of Korean tourists arriving in India increasing 1.104% and when LPO_{it} increasing 1% then the number of Korean tourists arriving in India increasing 0.15%.

5.3.3. The empirical results of estimating panel cointegration model with each country of international tourists arrival in India based on DOLS-estimator

Table 6 present the results of the long-run relationship of the modeling international tourism demand in India based on DOLS-estimator by each country ($\ln D_{it}$ is dependent variable). And the empirical results of the long-run tourism demand model for India's ten international main tourist source countries (England, America, Canada, France, German, Japan, Malaysia, Australia, Singapore and Korea.), obtained by normalizing on visitor arrivals, are presented on table 6. All variables appear with both the correct sign and incorrect sing. Clearly, income of origin countries, travel costs of origin countries and exchange of origin countries are influential in determining international visitor arrivals to India based on DOLS-estimator. The results of all variable were used in this research impact on the international visitor arrivals to India during 2002 (M1) – 2006 (M12) showed that.

In United Kingdom as in long-run base on DOLS-estimator to estimating panel cointegration model suggested that LEX_{it} has negative impact on international tourist arrival to India excepted $LGDP_{it}$ and LPO_{it} have positive impact on international tourist arrivals to India. The empirical results imply that in long-run when LEX_{it} increasing 1 % then the number of United Kingdom tourists is arriving in India decreasing 0.70%. Otherwise when $LGDP_{it}$ increasing 1% then the number of United Kingdom's tourists arriving in India increasing 0.95% and when LPO_{it} increasing 1% then the number of United Kingdom's a tourist arriving in India increasing 1.53%.

In America as in long-run base on DOLS-estimator to estimating panel cointegration model suggested that LEX_{it} has negative impact on international tourist arrival to India excepted $LGDP_{it}$ and LPO_{it} have positive impact on international tourist arrivals to India. The empirical results imply that in long-run when LEX_{it} increasing 1 % then the number of American tourists arriving in India decreasing 0.27%. Otherwise when $LGDP_{it}$ increasing 1% then the number of American tourists arriving in India increasing 0.39% and when LPO_{it} increasing 1% then the number of American tourists arriving in India increasing 1.81%.

In Canada as in long-run base on DOLS-estimator to estimating panel cointegration model suggested that LEX_{it} has negative impact on international tourist arrival to India excepted $LGDP_{it}$ and LPO_{it} have positive impact on international tourist arrivals to India. The empirical results imply that in long-run when LEX_{it} increasing

1% then the number of Canadian tourists arriving in India decreasing 0.76%. Otherwise when $LGDP_{it}$ increasing 1% then the number of Canadian tourists arriving in India increasing 0.56% and when LPO_{it} increasing 1% then the number of Canadian tourists arriving in India increasing 1.42%.

In France as in long-run base on DOLS-estimator to estimating panel cointegration model suggested that LEX_{it} has negative impact on international tourist arrival to India excepted $LGDP_{it}$ and LPO_{it} have positive impact on international tourist arrivals to India. The empirical results imply that in long-run when LEX_{it} increasing 1% then the number of France's tourists arriving in India decreasing 0.75%. Otherwise when $LGDP_{it}$ increasing 1% then the number of France's tourists arriving in India increasing 0.45% and when LPO_{it} increasing 1% then the number of France's tourists arriving in India increasing 1.46%.

In German as in long-run base on DOLS-estimator to estimating panel cointegration model suggested that LEX_{it} has negative impact on international tourist arrival to India excepted $LGDP_{it}$ and LPO_{it} have positive impact on international tourist arrivals to India. The empirical results imply that in long-run when LEX_{it} increasing 1% then the number of German's tourists arriving in India decreasing 0.76%. Otherwise when $LGDP_{it}$ increasing 1% then the number of German's tourists arriving in India increasing 0.72% and when LPO_{it} increasing 1% then the number of German's tourists arriving in India increasing 1.50%.

In Japan as in long-run base on DOLS-estimator to estimating panel cointegration model suggested that LEX_{it} and $LGDP_{it}$ have negative impact on international tourist arrival to India excepted LPO_{it} has positive impact on international tourist arrivals to India. The empirical results imply that in long-run when LEX_{it} increasing 1% then the number of Japanese tourists arriving in India decreasing 0.21% and when $LGDP_{it}$ increasing 1% then the number of Japanese tourists arriving in India decreasing 0.02%. Otherwise when LPO_{it} increasing 1% then the number of Japanese tourists arriving in India increasing 0.24%.

In Malaysia as in long-run base on DOLS-estimator to estimating panel cointegration model suggested that LEX_{it} has negative impact on international tourist arrival to India excepted $LGDP_{it}$ and LPO_{it} have positive impact on international tourist arrivals to India. The empirical results imply that in long-run when LEX_{it} increasing 1% then the number of Malaysian tourists arriving in India decreasing 0.62%. Otherwise when $LGDP_{it}$ increasing 1% then the number of Malaysian tourists arriving in India increasing 0.06% and when LPO_{it} increasing 1% then the number of Malaysian tourists arriving in India increasing 0.96%.

In Australia as in long-run base on DOLS-estimator to estimating panel cointegration model suggested that LEX_{it} has negative impact on international tourist arrival to India excepted $LGDP_{it}$ and LPO_{it} have positive impact on international tourist arrivals to India. The empirical results imply that in long-run when LEX_{it} increasing 1% then the number of Australian tourists arriving in India decreasing 0.81%. Otherwise when $LGDP_{it}$ increasing 1% then the number of Australian tourists arriving in India

increasing 0.02% and when LPO_{it} increasing 1% then the number of Australian tourists arriving in India increasing 1.67%.

In Singapore as in long-run base on OLS-estimator to estimating panel cointegration model suggested that LEX_{it} and $LGDP_{it}$ have negative impact on international tourist arrival to India excepted LPO_{it} has positive impact on international tourist arrivals to India. The empirical results imply that in long-run when LEX_{it} increasing 1 % then the number of Singaporean tourists arriving in India decreasing 0.72% and when $LGDP_{it}$ increasing 1% then the number of Singaporean tourists arriving in India decreasing 0.09% .Otherwise when LPO_{it} increasing 1% then the number of Singaporean tourists arriving in India increasing 1.17%.

And in Korea as in long-run base on OLS-estimator to estimating panel cointegration model suggested that $LGDP_{it}$, LEX_{it} and LPO_{it} have positive impact on international tourist arrivals to India. The empirical results imply that in long-run when $LGDP_{it}$ increasing 1 % then the number of Korean tourists arriving in India increasing 0.83%. when LEX_{it} increasing 1% then the number of Korean tourists arriving in India increasing 0.78% and when LPO_{it} increasing 1% then the number of Korean tourists arriving in India increasing 0.96%.

6. THE CONCLUSIONS OF RESEARCH AND POLICY RECOMMENDATIONS

This paper was motivated by the need for empirical analysis of international tourist behavior arriving in India and an analysis of the determinants of India's international tourism demand from its ten main source markets, England, America, Canada, France, German, Japan, Malaysia, Australia, Singapore and Korea. In this article, five standard panel unit root test were used test for all variables. Namely, Levin, Lin and Chu (2002), Breitung (2000), Im, Pesaran and Shin (2003), Fisher-Type test using ADF and PP-test (Maddala and Wu (1999) and Choi (2001)) and Hadri (1999). And in this article were used panel cointegration test base on both ADF-statistics and PP-statistics as well as these test have been suggested by Kao (1990) and Kao, Chiang and Chen (1999).

Furthermore in this article both OLS-estimator and DOLS-estimator were used to investigate long-run equilibrium relationships between the number of international tourists arriving tin India with economics variables. These methods were suggested by Pedroni (2000, 2001). The economic variables such as the GDP of major countries of international tourists coming to India, the world price of kerosene-type jet fuel and exchange rate of India compared with that of the countries of origin of international tourists.

The conclusion of the research and policy recommendations has There are three important conclusions and recommendations that emerge from the empirical analysis of the research. First, a 1% increase in income (GDP) in the long-run in main source markets (England, America, Canada, France, German, Japan, Malaysia,

Australia, Singapore and Korea) leads to an increase in international visitor traveling to India by 3.32% to 4.43% respectively. This result is consistent with economic theory and the this result was similar with the results of previous empirical studies of tourist demand (Lim & McAleer (2003), Kafono & Gounder (2004) and Narayan (2004) and Parsert, N. Rangaswamy and Chukiat (2006). The long-run result for India's international tourism demand implies that India received increased international visitors with a growth in income (GDP) in major markets during that period. If this can be generalized for future years, then it argues well for the continued development of the India tourism industry.

Secondly, a 1% increase in transportation costs (price of jet fuel) in the long-run in major source markets (England, America, Canada, France, German, Japan, Malaysia, Australia, Singapore and Korea) leads to increased international tourist arrivals from those countries in India by 0.29% to 0.55%, respectively. This result is not consistent with economic theory and this result was similar with the results of previous empirical studies of tourism demand (Parsert, N. Rangaswamy and Chukiat, (2006)). If a generalization can be made for future years, then it suggests that the India government should increase the number of airport in tourism place of India and India government should increase the number of airlines departure to tourism place of India.

Thirdly, in the long-run the exchange rate is an important determiner of international tourist's behavior and a 1% increase in the value of the exchange rate of India against the currency of the major tourist markets(England, America, Canada, France, German, Japan, Malaysia, Australia, Singapore and Korea) leads to a decrease in international visitor arrivals from theses countries to India by 0.003% to 0.006%, respectively. This results is consistent with economic theory and it suggests that the Reserve bank of India should be careful when using any policy that impacts on India currency because when the India currency is very strong, it not only negatively impacts on export goods and services (Anderson and Garcia(1989), Pick(1990), Chukiat(2003)) but it also decreases international visitor arrivals to India (Lim & McAleer (2003) and Parsert, N. Rangaswamy and Chukiat (2006)).

Table 1. Results of panel unit root tests based on 5 method tests for all variables

From: computed

Method test	Test statistic	Significance level for rejection
<u>Null : unit root (assumes common unit root process)</u>		
Levin, Lin and Chu (2002) t*- Statistics		
1. $\ln D_{it}$	-2.52*	0.005
2. $\ln GDP_{it}$	-3.80*	0.000
3. $\ln PO_{it}$	-9.27*	0.000
4. $\ln ER_{it}$	-17.11*	0.000
Breitung (2000) t*- Statistics		
1. $\ln D_{it}$	2.25	0.988
2. $\ln GDP_{it}$	-4.25*	0.000
3. $\ln PO_{it}$	4.50	-
4. $\ln ER_{it}$	1.03	0.850
<u>Null : unit root (assumes individual unit root process)</u>		
Lm, Pesaran and Shin (2003) W-Statistics		
1. $\ln D_{it}$	1.36	0.913
2. $\ln GDP_{it}$	1.03	0.850
3. $\ln PO_{it}$	-0.73	0.229
4. $\ln ER_{it}$	-1.12	0.130
Maddala and Wu (1999) and Choi (2001) ADF-Fisher Chi-square		
1. $\ln D_{it}$	5.71	0.999
2. $\ln GDP_{it}$	7.36	0.995
3. $\ln PO_{it}$	22.18	0.330
4. $\ln ER_{it}$	23.43	0.260
PP-Fisher Chi-square		
1. $\ln D_{it}$	9.23	0.980
2. $\ln GDP_{it}$	10.57	0.956
3. $\ln PO_{it}$	45.28*	0.001
4. $\ln ER_{it}$	43.28*	0.001
<u>Null : unit root (assumes common unit root process)</u>		
Hadri (1999) Z-Statistics		
1. $\ln D_{it}$	7.48*	0.000
2. $\ln GDP_{it}$	32.79*	0.000
3. $\ln PO_{it}$	29.36*	0.000
4. $\ln ER_{it}$	32.79*	0.000

A * indicates the rejection of the null hypothesis of non-stationary (Levin, Lin and Chu (2002), Breitung (2000), Im, Pesaran and Shin (2003), Fisher-Type test using ADF and PP-test (Maddala and Wu (1999) and Choi (2001)) or stationary (Hadri (1999)) at least at the 10 percent level of significance.

Table 2. Results of panel unit root tests based on 5 method tests for all variables after first differencing or second differencing into these variables

From : computed

Method test	Test statistic	Significance level for rejection
<u>Null : unit root (assumes common unit root process)</u>		
Levin, Lin and Chu (2002) t*- Statistics		
1. $\ln D_{it}$	-24.09*	0.000
2. $\ln GDP_{it}$	-3.76*	0.000
3. $\ln PO_{it}$	-6.97*	0.000
4. $\ln ER_{it}$	-14.94*	0.000
Breitung(2000) t*-Statistics		
1. $\ln D_{it}$	-2.12*	0.016
2. $\ln GDP_{it}$	0.14	0.557
3. $\ln PO_{it}$	-1.36*	0.085
4. $\ln ER_{it}$	1.13	0.871
<u>Null : unit root (assumes individual unit root process)</u>		
Lm, Pesaran and Shin (2003) W-Statistics		
1. $\ln D_{it}$	-1.162*	0.000
2. $\ln GDP_{it}$	-2.154*	0.000
3. $\ln PO_{it}$	-4.154*	0.000
4. $\ln ER_{it}$	-5.154*	0.000
Maddala and Wu (1999) and Choi (2001) ADF-Fisher Chi-square		
1. $\ln D_{it}$	60.73*	0.000
2. $\ln GDP_{it}$	13.31	0.863
3. $\ln PO_{it}$	32.09*	0.042
4. $\ln ER_{it}$	32.30*	0.040
PP-Fisher Chi-square		
1. $\ln D_{it}$	60.73*	0.000
2. $\ln GDP_{it}$	12.78	0.886
3. $\ln PO_{it}$	47.34*	0.000
4. $\ln ER_{it}$	44.37*	0.000
<u>Null : unit root (assumes individual unit root process)</u>		
Hadri (1999) Z-Statistics		
1. $\ln D_{it}$	7.07*	0.000
2. $\ln GDP_{it}$	3.45*	0.000
3. $\ln PO_{it}$	5.07*	0.000
4. $\ln ER_{it}$	6.009*	0.000

A * indicates the rejection of the null hypothesis of non-stationary (Levin, Lin and Chu(2002), Breitung (2000), Im, Pesaran and Shin (2003), Fisher-Type test using ADF and PP-test (Maddala and Wu(1999) and Choi (2001)) or stationary (Hadri(1999)) at least at the 10 percent level of significance.

Table 3. Results of panel cointegration test of the modeling international tourism demand in India based on ADF statistic and PP statistic

From : computed

Test Name	Test statistic	Significance level for rejection of the null hypothesis (no cointegration)
1. ADF-statistic	-1.24*	0.106
2. PP-statistic	-1.61**	0.050

A * indicates the rejection of the null hypothesis (no cointegration) at least the 0.10 level of significance and a ** indicates the rejection of the null hypothesis (no cointegration) at least the 0.05 level of significance.

Table 4. Results of the long-run relationship of the modeling international tourism demand in India based on OLS estimator and DOLS estimator (lnD_{it} is dependent variable)

From : computed

Variables	OLS estimator	DOLS estimator
1. lnGDP _{it}	3.32*** (10.41)	4.43*** (5.25)
2. lnPO _{it}	- 0.003* (10.41)	- 0.006* (10.41)
3. lnER _{it}	0.55*** (12.32)	0.29*** (13.17)

Note: estimates refer to (fixed-effects) long-run elasticity of output with respect to the relevant regression. T-ratios are in parenthesis and a * denotes statistical significance at the 10 percent level and a ** denotes statistical significance at the 5 percent level and a *** denotes statistical significance at the 1 percent level. NT=50 for 2002-2006.

Table 5. Results of the long-run relationship of the modeling international tourism demand in India based on OLS estimator by each country (lnD_{it} is dependent variable)

Variable	English	America	Canada	France	German
lnGDP _{it}	0.22 ^{***} (13.84)	0.16 ^{***} (33.44)	0.039 ^{***} (3.48)	0.04 ^{***} (4.72)	0.036 ^{***} (2.45)
lnPO _{it}	0.59 ^{***} (17.61)	0.67 ^{***} (16.60)	0.36 ^{***} (9.66)	0.37 ^{***} (9.67)	0.38 ^{***} (9.70)
lnER _{it}	-1.10 ^{***} (-2.67)	-0.21 ^{***} (-0.37)	-1.11 ^{***} (-2.62)	-1.00 ^{***} (-2.63)	-1.10 ^{***} (-2.62)
Variable	Japan	Malaysia	Australia	Singapore	Korea
lnGDP _{it}	0.032 ^{***} (24.11)	0.028 ^{***} (32.53)	0.030 ^{***} (115.89)	-0.008 ^{***} (-3.59)	-0.07 ^{***} (-3.61)
lnPO _{it}	0.07 ^{***} (7.32)	0.21 ^{***} (8.18)	0.321 ^{***} (8.08)	0.20 ^{***} (5.83)	0.15 ^{***} (6.20)
lnER _{it}	-1.08 ^{***} (-2.50)	-1.02 ^{***} (-2.55)	-1.11 ^{***} (-2.63)	-1.08 ^{***} (-2.59)	1.10 ^{***} (2.62)

Note: estimates refer to long-run elasticity of output with respect to the relevant regression. T-ratios are in parenthesis and a * denotes statistical significance at the 10 percent level and a ** denotes statistical significance at the 5 percent level and a *** denotes statistical significance at the 1 percent level. NT=50 for 2002-2006.

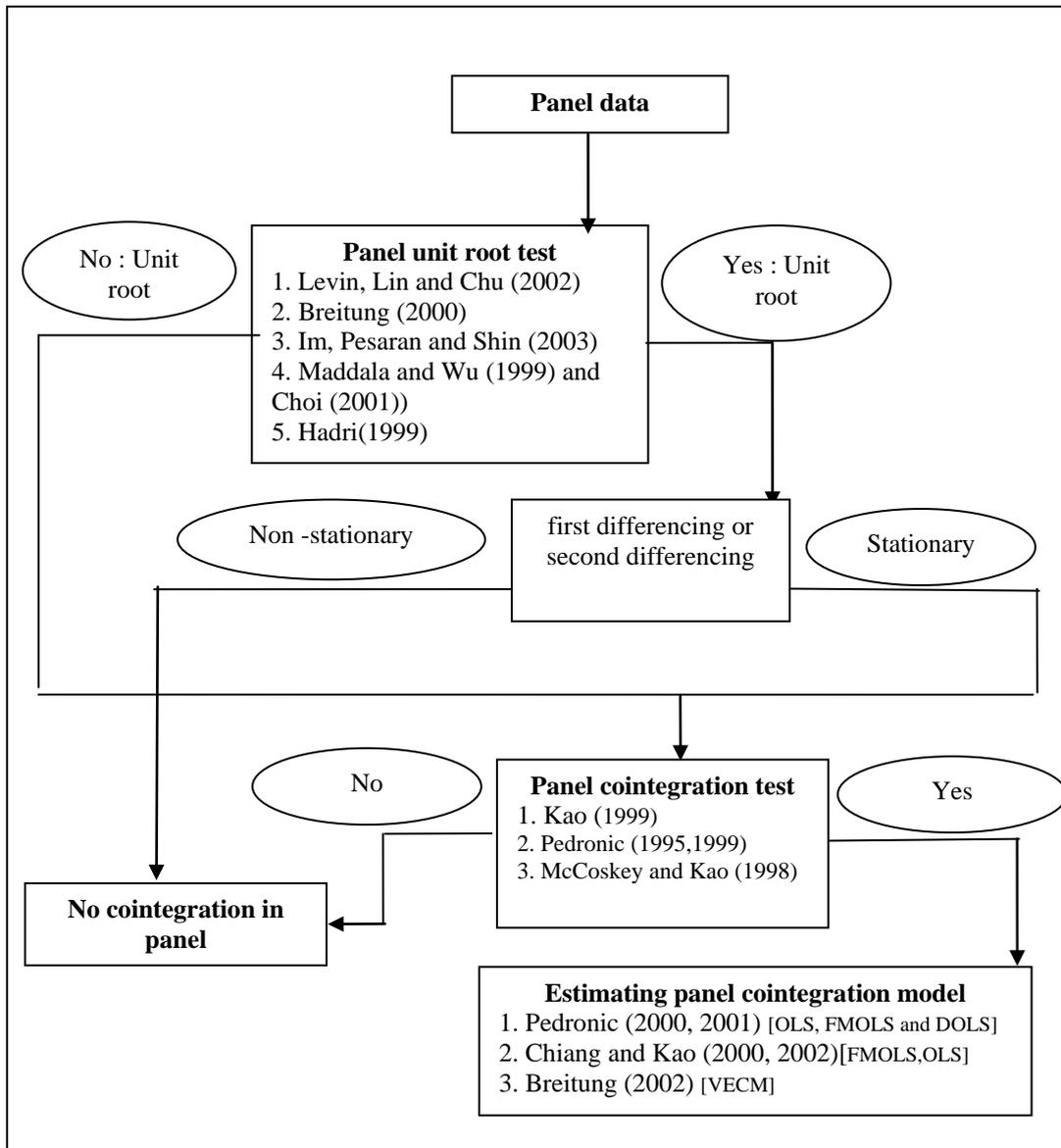
Table 6. Results of the long-run relationship of the modeling international tourism demand in India based on DOLS estimator by each country (lnD_{it} is dependent variable)

From : computed

Variable	English	America	Canada	France	German
lnGDP _{it}	0.95 ^{***} (96.74)	0.39 ^{***} (50.53)	0.56 ^{***} (60.57)	0.45 ^{***} (53.93)	0.72 ^{***} (5.436)
lnPO _{it}	1.53 ^{***} (19.25)	1.81 ^{***} (20.98)	1.42 ^{***} (17.31)	1.46 ^{***} (17.00)	1.50 ^{***} (17.00)
lnER _{it}	-0.70 ^{***} (-12.28)	-0.27 ^{***} (-4.28)	-0.76 ^{***} (-13.45)	-0.75 ^{***} (-13.3)	-0.76 ^{***} (13.10)
Variable	Japan	Malaysia	Australia	Singapore	Korea
lnGDP _{it}	-0.02 ^{***} (-4.16)	0.06 ^{***} (8.66)	0.02 ^{***} (3.40)	0.09 ^{***} (13.65)	0.83 ^{***} (158.71)
lnPO _{it}	0.24 ^{***} (4.84)	0.96 ^{***} (13.56)	1.67 ^{***} (17.52)	1.17 ^{***} (14.82)	0.96 ^{***} (29.59)
lnER _{it}	-0.21 ^{***} (-3.60)	-0.62 ^{***} (-10.82)	-0.81 ^{***} (-14.39)	-0.72 ^{***} (-12.77)	0.78 ^{***} (13.77)

Note: estimates refer to long-run elasticity of output with respect to the relevant regression. T-ratios are in parenthesis and a * denotes statistical significance at the 10 percent level and a ** denotes statistical significance at the 5 percent level and a *** denotes statistical significance at the 1 percent level. NT=50 for 2002-2006.

Appendix A.
Stage of penal unit root test and penal cointegration test apply to estimating panel cointegration model



Source: Harris and Sollis (2006) and modified by Chukiat (2007)

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OPPORTUNITIES OF FINANCING THE NATURE-BASED TOURISM

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ABSTRACT: *The parks generally offer the most important component of nature-based tourism (ecotourism), but obtain little from the benefits it brings about. The revenue obtained by national parks or other protected areas are generally centralised and managed by different agencies, so only a part of this revenue is coming back to the protected area where it was collected. The degree of return of visitors, the duration of visits, the visitors' satisfaction and the quality of services - all these will suffer when the return rate of the collected revenue is reduced. Many governments see ecotourism as being a very important economic instrument for a sustainable development. It's a shame that many of these governments do not invest enough in the personnel training, in the infrastructure or in other resources necessary to support this type of tourism. This leads to the degradation of many of these protected areas under the action of tourism.*

KEY WORDS: *nature-based tourism, ecotourism, financial strategy, income sources, taxes applicable to the national parks visitors*

1. INTRODUCTION

The parks usually offer the most important component of the nature-based tourism (ecotourism), but obtain little from its benefits. The incomes obtained by the national parks or by other protected areas are usually administrated by different agencies, thus only a part of these incomes return to the protected areas where they have been collected. But, the degree of the visitors' return and the service quality - all these have suffered when the return rate of the collected incomes was reduced.

Many governments consider the ecotourism to be a very important economic instrument for a durable development. Unfortunately, many of these governments do not invest enough in the personnel training, in the infrastructure or in other resources necessary to support this type of tourism. This leads to the degradation of many of these protected areas under the action of tourism.

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Most tourism national agencies do not have a clear statistics of the nature-based tourism (ecotourism), thus we do not exactly know what impact this form of tourism can have. There are many studies regarding the nature-based tourism. Most of these studies are based on data collected individually from each park or protected area.

Analyzing the data obtained in USA and Canada, we may draw the conclusion that the tourism developed in the parks of these countries represents, from an economic point of view, a very important activity in North America. Despite all these, the impressive figures did not convince the governments of USA and Canada to maintain the level of subventions at the same level, these subventions being necessary for the functioning of the national parks. The figures show that an increase of the attention allotted to the development of incomes, associated to a structured, efficient management leads to an increase of incomes obtained in the national parks. The studies performed in Australia, Canada, USA indicate the economic importance of the parks on the border areas. However, generally speaking, there is a lack of information referring to the national parks. For a proper economic impact there has to be a continuous information flow. Also, studies have to be made at least once a year, (although the trimestrial studies would be more profitable), if not trimestrial, being necessary for the governments, the economic agents and the media.

2. FINANCIAL STRATEGY SPECIFIC TO THE NATIONAL PARKS TOURISM

Any form of management depends on finances. The establishment of many protected areas was and will be made from public money. Unfortunately, many agencies commissioned with the management of the protected areas do not have enough funds to satisfy the needs related to tourism as well as those related to preservation. At the moment, most governments do not entirely finance the protected areas. Even in the developed countries, with tradition in protected areas, the insurance of adequate funds from governmental sources is very difficult. In USA, for example, the governmental allowance is considered to be insufficient.

The medium public support for the protected areas is bigger in the developed countries (2058 USD/km²) compared to the developing countries (157 USD/km²); in the later countries the governmental funds are limited and the protected areas are not considered a national priority. Thus, while the costs of an effective preservation are estimated between 200 and 250 USD/km², in the African protected areas, the agencies budgets from many protected areas in Africa were inadequate at the beginning of the 90s, between 1 and 70 USD/ km².

In general, the personnel employed in the protected areas is badly paid, the funds for investments in the protected areas are limited, and the use of the land for alternative activities (even destructive, like poaching) is regarded, by the residents as more important from an economic point of view. Despite all these, the developing countries may gain access to the funds of assistance international programmes, NGO activities or other donations. Like in many developing countries, the capital necessary

for constructions and equipments in the protected areas in most part of East and South Africa comes from the above mentioned sources. However, the present funds depend on the tourism incomes (and in some cases, on the resources exploitation, fact which can threaten the objectives related to the protection of protected areas).

Confronted with an unfavourable context (the decrease of the governmental support), the managers of the protected areas must be creative regarding the attainment of funds and the most promising source is, without any doubt, the tourism. But, even if tourism presents itself as a potential important income source, it cannot generate by itself sufficient funds for all the aspects related to the protection of nature and of the cultural patrimony. Also, the protected areas offer a set of other services vital for the society, whose value should be recognized through a form of public finance.

3. MANAGERS OPPORTUNITIES REGARDING THE FUND ATTAINMENT

The literature shows the existing sources for the funds, as well as the proportion in which they vary between the developed countries and the developing ones. The funds received from the state are the predominant income source for the agencies commissioned with the protected areas. Such an income, based on taxes, is vulnerable to the reduction of the budget of the central government. The second predominant source contains the enter taxes, thus an income source based on tourism.

We may identify the following potential income sources for the national parks: governmental finance programmes; park enter taxes; taxes for the recreation services, special events and special services: accommodation; equipment rental; food sale (restaurants, shops); non-food sale (equipments, clothes, souvenirs); donations, external support; licence of property; sale or rental of image rights; parking; public investments; initiatives of the private sector.

The tourism has the potential of providing the parks with many of these income sources. There are some examples:

- a. Taxes draw from the visitors** - Most parks perceive an enter tax, either per person or per vehicle, or a combination of the two. Some parks offer specialized recreation services, such as guiding tours of the parks or special events. Normally, a special tax is applied to these services in order to cover the cost of afferent supplies and to obtain incomes destined to other purposes. The parks that allow the entrance of vehicles must ensure places for their parking as well. The taxes perceived for parking can be a very profitable income source.
- b. Accommodation** - One of the most significant categories of expenses for travellers is the one related to accommodation. Some parks offer places for camping, chalets and huts with the corresponding tax. The accommodation taxes are considered to be the biggest income sources for the protected areas.
- c. Services related to food and equipments** - Recreation in the natural environment very often needs specialised equipment, difficult to carry on long distances. For this reason, the supply with such equipments, either for sale, or for rental, may be an income source. All visitors need food; this need can be satisfied through

specialised shops or through restaurants. The food purchase represents a very important expense for travellers, thus the parks can earn a substantial income. The managers must decide whether it is indicated to ensure these services through their own agency or to use a form of concession with specialised economic agents.

- d. Products for consumption** - The sale of merchandise represents a potential source of income for the protected areas, but very seldom applied. Nevertheless, in the last years, the sale of merchandise especially conceived for parks (clothes, equipments, publications, etc) has known a rather pronounced development. A series of handicraft industries can be developed around the parks if the agencies responsible with administration facilitate the contact between the craftsman and the tourists. Thus the communities living in the park or around will be implied, ensuring an increase of incomes by the creation of new workplaces.
- e. Public donations or donations from the industry** - The satisfied visitors of the park are sometimes willing to make donations in the benefit of the protected areas. Such donations are most of the time offered for special initiatives, such as the construction of new building, special programmes of recreation and research. There were cases when satisfied foreign visitors interested in the park's situation returned to their countries and pleaded for foreign support.

The contribution of tourists through taxes. Table 1 shows a few types of taxes perceived to the tourists for the protected areas. In most management systems of the protected areas, the taxes and the prices practiced in tourism constitute an important part of incomes. Even in the wealthier countries, taxes of the use of the protected areas are perceived as the governmental allowances do not entirely cover the management costs. In the developing countries, the income from taxes is usually essential for the survival of the agency commissioned with the park management.

Several studies showed that the visitors of the protected areas are generally disposed to pay higher fees than the ones perceived at present in the developing countries. This fact is associated to the conviction that funds coming from taxes are directly oriented towards the administration of the area they have visited and not towards the state central budget.

Ways to decrease the public's resistance to taxes:

- The use of incomes for the improvement of paths, toilets, maps and others
- Minor tax increases in small steps
- The use of money in order to cover the functioning costs, not to control the entering in the park
- The use of money for specific purposes, known to the audience
- The use of redundant money for the preservation of the visited area
- Detailed information about the incomes and the financed activities

Table 1. Types of taxes and tariffs practiced in the protected areas

Type of tax	Description
Enter tax	Permits the access of the tourists in the park
Recreation tax	Taxes for recreation programmes and services
Utility tax	Taxes for the use of constructions/building inside the protected area (parking places, camping places, centres for visitors, watercraft use, shelters, etc.)
Lease tax	Price or quota from the income paid by the users of the lease right, which offer different services to the visitors
Incomes from the merchandise sale	Money obtained from the sale of different products, provisions and souvenirs
Incomes from the sale of food products	Incomes from food shops and restaurants
Incomes from accommodation	Incomes obtained from camping and other types of accommodation provided by the park administration
Licences and warranties	They are perceived to the companies that operate on the territory of the protected areas (for example tour-operators, guides and other users)
Taxes	Taxes for the hotel rooms, airports and vehicles
Taxes from rentals and lease	Taxes from the rental or lease of equipments and park properties
Donations	Includes cash, material goods or work

Source: Eagles.F.J., 2002

Contributions of the corporations in the protected areas. The private finance, through corporations, occurs more often in the protected areas. The reasons are the following; the will to support a noble cause; for the tourism companies that develop their activity in the protected areas: the need to support the bases of their own activity; the need to have access to the resources from inside/ the neighbourhood of the protected areas; a sort of compensation for the damage brought to the protected areas (for example, the mining); the will to obtain an ecological, “green” image, for the company or its products; the benefits the protected areas can bring to the employees and their clients.

The size of the support expected from the corporations will depend on the existing traditions of that sector in the implied country, on the fiscal stimulants, on the resources of the company/sector, on the existence of an “enlightened” leader within that sector.

Many protected areas cannot attract a large number of visitors, and in some cases, it wouldn’t be indicated to do so. They cannot perceive high taxes that could cover the costs. However, the visits in small amounts can happen due to high travel costs. When the visitors made an effort to reach a special, unique destination, it is normal to suppose that that protected area will perceive substantial fees.

A conclusion can be drawn, as follows: *the tourists are willing to pay for quality.*

4. CONCLUSIONS

The tourism in the protected areas generates incomes and expenses. It is the duty of the tourism organiser to maximize the profit and minimize the costs. The protected areas are founded in order to preserve a kind of process or a bio-physical condition, for example the survival of an animal species, or of a certain environment, it is cultural or natural. The tourists visit these places in order to understand better their values and to enjoy a series of personal benefits.

The planning and development of tourism wants to benefit from the interest expressed by the tourists in order to increase the economic opportunities, to protect the natural and cultural specific and to improve the standard of living.

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WAY OF EVALUATING THE MINING EXPLOITATIONS IN JIU VALLEY BY USING THE FUZZY ANALYZE METHOD FOR MULTI-ATTRIBUTE DECISIONAL PROBLEMS

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ABSTRACT: *The yearly evaluation at the structural units' level and of National Hard Coal Company based on the technical and economical indicators allow characterizing these units, being able to offer an ensemble image regarding the future dimension and evolution of the mining activity in Jiu Valley. This paper tries to establish the position of each mine in Jiu Valley, starting with the estimations and tendencies of viability economical criteria during the period 2008-201, making appeal to fuzzy decisions. In this paper, a fuzzy decision making method is proposed which is based on the fuzzy set theory and the hierarchical structure analysis. The method employs two key concepts: linguistic variables and fuzzy numbers. The linguistic variables and fuzzy numbers are used to represent the decision-maker's subjective assessments for the decision criteria and the decision alternatives versus the decision criteria. The fuzzy mean operator is used to aggregate the decision-maker's subjective assessments and the total integral value method is used to rank the decision alternatives. In this paper, a fuzzy decision making method is proposed which is based on the fuzzy set theory and the hierarchical structure analysis. The method employs two key concepts: linguistic variables and fuzzy numbers. The linguistic variables and fuzzy numbers are used to represent the decision-maker's subjective assessments for the decision criteria and the decision alternatives versus the decision criteria. The fuzzy mean operator is used to aggregate the decision-maker's subjective assessments and the total integral value method is used to rank the decision alternatives.*

KEY WORDS: *objective criteria of selection, fuzzy analyze method, multi-attribute decisions, mines economical evaluation, Decision criterion, Fuzzy set*

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1. INTRODUCTION

In present economical and financial situation and present time, when the accent must be put on increasing the economical performances and efficiency of economical agents, the National Hard Coal Company has as main objective to evaluate the performances of each unit. The viability of the National Hard Coal Company in Petrosani is influenced by the amount of the viabilities of structural components reported to the value of its global income. The analyze of economical behavior makes a characterization of production system of a mine from the National Hard Coal Company Petrosani: technologically; organizers; in terms financial results.

The analyze of the indicators obtained is imposed by the number of decisional problems that can be solved by foundamenting on criteria of economical rationality of productive mining processes characterized by a special complexity influenced by natural restrictive conditions, of technical endow, social climate or quality of management. Each structural subunit of National Hard Coal Company Petrosani has its own economic behavior requested by the above mentioned conditions.

Taking into account the number of viable factors more or less predicable, specific to the coal industry, along the restructuration process it was tried to evaluate the structural subunits of the National Hard Coal Company Petrosani depending on the indicators accomplished in certain periods that should lead to solve the problems of economical viability of mining perimeters. An evaluation of the mining units that should allow to gradate of them based on some objective criteria of selection may be accomplished by using as a technical method of analyze the fuzzy method for the multi-attribute decisional problems.

So, we shall use as example the classification of the production units depending on the viability economical criteria that consists in appreciating the productivity of each mining units, of unitary costs and state help.

2. STAGES OF FUZZY ANALYZE FOR GRADING THE MINING UNITS IN JIU VALLEY

This procedure has the following stages:

- making the problem to analyze consisting in: to define the purpose of decisional analyze: the classification of mining units depending on the criteria of economical viability; to identify the decisional variants: the 7 mining units from the National Coal Company Petrosani; to establish the criteria of decision: work productivity, unit costs of production, state help.
- to select the linguistic terms for defining the importance coefficients and to appreciate the performances of decisional variants in report with each criteria.

For a linguistic representing we can choose more scales (from 1 to 8) with a certain number of terms between two and 11. I chose the 3 scale with 5 terms, defining a number of triangles fuzzy. So in order to appreciate the coefficients of importance associated to the decision criteria there will be used terms “very small importance”,

“small importance”, “average importance”, “great importance”, “very big importance” and for individual performances of each variant in report with each criteria. To built the matrix of performances of the variants and vectors of importance coefficients for the specific decisional criteria. The linguistic appreciations regarding the decisional criteria importance and the individual performances of the variants in according to each criteria there are presented in table 1 and table 2.

Table 1. Linguistic appreciation of the importance

Decisional criteria	Labour productivity	Unitary cost of production	State aid
Linguistic appreciation of the importance	Very big	Great	Small

Table 2. Linguistic appreciation of the performance of each variant

Decisional variant	Linguistic appreciation of the performance of each variant in report with		
	Work productivity	Unitary cost of production	State help
E.M. Lonea	Good	Good	Good
E.M. Petrila	Average	Good	Good
E.M. Livezeni	Good	Very good	Good
E.M. Vulcan	Small	Small	Average
E.M. Paroseni	Very good	Good	Good
E.M. Lupeni	Average	Good	Average
E.M. Uricani	Very small	Average	Small

• Replacing the linguistic terms with triangle numbers with fuzzy triangles and determining the vector of fuzzy global performances of the decisional variants in report with all criteria. So, the table 3 presents the fuzzy triangle numbers associated to the linguistic appreciations [1]:

Average performance F_i associated to a variant V_i will be obtained by multiply the matrix of decisional alternatives noted with A with vector W of the importance coefficients, and for aggregating the subjective evaluations of taking the decisions we shall use the fuzzy average operator starting with the relation (1):

$$F_i = (1/m) [(a_{i1} \otimes w_1 \oplus w_2) \oplus \oplus (a_{im} \otimes w_m)] \quad (1)$$

for $i = 1, 2, \dots, n$.

Table 3. The fuzzy triangle numbers associated to the linguistic appreciations

Linguistic appreciation of the importance of a decisional criteria	Very small	Small	Average	Great	Very big
Linguistic appreciation of the performance of each variant in report with each criteria	Very poor	Poor	Average	Good	Very good
Number of fuzzy triangle	(0, 0, 1/4)	(0;1/4;1/2)	(1/4,1/2, 3/4)	(1/2,3/4, 1)	(3/4, 1, 1)

By replacing the linguistic terms a_{ij} and w_j with fuzzy triangle numbers $a_{ij} \Leftrightarrow (o_{ij}, q_{ij}, q_{ij})$, for real numbers $o_{ij} \leq q_{ij} \leq q_{ij}$ și $w_{ij} \Leftrightarrow (b_j, d_j, g_j)$ for real numbers $b_j \leq d_j \leq g_j$, it will be obtained the performance F_i fuzzy having the shape (2):

$$F_i = (Q_i, Y_i, Z_i), \quad (2)$$

with $Q_i = (1/m) \sum_j o_{ij} \cdot b_j$, $Y_i = (1/m) \sum_j q_{ij} \cdot d_j$, $Z_i = (1/m) \sum_j q_{ij} \cdot g_j$, for $i = 1, 2, \dots, n$ and $j = 1, 2, \dots, m$. (3)

The vector of global fuzzy performances of decisional variants in report with the three criteria is shown in table 4.

Table 4. The vector of global fuzzy performances of decisional variants

Mine	Global fuzzy performance in report with all criteria
E.M. Lonea	0,208, 0,500, 0,833
E.M. Petrila	0,145, 0,416, 0,750
E.M. Livezeni	0,250, 0,562, 0,833
E.M. Vulcan	0,000, 0,187, 0,458
E.M. Paroseni	0,270, 0,583, 0,833
E.M. Lupeni	0,145, 0,395, 0,708
E.M. Uricani	0,040, 0,145, 0,416

- determining for each decisional variant, of total integral values depending on different values of the optimism coefficient; the method of total integral value is used for arranging the decisional alternatives.

For the triangle fuzzy number $F_i = (Q_i, Y_i, Z_i)$, the total integral value is defined by the relation (4):

$$I_T^\alpha (F_i) = (1/2)[\alpha Z_i + Y_i + (1 - \alpha)Q_i] \quad (4)$$

where α – coefficient of optimism with values between $[0,1]$.

For a specified α the decisional variant with the greatest integral value will be considered the variant that makes the best compromise in report with all decisional criteria taking into consideration. We shall calculate the total integral values for $\alpha = 0$, $\alpha = 0,5$ and $\alpha = 1$ in order to indicate a pessimism, moderate and optimism situation.

In table 5 there are calculated the total integral values for each decisional variant, depending on the three values of the optimism coefficient mentioned above.

Table 5. The total integral values for each decisional variant

Mine	Total integral values for		
	α pessimist = 0	α moderate = 0,5	α optimist = 1
E.M. Lonea	0,354	0,510	0,666
E.M. Petrila	0,280	0,431	0,583
E.M. Livezeni	0,406	0,551	0,697
E.M. Vulcan	0,093	0,208	0,322
E.M. Paroşeni	0,426	0,567	0,708
E.M. Lupeni	0,270	0,410	0,551
E.M. Uricani	0,092	0,186	0,280

Due to the fact that the grade of the variants can be changed depending on the grade of value of α coefficient, it can be defined an ideal positive solution V^+ and an ideal negative solution V^- , that can be described by using the following relations (5):

$$\begin{aligned} V^+ &= (I_T^{\alpha pes^+}, I_T^{\alpha mod^+}, I_T^{\alpha opt^+}), \\ V^- &= (I_T^{\alpha pes^-}, I_T^{\alpha mod^-}, I_T^{\alpha opt^-}), \end{aligned} \quad (5)$$

where:

$$\begin{aligned} I_T^{\alpha pes^+} &= \max \{I_T^{\alpha pes} (F1), \dots, I_T^{\alpha pes} (Fn)\} \\ I_T^{\alpha mod^+} &= \max \{I_T^{\alpha mod} (F1), \dots, I_T^{\alpha mod} (Fn)\} \\ I_T^{\alpha opt^+} &= \max \{I_T^{\alpha opt} (F1), \dots, I_T^{\alpha opt} (Fn)\} \\ I_T^{\alpha pes^-} &= \min \{I_T^{\alpha pes} (F1), \dots, I_T^{\alpha pes} (Fn)\} \\ I_T^{\alpha mod^-} &= \min \{I_T^{\alpha mod} (F1), \dots, I_T^{\alpha mod} (Fn)\} \\ I_T^{\alpha opt^-} &= \max \{I_T^{\alpha opt} (F1), \dots, I_T^{\alpha opt} (Fn)\} \end{aligned}$$

and α^{pes} , α^{mod} , α^{opt} , are the values of α in the three cases mentioned above.

So, the table 6 contains the performances of the ideal positive variant and of the ideal negative variant.

Table 6. The performances of the ideal positive variant and of the ideal negative variant

Ideal variant	Total integral values for		
	α pessimist = 0	α moderate = 0,5	α optimist = 1
positive	0,426	0,567	0,708
negative	0,092	0,186	0,280

- starting with the relations mentioned above it is calculated for each variant the Hamming distance from it and the positive ideal variant and the negative one due to the fact that based on them we can determine the performance index P_i of each decisional variant [2].

$$d_i^+ = \left(I_T^{\alpha pes^+} - I_T^{\alpha pes} (Fi) \right)^2 + \left(I_T^{\alpha mod^-} - I_T^{\alpha mod^+} (Fi) \right)^2 + \left(I_T^{\alpha pes^+} - I_T^{\alpha pes} (Fi) \right)^2$$

$$d_i^- = \left(I_T^{\alpha pes^-} - I_T^{\alpha pes} (Fi) \right)^2 + \left(I_T^{\alpha mod^-} - I_T^{\alpha mod} (Fi) \right)^2 + \left(I_T^{\alpha opt^+} - I_T^{\alpha opt} (Fi) \right)^2 \quad (7)$$

$$P_i = (d_i^-) / (d_i^+ + d_i^-), \text{ for } i = 1, \dots, n. \quad (8)$$

where P_i is the performance index that shows the order where there are classed the decisional variants.

Table 7. Performance index

Mine	d_i^+	d_i^-	Performance index P_i
E.M. Lonea	0,0099	0,3226	0,4924
E.M. Petrila	0,1648	0,1871	0,5316
E.M. Livezeni	0,0007	0,4057	0,9982
E.M. Vulcan	0,3887	0,0022	0,0056
E.M. Paroseni	0,000	0,4399	1
E.M. Lupeni	0,0736	0,1553	0,6784
E.M. Uricani	0,4399	0,000	0

Based on the performance index it results the following grades of the mines from the National Hard Coal Company structure depending on the economical viability criteria.

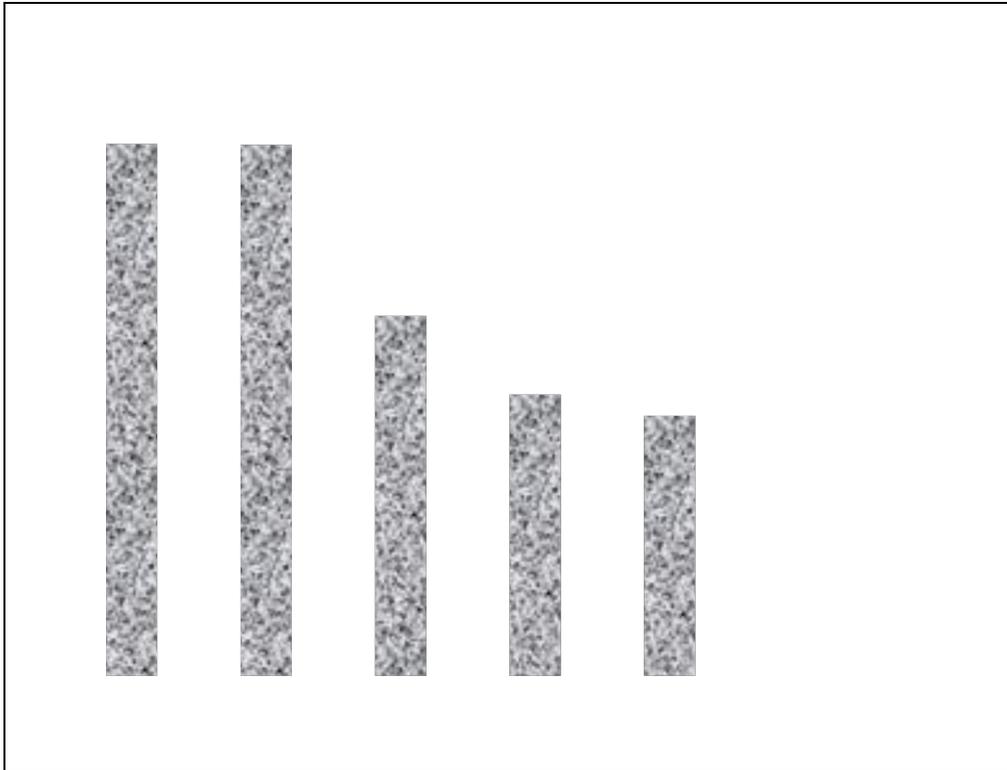


Figure 1. Grade of mines depending on the criteria of economical viability

3. CONCLUSIONS

As you can see from the graphic on the first three positions there are the three mines where the coal extraction is done partly by using the mechanized complexes, so the labour productivity is sensible higher in comparison with the rest mining units. This order is based on the viability criterion. Taking into account also the technical criterion, by evaluating the mining exploitations that contains the following criteria: total reserves, opening index, grade of assuring the open reserve, quality, production level and technological level, order for dividing the mining units is under changing.

What is important is the fact that, in short term, for the years 2011, the mining exploitation of hard coal will be made in all 7 mining perimeters, taking into consideration that these fulfill the criteria of viability, continuing also into the future, especially during the period of receiving the state aid, monitoring and evaluating the technical and economical parameters of viability of the mining exploitations in service, taking certain decisions depending on the present situation.

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CONSIDERATIONS ON THE BUDGETING OF PRODUCTION EXPENSES IN THE COAL MINING INDUSTRY

IONELA CLAUDIA DINA *

ABSTRACT: *Business activity must take place permanently in the relationship of balance between revenue and expenditure. Thus, the question that is raised in front of managers of coal mines is to find ways to enable them to reduce and control the balance of the relationship said, and on this basis to meet the requirements of growth of profitability and of saving resources. In this respect the budget can become an instrument of correlation and particularly of reinforcing the relationship between expenditure and revenue in the mining enterprise, and budgeting - a systematic economic practice that involves the conduct of a formal process for the allocation of financial resources, with the purpose of achieving established goals for the next periods.*

KEY WORDS: *Coal mining industry, costs, budget, accounting*

Business activity must take place permanently in a relationship of balance between revenue and expenditure. Thus, the question that is raised in front of coal mine managers is to find ways to enable them to reduce and control the balance of the mentioned relationship, and on this basis to meet the requirements of growth and profitability of saving resources. Thus emerged **the budget** as "an instrument of harmonization and effectiveness of the relationship between revenue and expenditure." Budgeting costs is a systematic economic practice that involves the conduct of a formal process of allocation of financial resources in order to achieve objectives.

Integrating elements in budgeting cost calculation provided the foresight instrument to harmonize the relationship between spending and revenues at the level of internal management centers or centers of responsibility.

As for the component to calculate budgeting, this implies a previous calculation (prediction) of revenue on a relatively short period of time (a year, divided

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into months), along with limiting the costs of obtaining the necessary revenue, starting from the imperative of achieving the desired benefit or the control of losses.

Of course, to a mining structure of a company, the primary objective of management is to be in the limits of the subsidy granted, that is the control of losses.

There are centers of responsibility (management) for which we can only preview costs. In this case, budgeted performance translates into limiting resources allocated for carrying out a normal activity.

Besides the fact that the budget is the main factor of organizing an enterprise through the manner of founding and use of realistic criteria in construction, this tool takes into account the full potential material, human and financial need for shaping a forecast in line with the objectives.

We can say that **budgeting** is characterized by the following **features**:

~ planning and coordination

Budgeting works under general objectives in the long term, to formulate detailed operational plans for different sectors and organizational link of coal mining operation. Forecasting is the key to success in business and budget allocation the impulse for this. This is expressed as the "Main Budget" which covers all secondary budgets, leading managers to consider the relationship between functions and budgets of various departments of coal mining operation and to consider how they contribute to the achievement of proposed objectives.

~ authority and responsibility

Budgeting involves specifying the responsibilities of each manager receiving a budget. Approval of a budget authorizes all plans of activity within, so that it can implement management by exception, meaning a subject is given a defined role, having the authority to carry out the tasks received, and when the work is not conducted in accordance with the budgetary provisions, the situation is reported and analyzed at a higher level.

~ communication

The budget process includes all levels of management. Therefore, it is an important way of communication between management at a higher echelon and at a medium level in terms of objectives and their implementation, and when the budget is finalized, the approved plans are notified to the entire staff involved.

~control

This aspect of budgeting is the best known and most often encountered at the level of the staff of execution. The process of comparison of results obtained with those forecasted and reporting irregularities, which is the principle of budgetary control, establishes a means of control which ensures the maintaining of costs between the established limits.

~ motivation

Involving management at average and below average level in preparing budgets and setting targets against which performance will be evaluated, is a mobilizing factor.

"As a business tool in the management of economic and financial activity, the budget fulfills the following **functions**: to forecast, control and ensure financial balance."¹

The function of prediction is based on the idea that the budget is the estimation of the levels of financial resources, funds and expenditure for all socio-economic activities that take place in the mines. The budget represents the means to size the revenue, expenditure and financial results on operating activities and resources and expenditure on investment, resources and expenditures for circulating assets, and last but not least the taxes and other debts to the state budget at the level of coal mines.

The function of control is exercised when performing expenses, and to gain revenue as a result of its work and the necessary funds are constituted. Viewed from this point of view the budget gives the organizational expression to the function of control of finances and harmonises itself with the preventive financial control and subsequently on employment and spending funds of the coal mine. The manifestation of the function of control of the budget takes place also through the follow up and analysis of the implementation of this system, thus ensuring: know how of realizing the tasks set, determination of irregularities, establishing the factors that have generated these irregularities as well as the appointment of compartments which must act for the improvement of the activity etc.

In its **function of ensuring financial balance** the budget is used in routing and mastering balance relations between expenditure and revenue. In the coal mining operation the financial balance reflects the provision of financial resources necessary to fulfil the objectives and actions foreseen and respectively the payment obligations to third parties.

The functions of the budget in the management of the enterprise acquire an operating character and are converted into shares only to the extent that it is used as a permanent working tool to achieve economic management.

Calculating budgeted costs supposes costs built after different basis of evaluation:

- normal costs (statistic averages or actualized averages);
- standard costs;
- previously calculated costs on the basis of some foreseen factors of influence.

Also, in the case of variable budgets calculation of costs may be applied in two variants: *rigid calculation* option and *flexible calculation* option.

Rigid expenditure budgets include expenses normally set for a certain level of productive activity considered unchanged, in which case the costs are not influenced in any form by the oscillations which can occur during the volume of work carried out by coal mining.

Flexible expenditure budgets are adapting to the foreseeable changes that may occur in the volume of activity of mining exploitation, and their preparation

¹ Oprea Călin, *Contabilitatea de gestiune*, Tribuna Economică Publishing House, Bucharest, 2001, p. 107.

requires the separation of fixed and variable costs and their analysis so that the budget can be changed depending on the actual activity.

The budget that predicts, ultimately, income and overhead costs has behind it a network of cost calculations on carriers and an assessment of expenses accounted or unaccounted in the cost of the product or of the activity. Between the structure of cost carriers and management centres (cost locations) there is a movement of mutual information. Centres of management represent an intermediary link in delineating and discounting revenues on expenses carriers, and the costs of expenses carriers and the prices of realization represent the support for evaluating the expenses and revenues that are budget dimensioned.

For both categories of centres (cost and profit) there is the question of assessing the transfers under the incidence of domestic consumption (e.g. from a centre to another). The answer to the problem results only if there is a strict compliance with locating the performances. To do this, one must resort to budgeted expenses (default – previously calculated) or to create a network of internal transfer prices.

In the mining operating units no method of solving the problem of locality performance applies and thus no problem of evaluating internal transfers is posed as well. This transfer practically takes place automatically on the “extracted gross” cost carrier. The mining exploitation (eventually separated from the mines and quarries) is the unique centre of profit and losses, which receives all internal cost transfers.

To prepare budgets as real as possible it is necessary to forecast the largest possible number of factors, including: sales volume and prices, wage levels, stocks of materials and price inflation, costs of services provided by the coal mining operation, direct costs etc.. Of these factors, the greatest importance, on which future forecasts are based as well on, is that of the sales estimate.

Key elements arising from previous analysis of factors which must be presented in the budget are: the level of income and expenditure provided and those actually realized for the period in the respective year, the deviations between levels provided and the actual ones as well as trends of these nonconformities, etc.

If it is developed and administered properly, the budget system can bring both benefits which, however, only increase through a sustained activity, as well as disadvantages. Among the **benefits** of the budget system we can mention: providing clear coordinated activity for managers and the entire leadership; it's an important means of communication and coordination, both horizontally and vertically; it ensures more effective control by systematic monitoring and reporting activities and others. The manner of drawing up budgets can also have some **drawbacks**: irregularities occur frequently because of changes in the situation, of precarious prognosis or poor performance management; budgets are developed around the existing structures of coal mining operation, which may be inappropriate for the current situation; budgetary systems wrongly addressed, etc.

The process of drafting a budget cost starts by communicating the details on the forecast of coal mining operation and action lines required to be adopted by those responsible for preparing partial budgets. Major sources of data used are the

management's estimates on possible levels of various activities and records containing specific indicators of operations past and present.

The process of drafting the budget supposes a cycle that can be decomposed into:

a) *determining the overall objectives* of the enterprise for the next year;
b) *achieving preparatory studies* on the evolution of the situation for the whole year and any incidents on the work carried out by the mining operation;

c) *drafting budget projects* is the phase which starts from the results of preparatory studies on the basis of which are performed specialized budget projection services for the next year and the degree to which envisaged objectives are achievable. This activity involves the construction of several variants of budgets, testing different scenarios and for facilitating this activity one can use computerized simulation models. If, in completing these tests, the objectives included in the draft budgets are not feasible, the company must revise the start-up, and the version usually obtained becomes the "pre-budget";

d) *choosing the budget variant* that will become „pre-budget”, after finalizing simulations, represents another phase of the process of budget elaboration;

e) *elaboration and negotiation of detailed budgets* is the phase in which the selected „pre-budget” variant in the previous stage is concretized in detailed budgets. Thus all the responsible, regardless of hierarchy, will find in the „pre-budget” specific objectives, quantified, that will sit at the basis of building each budget separately.

On this basis, each person responsible for its sector builds an action plan to enable the achievement of the objective set and the financial evaluation of this plan of action to be taken into account when drafting the special budget.

In hierarchical levels, those responsible assess budget proposals coming from subordinates on the hierarchic chain and negotiate, on a case to case basis, the review of some objectives of the action plan, or accept the proposed budget, under the reserve of its acceptance at the general level of the management of the company.

This phase of negotiations, following the circuit of information that we propose can be relatively long, even 2-3 months. Throughout the duration of this phase the service control management is to make proposals to supervise, but never to impose a budget.

f) *elaborating final provisions* is the result of negotiations with the occasion of the preparation of detailed budgets, result which must be integrated in the initial budget.

In all cases the result will generally be approved by the general body of the enterprise.

From the analysis of the elaboration phase of the budget and its objectives, it appears that the budgetary management represents the tool for decentralization and delegation of responsibilities within the enterprise structure, which includes the dissemination of management spirit from the top to the bottom of the hierarchy, thus achieving a true system of participatory management, according to the objectives.

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ANALYSIS OF THE SYSTEM OF SOCIAL INSURANCES FOR PENSIONERS IN ROMANIA

OANA DOBRE-BARON *

ABSTRACT: *The level of pensions in Romania represents a topic of passionate debates within the political class, beginning with 1990 until nowadays. The alarming increase of the number of pensioners that has surpassed the number of employees in the economy correlated with the level of economical and social development of our country resulted in the impossibility of creating a system of social insurances for elder persons capable of assuring a decent level of their incomes. Accordingly, the analysis of the various categories of pensions covering 12 years has emphasized the fact that, generally, pensions are not able to provide a decent living standard for those who get them; neither they are capable of eliminating poverty in case of a quite important part of the population in our country; subsequently they have proved not to be capable to play their part as social insurances against risks, in our case the risk of being old.*

KEY WORDS: *pensioners' incomes, pensions system, social insurances, social security*

1. ANALYSIS OF THE SYSTEM OF PENSIONS IN ROMANIA DURING THE PERIOD 1995-2006

The main goal of the systems of pensions is to provide a **permanent replacement income** over a certain age as well as protection in case of special circumstances determining temporary labor incapacity – work accidents, professional diseases or death in one's family.

In Romania, the system of pensions is public, compulsory, and, to a large extent, a system of "step by step payment" having a single capacity of distributing the income towards lifetime poor and the generations that are poorer as a group. In a lot of countries, public plans of pensions really contributed to the welfare of elders, but their re-distributive potential has sometimes been in the benefit of the rich and not of the poor or used in order to help a generation at the expenses of the another; such a

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thing has not been done according to equity reasons, and social costs – evasion, labor, capital and public resources wrongly distributed – have been higher. The public component should decrease poverty owing to the phenomenon of re-distribution and social solidarity, to increase the income of the elders who cannot any longer work productively, to protect the elders against inflation and other risks, to provide efficient medical assistance.

According to the new stipulations regarding the system of pensions a three “pillars” system is proposed at a national level: **pillar I** implies a public and compulsory pension; **pillar II** implies a compulsory private and public system of pensions; **pillar III** implies a private system of pensions which is not compulsory. People should understand that the pension given by the system of social insurances is not sufficient; it is only meant to cover subsistence expenditures and due to this fact they should think more seriously to the private plans of pensions; yet, the most important problem is the population’s level of education and information that has already started, but might still be improved.²

An important characteristic of the evolution of the system of social security after 1989, with obvious consequences upon the responsibilities and level of protection, consists in the important increase of the number of persons who benefit from social services, not only according to the new schemes but also according to the old ones. Such circumstances mainly represent a response to the increase of the protection needs of the persons affected by massive unemployment determined by economic recession and re-structuring national production³.

Largely connected with **diminishing employment** is the **increase of the number of pensioners** (Table 1), especially as a result of anticipated retiring, temporarily promulgated in order to detension labor market (at the beginning, temporarily, then for good in case of the unemployed persons who are closer to retiring age).

The number of social insurances pensioners (except agriculture pensioners) was in 2006 of 4780000; that is 86% higher than in 1990. Such an increase of the number of pensioners was parallel with the decrease of the average number of employees which, during 15 years only, almost halved (Table 2). In 1990 the number of employees in Romania was of 8156000 persons while in 2004 it decreased to 4469000 persons only. After this year the total number of employees begins to increase attaining 4667000 persons in 2006; yet, it does not surpass the number of pensioners.

In 2006, social insurances pensioners represented 99.63%, out of which 80.08% being State social insurances pensioners, and 17.37% being agriculture social insurances pensioners. The rest, of about 0.5% represents beneficiaries of pension like social aid and IOVR pensioners.

² Vârjan Daniela, *Economie și politici sociale*, ASE Publishing House, Bucharest, 2005, pages 213-214

³ Molnar Maria, *Sărăcia și protecția socială*, the Publishing House of “România de Măine” Foundation, Bucharest, 1999, page 175

Table 1. The average number of retired persons (thousand persons)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Social insurances pensioners - total	-	-	-	-	-	-	-	-	-	5894	6110	6311	6342	6275	6205	6042	5785
Social insurances pensioners¹⁾ (without agricultors)	2570	3018	3201	3253	3439	3600	3740	3875	4020	4181	4359	4544	4665	4703	4731	4750	4780
out of which:																	
<i>For age limit</i>	1859	2279	2376	2365	2480	2568	2656	2753	2851	2961	3087	3206	3216	3178	3158	3146	3142
- with full paying period	1160	1521	1583	1599	1674	1750	1830	1921	2018	2125	2247	2352	2381	2296	2258	2223	2194
- without full paying period	699	758	793	766	806	818	826	832	833	836	840	854	835	882	900	923	948
<i>With anticipated pension</i>	-	-	-	-	-	-	-	-	-	-	-	1	8	10	12	12	12
<i>With partly anticipated pension</i>	-	-	-	-	-	-	-	-	-	-	-	9	63	92	106	113	119
Of infirmity	208	222	263	307	374	433	469	493	527	567	609	660	706	751	790	827	866
- I st degree	15	15	17	18	20	21	22	23	24	25	26	27	28	30	32	35	37
- II nd degree	190	192	217	250	303	349	375	390	419	453	491	536	553	557	552	552	560
- III rd degree	3	15	29	39	51	63	72	80	84	89	92	97	125	164	206	240	269
Of descendant	503	517	562	581	585	599	615	629	642	653	663	668	672	672	665	652	641
State social insurances pensioners								3782	3924	4074	4246	4426	4535	4570	4597	4611	4633
Social insurances pensioners - agricultors	1007	1016	999	1139	1478	1587	1612	1649	1682	1713	1751	1767	1677	1572	1474	1292	1005
Pension type social aid beneficiaries	35	31	27	22	20	17	15	13	11	10	8	7	6	5	4	4	3
I.O.V.R. pensioners²⁾	67	66	65	62	58	54	50	46	42	37	35	33	30	27	24	21	18
Infirmity	16	17	19	19	17	16	15	14	12	11	11	10	9	8	7	6	5
Of descendant	51	49	46	43	41	38	35	32	30	26	24	23	21	19	17	15	13

Note: ¹⁾ Include State social insurances pensioners, those retired from the Ministry of National Defence, the Ministry of Administration and Internal Affairs, the Romanian Intelligence Service, the State Department for Cults and the Lawyers Insurance Office

²⁾ I.O.V.R. – Infirms, orphans and war widows

Source: INS, *Anuarul Statistic al României, 2006*, page 286, for the period 1990-2005

INS, *Anuarul Statistic al României, 2007*, page 306, for 2006

Table 2. The average number of employees (thousand persons)

Year	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
No. of employees	8156	7574	6888	6672	6438	6160	5939	5597	5369	4761	4623	4619	4568	4591	4469	4559	4667

Source: INS, *Anuarul Statistic al României, 2006*, page 124, for the period 1990-2005

INS, *Anuarul Statistic al României, 2007*, page 118, for 2006

In order to make comparisons, the total number of social insurances pensioners has been considered omitting agriculture pensioners as their share in the whole number of the pensioners is the most significant one. In case we point to the total number of social insurances pensioners, we notice that it has begun to drop; accordingly, from

6342000 persons in 2002 it decreased to 5785000 persons in 2006. The circumstances are due to the diminishing of the number of agriculture pensioners with 672000 persons, during the already mentioned period (2002-2006). Comparing the evolution of the number of pensioners and that of the employees (Figure 1) one can notice that the “force relation” between the two social categories has changed; 2002 represented the turning point and the moment when the number of pensioners surpassed that of employees; these circumstances are still the same.

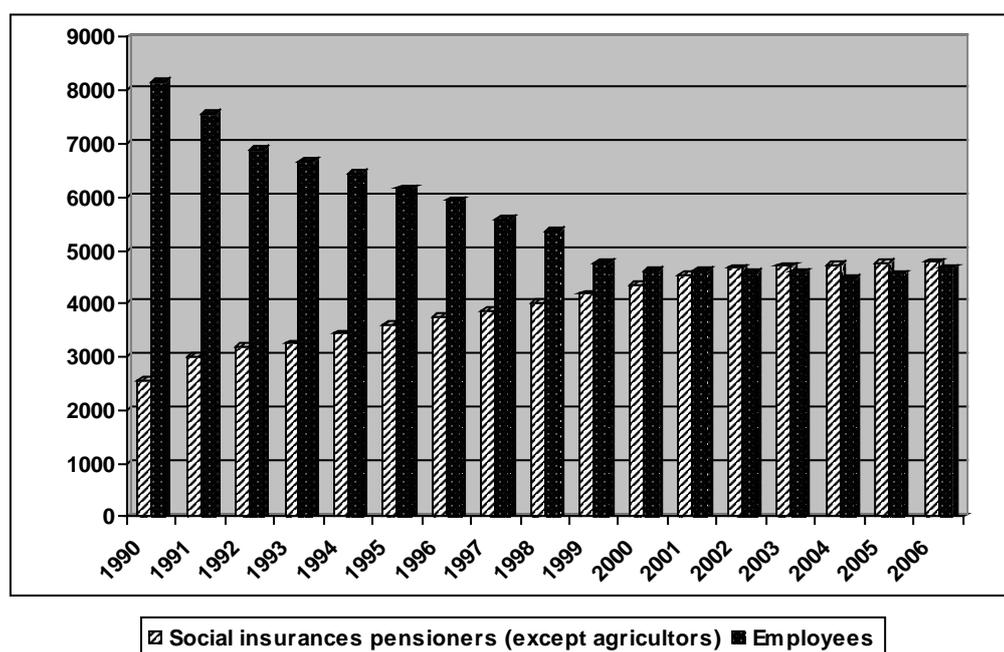


Figure 1. Comparative evolution of the average number of social insurances pensioners (except agricultors) and of the average number of employees during the period 1990-2006 (thousand persons)

Such circumstances determined the tremendous increase of the responsibilities incumbent to employees and companies (derived from doubling the number of persons whose living should be provided by the system of social insurances and from halving the number of employees) which at their turn determined an important tension within the system of social insurances. The increase of protection responsibilities of the social insurances system and the decrease of their resources determined the limitation of the nominal increase of the benefits of social insurances and, implicitly, of pensions, the diminishing of their real levels, and providing a low level of benefits as compared with that of the salaries.

The capacity of the system of pensions to protect against poverty the population covered by its field depends on the level and dispersion of pensions. It may be increased by certain special elements of protection within the system's structuring,

within the manner of calculating pensions, and the mechanisms of indexing pensions.⁴ The present-day level of pensions and especially their distribution (Table 3) are determined, to a large extent, by the characteristics of the previous system of pensions which is still implemented with certain changes due to the evolution, as a whole, of Romanian society and especially of economy with certain adaptations imposed by the change of the level of salaries and pensions owing to inflation. Such characteristics have determined relatively low levels of pensions as compared with salaries.⁵

Table 3. Monthly average pension in Romania

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Monthly average pension												
lei/person											RON/person	
Social insurances pensions - total	-	-	-	-	531594	722585	1040131	1334876	1561446	2039438	246	298
Social insurances pensions¹⁾ (except agricultors) of which:	88108	126842	259947	400489	688789	937170	1338851	1691184	1954642	2444763	289	336
<i>For age limit</i>	98847	142318	291521	453661	791763	1080050	1535718	1944341	2263087	2852459	340	395
- with full paying period	111714	160886	328994	515865	914456	1238051	1757124	2219676	2647359	3388605	404	469
- without full paying period	71337	101214	204998	303001	479580	657487	925779	1158602	1263271	1507539	184	223
<i>With anticipated pension</i>	-	-	-	-	-	-	2377184	2912453	3092561	3648114	391	440
<i>With partly anticipated period</i>	-	-	-	-	-	-	1346426	1497130	1747364	2174261	244	287
<i>Of infirmity</i>	71439	101463	204698	306959	531568	733509	1093965	1380317	1543968	1856714	210	251
Ist degree	91912	131538	268875	402500	644569	917382	1333134	1623776	1767737	2071202	230	258
IInd degree	73489	104668	211993	317927	549298	760322	1140056	1424710	1573794	1875718	213	255
IIIrd degree	53191	75473	150501	225689	409752	539606	774622	1128914	1401616	1772288	203	242
<i>Of descendant</i>	54122	79319	165084	241121	358366	458647	634729	809334	966930	1230061	147	171
State social insurances pensions			254917	388228	669777	911321	1305121	1634945	1870402	2321110	267	311
Social insurances pensions - agricultors	16460	26035	69113	103241	142935	188383	271651	343816	384893	737770	88	117
Pension type social aids	42984	61554	124834	184645	275204	331381	435228	539425	587949	691993	77	87
I.O.V.R. pensions²⁾	52940	77396	173944	260444	831295	1199498	1310501	1569260	1810314	2054570	216	226
<i>Infirmity</i>	59034	84504	222387	338453	1407477	1916894	2058945	2467399	2868957	3365341	359	375
<i>Of descendant</i>	50325	74360	153602	228223	594847	891229	98943	1195788	1373332	1520466	158	167
Supplemental social insurances pension without agricultors												
<i>Monthly average pension (lei/person)</i>	15174	20281	38588	60382	-	-	-	-	-	-	-	-
<i>Average number of retired persons as beneficiaries (thousand persons)</i>	3310	3459	3603	3755	-	-	-	-	-	-	-	-

Note: ¹⁾ They include State social insurances pensions, those of the Ministry of National Defense, of the Ministry of Administration and Internal Affairs, of the Romanian Intelligence Service, of the State Department for Cults and of the Lawyers Insurance Office;

²⁾ I.O.V.R. – Infirms, orphans and war widows

Source: INS, *Anuarul Statistic al României, 2006*, page 287, for the period 1995-2005

INS, *Anuarul Statistic al României, 2007*, page 307, for 2006

⁴ Molnar Maria, cited work, page 175

⁵ Molnar Maria, cited work, page 187

Monthly average pension for pensioners and social aid beneficiaries represents an analysis element.⁶ For these categories, pension and social help, increased in 2006, being obviously higher than those paid during the previous years. Monthly average pension represented 298 RON in 2006, being 6 times higher than in 1999 when it represented 531.594 lei (about 53 RON).

The average social insurances pension has also been negatively influenced by the level of agricultors' pensions which, on an average, represented 117 RON in 2006. Although as compared with the previous period, the average pension of agricultors increased, doubling its amount in 2004 as compared with 2003 and almost tripling in 2006 as compared with the same reference year, the ratio is still too high when compared with the level of the State social insurances pensions.

A significant difference is also manifest among the various categories of pensions. An analysis conceived from this point of view emphasizes the fact that, according to the labor performed and age limit, a person retiring from agriculture still received, on an average, 117 RON/month, while the average pension for an employee belonging to the State social insurances system represented 311 RON/month.

As shown before, within the category of pensioners the most important share is represented by State social insurances pensioners.

Accordingly, the average pension for this category represented 311 RON a month in 2006 that means an important increased as compared with 1999 when it represented 669.777 lei (about 67 RON) per month.

This increase of the average pension also took place in real terms. The data displayed in Table 4 show that in 2000 real average pension was 6.8% lower than in 1999; in 2002 it was 2.1% higher; in 2003 it was 9.4% higher; in 2004 it was 22.3% higher, and in 2006 it was 44.3% higher than in 1999.

Table 4. Indices of real average pension of State social insurances pensioners (% , 1999=100)

Years	1999	2000	2001	2002	2003	2004	2005	2006
Indices of real average pension	100	93.2	98.7	102.1	109.4	122.3	132.2	144.3

Source: INS, *Anuarul Statistic al României*, 2007, page 310

Another analysis should focus upon the ration between average State social insurances pension and net average salary at the level of the national economy (Table 5). This ratio shows that average pension represented 35.9% of monthly average salary in 2006, and 38.77% in 2004, while its value represented 43.12% in 2002 and 43.9% in 1999.

⁶ Anghelache Constantin, *România 2004: starea economică în an electoral*, Economic Publishing House, Bucharest, 2004, pages 393-398

Table 5. Nominal average net monthly salary during the period 1991-2006 (lei/ person)

Year	Net average salary
1991	7460
1992	20140
1993	59717
1994	141951
1995	211373
1996	321169
1997	632086
1998	1042274
1999	1522878
2000	2139138
2001	3019424
2002	3789202
2003	4839648
2004	5986386
2005 (RON/person)	746
2006 (RON/person)	866

Source: INS, *Tempo on-line data sources*, for the period 1991-2004

INS, *Anuarul Statistic al României*, 2007, page 242, for 2005 and 2006

Accordingly, one may notice an increase of the difference between the average State social insurances pension and net average salary. Such data emphasize once more the fact that social benefits are far from equaling the level of the incomes during the active period determining the most part of the pensioners to live with pensions that frequently cannot provide daily expenditures.

In case one compares the average State social insurances pension with the minimum salary at the level of the country, the following data are to be noticed: in December 1999, the minimum salary represented 450.000 lei while the pension represented 669.777 lei, that is almost double; in December 2002 the minimum salary represented 1.750.000 lei, and the situation changes as pension represented only 93.37% of the minimum salary; in 2004 the minimum salary represented 2.800.000 lei, while average pension represented only 82.89% of it. In 2006, gross minimum salary at the level of the economy represented 370 RON, while pension represented only 84.05% of it.

Before reviewing the main categories of pensions we should focus upon certain specifications⁷. Beginning with January the 1st 1999, monthly average pension also includes supplemental pension (Government Order no. 31/1998) as well as the amount of health social insurances contribution (Law no. 145/1997, amended by Government Order no. 30/1998).

⁷ INS, *Anuarul Statistic al României*, 2007, page 303

Beginning with July the 1st 2000, according to the Government Order no.87/2000, pension net income (the difference between pension gross income and health social insurances contribution) is taxed according to the amount that surpasses the margin fixed by the law. Monthly average pension includes monthly average pension, strictly speaking, supplemental pension, health social insurances contribution and the tax upon the amount that surpasses the margin fixed by the law.

Beginning with January the 1st 2003, the sums representing pensions do not include health social insurances contribution anymore (CASS), according to Government Order no. 147/2002.

2. THE MAIN CATEGORIES OF PENSIONS

A. Age limit pension is given to insured persons who cumulatively meet, at retirement, the terms regarding standard retirement age and the minimum paying period within the public system. Standard retirement age is 60 years old for women and 65 years old for men. The achievement of standard retirement age is going to be done within 13 years from the legifiration of Law no. 19/2000 (Law of pensions and other social insurances rights) owing to the increase of retirement age, starting from 57 years old for women and 62 years old for men at present.

The full paying period is of 30 years for women and 35 years for men. The attainment of the full paying period is going to be done within 13 years from the legifiration of Law 19/2000, owing to the increase of its duration, starting from 25 years for women and 30 years for men (Art. 41 – Art. 48)⁸.

For certain categories of insured persons, standard retirement age decreases. This is the case of those insured persons who work under special work conditions. These categories include the following insured persons:

- Those who deployed their activity underground during at least 50% of the normal work period and achieved a paying period of at least 20 years under such circumstances benefit from age limit pension beginning with 45 years old.;
- Those who deployed their activity in the field of civil aviation, namely navigant staff, and achieved a paying period of at least 25 years benefit from age limit pension with a 15 years decrease of standard retirement age;
- Those who deployed their activity in the field of research, exploitation, exploration or processing of nuclear raw materials and achieved a paying period of at least 15 years within the 1st area of radiation exposure or 17 years within the 2nd area of radiation exposure benefit from age limit pension irrespective of their age;
- Those who deployed activities belonging to the 1st and 2nd labor group either cumulate their working during the periods belonging to the 1st and 2nd labor group and benefit from age decrease according to the legal stipulations regarding work

⁸ CNPAS, *Legea pensiilor și a altor drepturi de asigurări sociale* (Law no. 19/March 17th 2000)

under special conditions, or benefit from age decrease specific for each labor group, choosing the most profitable decrease.

Standard retirement age also decreases for those insured persons who accomplished the legal paying period and have a pre-existent disability as follows:

- With 15 years in case they have accomplished at least one third of the full paying period, for those having a severe disability;
- With 10 years, in case they have accomplished at least two thirds of the full paying period, for those with increased disability;
- With 10 years, in case they accomplished the full paying period, for those with average disability.

Blind insured persons benefit from age limit pension, irrespective of their age in case they accomplished at least one third of the full paying period stipulated by the law.

At the same time, standard retirement age can be decreased owing to certain special laws that regard: the persons that have been politically persecuted by the dictatorship set up on March 6th 1945 as well as those deported abroad (according to the Decree – law no. 118/1990); the insured persons who accomplish a paying period in education of 30 years for men and 25 years for women; women who accomplished the full paying period and gave birth to, at least, 3 children and brought them up until they reached 10 years old. Age decrease under such circumstances cannot be cumulated with any other decrease stipulated by the law or special laws and cannot be done earlier than 55 years old.

Beginning with the date of retirement matriculation, pension amount is determined by multiplying yearly average score obtained during the paying period with the value of a pension point⁹.

B. Disability pension. The right to a disability pension is given to those insured persons who have totally or at least half lost their labor ability due to: work accidents, professional illnesses and tuberculosis, common illnesses and accidents that are not linked with their work (Art. 53 (1)-(4) of Law no. 19/2000).

According to the demands of the job and the degree of decrease of work capacity, disability can be:

- a. Of 1st degree, characterized by the total loss of work capacity, of self supporting, of self conducting or spatial orientation; the disabled person needs permanent care or attendance from another person;
- b. Of 2nd degree characterized by the total loss of work capacity, yet with the person's possibility to self supporting, self conduct and spatially orient without the help of another person;
- c. Of 3rd degree characterized by the loss of at least half of the work capacity; the disabled person is able to perform a certain professional activity.

⁹ Vârjan Daniela, cited work, pages 214-217

The insured persons who have lost their work capacity due to a common illness or due to accidents that have no connection with their work benefit from disability pension, in case they accomplish the stipulated paying period according to their age; in case disability has been determined by a work accident, professional illness, and tuberculosis, as well as in case disability has occurred during and due to their accomplishing military service, the insured person can benefit from disability pension irrespective of the paying period (Art. 58).

Disabled retired persons belonging to the 1st degree of disability have the right, besides their pension, to get an indemnization for the person who helps them; this indemnization represents a fixed amount and cannot be smaller than the minimum gross basic salary at the level of the country (Art. 60).

Disabled retired persons are submitted to medical revisions, according to their affection, at intervals ranging from 6 to 12 months, until they reach standard retirement age, according to the terms settled by regional pension departments. When reaching standard age of decreased standard age according to the law stipulating the obtainment of age limit pension, the beneficiary of disability pension may choose for the most profitable pension (Art. 64).

The calculation of disability pension, irrespective of degree, is done by multiplying yearly average score accomplished by the insured person during the paying period with the value of a pension point belonging to the year when pension rights start; indexations of that year can also be added to this calculation¹⁰.

Disability pensions are financed from the budget of State social insurances and agricultors pensions' fund.

C. Descendant pension. Descendant pension can be given to the children and the surviving wife/husband in case the dead person was a retired person or accomplished the legal demands to get a pension (Art. 65)¹¹.

Children have the right of a descendant pension until the age of 16; in case they continue their education at an institution organized according to legal stipulations, they have the right of a descendant pension until they graduate, but not later than 26 years old. Descendant pension is given during disability irrespective of its degree, in case it occurred during the period they belonged to one of the above situations (Art. 66).

Surviving wife/husband has the right of a descendant pension during her/his entire life when reaching standard retirement age in case marriage length is at least of 15 years. In case marriage length is shorter than 15 years, but at least 10 years, the amount of descendant pension to which the surviving wife/husband is entitled diminishes with 0.5% for each month, namely with 6% for each lacking year (Art. 67).

¹⁰ Vârjan Daniela, cited work, pages 218-219

¹¹ CNPAS, Secțiunea a 5-a din *Legea pensiilor și a altor drepturi de asigurări sociale* (Law no. 19/March 17th 2000)

The surviving wife/husband has the right of a descendant pension, irrespective of her/his age, during the period she/he is 1st or 2nd degree disabled, in case marriage lasted for at least 1 year. The surviving wife/husband has the right of a descendant pension, irrespective of her/his age and marriage length, in case the supporting husband/wife has died as a result of a work accident, a professional illness or tuberculosis and in case she/he does not get monthly incomes out of a professional activity for which insurance is compulsory or in case such incomes are smaller than one fourth of the gross average salary at the level of the economy (Art.68).

The amount of descendant pensions is settled by applying a percent to the yearly average score accomplished by the supporting person, according to the number of descendants having this right, as follows: for one descendant – 50%; for 2 descendants – 75%; for 3 or more descendants – 100% (Art. 71, paragraph (2)).

The amount of descendant pension, in case of both parents orphans, represent the totalizing of descendant rights calculated after each parent (Art. 72).

The financing of descendant pension is done from the budget of State social insurances and agricultors pensions' fund.

D. Anticipated pension. The insured persons who have surpassed the full paying period with, at least, 10 years can require an anticipated pension maximum 5 years before standard retirement age.

The amount of anticipated pension is settled according to the same stipulations regarding age limit. When reaching standard retirement ages stipulated by Law 19/2000, anticipated pension becomes age limit pension and is re-calculated by adding assimilated periods and possible paying periods accomplished during anticipation period (Art. 49)¹².

E. Partial anticipated pension. Those insured persons who have accomplished full paying periods as well as those who surpassed the full paying period with up to 10 years can require partial anticipated pension with a maximum 5 years decrease of standard retirement age. The amount of partial anticipated pension is settled according to age limit pension by decreasing it in comparison with the accomplished paying period and the number of months with which standard retirement age decreased (Art. 50)¹³.

When settling the paying period in order to give a partial anticipated pension the following periods are not taken into consideration¹⁴:

- The period when the insured person benefited from disability pension;
- The period when the insured person attended the full-time courses of university education, legally organized, during their normal duration provided he/she graduated;

¹²CNPAS, Secțiunea a 2-a din *Legea pensiilor și a altor drepturi de asigurări sociale* (Law no. 19/March 17th 2000)

¹³CNPAS, Secțiunea a 3-a din *Legea pensiilor și a altor drepturi de asigurări sociale* (Law no. 19/March 17th 2000)

¹⁴Vârjan Daniela, cited work, page 222

- The period when the insured person satisfied his military service as a term military or low term military, concentrated, mobilized or emprisoned.

On July 19th 2007 Law no. 250/2007 was promulgated in order to modify Law no. 19/2000 regarding the public system of pensions and other social insurances rights. The main stipulation of this law regards the value of the pension point that cannot be smaller than 37.5% of the gross average salary employed when settling the budget of State social insurances, beginning with January the 1st 2008, namely with January the 1st 2009.

As a conclusion, the above analysis shows that the evolution of the system of pensions in Romania as well as its present condition are far from the meaning of a system of social security for elders in the economically developed countries. First, the present level of pensions is not able to provide a decent living for those who, after a lifetime work, retired. A short comparative analysis between the average State social insurance pension and the net average salary emphasized the fact that the level of the pension is more than 50% under the net average salary namely much under the level of the active period income.

This is the reason why we consider that the implementation of the private system of pensions is more than necessary and is meant to support the public one so that both of them might correlate with a view of providing the increase of the living standard and a decent life for pensioners.

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THE INTERIM FINANCIAL REPORTING IN THE SPIRIT OF THE IAS 34 NORM

OVIDIA DOINEA *

ABSTRACT: *The role of an interim financial reporting is to allow the information users to acknowledge the activity of an entity on period shorter than financial exercise from the perspective of the available profits and cash flows generated as well as from the point of view of its financial position and liquidity. The interim financial reporting includes a complete or condensed set of financial statements which target to update the last financial reporting, usually the annual report. The interim financial statements must assure informations that are comparable and in conformity with the international accounting norms.*

KEYWORDS: *interim financial reporting, interim period, IAS 34, financial statements, financial information users.*

The investors and creditors are quite often interested in a fast and short interim financial informing on an entity's activity, other than the annual financial statements.

At the same time, the governments and the institutions that supervise the commodity markets, the stock exchanges and the organizations of the accounting profession ask the entities that have their shares rated on the financial markets to publish interim financial statements.

The necessity to point out in a differentiate manner the performances and the trend of a cyclic activity with a seasonal character is another reason for the realization of such statements. *“The role of a interim financial statement at the right moment is to allow the investors, creditors and other categories of users to determine and understand better the enterprise's capacity to generate benefits and cash flows as well as its financial position and liquidity”*[5].

The Committee of the Accounting International Standards (named IASB) is trying to answer to this information problem with which the investors, creditors, stock exchanges, organizations of the accounting profession and other users are confronted by the Accounting Norm **IAS 34 “Interim Financial Reporting”**.

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As the name itself mentions, this norm treats the problems of the interim financial informing, subject that until its elaboration, publishing and applying has not been object of and international accounting norm.

The IAS 34 standard was published in February 1998 and became effective with the 1st of January 1999, being amended afterwards by the following norms:

0	IAS 1	“Financial Statements Presentation”
1	IAS 2	“Stocks”
2	IAS 8	“Accounting Policies, Modifications in the Accounting Estimations and Errors”
3	IAS 16	“Tangible/Material Fixed Assets”
4	IAS 21	“The Effects of the Exchange Rates' Variation”
5	IFRS 3	“Partnerships of Enterprises”
6	IFRS 8	“Segments of Activity”
7	IFRIC 10	“The interim Financial Reporting and Depreciation”

“A interim financial report is a financial report containing an entire or succinct set of financial statements, for a period shorter than the duration of the complete financial exercise” [2].

In order to avoid confusions in the interpretation of the notions of *interim period* and *interim financial report*, the standard IAS 34 defines expressly the specific meaning of these terms used in the norm as follows:

“the interim period represents a period for reporting shorter than the complete financial exercise, and the interim financial report represents the financial report that contains a complete set of financial statements (as shown in the IAS 1 - “Financial Statements Presentation”) or a condensed set of financial statements for a interim period” [6].

The interim financial report includes in conformity with the IAS 1 the following components:

- the balance sheet;
- the profit and loss account;
- the statement of the proper capitals' modifications;
- the statements of the treasure fluxes;
- the notes, that include a resume of the significant accounting policies mentioned in the other financial statements.

The manner of presentation and the degree of detailing of the interim financial statements is left to each entity's latitude, and it can include in this report other informational elements than the minimal posts or the selection of explicative notes.

The interim financial statements should include at least each of the headings and subtotals that were presented in the most recent annual financial statements as well as the selection of the explicative notes required by the current standard.

“The explicative notes must include all significant informations so the external and internal users to comprehend the evolution of the enterprise's financial position and performances since the last annual report.

In other words, the informations should be presented on a cumulative base from the beginning of the exercise until the interim date” [4].

The IAS 34 standard does not specify the entities that ought to publish a interim financial report, nor the frequency of this activity or how longer after the annual financial statements this report is made.

The national governments, the authorities controlling the stock markets and the organizations of the accounting profession should decide on this problem.

This standard is applied only when an entity decides or is asked to publish such a report, but the norm encourages the official rated entities to offer interim financial reports in conformity with the already established principles of recognition, evaluation and presentation.

The frequency of the reporting specified by IAS 34 is of at least at the end of the first half of the financial exercise, and the reporting of these statements to be made in a term of maximum 60 days from the closing of interim reporting period.

The IAS 34 accounting norm, besides establishing the minimum content of a interim financial report, also specifies and identifies the recognition and evaluation principles that should be applied to this type of reporting.

The aim of a interim financial report is to update the last complete set of financial statements, usually the annual one. The interim financial report is made on consolidated bases when the most recent annual financial statements of the entity are the consolidated statements.

The interim financial reports must assure the presentation of comparable information and the conformity with the international accounting norms.

“If the interim financial report of an enterprise is presented as being in conformity with the international accounting norms, it must be in conformity with all the dispositions of this standard”[3].

*“The most usual **interim financial reporting** are done at three months time (times trial reporting) and at six months time, especially there where either the jurisdiction, or the customary laws compels to such reporting” [1].*

In Romania, in conformity with the 4th article of the Accountancy Law republished, the Ministry of Economy and Finances is authorized to elaborate and emit norms and regulations in the domain of accountancy in collaboration with the professional organizations of profile.

So, the interim financial informing is the object of some orders emitted by M.E.F. and the last one regulating the system of interim financial reporting is O.M.E.F. no. 1958/2008, by approving the system of accounting reporting of the economic operators at the 30th of June 2008.

According to the regulations mentioned above, the entities (named **economic operators**), indifferent of the form of organization or property, have the obligation to make and hand in accounting reporting at the 30th of June 2008 at the territorial units of M.E.F., that include the following forms:

- The assets, liabilities and capital and reserves' statement (code 10);

- Profit and Loss Account (code 20);
- Informative Data (code 30).

The assets, liabilities and capital and reserves' statement presents in a synthetic form, elements of assets and liabilities, grouped on nature and liquidity, respective nature and eligibility.

The profit and loss account contains the total the incomes achieved, expenses made and the financial results obtained.

The informative data from the statement code 30 include the informations regarding result recorded (profit or loss), data regarding unpaids, the medium number of employees and informations about the specification of the juridical person depending on its apparentness to a group of societies.

The term for handing in the interim financial statements is of maximum 45 days from the end of the reporting period.

As a conclusion to the problem of interim financial statements regulated by the IAS 34 standard, it can be said that it is obvious that the interim information helps the users to achieve a better comprehension and understanding of the performance gained by an entity and, at the same time, the firm to elaborate predictions on the cash flows for the following period. It is also possible that these profits to not materialize in practice, and the interim statements offered by the entities to be poorly useful for beneficiaries. One of the causes that could have for result the miss achievement of the predicted profits can be the entities' liberty in regard to the identification of the periods for which the interim financial statements are made.

A significant aspect is represented by the influence of the interim informations during the decisional process in the predictions' field as well as in the reactions of the capital markets in the context of the fact that the IAS 34 standard does not compel to the presentation of this type of information, but recommends it on biannual basis.

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AUDITOR INDEPENDENCE, AUDIT COMMITTEE QUALITY AND INTERNAL CONTROL WEAKNESSES

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ABSTRACT: *In this paper we investigate the relation between auditor independence, audit committee quality and the disclosure of internal control weaknesses. We begin with a sample of firms with internal control weaknesses and, based on industry, size, and performance, match these firms to a sample of control firms without internal control weaknesses. Our conditional logit analyses indicate that a relation exists between audit committee quality, auditor independence, and internal control weaknesses. Firms are more likely to be identified with an internal control weakness, if their audit committees have less financial expertise or, more specifically, have less accounting financial expertise and non-accounting financial expertise. They are also more likely to be identified with an internal control weakness, if their auditors are more independent. In addition, firms with recent auditor changes are more likely to have internal control weaknesses.*

KEY WORDS: *internal control weakness, audit committee financial expertise, auditor independence.*

1. INTRODUCTION

Firms are more likely to be identified with an internal control weakness, if their audit committees have less financial expertise or, more specifically, have less accounting financial expertise and non-accounting financial expertise. They are also more likely to be identified with an internal control weakness, if their auditors are more independent. In addition, firms with recent auditor changes are more likely to have internal control weaknesses.

Independent audit committees and audit committees with more financial expertise are significantly less likely to be associated with the incidence of internal control problems. Material weaknesses in internal control are more likely for firms that are smaller, less profitable, more complex, growing rapidly, or undergoing

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restructuring. Firms with more complex operations, recent changes in organization structure, auditor resignation in the previous year, more accounting risk exposure, and less investment in internal control systems are more likely to disclose internal control deficiencies. In addition, we document that auditor independence is an important determinant of internal control weaknesses.

2. BACKGROUND AND HYPOTHESES

2.1. Background

Internal control is defined as a process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives, according to the COSO framework. Management must disclose significant internal control deficiencies, when they certify annual financial statements. Specifically, the signing officers, being responsible for internal controls, have evaluated the internal controls and reported in their findings: (1) a list of all deficiencies in the internal controls and information on any fraud that involves employees who are involved with internal control activities; (2) any significant changes in internal controls or related factors that could have a negative impact on the internal controls. Management not only provide an assessment of internal controls, but also auditors provide an opinion on management's assessment.

Most of the internal control weakness disclosures are related to financial systems and procedures. This group typically involves financial closing processes, account reconciliation, or inventory processes. For example, one company disclosed problems with „the design and effectiveness of internal controls relating to receivables from suppliers”. Personnel issues rank as the second largest category of weakness disclosures. This category is related to the poor segregation of duties, inadequate staffing, or other related training or supervision problems. For example, other company cited a „lack of sufficient personnel with appropriate qualifications and training in certain key accounting roles.” Other common types of weaknesses include revenue recognition, documentation, and IT system and controls (e.g., security and access controls, backup and recovery issues). In addition, issues related to international operations and mergers and acquisitions are sources of weakness disclosure, although they represent a relatively small percentage of all disclosures.

Based on their severity, these internal control problems are classified into three types: material weakness, significant deficiency, and control deficiency. Auditing Standards defines a material weakness as „a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the annual financial statements will not be prevented or detected.” Under Auditing Standards, a significant deficiency is „a control deficiency, or a combination of control deficiencies, that adversely affects the company's ability to initiate, authorize, record, process, or report external financial data reliably in accordance with generally accepted accounting principles such that there is more than a

remote likelihood that a misstatement of the company's annual financial statements that is more than inconsequential will not be prevented or detected." A control deficiency occurs "when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatement on a timely basis."

2.2. Audit committee quality and internal control

Since an entity's internal control is under the purview of its audit committee, we investigate the relation between audit committee quality and internal control weaknesses. The audit committee not only plays an important monitoring role to assure the quality of financial reporting and corporate accountability, but also serves as an important governance mechanism, because the potential litigation risk and reputation impairment faced by audit committee members ensure that these audit committee members discharge their responsibilities effectively. We thus expect that firms with high-quality audit committees are less likely to have internal control weaknesses than firms with low-quality audit committees.

On measuring audit committee quality, we focus on the financial expertise in these committees. It is recommended that each audit committee have at least one financial expert highlights the importance of the financial literacy and expertise of audit committee members. Such financial expertise of audit committee members has been shown to be important for dealing with the complexities of financial reporting and for reducing the occurrence of financial restatements. In addition, audit committee members with financial reporting and auditing knowledge are more likely to understand auditor judgments and support the auditor in auditor-management disputes than members without such knowledge. Moreover, financially knowledgeable members are more likely to address and detect material misstatements. Audit committee members with financial expertise can also perform their oversight roles in the financial reporting process more effectively, such as detecting material misstatements. Indeed, there is a significantly negative association between an audit committee having at least one member with financial expertise and the incidence of financial restatement. Audit committees with financial expertise are less likely to be associated with the incidence of internal control problems.

Hypothesis 1. Firms with greater audit committee financial expertise are less likely to have internal control weaknesses.

Audit committees with accounting financial expertise improve corporate governance. Therefore, we further separate audit committee financial expertise into accounting financial expertise and nonaccounting financial expertise and test the relation between these two variables and internal control weaknesses.

An audit committee member is a financial expert if he or she can be classified into the following two categories:

(a) an accounting financial expert who has experience as a public accountant, auditor, principal or chief financial officer, controller, or principal or chief accounting officer;

or

(b) a non-accounting financial expert who has experience as the chief executive officer, president, or chairman of the board in a for-profit corporation, or who has experience as the managing director, partner or principal in venture financing, investment banking, or money management. With this definition, we measure audit committee financial expertise as the percentage of audit committee members who are financial experts. We further separate audit committee financial expertise into accounting financial expertise, measured as the percentage of audit committee members who are accounting financial experts, and non-accounting financial expertise, the percentage of audit committee members who are non-accounting financial experts.

2.3. Auditor independence and internal control

Auditor independence can be related to the disclosure of a firm's internal control problems. When there is a strong economic bond between an auditor and a client firm, the auditor has an incentive to ignore potential problems and issue a clean opinion on the client firm's internal controls. While some studies find no relation between non-audit fees and auditor independence and argue that an auditor's concern with maintaining its reputation for providing high-quality audits could restrain it from undertaking activities that jeopardize independence, since the revenue from each client will be a small percentage of the auditor's total revenue, other studies suggest that the provision of non-audit services compromises auditor independence. Non-audit services are associated with increased discretionary accruals and the achievement of certain earnings benchmarks. For example, the abnormal returns for Andersen's clients around Andersen's indictment are significantly more negative, when the market perceived the auditor's independence to be compromised. Given these mixed empirical findings, we measure auditor independence as the ratio of the audit fee to the total fee, and propose the non-directional null hypothesis, as follows.

Hypothesis 2. Auditor independence is not associated with the disclosure of internal control weaknesses.

2.4. Control variables

Audit committee. In addition to audit committee financial expertise, other attributes of an audit committee have been found to be important factors in effective monitoring. Specifically, we control for audit committee independence, there is a positive relation between audit committee independence and the quality of internal control. An audit committee member is independent, if he or she is not affiliated with the firm and does not accept any consulting fees.

We next control for the natural logarithm of audit committee size, measured as the number of audit committee members, because research suggests that a large audit committee tends to enhance the audit committee's status and power within an organization. We thus expect that a large audit committee is more likely than a small

one to improve the quality of internal controls, because increased resources and enhanced status will make the audit committee more effective in fulfilling its monitoring role. We also control for the natural logarithm of audit committee meetings, measured as the number of audit committee meetings held each year, because research shows that effective audit committees meet regularly. However, it is also possible that an audit committee meets more frequently to discuss internal control issues, when there are significant problems associated with a firm's internal controls. Therefore, we make no prediction on the relation between the number of audit committee meetings and the quality of internal controls.

Board of directors. The quality of an entity's internal controls is a function of the quality of its control environment that includes the board of directors and the audit committee. First, we focus on board independence, measured as the percentage of outside directors on the board, because research suggests that board independence is negatively related to the likelihood of financial fraud. We also control for the natural logarithm of board size, measured as the number of directors on the board. While some researchers find that a large board has more expertise than a small one, that it tends to be more effective in monitoring accruals, others suggest that a small board is more effective in mitigating the agency costs associated with a large board. Given the mixed empirical evidence on board size, we expect that the relation between board size and the likelihood of internal control weaknesses is indeterminate. Finally, we control for the natural logarithm of board meetings, as measured by the number of board meetings held each year. While board meeting frequency is important to improve board effectiveness, it is inversely related to firm value, because of the increased board activities following share price declines. Since board independence, size, and meeting frequency all influence a board's effectiveness, they, in turn, are related to the quality of internal controls.

Auditor types. We use a dummy variable (BIG4) to measure auditor type, because a firm's decision to hire a Big 4 auditor is likely to be associated with internal controls for several reasons. Smaller and less profitable firms are more likely to have internal control problems than larger or more profitable ones. On the one hand, such firms with internal control problems are less likely to hire a Big 4 auditor, because they are constrained by financial resources and cannot afford it. On the other hand, they might also be avoided by the Big 4 auditors, because they are perceived as being risky and may expose the Big 4 to potential litigation. Given that a firm shunned by a Big 4 auditor may signal that it has potential internal control problems, we introduce the dummy variable BIG4 to control for auditor quality.

Auditor changes. Firms with recent auditor changes are likely to have internal control problems. On the one hand, auditors may drop risky clients as part of their risk management strategies, since firms with material internal control weaknesses may represent high audit failure risk. On the other hand, firms may dismiss auditors for lack of performance, when the firms discover material internal control weaknesses.

Other variables. We also control for firm characteristics that may be associated with internal control problems. Small and high growth firms are likely to

have internal control weaknesses, we control for size, measured as the natural logarithm of total assets (TA), and growth, measured as industry-median-adjusted sales growth. It may take some time for a firm that recently engaged in mergers and acquisition to integrate different internal control systems; consequently, such a firm is more likely to have internal control problems. A firm experiencing restructuring is also likely to have internal control problems, because of the loss of experienced and valuable employees and because of the dramatic changes associated with such an event. Also, firms with greater complexity and scope of operations are more likely to have internal control problems than those without.

3. CONCLUSION

In this paper, we examine the relation between audit committee quality, auditor independence, and the disclosure of internal control weakness. The results from our conditional logit analyses suggest that a relation exists between audit committee quality, auditor independence, and internal control weaknesses. Firms are more likely to be identified with an internal control weakness, if their audit committees have less financial expertise or, more specifically, have less accounting financial expertise and non-accounting financial expertise. They are also more likely to be identified with an internal control weakness, if their auditors are more independent. In addition, firms with recent auditor changes are more likely to have internal control weaknesses.

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TARGET2 - THE NEW EUROPEAN PAYMENT SYSTEM

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ABSTRACT: *TARGET2 is the RTGS system for the euro, offered by the Eurosystem. It is used for the settlement of central bank operations, large-value euro interbank transfers as well as other euro payments. It provides real-time processing, settlement in central bank money and immediate finality. A real-time gross settlement system, such as TARGET2 is a payment system in which processing and settlement take place continuously ("in real time") rather than in batch processing mode. Like this, transactions can be settled with immediate finality. "Gross settlement" means that each transfer is settled individually rather than on a net basis.*

KEY WORDS: *Eurosystem, real-time gross settlement, TARGET, TARGET2*

Trans-European Automated Real-time Gross settlement Express Transfer System (TARGET) is the large-value euro payment system operated by the European System of Central Banks (ESCB). TARGET has a decentralised structure and consists of national real-time gross settlement systems and the ECB payment mechanism (EPM). The system is based on the interlinking of the payment systems of each country. The main characteristic of TARGET is that it is a real-time gross settlement system, so that the payment orders entered are settled individually (without prior netting) and with immediate finality. For this purpose, the sending institution must either hold a balance in its account with the relevant central bank, or else be granted the necessary credit by the latter, duly backed by the relevant collateral security.

It follows the principle of a minimum level of harmonisation. The approach of interconnecting existing infrastructures was agreed in 1994 as the best way of ensuring that the system would be operational from the very start of Stage Three of Economic and Monetary Union (EMU). With €1.9 trillion settled every day, TARGET, the EU-wide real-time gross settlement (RTGS) system, is one of the three largest wholesale payment systems in the world, alongside Fedwire in the U.S. and Continuous Linked Settlement (CLS), the international system for settling foreign exchange transactions.

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TARGET began operations on 4 January 1999 at the same time as the launch of the euro. Since then, TARGET has provided real-time payment processing and intraday finality to almost all credit institutions in the EU. Moreover, TARGET serves the monetary policy needs of the Eurosystem and promotes the integration of the euro money market. With its special focus on large-value payments related to inter-bank operations, TARGET helps to reduce systemic risk.

TARGET was developed to meet three objectives:

- to provide a safe and reliable mechanism for the settlement of euro payments on a real-time gross settlement basis,
- to increase the efficiency of cross-border payments within the euro area and, most importantly,
- to offer a fast and secure vehicle for implementation of the single monetary policy.

As table 1 shows, TARGET is the market's preferred system for the processing of large-value payments in euro. In 2007 TARGET's share of the traffic flowing through all large-value payment systems operating in euro remained at the same high level of 89% in value terms and rose to 61% in volume terms (compared with 60% in 2006). Compared with the previous year, market traffic (i.e. all payments processed in payment systems operating in euro) increased by 15% in terms of value and by 12% in terms of volume.

In 2007 TARGET as a whole processed a total of 93375701 payments with a total value of €16,731 trillion. This corresponds to a daily average of 366179 payments with a total value of €2.4 trillion. Average daily TARGET turnover rose by 16% in 2007 (after 10% in 2006). Intra-Member State traffic showed an increase of 13% (after 8% in 2006), while inter-Member State turnover grew by 19% (after 13% in 2006).

Table 1. TARGET payment flows

		EUR billions		Change %	Number of payments		Change %
		2006	2007		2006	2007	
TARGET overall	Total	533541	616731	16	83179996	93375701	12
	Daily average	2092	2419		326196	366179	
of which Intra-Member State	Total	348764	395412	13	64162211	72574446	13
	Daily average	1368	1551		251617	284606	
Inter-Member State	Total	184777	221319	19	19017785	20801255	9
	Daily average	724	868		74579	81573	

Source: European Central Bank

Since its inception TARGET has formed a benchmark for processing euro large-value payments in terms of speed, reliability, opening times and service level, and has contributed to the integration of financial markets in Europe by providing its users with a common payment and settlement infrastructure. However, the environment in which TARGET operates has changed over time. Technological

developments as well as the fast-moving process of European integration triggered requests from users for enhanced and harmonised levels of service.

Despite this performance, TARGET had a number of shortcomings that stem from its heterogeneous technical design. In view of this, and because of developments such as the enlargement of the euro area, the Eurosystem has built the TARGET of tomorrow - TARGET2. TARGET2 has a single technical platform and features new functionalities designed to meet the needs of financial markets.

In October 2002 the Governing Council of the ECB decided to develop the next generation of TARGET (TARGET2) in order to better meet user needs by:

- providing a harmonised service level with a harmonised pricing structure;
- ensuring cost-efficiency;
- preparing for future developments;
- including the enlargement of the EU and the euro area.

Considering all drivers for change, the Governing Council of the ECB defined the strategic direction for TARGET2 by establishing certain principles for the development of the system.

TARGET2 is the joint gross clearing system of the ESCB that unifies the technical infrastructure of the 26 central (note-issuing) banks of the European Union. It went live on November 19th, 2007. However, Sweden and the UK have elected not to participate in TARGET2 - banks in these two countries will have to use alternative means to make large cross-border euro payments. Indeed, Lloyds TSB, Standard Chartered and HSBC have decided to participate through the Dutch central bank DNB.

The implementation of TARGET2 is based on a decision of the ECB Council of Autumn 2002 and is maintained by the three central banks of France (Banque de France), Germany (Bundesbank) and Italy (Banca d'Italia). For the migration, the following four groups of participating countries have been defined (Table 2).

Table 2. Participating countries to TARGET2

Group 1 19 November 2007	Group 2 18 February 2008	Group 3 19 May 2008
Austria	Belgium	Denmark
Cyprus	Finland	Estonia
Germany	France	European Central Bank
Latvia	Ireland	Greece
Lithuania	Netherlands	Italy
Luxembourg	Portugal	Poland
Malta	Spain	
Slovenia		

Source: European Central Bank

In 2007 the TARGET2 project reached its final phase. The final development work was completed and most of the year was dedicated to testing and migration activities, as well as to finalising the legal framework and addressing remaining business issues. On 19 November 2007 the Eurosystem launched successfully the

single shared platform (SSP) of TARGET2. The launch of TARGET2 saw the connection of the first migration group composed of the national central banks and the respective TARGET user communities in Austria, Cyprus, Germany, Latvia, Lithuania, Luxembourg, Malta and Slovenia. The second group of countries (Belgium, Ireland, Spain, France, the Netherlands, Portugal and Finland) migrated to TARGET2 on 18 February 2008 and the third and final group (Denmark, Estonia, the European Central Bank, Greece, Italy and Poland) connected successfully to TARGET2 on 19 May 2008.

TARGET2 offers a range of new features and characteristics sought by users:

1. *A single technical platform.* Probably the most important innovation is the consolidation of the technical infrastructure. TARGET2 replaces the decentralised technical structure of the TARGET system with a single technical platform, known as the Single Shared Platform (SSP).

2. *TARGET-wide flexible liquidity management services.* Payment system users are increasingly demanding enhanced liquidity management services and liquidity-efficient systems that combine the advantages of both gross and net settlement systems. TARGET2 responds to these demands by offering both state-of-the-art liquidity management tools and liquidity-saving features.

3. *State-of-the-art technology.* TARGET2 applies the latest payment system technology and standards (such as SWIFTNet in the field of messaging) and is undoubtedly one of the most advanced payment systems in the world.

4. *Support of timed payments.* TARGET2 takes the increased time-criticality of payments into account by enabling the submission of timed transactions, such as those needed in the context of Continuous Linked Settlement (CLS).

5. *Integration with ancillary systems.* The main advantage of TARGET2 for ancillary systems (mainly securities settlement systems and retail payment systems) is that they will be able to reach any account on the SSP via a standardised interface.

6. *Strengthened business continuity measures.* TARGET2 offers the highest possible level of reliability and resilience, as well as sophisticated business contingency arrangements which are commensurate with the systemic importance of the TARGET infrastructure.

In TARGET2, all banks in the EU, irrespective of the country they use as access point, are offered the same high-quality services, functionality and interfaces, as well as a single price structure.

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BASIC ASPECTS OF EFFECTIVE BUSINESS WRITING

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ABSTRACT: *The paper starts from the premise that writing for a business context or audience displays specific features of the rhetoric of discourse, being different from writing in the humanities, social sciences, or other academic disciplines. Within the framework of general writing rules, the paper points out the special issues arising in the business context, analyzing the major content and form - related aspects meant to ensure an effective written communication.*

KEY WORDS: *business writing, written message, content, form, tone.*

Business writing is different both from the conversational style often found in email messages to a familiar co-worker, and the more formal, legalistic style found in contracts. In the majority of memos, email messages, and letters, a style between these two extremes is appropriate, because writing that is too formal can alienate readers, overly whereas exaggerated attempts to be causal and informal may seem insincere or unprofessional.

Therefore, the key to effective business writing is knowing the audience it addresses. In other words, before composing a letter, memo or report, we should think about the recipient of the document. The first question to answer when composing the message is *what message am I trying to convey to this person?*, as this enables us to outline a well - organized document, by omitting superfluous details. Another important element of a business document, especially if it contains large amounts of data and dry statistics, is its graphic presentation. Statistics and research sustain your conclusions, especially if they are presented in a visually appealing manner (spreadsheets, graphs and colorful clip art).

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1. CONTENT – RELATED ASPECTS

Focus and Purpose:

In business writing, as in all writing, it is essential to keep the message focused and specific, bearing your audience in mind. Although the major characteristics of business writing are clarity and conciseness, it should not be an endless series of short, choppy sentences. This means that the writer should not be so concise that he becomes blunt. The use of terminology and concepts related to the industry or field is recommended in correspondence of this type, as they prove your specific knowledge and experience relating to the respective field. The questions to answer before starting to compose a written message are:

- What is your document intended to do or accomplish?
- Will the purpose be clear to the reader?
- Can you offer a one-sentence summary of the document's purpose?
- Is your main point stated early in the document?

Audience:

- Do you have a specific and appropriate audience in mind? Can you describe them?
- What is their position? What is your relationship with them?
- How much do they already know about this topic?
- Can you determine what their feelings toward your document will be?
- Have you used language that they will be able to understand?
- Is your tone appropriate for your audience?

Organization:

- Does your document proceed in a logical and organized way?
- Is each paragraph organized around one main idea?
- Can you identify the most important information in the message quickly?
- Is like information kept together?
- For resumes, have you placed your most important or relevant qualifications where they stand out, or have you highlighted them in some way?
- Ask others to read your document and tell you what they think are your most important ideas.

Development:

- Is the order of presentation of the points effective?
- Did you include enough details and examples to support your main point?
- Is it clear by the end of the message what you want the reader to do or know?
- Do you provide enough context for the message or is more background information required?
- Do any paragraphs seem shorter and in need of more material than others?
- Is all the information included necessary?
- Ask someone to read the document and comment if something is unclear and needs more description, explanation, or support.

2. FORM – RELATED ASPECTS

Formatting:

- Are all of the parts of the message included and in the correct position?
- What will be the reader's first impression when looking at the document (before reading)?
- Does the document look attractive on the page?
- Does your document conform to standard business writing convention? Have you placed information in your message where your reader will expect to see it?
- Have you addressed and signed your document appropriately?

Sentence structure, punctuation, word choice, spelling:

- Are there problems that frequently occur in your writing? Keep a list of problems that recur and check for those specifically.
- Read the document aloud to see and hear if there are any missing or wrong words or other errors that you can spot.
- Express it in a concise language, by avoiding vagueness, wordiness, and unnecessary large words. For example, simplify a wordy sentence such as *The hurricane had the effect of a destructive force on the city* with the more precise *The hurricane destroyed the city*.

The Use of Pronouns and the Active/ Passive Voice

The use of personal pronouns is important especially in letters and memos. Do not refer to yourself in the third person by using *one* or *the writer*, as it is more natural and appropriate to refer to yourself as *I* and to the reader as *you*. However, you should be careful when you use the pronoun *we* in a business letter that is written on company stationery, since it commits your company to what you have written. The best choice is to use *I* when you express your opinion, and *we* when referring to company policy.

Another way of achieving a clear, more personal style, is to eliminate overuse of the passive voice. Although the passive voice is sometimes necessary, it often makes your writing not only dull, but also ambiguous, uninformative, and impersonal. On the other hand, the use of the active voice, personal pronouns, and a positive point of view ensure a dynamic message that will keep the reader interested. For instance:

Passive: *It was discovered that the salary totals were incorrect.* [It is not clear who discovered it.]

Active: *The Accounting Department discovered that the salary totals were incorrect.*

Even in scientific writing, overuse of passive voice or its use in long and complicated sentences can cause readers to lose interest or to become confused. Sentences in active voice are generally clearer and more direct than those in passive voice.

An exception to this rule is when the passive voice is necessary to avoid placing specific blame for an error or to making a sentence intentionally vague. For instance, if you are supposed to write a memo describing the disastrous outcome of a mistake that belongs to someone in the company, passive voice will be preferable to

describe the mistake without directly placing blame, especially if the recipient of the memo happens to be your superior in the company or the person who made the error. In this situation it would be tactless to use active voice boldly to describe how your boss erred and, therefore, instead of writing: *Because J. Smith forgot to include the correct budget projections with the bid, we lost the client* try: *The correct budget was inadvertently left out of the client packet, which led to the loss of the client*. The second sentence is a relevant example of a situation when judicious use of passive voice can increase the tact and diplomacy of your writing.

Punctuation and Grammatical Errors

Grammatical and/or punctuation errors, especially in a formal report, can seriously affect your credibility. As most errors are due simply to insufficient proofreading of the document, you must have someone else proofread your document, especially if it is a formal report to be sent to upper management or outside the firm,.

Some errors stem not from lack of proofreading, but from simple grammatical mistakes. The most common mistakes include misuse of apostrophes and commas, using contractions in formal writing, incomplete sentences, ending a sentence with a preposition, verbs not agreeing with subjects and pronouns not agreeing with their antecedents.

Gender-Neutral Writing

The use of gender is nowadays a delicate topic in all fields of human relations, being of tremendous importance in business writing as well. Traditionally, the word "he" included both the female and male genders when referring to an individual's actions. *Everyone should open his report to page 1* was understood to refer to both the women and the men in the room. In today's society, most women take offense at this reference, which determined some writers to use *she* alternating with *he* in their writing. However, this decision hardly solved the problem because, besides being confusing to the reader, such a message became offensive to many men. The best way to deal with this problem is to eliminate the pronoun altogether whenever possible: *Everyone should open the report to page 1*.

Some business writers have suggested pluralizing the pronoun as a solution to the problem: *Everyone should open their report to page 1*. This is common in spoken English, but is grammatically incorrect and, therefore, it is safer to avoid using this form. If it is unavoidable, use *he or she*, which is correct, although somewhat annoying when used many times in the same article.

When you do not know the gender of the person you are addressing in correspondence, the old rule was to write *Dear Sirs*. Obviously, nowadays this is no longer acceptable. Therefore, you should write *Dear Sir or Madam*, or better yet, use the title of the unknown addressee: *Dear Editor*, for example. If you know only the initial and last name of the addressee, address the letter as *Dear J. Smith*.

3. TONE IN BUSINESS WRITING

“Tone in writing refers to the writer’s attitude toward the reader and the subject of the message. The overall tone of a written message affects the reader just as one’s tone of voice affects the listener in everyday exchanges” (Ober 88).

Business writers should consider the tone of their message, whether they are writing a memo, letter, report, or any type of business document. Tone is present in all communication activities. Ultimately, the tone of a message is a reflection of the writer and it does affect how the reader will perceive the message.

Therefore, in order to achieve the appropriate tone for the message, the writer should consider the following questions when preparing to write:

1. Why am I writing this document?

You should consider the purpose of your document in order to determine how you should express the message you wish to convey. Obviously, you want the message to reach your audience, and you will probably want the reader to take some action in response to your message. For example, if you write a job acceptance letter to an employer, you should assume a tone that is appreciative for the offer and enthusiastic about beginning a new job.

2. Who am I writing to and what do I want them to understand?

Whether it is an employer or a fellow worker, it is essential that you consider your reader before writing and adapt the document to your specific audience, as the tone that you use to write the document directly affects how the reader will interpret what is said. For example, if you write a cover letter for a position as a Sales Representative for a newspaper, it is advisable to replace such unconfident phrases as: *I hope that you will contact me* or *I know that my qualifications are not very impressive, but...* with ones that sound more confident and self-assured.: *You can reach me at...; I look forward to hearing from you; My qualifications make me an excellent applicant for this position.*

3. What kind of tone should I use?

Fortunately, you can use the same kind of tone for most business messages. "The business writer should strive for an overall tone that is confident, courteous, and sincere; that uses emphasis and subordination appropriately; that contains nondiscriminatory language; that stresses the "you" attitude; and that is written at an appropriate level of difficulty" (Ober 88). The only major exceptions to these guidelines are when you need to write a negative business message, such as when you deny a job offer or a customer request.

The general guidelines to keep in mind when considering what kind of tone to use in business writing are:

- **Be confident.** You can feel confident if you have carefully prepared and are well – informed about the material you present. In order to make the document effective, you must write confidently, as a confident tone will have a persuasive effect on your audience. The reader will become more inclined to accept your position, and will notice the confidence that you have. On the other hand, employers are inclined

to hire individuals that appear confident and sure of their abilities. However, this does not mean that you should appear overconfident, for you could easily be interpreted as arrogant or presumptuous. For example, replace *You must agree that I am qualified for the position* with *My qualifications in the areas of accounting and customer service meet your job requirements*.

- **Be courteous and sincere.** It is important to write in a sincere tone because without sincerity, politeness can sound condescending. Remember that if you are respectful and honest, readers will be more willing to accept your message, even if it is negative. Therefore, instead of: *You didn't read the instructions carefully, thus your system has shut down*, try: *The system may automatically shut down if any installation errors occur*.
- **Use nondiscriminatory language.** Nondiscriminatory language is language that treats all people equally by not using any discriminatory words, remarks, or ideas. It is very important that the business writer should communicate in a way that expresses equality and respect for all individuals. That is why you should make sure your writing is free of sexist language and of bias based on race, ethnicity, religion, age, sexual orientation, and disability. In this sense, you should:
 - use neutral job titles - not: *Chairman*, but: *Chairperson*;
 - avoid words and phrases that unnecessarily imply gender. Replace: *Executives and their wives* with: *Executives and their spouses*;
 - omit information about group membership. Not: *Jane Smith performed the job well for her age*, but: *Jane Smith performed the job well*;
 - use a nonsexist salutation if you do not know a reader's gender: *To Whom it May Concern*;
 - avoid using masculine pronouns. Instead of: *Each student must provide his own laboratory kit*, choose: *Students must provide their own laboratory kit*, or *Each student must provide his or her own laboratory kit*.

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ANALYSIS OF THE RELATIONSHIP BETWEEN THE ROMANIAN EXPORTS AND IMPORTS

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ABSTRACT: *In the last years, the Romanian economy experienced significant foreign deficits after the surpluses achieved in the periods of communist regime. The continuation of this evolution could affect, in the future, the macroeconomic stability. In this paper we study the relationship between the Romanian exports and imports in the period of time January 2004 -July 2008. For this purpose we use the Engle-Granger cointegration test. We found the existence of a cointegration relationship between exports and imports. However, this is not enough to sustain the foreign deficits since the imports grew faster than the exports. This situation imposes certain changes in the macroeconomic policy.*

KEY WORDS: *Exports, Imports, Cointegration, Emerging Markets, Romania*

1. INTRODUCTION

In the last decades the Romanian international trade experienced a complex evolution. In the 1980s, faced with the foreign debt crisis, the communist regime implemented radical measures to increase the exports and to decrease the imports. Consumption goods were exported massively, the population being deprived. The state enterprises with export activity were favored and special institutions for exports coordination were created. In the same time the imports were reduced significantly. After the fall of the communist regime the exports decreased considerably, arriving at the beginning of 1990s at almost half of the level from 1980s. Many factors influenced this evolution. It was given up the export of the goods necessary for the population consumption. Most of the markets from the former socialist countries were lost.

It was eliminated the system of the state enterprises exports coordination. Because of the transition difficulties, those enterprises reduced significantly the

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production. The imports also decreased because of the industrial production and consumption decline. In the second half of the 1990s, in the context of the industrial production recovery and of the reforms progress, the exports increased, coming close of the level from the communist regime period. The development of the foreign direct investments and of the economic relations with the European Union facilitated the ascending trend of the exports, arriving in 2000s at surpassing the level from 1980s (see Figure 1). However, the imports increased with a bigger rhythm than the exports so that significant trade deficits were registered.

The European Union adhesion changed significantly the circumstances of the Romanian foreign trade. The costs of transactions with the European partners decreased, offering new opportunities for the Romanian companies that export in Europe, but leading to the imports increase. In the period that followed the adhesion, the foreign trade deficit decreased and if this evolution continues the macroeconomic stability could be jeopardized.

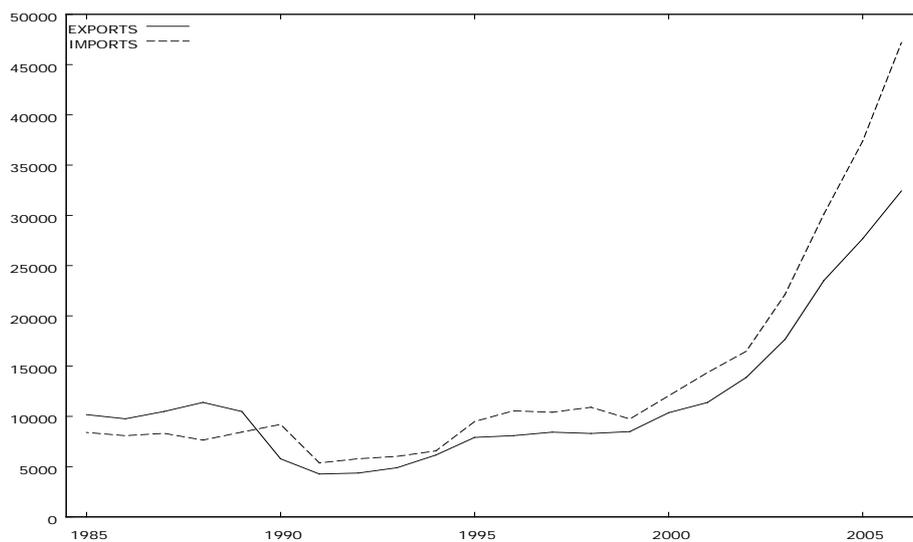


Figure 1. The Evolution of Romanian Exports and Imports (millions USD) from 1985 to 2006

2. THEORETICAL FRAMEWORK

The relation between exports and imports was largely approached in the foreign trade literature. Tang (2005) found a long - run relationship (cointegration) between the Malaysian imports and exports for the annual period 1959 – 2000 [4]. Naqvi and Morimune (2005) used cointegration technique to investigate the long run convergence of exports and imports for Pakistan’s economy [3]. Tang (2006) investigated the foreign trade of twenty – seven “Organization of the Islamic Conference” member countries and he found that for nine of them the cointegration relationship between exports and imports was verified [5]. Herzer and Nowak –

Lehmann (2005) provided evidence that Chilean exports and imports are cointegrating [2]. Erbaykal and Karaca (2008) found the existence of a cointegration relationship between the Turkey's imports and exports [1].

3. DATA AND METHODOLOGY

As a starting point of observation used in our analysis we chose January 2004. The year 2004 could be considered as a turning point in the Romanian international trade evolution. The economic growth was significant and both imports and exports increased sharply. The commercial relations with EU were amplified and the foreign direct investment experienced a significant development. Because of the relative short period of time we use monthly values of exports and imports provided by NBR. Both exports and imports were measured in millions of dollars. We transformed these values by using January 2004 as a base month and then putting them into logarithmic forms. Two variables resulted: l_EXPZ expressing exports and l_IMPZ expressing imports.

The cointegration between two variables can be observed by time series plots. For a more accurate study the Engle-Granger cointegration test with three steps could be used. In the first step, the Dickey Fuller test is performed for each variable to verify if they have unit roots. The second step consists in estimating a cointegrating regression using least squares procedure. In the last step Dickey Fuller test runs on the residuals of the cointegration regression. The two variables are considered as cointegrated if two conditions are fulfilled: the two variables have unit - roots; the residuals of cointegrating regression do not have a unit root.

The evolution of two cointegrated variables could be analyzed in the Vector Error Correction Model (VECM) framework which allows quantifying the responses of the unit shocks.

4. EMPIRICAL RESULTS

We begin by studying the cointegration between the two variables. By visual inspection of the time series plots it is obviously that both l_EXPZ and l_IMPZ trend upward (see Figure 2). We define the two other variables: d_l_EXPZ as first difference of l_EXPZ and d_l_IMPZ as first difference l_IMPZ . These new variables appear to wander around some constant amounts, implying that we could use the Augmented Dickey Fuller (ADF) tests regression for the two variables that should contain constants but not time trends. We continue the cointegration analysis by applying the Engle-Granger procedure. In the first step we run ADF tests of the null hypothesis that each variable has a unit root. We chose to use a constant and two lags. Based on the results presented in Table 1, we could consider that the both l_EXPZ and l_IMPZ have unit roots.

In the second step we estimated the cointegrating regression between l_EXPZ (considered the dependent variable) and l_IMPZ (considered the explanatory variable).

The parameters of this regression, presented in the Table 2, indicate a strong relation between the two variables.

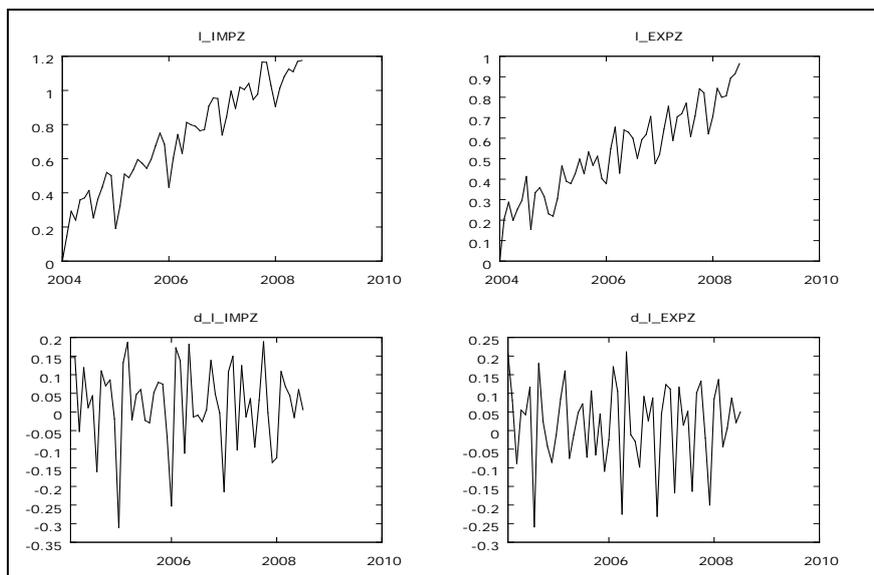


Figure 2. Time series plots for l_EXPZ , l_IMPZ and their first differences

Table 1. Results of testing unit root hypothesis for l_EXPZ and l_IMPZ

Augmented Dickey-Fuller test, with constant, lag order 2	l_EXPZ	l_IMPZ
Sample size	52	52
unit-root null hypothesis	$a = 1$	$a = 1$
estimated value of $(a - 1)$	- 0.0358577	- 0.0555529
test statistic: $\tau_c(1)$	- 0.498391	- 1.09023
asymptotic p-value	0.8892	0.722

Source: Authors' calculation based on data from NBR

In the last step we performed the ADF test on the residuals from the cointegrating regression. The results, presented in the Table 3, indicated that residuals did not have a unit root.

The Engle-Granger procedure proved the two variables were cointegrated. Based on this assumption, we performed a VECM analysis of the interrelations between l_EXPZ and l_IMPZ. We used dummy variables in order to reflect the seasonality of the two variables and maintain the two lags. Because of the reduced number of observations, this analysis could not have a substantial accuracy. However, based on visual inspection of the impulses responses, we could consider that exports and imports are mutually influenced (see Figure 3).

Table 2. Parameters of cointegrating regression

Variable	Coefficient	Stderror	T stat	P-value
const.	0.0474609	0.0232354	2.043	0.04608 **
l_IMPZ	0.680060	0.0301898	22.526	<0.00001 ***
Unadjusted R-squared	0.905429			
Adjusted R-squared	0.903645			
Durbin-Watson statistic	1.70645			
First-order autocorrelation coefficient	0.120619			
Akaike information criterion (AIC)	- 138.134			
Schwarz Bayesian criterion (BIC)	- 134.12			
Hannan-Quinn criterion (HQC)	- 136.582			

Source: Authors' calculation based on data from NBR

Notes: *** and ** denote significance on 1 percent and 5 percent, respectively.

Table 3. Results of testing unit root hypothesis for residuals from the cointegrating regression

Augmented Dickey-Fuller test, with constant, lag order 2	Residuals
Sample size	52
unit-root null hypothesis	a = 1
estimated value of (a - 1)	- 1.173
test statistic: tau_c(1)	- 4.6789
asymptotic p-value	0.0005776

Source: Authors' calculation based on data from NBR

5. CONCLUSIONS

In this paper we approached the relationship between Romanian exports and imports. Using the Engle-Granger procedure we found the two variables were cointegrating. We could speculate this relationship is caused by the significant role played in the Romanian economy by the foreign direct investment. Many of the investors import raw materials and export their production.

However, this relationship is not enough to sustain the foreign deficits. The evolution of the two variables in the last year indicates that exports grow slower than the imports. In these circumstances, the macroeconomic policy has to be more effective in order to achieve the external equilibrium.

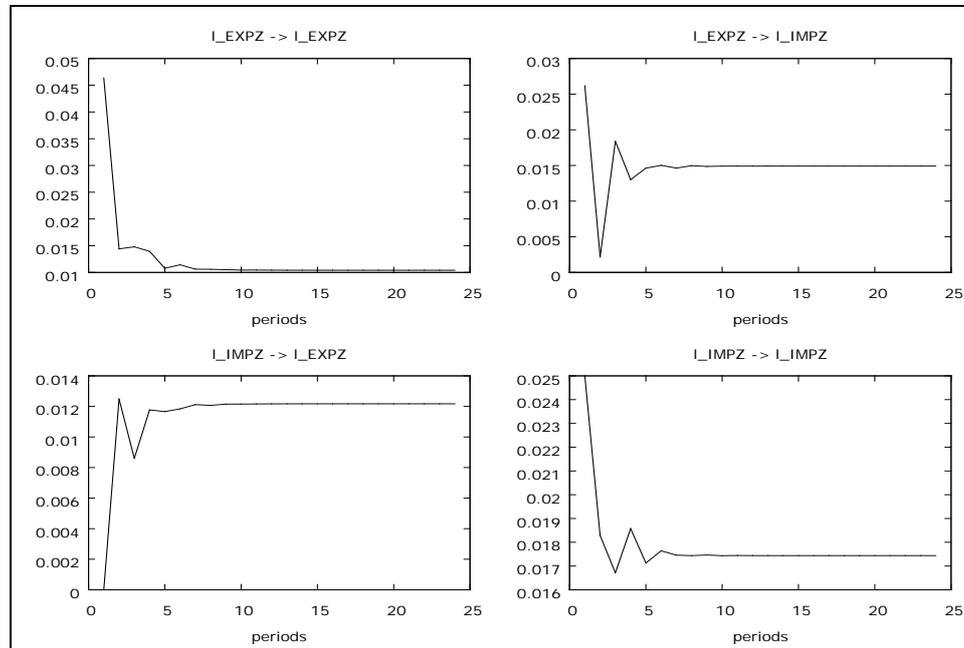


Figure 3. Combined impulses responses of the two variables

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CAREER MANAGEMENT IN MODERN COMPANIES – METHODOLOGICAL ASPECTS

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ABSTRACT: *Over the last period, the literature specialized in management reports a fundamental paradigm transfer as far as the role of human resources goes in the functioning of the modern organization system. Career management represents a complex process of planning and accomplishing personnel objectives and strategies which enable the company to answer its own internal needs regarding the use and the development of human resources; on the other hand it encourages employees to take control of their own development in order to maintain and enhance their employability. Professional development and training of employees, followed by professional evaluation and promotion based on reasonable criteria of human resources make use of some elaborate methodologies due to their major contribution in reaching the objectives of an efficient career management. This paper reviews all the acknowledged methods and techniques but also the most modern approaches applied successfully in career management.*

KEY WORDS: *career management, method, technique, human resources management, professional development, improving professional development, training programmes, staff evaluation, career advancement.*

Although common language is most frequently used, the word career has multiple meanings so that there is no definition which should be unanimously accepted. The most usual senses of this word in specialized literature are the following [17]:

- *Career = promotion*, which is considered to be synonym with the promotion within a company or a professional hierarchy;
- *Career = occupation*, which includes some specific occupations (managers, the military forces, teachers, doctors) while other occupations are considered just “jobs” (salesmen, workers, nurses, etc.);

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- *Career = a series of professions during the lifetime*, in other words the general progression of an employee in his professional life;
- *Career = the total of one's life experiences*; this definition personalizes the concept of career because it relates it to particular activities and experiences of each individual;
- *Career = personal perception of the series of attitudes and behaviours*, associated with the experiences and the activities which accompany the worker's professional life. This approach holds a second place among the objective and the subjective conceptions regarding career, but it does not provide references concerning the professional progression of a person;
- *Career = a dynamic environment in which a person imagines his whole life*; this definition analyses and presents the significance and the consequences of different personal qualities, attitudes, actions and experience a person has gone through. This is a subjective approach of the career concept which widens the horizon of personal experiences of an individual during his lifetime (professional or non-professional).

This index of definitions regarding the career concept emphasizes the opinion according to which many specialists have tried to make the necessary difference between an *objective career* implying the development of human resources and as a consequence, their promotion, and a *subjective career* concerned with the personal filter of each individual to perceive the role of professional activities during the course of life.

In this context, *career management* represents a complex process of planning and accomplishing personnel objectives and strategies which enable the company to answer its own internal needs regarding the use and the development of human resources; on the other hand it encourages employees to take control of their own development in order to maintain and enhance their employability. As a consequence, career management takes place at the junction of organizational planning and individual professional development of human resources, being able to bring together in an inter-functional manner, both the objectives of the company and those of its employees. Under the circumstances, professional development and training of employees, followed by professional evaluation and promotion based on reasonable criteria of human resources become highly important due to their major contribution in reaching the objectives of an efficient career management.

Professional development is the process through which employees attain the knowledge, abilities and skills necessary to maintain and improve professional competence, enhance career progression.

Closely related to professional development, human resource specialists have shown lately a great interest in improving professional development. This orientation is legal if we consider the results of recent specialized studies which reveal that during the current phase, that of "information revolution", the magnitude of the technical progress and the avalanche of information determines the deterioration of school knowledge attained in such a short period of time, less than a decade [15].

Improving professional development is an informatory activity by which members of professional associations maintain, improve and broaden their knowledge and skills and develop the personal qualities required in their professional lives and imposed by scientific and technical progresses and their rapid assimilation in practice [17].

The planning and unreeling of professional development and training of human resources is subject to a strict methodology within big and medium size enterprises which implies, in its essence, the following steps:

- *Identifying the learning needs and development of employees*, through some various means and instruments that are able to indicate both individual requirements and collective ones on general level within the organization: evaluating the worker's activity and behaviour, the interview, investigating work teams, consulting the annual evaluation reports, filling in control lists which give workers the possibility to choose their themes of interest among a series of various alternatives incorporated in future professional development programmes, turning to external consultants specialized in professional development and training problems who use a wide range of specific methods and techniques (questionnaires, debates, investigations, etc.) in an inter-dependent manner;
- *Elaborating the plan and programmes for professional development and training of human resources* which should encompass precise objectives, rigorously delimited in time alongside with concrete ways of reaching them, as well as organizational details related to the length of the forecasted actions and their location, the techniques used, the specialists and the employees involved in these actions, etc. It is worth mentioning that the actions for implementing professional development programmes can be organized within the organization, outside the organization or in a mixed environment which includes the precedent locations. The specialized literature acknowledges the important role played by external agents (teaching institutions, specialized training organizations, research institutes, etc.) in maintaining and enhancing the professional competence of employees, but also draws the attention upon the risks implied by exclusive dependence on external organizations during this process. Moreover, the importance of attaining skills and pragmatic knowledge in order to improve human resources on the job, makes out a case for the main role played by professional development programmes organized within the organization in a larger context of requirements characteristic of an efficient career management;
- *Carrying out professional development and training programmes* is the most important actions which covers the professional requirements of companies. It encompasses various types of facilitated learning opportunities, obviously based on the competence of trainers and human resource specialists who plan and perform such activities within or outside the company. During this stage, the training themes and methods are being chosen, as well as their coordination methods, paying attention to the active forms of training, etc.;

- *Controlling and evaluating the implemented programmes*; this action consists in comparing the results obtained from the implementation of these programmes with the estimated objectives, thus establishing the level of efficiency of each development and training action. This continuous control enables its corrective function (applied during the programme) and its certifying function (applied at the end of the programme when it is possible to test the level of knowledge of the participants). However, the sphere of control should be enlarged so that it could be performed after the programme as well, when it is possible and necessary to quantize the economic effects registered on individual and on company level. Thus, identifying and observing the changes registered on some efficiency indicators level such as labour productivity, the quality of products, reduction of production costs, may be relevant for the feed-back and could be improved in the future training processes. As far as specialists and managers who attend training programmes are concerned, their post-factum evaluation is based on some incommensurable aspects (such as creativity, the ingenuity of applied solutions, managing abilities, etc.) which influence, eventually, the improvement of the organization's performances.

The results obtained from implementing development and training programmes are highly conditioned by the methods and techniques used in this process. In table 1 there is a synopsis of the most frequently used instruments (among the classical and the modern ones); we must note however, that this list is not the fruit of a laborious research, and this continuous preoccupation to look for new methods and techniques must be regarded as a natural display of creativity in this field, generated by the need to enter the line of coordinates of changes within the environment of the company.

Human resource management practice has revealed the superiority of active professional development and training methods as compared to the traditional ones; as a consequence they prove to be more efficient in the following situations:

- The content of the programme is closely related to the characteristics of the activity carried out within the organization by each employee;
- Both direct hierarchical managers and part of the staff under their management are interested in solving the problems which are brought up;
- Trainees have the opportunity to implement and to put into practice all the knowledge, skills and abilities that they have learned;
- Trainees experience greater work satisfaction which stimulates them in thinking of and applying new methods and knowledge in their jobs;
- Trainees make the correspondence between using some assimilated elements in the training processes and the activities included by reaching the objectives in the subdivisions/departments they work in.

Taking into consideration all these and other facts that can influence the magnitude of concerns to improve the employees' level of competence, career management should be oriented towards identifying the solutions which favour the development of individual performances simultaneously with the improvement of the efficiency of activities carried out by the organization.

Table 1. Methods and techniques used in human resource development and training programmes

No.	Method, technique	Main characteristics
1	Professional development on the job	High efficiency, ensuring rapid progresses; It can also be applied in the case of leaders from the base of the hierarchical pyramid; The immediate feed-back stimulates positive aspects and corrects negative ones; The implementation period varies according to the complexity of the activity performed.
2	Job rotation	Allows employees to gain more insights into the processes of a company; It reduces boredom and increases job satisfaction through job variation.
3	Group training	Encourages teamwork; Encourages experience changes among members of the group; Encourages taking individual responsibility for team/collective objectives; Applicability in the case of young employees.
4	Attending residential courses	It teaches new things and skills, as well as it helps employees adapt to new positions and conditions; It widens the pragmatic and cognitive horizon; It encourages comparisons and reflections; It involves specific tasks within the organization.
5	Going on study visits	It stimulates the transfer of production methods and techniques, organizational solutions, managerial methodologies etc. ; It gives an insight and provides direct analysis of the efficient solutions implemented in other companies; It helps making practical comparisons and analyses.
6	Evening classes, weekend classes or distance learning	This method implies great effort from its members who have a job with the company and at the same time they need to enter an educational programme; It offers theoretical knowledge which later can be applied by participants in practical activities within the company; It encourages participants to think of new practical ideas and solutions by taking part in company discussions.

7	Taking part in courses and debates	<p>It concentrates on presenting traditional knowledge followed by an active participation of the members in conversations related to the analyzed subjects;</p> <p>The possibility to generate new ideas or to develop some classical theoretical concepts;</p> <p>It combines efficiently the traditional conception with the modern one regarding development and training procedures.</p>
8	Brainstorming	<p>It is an active training method;</p> <p>It encourages the exchange of ideas among specialists who run the debate and its participants;</p> <p>It takes place in a relaxing atmosphere, favorable for emulation;</p> <p>It simulates the generation of new ideas by betting all group members actively involved in discussions.</p>
9	Case study	<p>Members are required to study and provide a point of view regarding a real situation;</p> <p>The ideas supplied will be analyzed in an active environment of a group debate presided by a promoter;</p> <p>Improvement in the staff's qualities is revealed by: communication abilities, the ability to analyze, to place a diagnostic and to find viable solutions, managerial abilities, the capacity to work in a team etc.</p>
10	Simulation	<p>It is a more complex active method than the previous one in which participants are faced with practical situations being asked to make decisions, to perform analyses, to fill in papers and to take actions just like in the real professional life;</p> <p>It develops: the ability to identify the problem, to make an analysis, to place a diagnostic and to find solutions, the managerial abilities, training abilities etc.</p>
11	Business games	<p>It creates real, complex situations regarding the activity of the companies that require consecutive decisions and actions from the members;</p> <p>It is a dynamic simulation which requires that players should solve some complex situations that can be analyzed following classical procedures or with the help of computers;</p> <p>It provides quick training due to some consecutive experiments which can be done repeatedly (this might take longer in the real company);</p> <p>It has a sharp projective characteristic;</p> <p>It develops: a multi-criteria capacity of analysis, a systematic vision over the company's activities, the ability to forecast; creativity and the ability to find appropriate solutions to complex situations; the necessary strictness in coordinating and analyzing the symptoms and the causes of each problem; managerial abilities; decision implementation abilities, etc.</p>

Staff evaluation represents the set of processes directed towards identifying staff members' qualifications, taken individually as occupants of certain job positions in order to determine the way of achieving the goals and fulfilling the designated tasks, the reward and sanction methods, of establishing professional training priorities and advancement perspectives [9].

Staff evaluation implies going over the following steps [17]:

- *job description*, which means that the manager and the employee should agree upon the goals, tasks, responsibilities and competences necessary for that certain position, as well as upon the performance standards regarding the results obtained;
- *performance evaluation* determines whether employees correspond to their job description by comparing actual performances with the standards established during the previous stage; as a rule, this phase is a formal one when the manager is responsible for preparing an assessment report on each employee who undergoes performance evaluation;
- *the feed-back* is done during a meeting or a debate session between the evaluation committee and the employee and a majority decision is thus taken on whether or not the employee's performance adequately meets his job requirements, as well as on possible future professional trainings.

Whether these human resource evaluations are reliable and objective is largely dependent on the **methods and techniques** used for the assessments. They fall into two different categories according to their relevance: *general methods and special methods*.

General evaluation methods can be used in assessing any employee of the company, regardless of his/her position. This category includes: marking, global assessment and functional assessment.

- *Marking* consists in attributing a mark representing the way the employee accomplishes his/her duties on the job.
- *Global appreciation* synthesizes the main qualities, knowledge, behaviour, especially within the employee's job and performances. It is shown in grades: very good, good, sufficient, poor.
- During *the functional appreciation* managers use standards and requirements associated with the positions as a starting point in their evaluation performance, which are then compared to the sum of qualities, knowledge, skills and behaviour of the assessed workers. The comparative examination underlines possible conformities or incompatibilities.

The second type of methods is used for specific personnel category: leading boards and high-qualified specialists. Among the most used special methods we list the following: the case, self-evaluation tests and evaluation centres.

As an evaluation method, *the case* implies setting up an assessment committee that analyzes the activity of the assessed employee, usually regarding a major decision concerning his/her professional development. The evaluation committee is made up of 5-7 members, among whom the direct hierarchical leader of the employee being evaluated must also be present, together with other specialists from the human resource department. The evaluation process implies three different stages:

- gathering preliminary information on the assessed employee, on his/her behaviour, on past activities and results, etc.;
- *the interview* consists of questions asked in such a manner that the employee must provide detailed answers regarding his future goals, his potential, his favoured professional development orientations, etc.;
- an *information analysis* is carried out in order to give the final evaluation statement.

Members of the committee will write down their own opinions and conclusions drawn from the assessment stages mentioned above, thus making the final profile of the employee based on discussions among committee members. Beyond the fact that it is strict and time-consuming, the case as an evaluation method has several advantages such as objectivity and a multilateral characteristic which helps making correct and fair decisions regarding the career of the evaluated person.

The evaluation test method implies filling in a series of tests elaborated according to the descriptions of the positions occupied by employees; by filling these in, some relevant elements which help in characterizing the employee's performance will be outlined. The final appreciation is made by assessing managers by comparing the tests with standard results or by placing the obtained mark into the evaluation grid which was elaborated together with the set of tests.

Evaluation centres must not be considered a singular assessment method; on the contrary they should be viewed as a specialized evaluation system which includes in its structure the organizational implementation formula. On principle, this system suggests the evaluation of the employee over a period of time between 3 and 5 days, using a set of specific evaluation techniques: case studies, individual papers, psychological tests, group talks, managerial games, lectures on some management problems within the company, etc. assessors fill in the assessment reports with information whether the employee meets the requirements; the final evaluation will be made after the confrontation of the main conclusions reached by each member of the committee. This system has been successfully implemented since the 7th decade of the past century. Thus, according to the data supplied by the American Marketing Association (AMA), approximately 15.000 people undergo annually this evaluation procedure in the USA.

This classification does not make use of the wide range of alternative methodological approaches which can be applied in human resource evaluation within modern enterprises. Thus, *according to the elements taken into consideration in filling*

out the assessment we have: *methods based on characters, methods based on behaviour and methods based on results* [17].

Methods based on characteristics use the principle that outlines the importance of qualities of the people assessed in relation with the job description when filing out the general evaluation reports. This category encompasses:

- *a classification chart*, which includes a series of potential characteristics that could be attributed to the evaluated persons. For each characteristic there is a certain scale and the appraiser assesses the level of that particular feature of the employee by placing it on that scale. The final assessment must summarize the appreciations for each feature on the scale;
- *the mixed standard scale* is a rating format which consists in three possible descriptions of each feature: high, medium and inferior, corresponding to the employee's level of performance;
- in *the essay method* approach, the manager prepares a written statement about the profile of the employee being appraised, starting from his qualities and competences, and in the end suggesting courses of action for his future career. The process is subjective and, in consequence, it is most often used in combination with other evaluation techniques.

Methods based on behaviour start from the principle that the employee's features are irrelevant for his/her evaluation; therefore the real display of these characteristics, his behaviour on the job respectively, should be analyzed. The most representative technique in this respect is the *behaviour scale*. This scale observes the possible extent of certain behaviour. As an observer (being "the judge" is a much objective position), the assessor can provide the employee with a very useful feedback in order to develop new behaviour performances in his future activities.

Methods based on results encourage the principle according to which the results obtained by workers during the human resource evaluation are very important because the employees' characteristics and behaviours on the job are relevant only in case they result in great performances. For example, labour productivity is an activity efficiency evaluation indicator which can be used in assessing workers in different fields of activities; similarly, the volume of sales obtained over a certain period of time supplies important data regarding the performances of the employees within a commercial company, etc. Head managers of medium size and big companies are frequently evaluated based on profits or the turnover rates, etc.

It is obvious that each of these methods can prove efficient in a certain organizational context. Choosing the adequate evaluation method in relation with the job being analyzed, the decisions that must be taken and the characteristics of human resources within a company are very important for career management.

Career advancements consist in a set of decisions which gives some employees the opportunity to occupy positions with higher responsibilities, or to have higher ranks on the same job.

Generally, *the criteria* used for career advancements coincide with the ones taken into consideration in the recruiting process: education, length of service, previous positions, personal qualities, knowledge, skills and abilities. There are three major tendencies regarding the method of combining and implementing advancement criteria in career management within contemporary enterprises:

- *Advancements according to age and length of service.* Based on this principle, experience built in the long run represents the only element which could automatically bring about the improvement of the employees' performance rates and of their qualities, skills, behaviours necessary in carrying out activities on the job. The human resource practice of the last decades strongly disagrees with this hypothesis; it is also the reason why human resource managers have decided to rule out this principle from the categories of orientation which form personnel strategies. In addition, advancements based on age and length of service have proved unstimulating and they have often caused tensions among various staff categories; therefore, it is obvious why Japanese companies – considered, until recently, true symbols of conservatism – operate radical changes among the conceptions referring to personnel advancements;
- *Advancements according to performances* imply the use of quantifiable criteria, based on previous performances of the person being evaluated. This point of view overcomes the disadvantages of the previous tendency, due to the fact that advancements according to measurable performances do not generate conflicts, on the contrary they stimulate employees to increase their efficiency in carrying out current activities. The promotion based on performance brings out the Peter Principle which says that “in a hierarchy every employee tends to rise to his level of incompetence. That is to say that employees are promoted so long as they work competently. Sooner or later they are promoted to a position at which they are no longer competent, the requirements of the position he occupies go beyond his potential. No doubt that the higher-ranking positions occupied by employees who do not possess the necessary skills to carry out his duties and tasks have a unbeneficial long term effect over any company;
- *Advancements according to potential* follow as a major criterion the set of qualities, knowledge, skills and abilities of the employee which can not be statically evaluated, but due to a dynamic vision which takes into consideration their probable evolution. In other words, employees who beside the present qualities – professional competence, open-mindedness, effort resistance, adaptability, forecasting abilities, etc – prove to have the necessary potential for higher-ranking positions, have priority when it comes to promotions. This promotion principle is implemented by a growing number of human resource managers from modern companies and it represents the most important headstone of an efficient career

management. It is worth mentioning the several advantages that reveal the superiority of this promotion principle in relation with the previous ones: it stimulates quick professional development; it encourages special talents; it creates and maintains a competitive environment for employees, having immediate effect upon increasing the human resource creativity; it improves social dialogue within the company, etc.

Since promotion means occupying a job or a position which requires higher competence and more responsibilities, it is usually accompanied by moral and material satisfactions. However, advancements and career planning are decisions which concern both the individual and the company he works for. Thus, the employee is the one who needs to identify his aspirations and abilities, also assessing the necessary efforts put into development and training. In its turn, the company must define the opportunities and the requirements within the human resource field, must manage the staff and it must supply the appropriate information and environment for developing a suitable career.

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CONSIDERATIONS REGARDING THE CAUSES AND CONSEQUENCES OF LABOR EXTERNAL MIGRATION

ALINA FLEȘER *

ABSTRACT: *The phenomenon of labor external migration is a very complex and topical one; it is determined by multiple causes, and it determines, at its turn, a series of consequences that can have positive or negative effects upon for the origin country of the emigrants. Under such circumstances the paper targets to approach and analyze this phenomenon by emphasizing its main forms as well as its causes and effects.*

KEY WORDS: *labor, external migration, emigration, immigration*

Labor international migration represents the process of labor movement from one country to another with a view of deploying an activity outside the origin country; those who migrate are going to be remunerated by natural or juridical persons or by international organisms for which they deploy those activities. [1]

Labor migration always existed to a quite significant quantitative and qualitative extent as a result of the influence of a series of objective and subjective factors that nowadays directly interfere with the components of the process of globalizing. Labor external migration represents both an explaining factor of durable development and an effect or result of it, relying upon individuals' natural desire to increase their incomes and improve the quality of their life through changing their jobs outside the borders of their present residence; consequently, such circumstances can determine the increase of the Gross National Product and durable development.

Accordingly, external migration is determined, on the one hand, by the demand of labor in developed countries that witnesses deficits of certain activities belonging to the productive filed and services, and, on the other hand, it is determined by the labor surplus of developing countries under the circumstances of insufficient incomes per inhabitant.

At present, external migration can have various forms, such as: [4]

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- **Definitive migration**, in connection with which one can identify the following:
 - *Emigration* which represents the form of migratory movement having a definitive character that compulsorily implies residence/address change and optionally citizenship renunciation;
 - *Immigration* that, at its turn, has a definitive character and implies definitive departure from the origin or residence country.
- **Temporary migration** mainly occurs with a view of studying (continuation of studying, specialization, etc.) and work (in order to get a job). One can focus upon two concepts in connection with these two forms of temporary migration, namely:
 - *Brains circulation* that concerns individuals (pupils, students, students attending master and doctorate courses) who study or attend various specializing courses abroad. As a rule, a part of these individuals do not return to their origin country anymore. Accordingly, for the origin country “brains migration” represents a significant loss of highly qualified human capital. The individual’s impossibility to fulfill in the origin country directly reflects in the quality and durability of economic growth; at the same time, for the hosting country this is an easy and cheap manner of increasing its own competition characteristics and of covering, with low costs, the deficit of highly qualified labor developed countries have to face lately.
 - *Migration during determined periods of time, temporary migration* (an average of up to 5 years), *work migration* officially take place according to the mutual agreements between Romanian State and other states, either through the Office for Labor Migration (OMFM), or through various specialized companies that provide services of recruitment and employment mediation as well as of drawing up labor contracts abroad. At the same time, out of various reasons, an important segment of non-controlled (illegal) migration has also developed. Such persons represent an economic and social risk; they permanently supply labor parallel market (underground labor) leading to the favoring of illicit activities.

According to the manners labor external migration takes place, the forms it develops, the persons it implies can be conventionally framed within one of the situations displayed in the table 1.

We also support the hypothesis according to which the knowledge of all the elements that determine tensions on labor market also provides action coordinates with a view of determining a more efficient administration of the labor market – at a regional level, at the level of an economic branch or at the national economy level -, having as a priority goal employment. [3]

Accordingly, in case we refer to Romania’s condition, the finding out of a job outside the country’s borders represented, after 1989, an exploration having both geographical connotations and, especially, social connotations for most of the citizens. It has implied strategies, risks, accumulations, and resources consumption in order to enter a different world, most of the time far and unknown.

Table 1. The pattern of labor external movement

	Job place = residence place	Job place ≠ residence place
Worker of a foreign company in the origin country		Detached worker
Worker of a company in a different country	Migrating worker or, according to the circumstances, immigrant	Trans-borders worker
Independent worker	Residence place	Services supply abroad
Services company	Residence place	Services supply abroad

Source: *The Free Movement in the Context of Enlargement, Information Note, 6th March 2001*

The process has been a searching one:

- Through exploring different national spaces from one period to another;
- Alone or, most often, with the support of close relatives, friends, acquaintances;
- Through legal, illegal or half legal ways;
- With breaks and coming backs in order to identify work opportunities, economic and social success abroad.

Work abroad represents an important source of income for quite a large part of the population. Nowadays, one of ten Romanian households benefits from external migration incomes.

According to the Foundation for an Open Society that has made public the results of the research entitled “Temporary Living Abroad. Romanians’ Economic Migration during 1990-2006”, more than one third of the country’s households, that is about two million and a half, have had, at least, one of its members abroad after 1989; at the level of individuals, the share of those between 18 and 59 years old having worked abroad after 1989 represents 12%. The intensity of the phenomenon increased especially after 2002 with Romanians’ free circulation within Schengen space. At present, the phenomenon of temporary leaving for work abroad is about three times higher than in 2002.

At present, Italy and Spain are the main destinations of the Romanians who work abroad. During the last years, 50% of the work leavings abroad have been for Italy, and 25% for Spain.

Unofficial statistics show that about a million Romanian persons live in Italy; the leaders of Romanian associations say that the real number is a million and a half. Of these only about 300 000 have official papers. (*permessi di soggiorno anuali or permanenti*).

Moldavia, Wallachia and Oltenia are the historic regions where temporary work migration prevails as compared temporary leaves for tourism or visit, more frequent in the South – Western part of the country, Transylvania, Dobrogea and Bucharest. *“Moldavia becomes the main migration accumulation. Things happen as if the secular flux from Moldavia towards the South – Western part of the country, Brasov and Bucharest would have been interrupted at the beginning of the 90s’ in order to move towards Italy, after 2001”*, Professor of sociology Dumitru Sandu asserts. This is most obvious in case we notice the fact that the region of Moldavia (namely the North-Eastern region) detains a leading place regarding poverty rate, unemployment rate, and living standard.

Buildings, in case of men (98% have, at least, worked once in this field), housekeeping, in case of women (88%), and agriculture (72% men and 28% women) are the main fields where Romanians are employed abroad. Illegal practice of an occupation is extremely high in case of housekeeping and agriculture employment in the targeting country. *“The prevailing model is the one where the migrant searching for a job has already had a relative at destination. This relative “fixes”, most often illegally, a job for the relative in the origin country”*, Dumitru Sandu asserts. The share of those who have clandestinely worked is growing from 34% during the period 1990 – 1995 to 53% after 2001.

Accordingly, when trying to speak in general terms, one can state that the **causes of external migration** having the highest frequency refer to:

- Economic recession, unemployment, low incomes, inexistent career opportunities and perspectives;
- Poor, unsatisfactorily social standards, also from the political point of view;
- Unstable, improper, and unpredictable business environment;
- Aspects connected with marriages, family reunion.

As a conclusion, the direct effects of the population’s migration upon the origin country are primarily seen in the decreased amount of labor, especially of highly qualified labor, whose importance for economic growth and productivity cannot be neglected. [2]

As regard the **consequences of external migration** upon the origin country they are quite various and can be displayed as follows: [4]

- **Positive consequences.** They, generally, target the following aspects:
 - Emigration diminishes the pressure upon labor market determined by the surplus of persons who cannot find a job, especially young and unskilled persons, women, etc.;
 - The decrease of labor surplus through emigration determines the increase of the opportunities to grow salaries and the degree of employment;
 - Migrants transfer to their origin country important sums of money, a fact that represents a factor of diminishing poverty, of increasing the living standard and of re-launching businesses and investments;

- The contributions to the trading between origin countries and destination ones increase;
- The persons who have worked abroad manifest a specific behavioral profile: they are more critical regarding the conditions in their native country and, at the same time, more optimistic regarding the future.
- **Negative consequences:**
 - Emigration deprives developing countries of their best human resources (brain drain) that do not give their best in their origin country; accordingly, the investment in the education and training of the human potential is not retrieved through incomes; educational investment's turning to good account takes place in another country;
 - Illegal emigration determines a series of drawbacks, especially regarding the image of the origin country (this is also the case of Romania);
 - The State loses the incomes represented by the taxes paid by the emigrants;
 - The decrease of productivity due to a smaller number of highly qualified workers and to positive externalities determined by them.

At the same time, we consider that one of the negative consequences of labor temporary migration is the one affecting the family.

Accordingly, in Romania, as the previously mentioned study states [5], almost half (46%) of those who consider that leaving for work abroad is a bad thing rely their opinion upon reasons connected with family life. The distance that separates them from their families which is similar to a certain level of affectivity depriving is the most mentioned negative consequence of leaving to work abroad (35%). To the same category belong the considerations connected with "family lack of union" (9% of the opinions regarding negative consequences) and "the suffering of those who stay at home" (1%).

We agree that the increase of employment, the growth of the mobility and flexibility of the labor market, the foundation of a productive potential that is better trained from a professional point of view are only a few of the priorities that govern employment policies at a national and European level observing the slogan: "durable and quality jobs for a well trained labor". [3]

As regards the future, we consider that as long as economic, social, technological, and environment disparities exist between developed and developing countries, it is hard to assume that labor external migration would stop. Accordingly, we support the hypothesis stating that labor international migration fluxes should not obey restrictive stipulations from developed countries; on the contrary, they should be the subject of inter-states migration policies capable to consolidate mutual benefits by taking into consideration the need of increasing the positive effects of migration in order to provide the conditions for a world wide durable development.

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THE ROLE AND IMPORTANCE OF THE SOCIAL INSURANCES NATIONAL PUBLIC SYSTEM IN ROMANIA

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ABSTRACT: *In the world insurances exist only due to the benefits of employees. This simple truth is sometimes neglected. Debates on social insurances are often focused on political and technical problems like risks division, solidarity, insurances system management. Although these aspects are important for operating on an equitable basis of the social insurances system, the key problem remains the problems of the insured benefits or the answer to the question: what do consumers want and what are their needs? For answering to this question, in some countries, political decision makers have tried to introduce the market elements in social insurances, as well as in other public fields. Still, the benefits have been excluded to a great extent, as in other public fields. Still, benefits have been mostly excluded from the consumer's right to choose.*

KEY WORDS: *role, social insurances national public system, insurances*

Social insurances¹ are that part of the money social and economic relations where, within the process of distribution the national gross product, money is distributed, managed and used necessary for compulsorily protect the employees and retired persons from national companies, autonomous directions, business corporations, consumption and credit cooperation network, the members of craftsmen corporations and agricultural units, lawyers, farmers, craftsmen with their own workshops, private enterprisers, Churchmen, household personnel working at physical persons, blocks of flats related persons, under temporary or permanent inability to work, cases of age or other cases provided by the law. Also, social insurances protect the family members of the persons mentioned above.

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¹ *Gheorghe Bistriceanu – Insurances System in Romania, Economic Publisher, Bucharest 2002*

In a democratic state, social protection is a fundamental element of state policies, because, by enforcing it we achieve the prevention, decrease or cancellation of the consequences of some events considered as “social risks” upon the living level of the population.

The actual conditions and the various needs that have to be covered cause the ways of achieving social protection be different. Therefore, programs are based on different premises in the case of social insurances meant for covering personal needs due to the temporary or permanent loss of the ability to work or in the case of worker’s protection at his job (environment, working conditions), needs that shall be transferred upon the production costs and whose compliance is included in the product price.

Social insurances are one of the guarantee, achievement means of the people’s constitutional rights, being only a part of the complex of measures taken for a decent and civil life of Romanian people.

Social insurances are also considered an objectively necessary institution of the society called to solve the protection of employees, cooperators, partners, retired people, farmers and their families in case of temporary or permanent inability to work.

The national public system of social insurances in Romania has a special significance for protecting the citizens and their family members in preventing illnesses, remaking and strengthening the work ability, in case of temporary loss of the work ability, in case of maternity, for raising and taking care of the child until the age of two (in case of handicapped child until the age of 3). Protection is also granted in case of invalidity, when reaching a certain age limit, when man cannot work with all its forces.

The role of the social insurances national public system results from his new nature and principles, as well as from the way in which money funds are being used. Together with the development of the national economy, social insurances have extended and developed. Together with this development, their role and significance have increased.

Social insurances take part in distributing a part of the national gross product, being a control means of forming, distributing and using it, when supplying, distributing and using the funds of social insurances. Social insurances also stimulate social production, contribute to the progress of national economy and to the development of social and cultural actions.

Social insurances include some regulations for achieving a better hygiene and safety of labour, for preventing illnesses, for recovering and strengthening citizens’ health and the health of their families, causing the maintenance of the employees’ labour ability and using it rationally.

Social insurances also include a protection and helping system for civil citizens, retired persons and their family members, consisting of the state granting o some remunerations, aids, pensions, rest leaves, balneary treatment and other free things while being, either temporarily or permanently, in an inability to work or in other cases aid is necessary.

The special role of social insurances consists of protecting citizens in all the cases of losing their ability to work; also by granting remunerations and enforcing some restrictions, they act against lazy people, simulating people or slackers.

Social insurances are a support the state is using for strengthening the discipline in work. By the way of regulations, remunerations and some provided restrictions, social insurances make a contribution to complying with and strengthening the labour discipline, with positive effects upon labour productivity, upon achieving the economic and social indicators. Through the granted advantages and through enforced restrictions, social insurances stimulate the development of personnel training, improvement of the quality of labour, establishing employees within the same unit, achieving a longer length of service, fighting against motivated absences at work, reducing the number of days not used for work.

Social insurances have a special role in educating citizens, in developing citizens conscience, in promoting social equities; they support a responsible attitude towards working, towards family, thus contributing to the inoculation of ethical and spiritual features of every citizen, to compliance with the convention regulations and to the development of a defence attitude of private and public fortune.

Social insurances are called to fulfill an important role in maintaining and raising the people's welfare.

The control exercised when cashing incomes and carrying the payments of pensions, remunerations, aids, etc, contributes to the good organization of production and labour to the rational use of manpower and money, to the strengthening the economic and financial discipline, and complying with the law.

The practical application of the Romanian state social policy has contributed to the apparition and development of a national system of social insurances at the level of the entire country. This includes an organized assembly of social insurances forms preserving their individuality, depending on one another, ad thus achieving the totality and integrality aspect for protecting state workers, private joint companies, craftsmen companies members, farmers, lawyers, churchmen, household personnel and block of flats maintenance related people, retired persons and their family members.

In Romania, at this moment, the national public system of social insurances has the following components: state social insurances, social insurances in craftsmen companies and craftsmen own workshops, social insurances in agricultural units, social insurances of farmers with their own farms, lawyers' social insurances, churchmen's social insurances.

The current structure of the national public system of social insurances in Romania is the result of deep revolutionary transformations and a long process of economic and social development.

By establishing the national public system of social insurances an unitary framework has been created for enforcing the relevant laws in the field, for saving material and human resources, for creating a flexibility in distributing available resources, according to the requirements for certain services, for strengthening the control for establishing and using services resources and quality.

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THEORETICAL ASPECTS OF SUSTAINABLE DEVELOPMENT STRATEGY OF ROMANIA

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ABSTRACT: *The concept of sustainable development is built on the premise that human civilization is a sub-system of the Ecosphere and is dependent on its material and energy flows, on its stability and capacity for self-adjustment. Public policies that are being developed on this assumption, such as Romania's National Sustainable Development Strategy, seek to restore and preserve a rational and enduring equilibrium between economic development and the integrity of the natural environment in ways that society can understand and accept.*

KEY WORDS: *development, sustainable, economy, integration.*

1. INTRODUCTION: NECESSARY DEFINITIONS

Sustainable development has developed as a concept through several decades of active international scientific debate and has acquired distinct political connotations in the context of globalization. In the Romanian language, the concept is described by two equivalent terms “dezvoltare durabila” and “dezvoltare sustenabila” that have emerged as synonymous borrowings from different linguistic sources and are used alternatively throughout the Romanian version of the document. In recent history, the first signal that economic and social development of the world's states and of humanity as a whole can no longer be separated from the consequences of human activity on the natural environment, was set forth in the 1972 report of the Club of Rome on the Limits of Growth (Meadows Report). The document summarized the available data on the evolution of five factors (population growth, the impact of industrialisation, pollution, food production and the trends toward depletion of natural resources) suggesting the conclusion that the development model in place at the time could not be sustained in the long run.

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The issues involved in the relationship between humankind and the environment became a matter of concern for the international community starting with the United Nations Conference on the Human Environment (Stockholm, 1972) and took concrete shape in the work of the World Commission on Environment and Development, which was established in 1985. The report of the Commission on Our Common Future was presented in 1987 by G.H.Brundtland. It offered the first broadly accepted definition for sustainable development, as the development path that meets the needs of the present generation without compromising the ability of future generations to meet their own needs». The concept of sustainable development proposes an integrated policy and decision-making approach, in which environmental protection and long-term economic development are considered to be complementary and interdependent. Henceforth, the complex problems of sustainable development acquired a global political dimension as they were tackled at the summit-level United Nations Conference on Environment and Development (UNCED) in Rio de Janeiro (1992), the Special Session of the United Nations General Assembly which adopted the Millennium Goals (2000) and the Earth Summit in Johannesburg (2002). Concrete programmes for action at global level were developed (such as Local Agenda 21) according to the principle «think globally, act locally».

A series of international conventions were adopted in the course of this process, spelling out precise obligations for states and strict implementation deadlines in such areas as climate change, biodiversity conservation, the protection of forests and wetlands, curbs on the use of certain chemicals, access to information regarding the state of the environment, and more. Those agreements define the international legal space for the application of the aims and principles of sustainable development. It is thus widely recognized that the Earth has a limited capacity to meet the growing demand of the socio-economic systems for natural resources and to absorb the destructive effects of their overuse. Climate change, soil erosion and desertification, the pollution of soil, water and air, the shrinking area of tropical forest systems and wetlands, the extinction or decline of a large number of aquatic and terrestrial species, the accelerated depletion of non-renewable natural resources have started to have measurable negative effects on the socio-economic development and on the quality of life of human populations in vast areas of the planet.

For Romania as a Member State of the European Union, sustainable development is not one of several possible options, but the only rational prospect for advancement as a nation, resulting in the establishment of a new development paradigm at the confluence of economic, social and environmental factors.

2. EU SUSTAINABLE DEVELOPMENT STRATEGY

Sustainable development has become a political objective of the European Union since the Maastricht Treaty of 1997. In 2001, at Goteborg, the European Council adopted the Sustainable Development Strategy of the European Union; an external dimension was added to it at the Barcelona Council in 2002. The European

Commission commenced the review process of the Strategy by publishing, in February 2005, a critical evaluation of the progress achieved since 2001 that also pointed to a series of directions for action to be further pursued. The document revealed some unsustainable tendencies affecting negatively the environment that could impact the future development of the EU: climate change, threats to public health, poverty and social exclusion, depletion of natural resources and erosion of biodiversity. Having identified those issues, in June 2005, the heads of state and government of the EU Member States adopted a Declaration on the guidelines for sustainable development, including the revised Lisbon Agenda for Growth and Jobs as an essential component of the overarching sustainable development objective. Following wide-ranging consultations, the European Commission presented, on 13 December 2005, a proposal to renew the 2001 Göteborg Strategy. As a result of that process, the EU Council adopted, on 9 June 2006, the renewed Sustainable Development Strategy for the enlarged EU space. The document reflects a cohesive and coherent strategic vision with the general objective to develop further actions enabling the European Union to achieve continuous improvement of the quality of life for the present and future generations by creating sustainable communities that are capable to manage and use resources efficiently and to realize the potential of the economy for social and ecological innovation in order to provide prosperity, a better environment and social cohesion. The European Union and its Member States have the responsibility for the implementation of the Strategy by involving all institutional components at national and EU levels. The importance of close collaboration towards the goals of sustainable development with the civil society, business, social partners, local communities and citizens is also underlined.

Four key objectives are identified: environmental protection through measures that make it possible to decouple economic growth from negative environmental impacts; social equity and cohesion through observance of fundamental human rights, cultural diversity, gender equality and combating discrimination of any kind; economic prosperity through the promotion of knowledge, innovation and competitiveness with an aim to ensure high living standards and full and high-quality employment; meeting EU's international responsibilities through the promotion of democratic institutions in the interest of peace, security, freedom and of the principles and practice of sustainable development throughout the world. In order to make sure that the economic, environmental and socio-cultural components are integrated and correlated in a balanced manner, the Sustainable Development Strategy of the EU sets the following guiding principles: promotion and protection of fundamental human rights; solidarity within and between generations; open and democratic society; integration of economic, social and environmental policies through impact evaluations and consultation of stakeholders; use of best available knowledge to ensure that policies are economically sound and cost-effective; application of the precautionary principle in case of scientific uncertainty; application of the "make polluters pay" principle.

The substance of the EU Strategy concentrates on 7 key challenges and 2 crosscutting policy areas. Many of the targets agreed at EU level are set in numerical

or percentage terms, with strict implementation deadlines that are mandatory for all Member States. The EU Strategy also establishes precise implementation, monitoring and followup procedures, together with obligations for the European Commission and all Member States to report every two years on their commitments. The next deadline for the review of progress and priorities of the EU Strategy by the European Council is scheduled for September 2009, with the obligation of all Member States to report on the implementation of their National Strategies no later than June 2009.

3. SUSTAINABLE DEVELOPMENT INDICATORS

The use of indicators to monitor development trends in domains other than economic activities precedes the formulation of the principles of sustainable development; it emerged in parallel with the drafting of the early sustainable development strategies under the aegis of the United Nations and the European Union, respectively. Such monitoring instruments were produced by a variety of institutions, from business enterprises to civil society organisations, groups of experts or research centres, local administration units, national governments, inter-governmental organisations or international financial institutions. The magnitude of these efforts has intensified in recent years, both at a national level and through multinational cooperation, reflecting the perceived need to have such instruments, to cover a diverse array of applications and to overcome a host of methodological difficulties.

Persistent notable differences in terms of structure, maturity and effective utilization of coherent indicator sets illustrates the complexity of the task to find effective compatibility between normative and empirical approaches applying to distinct domains to be integrated in the concept of sustainable development: economy, society and natural environment. In the process, methodological aspects that are still under theoretical consideration are taken up dynamically and applied in the compilation of statistical reports.

An agreed and accepted set of sustainable development indicators, including the ability to reflect environmental and social factors in the system of national accounts through “green accounting” instruments, remains a priority concern for the statistical offices of the EU, the United Nations Economic Commission for Europe (UNECE) and the Organisation for Economic Co-operation and Development (OECD). Romania, through the National Institute of Statistics, is actively engaged in this process. At this stage, the Romanian National Institute of Statistics conveys to Eurostat the available data based on a partial system of indicators that are integrated in the European system of sustainable development monitoring. Currently, the sources of data can be improved through direct and more effective inter-agency cooperation, in particular with regard to quantifying the human and social capitals and the carrying capacity of natural ecosystems. The system that is being used to monitor the implementation of the renewed Sustainable Development Strategy of the European Union (2006) admits the existence of such problems explicitly and recommends that the Member States should

continue to revise their respective sets of indicators in order to ensure their quality, comparability and relevance relative to the objectives of the EU Strategy.

One of the key points of the renewed Sustainable Development Strategy of the European Union is that it introduces a regulated monitoring and reporting process with an aim to harmonize the specific national requirements of the Member States with the need for coordination and synthesis at EU level. It has been established that the objectives to be attained and the instruments for measuring economic performance in relation to social and environmental responsibilities shall be defined through constructive dialogue to be engaged by the European Commission and each of the Member States with the business community, social partners and relevant elements of the civil society. The European Commission, with the assistance of the Working Group for Sustainable Development Indicators, was assigned the task to continue to develop the set of indicators in order to improve consistency in reporting procedures. An early version of that set of indicators was used for the first Evaluation Report (2007) of the renewed Sustainable Development Strategy of the European Union. In its current form, the monitoring mechanism points to several categories of indicators that are still under development. The existing set of indicators is considered to be adequate for monitoring the quantitative targets of the EU Strategy, but incomplete or insufficient for monitoring and evaluating the fulfilment of its qualitative objectives (such as 'good governance', for example).

The structure of the indicators set produced by Eurostat for the first monitoring report on the renewed EU Strategy associates a headline (Level 1) indicator to each strategic dimension, a set of indicators associated to its subordinate operational objectives (Level 2), and descriptive indicators for the domains of intervention of associated policies (Level 3). A supplementary set of indicators outside this structure (context indicators) is included to reflect phenomena that do not easily allow for normative interpretation or that cannot be gauged in terms of expected response to intervention. To monitor and verify the implementation of this National Strategy, a national system of statistical indicators for sustainable development will be created, maintained and duly harmonized for congruence with the relevant system of indicators in use at EU level for monitoring national progress in relation to the EU Sustainable Development Strategy. The collection and processing of reliable data, to be quantified and updated regularly and aggregated as indicators of sustainable development, will make it possible to measure progress towards the objectives set by the Strategy and to provide accurate reporting on the results.

The following types of indicators are scheduled to become operational:

- National sustainable development indicators, which are focused on the key priorities, expressed through measurable targets, that shall also make it possible to compare the national performance to that of international partners and to the objectives of the renewed EU Sustainable Development Strategy. This set of indicators shall be based on the results of combined Working Group and shall be updated permanently.
- Progress indicators for the Romanian National Sustainable Development Strategy, covering the entire range of policies generated by the National Strategy and including

also areas that are not specifically mentioned in the EU Strategy. In this way all policies will be subject to monitoring, thus motivating the political decision-makers and enabling the public to evaluate the success of undertaken actions.

4. MEASURES TAKEN IN ROMANIA TOWARDS COMPLIANCE WITH SUSTAINABLE DEVELOPMENT OBJECTIVES DURING THE PRE- AND POST-ACCESSION PROCESS

The awareness about discrepancies between the existing development model and the support capacity of natural capital set in gradually in Romania in the 70's and 80's of the past century, but it was confined to certain academic and intellectual circles and had a limited impact on political decision-makers. The profound political changes that started in December 1989, particularly access to information that was outside the public domain during the communist regime, considerably expanded the interest in such matters among the public opinion and the media. Numerous non-governmental organisations and even political parties with an environmental agenda came into being within a short period of time, mirroring the initiatives that had long been functional in Western Europe. Institutions dedicated to environmental concerns were created within the executive and legislative structures (ministry, parliamentary committees), and the first acts of primary and secondary environmental legislation were adopted.

At an early stage, some sustainable development principles were incorporated in public policies as a result of the concrete obligations undertaken by Romania under the declarations and conventions that were developed following debates within the UN and its specialized agencies (for example, Romania was among the first European countries to ratify the Kyoto Protocol to the United Nations Framework Convention on Climate Change). The prospect of EU accession caused these endeavours to become more specific by emphasizing the priority of adopting a new philosophy of development that could ensure an organic correlation of economic, social and environmental dimensions along with the assimilation of the Community *acquis* in its entirety. A first National Strategy for Sustainable Development was prepared between 1997 and 1999 with the assistance of the United Nations Development Programme (UNDP); the Strategy integrated a large number of contributions assembled through a broad participative process, and was adopted as an official policy document of the Romanian Government. Although the impact of that document on public policies at national level was relatively limited, it supplied the conceptual and methodological framework for stakeholder consultation and facilitated the successful implementation of Local Agenda 21 in approximately 40 counties and municipalities. Following EU accession, an interim report was presented to the European Commission, in July 2007, on the implementation of the 1999 Strategy and the application of sustainable development principles in Romania.

The endeavours to draft a comprehensive sustainable development strategy for the year 2025 continued under the aegis of the Romanian Academy between 2002 and 2004 at the initiative of the Romanian Presidency, but the project did not get beyond

the drafting stage and was not finalized as a coherent document. In the absence of an updated sustainable development strategy compliant with the relevant directives of the European Union, the strategy documents and sectoral programmes prepared in Romania during the pre- and post-accession periods contain provisions and (in some cases) precise objectives consistent with the principles of sustainable development; these policy documents have provided most of the reference material for the drafting of the present Strategy. Romania's Treaty of Accession to the European Union, signed on 25 April 2005, together with the additional Protocols comprise Romania's concrete commitments to implement the totality of the Community acquis; the documents include deferments on the implementation of certain environmental obligations (to 2015 for highly polluting industrial installations, to 2016 for municipal waste sites, and to 2018 for the expansion of urban systems for wastewater collection and treatment).

The National Development Plan 2007-2013 is the key document for strategic planning and multi-annual financial programming designed to give a sense of direction to national economic and social development, in agreement with the principles of the EU Cohesion Policy. The Plan sets as a general objective the fastest possible reduction of socio-economic disparities between Romania and the other EU Member States and details the specific objectives of this process along 6 priority lines of action that integrate, directly or indirectly, the demands of sustainable development for the short and medium term:

- To increase competitiveness and develop a knowledge-based economy, including among the main subsidiary priorities the improvement of energy efficiency and expanded use of renewable energy resources in order to mitigate the effects of human-induced climate change;
- To upgrade transport infrastructure to EU standards, emphasizing the sustainable development of infrastructure and means of transport by reducing negative environmental impacts, promoting inter-modality, improving traffic safety and the protection of critical infrastructure;
- To protect and improve the quality of the environment, including measures to raise living standards through provision of public utilities, in particular water and waste management; to enhance regional and sectoral environmental management, conservation of biodiversity, ecological rehabilitation, risk prevention and intervention in case of natural disasters;
- To develop and use human capital more effectively by promoting social inclusion and strengthening administrative capacity for the development of a modern and flexible labour market, enhancing the relevance of the educational and professional training system for better employment, encouraging the emergence of entrepreneurial culture;
- To develop the rural economy and to increase productivity in agriculture, forestry and fisheries, including measures for rational land use, ecological rehabilitation of areas affected by soil degradation or pollution, food safety, animal welfare, encouragement of aquaculture in coastal areas;
- To diminish development disparities between and within regions, envisaging, inter alia, improved performance of local administrations and upgrading of local public infrastructure, protection of natural and cultural heritage, integrated rural development, regeneration of urban areas affected by industrial restructuring, consolidation of the business environment and promotion of innovation. In addition, activities involving cross-border, trans-national and inter-

regional cooperation are envisaged to support the socio-economic integration of border areas and to increase the accessibility of Romanian regions as components of the EU territory.

The financial programming of the National Development Plan 2007-2013 estimates a total of Euro 58.67 billion in required investment, to be distributed in yearly instalments. The National Strategic Reference Framework 2007-2013, which was accepted by the European Commission on 25 June 2007, sets the priorities for the application of the EU Structural Intervention Instruments (the European Fund for Regional Development, the European Social Fund and the Cohesion Fund) and links the priorities of the National Development Plan 2007-2013 to those of the EU through social and economic cohesion policies: Cohesion Policy in Support of Growth and Jobs: Community Strategic Guidelines 2007-2013 and the revised Lisbon Strategy.

The National Strategic Reference Framework presents the socio-economic situation in Romania at the time of accession, analyses its strengths, weaknesses, opportunities and threats, offers a strategic vision and provides a synthesis of the Sectoral Operational Programmes to be implemented under the convergence objective. The National Strategic Reference Framework together with the National Reform Programme and the Convergence Programme address the objectives of convergence by defining directions for action at national level corresponding to the EU policies and strategies. Relevant facts and figures for an analytical diagnosis of Romania's current condition and an evaluation of public policies and of existing gaps relative to the average performance levels of the other EU countries are provided in the draft Post-Accession Strategy prepared by the Romanian Government in 2007.

The measures undertaken by Romania to address the UN-sanctioned targets for global sustainable development are presented in the second Report on the Millennium Development Goals, which was adopted by the Romanian Government on 18 September 2007. The content of these policy documents and the corresponding implementation measures taken during the first year after Romania's EU accession are highly relevant as a response to the key challenges and objectives set by the renewed Sustainable Development Strategy of the European Union of 9 June 2006. At the same time, a careful analysis of those documents brings to light several omissions and redundancies in terms of inter-departmental coordination. The existing strategies and programmes are targeted on different timeframes. Moreover, they fail to fit into an integrating vision such as the one offered by the concept of sustainable development.

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CONTEMPORARY ECONOMIC THEORIES REGARDING THE LABOR MARKET

SILVIA GHERGHEL *

***ABSTRACT.** Numerous theories and models regarding the labour market have been created lately, which demonstrates not only the complexity of the problems this market poses but mostly the difficulty of their solving. The great majority of these theories has appeared and has been applied in countries that are developed from an economical viewpoint. In countries that have their economy in transition, like Romania, no theory has been crystallized yet and the relevance of the existent models is unfortunately rather theoretical. The well-known theories and the new theoretical approaches are presented briefly in the paper as follows.*

KEY WORDS: *unemployment, employment, wage, economic model, theory, labor market, labor force*

1. THE WELL- KNOWN THEORIES

1.1. The Keynesian theory and the classical theory

The well functioning of economy is perceived differently according to the model that is used to explain it. As to what concerns the interdependence of the markets and their forming on the hierarchical system, the two models: **the classical model and the Keynesian one** work differently on the three markets: the commodity market, the money market, the labour market. Thus, two major characteristics are emphasized by **the classical model**: on the one hand, the model is decomposable and easily formed on the hierarchical system and on the other hand it is dichotomist (meaning that the equilibrium of the money market has no influence whatsoever on the rest of the system). Various markets play erratic roles. According to **the Keynesian model**, the functioning of the markets is completely different, its characteristics being: the system is no longer decomposable (the functioning of one market can no longer be isolated from the rest of the economy), it is already formed on the hierarchical system

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(the level of occupation being determined by starting from the equilibrium conditions of the commodity and money markets) and it is non- dichotomist (money is no longer neutral as it intervenes in the testing of the level of equilibrium production).

Therefore in **the classical theory** the labour market is subordinated to the perfect concurrent model. The economical analysis starts from the hypotheses according to which the labour power is homogenous; there is a perfect transparency of information regarding the best conditions of joining demand and supply and of negotiation of the wage and a perfect professional, sectorial and geographical mobility of the labour power. Instead, in **the Keynesian model** the general equilibrium can be reached even in conditions of subordination of the labour power. But when regarded from the view of global demand, the wage as cost becomes one of its components. Consequently, an excessive decrease of the wage is not recommendable; not only because it generates resistance reactions from the employees' and the trade- unions' part but because the decrease of the wage diminishes the volume of demand and therefore of supply and social production as a whole.

The similarities and the differences between the two models are concisely presented in the following table.

Table 1. Similarities and the differences between the Classic and the Keynesian Theory

The Classic Theory	The Keynesian Theory
On a short term production can increase only by raising the number of employees.	On a short term production can increase only by raising the number of employees.
The real wage must be equal with the marginal productivity of the labour power.	The real wage must be equal with the marginal productivity of the labour power.
The classics consider that the labour supply is increasing function of real wage.	Keynes believes there is no actual labour supply; the wages can be determined depending on exogenetic factors and they are rigid towards decrease though possessing an ability to increase possibly when reaching very high levels of occupation.
In the classical model, the equilibrium is the result of the demand and supply confrontation.	Keynes argues that there is no specific behaviour of the labour supply which makes the occupational level depend only on the demand expressed by employers. Consequently, it is dependent on the anticipated global demand.

1.2. The neoclassical theory

The neoclassical theory focuses on the marginal analysis which concerns the maximization of utility, namely of the profit, in a concurrent classical frame; this theory has many advocates among whom there are great representatives of the Monetary School (M. Friedman) and the Mathematical School (G. Debreu, K. Arrow). According to this theory the market has enough self- adjustment mechanisms and it provides an efficient protection against massive and long term unemployment. A

fundamental dimension of this theory is that which states that any social phenomenon is the objective result of the synergic effect of individual types of behaviour.

The basic model of this theory is the Warlasiian one which includes the labour market in the universe of pure and perfect concurrence. The characteristics of this kind of concurrence adjust the market through the so- called “invisible hand”, with the condition of respecting the hypotheses which have become well- known by now. From the labour market perspective, these hypotheses refer to the homogeneity of human factor, to the perfect transparency of information, to the professional, sectorial and geographical mobility of the labour power and to the arbitration of the mentioned market by an objective factor which eventually determines the size of the equilibrium wage. The neoclassical model, in its various versions, has numerous mechanical elements which can hardly be brought to life today. Starting from the Warlasiian model as a basic model a lot of theories have been created among which “the theory of human capital”, “the theory of job seeking”, “the theory of discrimination” etc.

1.3. The theory of human capital

Created at the beginning of the 60’s, this theory regards salaries as functions of investment achieved for the augmentation of competencies, competition or for the permanent bringing up to date of the supplier’s knowledge on the labour market [3]. The theory of the human capital demonstrates that the investment that is made by the individual, by a firm or a company in the growth of professional performances can be seen as mid- term or long term investments which have a decisive contribution in the increase of economical efficiency generally. From this theory perspective, the labour market selects its suppliers according to their training level that is certified by diplomas, qualification certificates etc. It (the labour market) acts like a filter which enables economic factors to accomplish their economic objectives more easily.

Being indestructibly tied to the individual, to the man as bearer of this capital, the theory of the human capital has some characteristics which attach it to the length of the human biological cycle and to the downward curves as to what concerns assimilation and knowledge application by the individual versus his age. The amount of professional knowledge, skills and abilities can lead the individual towards the growth of his creative capacities and therefore to the increase of his income. The theory of human capital becomes of growing importance in the contemporary scientific overview because with its help the processes regarding salary differentiating, the migration of the labour power (be it geographical or professional) can be explained so that the individual obtain a work place that is suitable to his professional performance and his aspirations towards progress [4].

1.4. The theory of job seeking

Scientifically proved at the beginning of the 70’s this theory circumscribes in the paradigm of the general equilibrium and strengthens the concept of voluntary

unemployment in its Keynesian sense [9]. Basically, rather than accepting a certain job that is not adequate to their aspirations and professional competencies certain individuals prefer the continuous job seeking. This process involves a series of expenses and a length of time which can prolong the unemployment period.

1.5. The theory of market segmentation

The approach of the labour market shows that it continues to be a discriminatory market which differentiates labour power by certain criteria (age, gender, geographical area etc). The dissimilarity of labour power that ultimately leads to discrimination has generated the theory of segmentation that is based on elements which focus on the study of rules and institutions. Thereby, a primary labour market comes to life, market which is dominated generally by great enterprises which keep their employees for a long period of time and a secondary labour market in which the rapport between demand and supply acts permanently and in a concurrent milieu. Thus the primary market determines a certain security and stability of the work place while the secondary one generates vulnerability to unemployment, occupational precariousness and even the risk of social exclusion. This theory clearly shows the discriminatory function of the labour market which divides the active population into at least two categories: the privileged and the disadvantaged. The bedding of the labour market may continue by other categories, like the degree of forming a trade- union organization, the medium level of training, the stability of aspirations etc.

2. NEW THEORETICAL APPROACHES AS TO WHAT CONCERNS THE LABOUR MARKET

2.1. The theory of implicit contracts

Initiated in the mid- 70's through the works of Baily [2], Gordon [5] and Azaridis [1] the theory of implicit contracts tries to offer solutions to insufficiently solved problems. The contract concluded between employer and employees proposes to minimize the risks determined by the dynamic of the economic system and to optimize the interests of both parties. The main analyzed problems in the contract are the rigidity of the wages and the occupational level (implicitly the level of unemployment).

In an uncertain economic milieu that is governed by the laws of concurrence the wages as well as the profits can encounter important fluctuations. The real difficulty of knowing the ex- economical pre fluctuations requires grants from both parts. Thereby when the economical state is detrimental, the firm decides not to reduce the wages. On the contrary, in periods of economic boom, the wage increase will be lower than the productivity benefit. In this theoretical approach the firm plays an assurator's role when dealing with its employees. In this manner the bonuses/ premiums which the employees obtain during favourable economic states, can be used during recession periods for the assurance of wage stability. The theory of implicit contracts is

based on the hypothesis according to which the firm accepts the role of assuor knowing that on mid- and long term and no matter the economic state, it has to assure a certain wage and occupational level in agreement with the principle of profit maximization and its maintenance on the market.

2.2. The theory of efficiency wage

Initiated by H. Leibstein in 1957 and later continued by J. L. Yellen in 1984, the theory of efficiency wage establishes a causal connection between individual productivity and real wage. In this case waging does not rely strictly on the laws of the market, but primarily on the firm's priority objectives concerning the efficiency of labour use. Methodologically speaking, the efficiency wage marks a turning point because the labour factor is no longer approached quantitatively only, like in the neoclassical theories, but mostly qualitatively and from the intensity and productivity of labour perspective as well.

For the clarifying of the gist of the theory of efficiency wage there are numerous explanations today [11]. The most interesting are the ones which imply that the practice of higher wages than the ones resulted from the Warlasian equilibrium can determine the development of abilities and therefore of employees' professional performances and at the same time the stability enhancement of the work place , the attachment, the loyalty towards the employer. The efficiency wage sometimes influences in a decisive way the cost of labour power fluctuation and the dimension of the voluntary unemployment as well.

2.3. The theory of negotiation

Structured in its modern form at the beginning of the 80's this theory proposes analysis from a perspective that is fundamentally focused on the neoclassical theory of economical rapports between occupation and wage. The collective negotiations between employers and employees take place in an institutionalized location where on one side there are the trade- unions and on the other the employers' association. Lately these negotiations have included aspects that concern the quality of labour conditions and even of the surrounding environment [7].

3. CONCLUSIONS

The fundamental components of the labour market are the demand and supply of labour power which when in disequilibrium lead to unemployment, the prolongation of the unemployment period next to the supplementing of some expenses, may be the result of theory of job seeking A specific element of labour market is represented by the wage, as a special form of price, in the conditions of the presence of concurrence and of wage negotiations between the bearers of interest in demand and supply of the labour power with reference both to minimum wage and negotiated wage. The real amount of the wage increases under the incidence of the substitution effect and of the

new-comer. The amount of the wage is continuously submitted to objective contradictory processes of differentiating and approximating-equalizing. The amount of the wage is different in various countries, fields of work, economical areas and enterprises.

The equilibrium wage represents that level of wage through which the greatest part of demand and supply of labour power can be reached (satisfied). Practically, it is the wage the biggest part of the employed population receives. The decrease or increase in equilibrium wage can provoke important changes in the volume of demand and supply of labour power. The collectively negotiated wage is a necessary instrument in explaining the way the labour market works. The theory of labour market segmentation is present and useful in Romania too; although it comprises scientific and pragmatic elements, it is questionable on a long term in an economy in which globalization and democratization remain undisputed virtues.

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ACTIVITY BASED MANAGEMENT - EFFICIENCY METHOD OF THE MANAGEMENT CONTROL SYSTEMS

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ABSTRACT: *Management practices and methods have changed over the last decade and will continue to change. Management control systems it needs methods and modern techniques to support managers in making decisions Activity Based Management it is a method that is focusing on the management of activities within business processes as the route to continuously improve both the value received by customers and the profit earned in providing that value. ABM uses activity based cost information and performance measurements to influence management action. People undertake activities which consume resources – so controlling activities allows you to control costs at their source.*

KEY WORDS: *Management, activities, cost, control, performance, information, decision, standards resources, department.*

1. INTRODUCTION

The theoretical and practical experience in management in the U.S., Japan and developed European countries, have identified modern methods of management, including management based on ABM (Activity Based Management) or on PBM processes (Process Based Management). Developing this method of management has been driven by concerns of managers continue to improve performance of an organization. We can say that the origins of the method are stemming from the model costing kaizen (continuous improvement by reducing costs during the production process) and model of target costing (the cost target). In literature are found teachers and specialists in economics and management that have elaborated, studied and developed the method based on management activities (ABM) and other derivative methods such as ABC (Activity Based Costing) and ABB (Activity Based Budgeting) They should be especially: Robin Cooper, Robert Kaplan Gary Cokins, Le Bourgeois S., A. Maléjac, Ravignon L. ECESB PL., Joalland M.

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According to Gary Cokins, management-based activities (ABM) is a process of measuring and improving the functions and activities in an organization by identifying categories of costs, the use of appropriate tools for quantifying and allocating the activities and measures to optimize the indirect costs. The basic principle of the ABM method is to improve managerial decisions by identifying categories of costs on business, the notice the waste and creating processes to reduce them. Activity Based Management (ABM) is a natural extension of ABC. It allows leaders to examine non-value-added activities and make rational decisions to eliminate them.

2. ACTIVITY BASED MANAGEMENT (ABM) NEED TO USE THE METHOD IN THE MANAGERIAL CONTROL

Method ABM (Activity-Based Management) - management-based on activities is a systematic method of forecasting, control and processing targeted on two levels: work and indirect costs, and it's based on a new approach that "the activities assimilated costs" [3]. The concept of activity is the centre of method ABM (Activity-Based Management, it means "a combination of people, technologies, prime materials, methods and environments that make it possible to produce a product or a service" [3]. By activity it's specified what makes an organization, how to allocate and consume resources needed and purpose quantified by the results. In this situation the organization is seen as a system composed of activities and relations between them, the manager should see the organization not only through its functions but also through the process.

This method comes in support of managers in exercising managerial control in that it identifies the exact source and destination of each cost, so you can make a better control and better management of resources organization. This determines the beneficial effects from the stage of forecast and budget resources on categories of activities, better coordination, monitoring and control to fulfil the objectives of the organization.

The main needs in implementing modern management methods are:

- the need for better information to managers at all levels of hierarchical and diversify demand for their information;
- sharing and assigning the indirect costs on branches on which it generates (processes, activities, services).

3. PRACTICAL GUIDANCE ON IMPLEMENTING ACTIVITY BASED MANAGEMENT (ABM)

For the successful implementation of this method, the manager must consider several issues:

- Know very well the organization and to highlight the activities taking place within the organization;

- To assess the value created by new activities and to determine the costs associated with them;
- Ability to grasp and anticipate changes in the organization of some activities, changes to or even eliminating others;
- Selecting relevant information on performance measurement processes and related activities within the organization;
- Focus on critical needs;
- The main cost system and the existing information system.

4. ADVANTAGES AND DISADVANTAGES

Studies in both U.S. firms, and those in Europe, which have some experience in applying this method, have shown both advantages and disadvantages in the design, implementation and development method of steps.

Among the major advantages of applying this method would be: providing information relevant to decisions on different hierarchical levels; maximum effect in the management of resources; control over their conduct; implementation of corrective measures in time (just in time).

Among the disadvantages or obstacles include: large volume of work; effort in the selection of relevant data and information; difficulties in identifying the base allocation (the processes, activities or operations) of common costs; changes in organizational culture; involvement of the staff in good progress.

5. ACTIVITY BASED COSTING (ABC) AND ACTIVITY BASED MANAGEMENT (ABM)

Activity-based costing and activity-based management have been around for more than fifteen years. Most forward-thinking American companies have implemented them, or are in the process of doing so. Initially Activity Based Costing (ABC) was presented as a means of establishing product costs more accurately. The emergence of Activity Based Management (ABM) provided a means of enhancing profitability. ABC is a systematic method of forecasting and budgetary resources of an organization, the systematic accounting management and effective cost management. The basic principle of the ABC method is to practice an allocation of indirect costs more precisely than with traditional methods of allocation.

In addressing the scientific and practical application of the method ABC have been several periods of evolution, which have contributed to improving the systematic it from concept and technique, method and leading to even approach the system. Debut ABC method is recorded during the 1960s, when speciliaștii from General Electric in the U.S. have asked for years that the structure of total costs, indirect which were increasing as a share as a share and occupies an increasingly important position. This phenomenon has been referred to other specialists and other major companies, such as Peter Druker, G. Jeffrey Miller and Thomas E. Vollman, who insisted on the need to

identify the causes that generate these indirect costs and assessment at a higher value. Later, as a result of the industrial revolution, the technical and technological progression of the years '75-85, secolatele changes in national economies, the emergence of new products and services, indirect costs and capital occupies a position more consistent in the total cost of U.S. and European organizations.

Paragraph strengths associated application ABC method is given that allows a better correlation of causes underlying the origin of the costs to identify factors that determine the performance of the activities within the organization. Thus, essence of the method is to identify the factors of cost and performance factors. Currently, the ABC method used in the development of revenue and expenditure, constitute basic information on management control of management in analyzing the results and decisions for the next period the forecast.

6. CONCLUSIONS

Activities consume resources – people, materials and equipment – and this consumption can be measured. Activities are triggered by events, which can be counted, or decisions, which can be reviewed. Activities produce outputs – products and services, which can be counted and measured. Activities can be undertaken by different methods, which will vary the unit cost. Understanding what activities are, what they cost, what they produce, how they are done and how they are linked together is useful. Managers need in their proper information and knowledge of two major problems: How can the company itself to occupy a better position in the market - with better profitability; How to improve internal capacity to produce goods and services to domestic unit costs - and this is needed to understand and change the procedures, systems and processes that create products and to provide quality services to customers. ABM is a radical approach to cost and performance evaluation compared with classical methods of assessment costs. Therefore can be considered an effective method which comes in support of managers and systems management control.

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VIRAL MARKETING

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ABSTRACT: *With consumers showing increasing resistance to traditional forms of advertising such as TV or newspaper ads, marketers have turned to alternate strategies, including viral marketing. Viral marketing exploits existing social networks by encouraging customers to share product information with their friends. In our study we are able to directly observe the effectiveness of person to person word of mouth advertising for hundreds of thousands of products for the first time.*

KEY WORDS: *viral, e-mail, marketing, modernism, advertising*

1. INTRODUCTION

Consumers are faced, be it on the Internet or through more traditional channels, with an increasing number of viral marketing campaigns as it is every company's secret wish to transform these surfers-consumers into means of promotion. The concept is quite simple: it comes down to word-of-mouth advertising on the Internet (and possibly through a traditional channel as well). The strategy is based on sending messages that people are likely to send on to friends, acquaintances or colleagues, so that advertisers can promote a brand name through the intermediary of other people.

Viral marketing is a dynamic phenomenon: the message sent triggers a reaction from the addressee who will send it on or talk about it. Moreover, it is not unusual for advertisers to clearly encourage Internet surfers to spread the message around by even putting at their disposal tools designed to that end (e.g. address collecting forms and automatic sending).

With a view to disseminating the message as largely as possible, viral marketing can resort to humor (e.g. funny pictures, videos, websites), to games (providing intriguing information in order to launch an investigation game), to

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providing sometimes false and extremely shocking information with the sole purpose of catching the reader's attention and triggering a response from him, to launching an online game, to providing services (e-cards, screen backgrounds, samples, reduction vouchers), even to sponsoring.

The ultimate objective is always of course to promote the sales of a product or service, even if the advertising nature of the message or the brand name does not come out immediately. Viral marketing campaigns are generally very effective. As the adjective "viral" suggests, the message is spread in a pyramidal fashion and at a speed to be compared with that of a virus or an epidemic.

Viral marketing has generated a lot of excitement in recent years, in part because it seems like the ultimate free lunch: Pick some small number of people to "seed" your idea, product, or message; get it to "go viral"; and then watch while it spreads to reach millions, all on a shoestring marketing budget.

Although currently used mainly with reference to video clips, viral marketing has much wider applications. The rapid success of Hotmail now called Windows Live Hotmail was one of the first viral marketing successes and owed nothing to video. Hotmail launched in mid-1996 as one of the first webmail services, and grew its subscriber base faster than any company in history, spending only \$500,000 on advertising to recruit 12 million subscribers within 18 months – at which point it was bought by Microsoft, reportedly for \$ 400 million. A competitor at the time, Juno, is thought to have spent \$ 20 million on ads and brand promotions while gaining only a fraction of Hotmail's subscriber base.

2. MASS MARKETING VS. VIRAL MARKETING

The standard model of mass marketing is roughly like the schematic presented in Figure 1. A particular ad will expose the client's message to some large number of people, say N . Of that number, the reasoning goes, each individual will respond to the message in a positive way (say, by purchasing the product, changing their behavior, or simply developing a favorable impression of the brand) with some probability, p .

Traditional marketing, therefore, is essentially a matter of increasing either p (by creating persuasive, informative, targeted, entertaining, or simply memorable ads), or N .

The standard model of viral marketing is quite different. Now the assumption is that one starts with a very small "seed" of individuals who spread a message by sharing it with their friends. In the simplest case, each word of mouth transmission occurs with some constant probability b . If each person spreads the word to z others, on average, then the expected number of new converts generated by each existing one is $R = b z$, which is called the "reproduction rate" in simple epidemiological models. More realistic "social" models of contagion take into account, for example, an individual's memory, or the number of times they need to hear about something before deciding to pass it on. But even in these more complicated cases, one can still compute an effective reproduction rate.

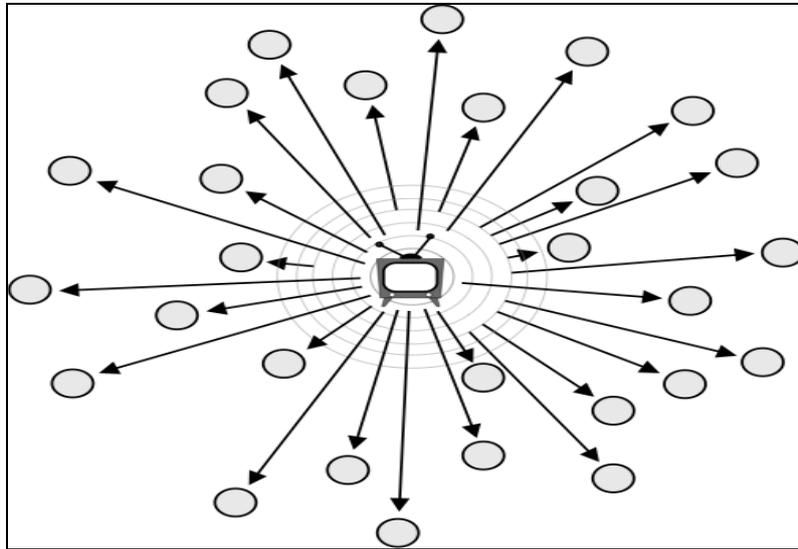


Figure 1. Mass marketing schematic

Some brands are more effective than others at using viral marketing. The most often mentioned market sector when it came to most effective brands without a doubt was the sportswear market. The brands in particular that were mentioned as being effective were Nike and Adidas.

However one respondent from a specialist viral marketing agency was vocal in questioning the strength of virals coming from sportswear firms. He cited the fact that the creative wasn't strong enough, adding that these brands were over-using sports personalities, and neglecting other possibilities. Coca Cola and Nokia are also worthy of note for their viral content. As well as this the automotive industry was mentioned as being an effective user of viral marketing, with the Citroen and Honda brands often mentioned.

Regarding the least effective brands at using viral marketing, the dominance of a certain market sector was more notable than a particular outstanding brand. Viral marketing has simply not established itself effectively in the world of finance or big corporate.

Interestingly enough another brand that deserved particular mention from one respondent from a specialist viral agency for the ineffectiveness of its campaign was the sportswear brand Reebok. Reebok was deemed to be some way behind its two major competitors, Adidas and Nike, when it came to viral marketing, being described as creating virals that, "people were just never going to forward on to their friends, they just don't seem to get the viral ethos."

3. DIGIMARKETING PRACTICES

To a certain degree, “viralness” is out of anyone’s control: that’s simply the nature of it. While it’s hard to predict which content will ultimately be passed most from one consumer to the next, there are some basic principles that can dramatically improve the chances of success. Viral efficacy rests primarily on the quality of the content. Things that are interesting, entertaining, or informative (ideally all three) tend to get passed on. Those things that are hard-sell simply don't.

A big mistake that marketers make is to assume that funny gags alone make for good viral content. Or that having something funny is a guarantee of success. Marketers should look more deeply at what might be interesting and compelling (and yes, humorous too, if appropriate).

"Compelling content" can come in various forms. Almost all have a hook that is interesting and intriguing to the target group, a hook that members of the target group agree will be of interest to their friends. That's what gets the pass-along; a viral with a strong hook can build on communities that already exist.

Some companies realize they have historical footage or product information that is actually very interesting and relevant to the brand. Other companies are finding that "compelling content" includes giving people special access or sneak peaks to things they wouldn't otherwise have seen.

There's no marketing advantage in getting hundreds of thousands of pass-ons of something that isn't building your brand. Just because you're getting a consumer to pass on your message instead of sending it directly to the recipient, doesn't mean that the message should be any less relevant to your brand!

Consider both function and fun. Another issue for viral marketing is whether you intend to be just for fun, or if you also expect it to serve a function. Do you want customers just to watch the viral piece? Or do you want them to keep it on their desktops, perhaps as a widget they can play with or use repeatedly for specific functions? Is there a branded digital calendar or other item that combines brand relevancy and some degree of user functionality? Viral content doesn't have to have a specific, ongoing function, but it definitely *can* have one.

Make it User Friendly. One of the great benefits of viral marketing is that it is freed from the strictures of standard media units. If it's a video piece, it can be as long, or short, as you want. However, you still have to comply with the basic "law" of consumer interest. How long will participants really be willing to watch before they get bored?

There are also some practical issues. While it's viral, you don't want people to think it's a virus! So, you must make sure that it can get through the spam filters. Many users are now using email systems that will block all executable files. Some users will not open any attachments. Additionally, you must ensure that the file is small enough so you don't clog people's computers with the digital equivalent to sending them *Gone with the Wind*. Compression technologies are making it increasingly easy to reduce video pieces to small file sizes.

Prompt the Viral Pass-On. Most web participants today don't need to be told they can pass on content; they just do it. One recent survey found that well over 80% of adult US internet users had shared content with other users, over 60% did so at least once a week and 25% did so almost daily. However, it doesn't hurt to make it easy for participants to pass it on perhaps via a prompt to "share with your friends" and a space to input their email addresses. This can increase the viralness of the piece.

Often, the chief purpose of a viral piece is to drive recipients to a website, micro site, or other digital destination where they can compete or participate in some form of promotional offer. This might involve rewarding consumers if their friends participate as well, so encouraging pass-on of the content. Limited time offers, special "first 100 to sign up" offers, and other participation-accelerating techniques that have been used in traditional marketing for years can be applied to viral marketing.

Use Viral Distribution Sites. There are websites (www.youtube.com, www.viralmonitor.com, www.viralbank.com) that exist to host viral content. These are natural starting places for your efforts -although you should definitely supplement them with email campaigns and check for other viral portals (also known as vortals) that may be hot in your markets. Also use your own websites, or micro sites, to make sure your viral catches the attention of the search engines. Pay-per-click keyword campaigns can help here too.

Give Up Control. Lack of control is often cited as a problem with viral marketing. The marketer can't control who sees the clip, or receives the product recommendation, or the context in which it is seen or recommended. Unlike a real-life virus, which is usually locally transmitted by touch or close contact, a viral ad can leap continents. If recipients send your clip to their friend in Afghanistan, will you be able to serve it? If not, the communication may be wasted. Of course, the reach didn't cost you anything, but it may create dissatisfaction in markets that you intend to enter in the future or intrigue potential competitors and encourage imitations.

4. TIPS FOR USING YOUTUBE FOR VIRAL MARKETING

In this paragraph we will present some tips in order to be used in viral marketing through the site YouTube:

Creating a video is easy, and posting on YouTube is free. Shoot the video using a digital video camera and copy it to your computer. You can then either upload the video to YouTube as it is or edit it with software such as iMovie or Windows Movie Maker to add titles and special effects. You might shoot from different angles with one or more cameras and then piece together the footage to create a unified final product. But remember, less is usually more when it comes to special effects. When you're ready to upload the video, you just need to create a free YouTube account and follow the directions to add the video.

Homemade is just fine. You don't need to hire a professional. A homemade-quality video can work well and is sometimes preferable. We're bombarded with overproduced TV commercials all the time - so often that we usually just turn off our minds when they come on. An authentic and interesting video (rather than a slick and polished one) in which your personality shines through can make people notice. But plan ahead and shoot several takes to get it right.

Your video should be no longer than three minutes (preferably shorter). Think very short. When people watch video, they have extremely short attention spans. There are millions of videos on YouTube, and it's very easy to click away from yours. Although YouTube will accept videos shorter than 10 minutes (smaller than 100 MB), try to make yours between thirty seconds and two minutes. If you have more to say, consider creating a series of videos rather than making one too long.

Make your description clear and specific. A critical component of your video will be its title—the name the world will associate with your work—so think carefully about it. Make it descriptive and unique. Use descriptive keywords and language that people will use when they search for videos like yours. And use the correct categorizations on YouTube so people can find it.

Consider inviting your customer communities to submit video. One of the most effective ways to use video to drive viral marketing is for companies to develop a contest in which users submit their own video, which then is made available for others to see. The best would-be directors are given prizes, and their videos are usually showcased on the company site. In some cases, the winning videos are also played on TV as “real” commercials.

Try a series of similar videos to build interest. Sometimes a series of videos, such as those from Blendtec, a small company that makes household blenders, works well. Blendtec created a huge hit with their series of YouTube videos called “Will It Blend?” The following videos have each been viewed more than a million times.

Tell everyone about your video. When you upload your first few videos, you are likely to hear a deafening silence. You'll be waiting for comments, but none will come. You'll check your video statistics and be disappointed by the tiny number of viewers. Don't get discouraged—that's normal! It takes time to build an audience. When you're just getting started, make sure people know it's there and can find it. Create links to your video from your home page, product pages, or online media room. Mention your video in your email or off-line newsletters, and create links to your video as part of your email signature and those of other people in your organization.

Make sure bloggers know about the video. Sending bloggers a link to the video or commenting on other people's blogs (and including a link to your video) is a good way to build an audience. If you comment on blogs in the same space as yours, you might be surprised at how quickly you will get viewers to your video. However, when commenting on someone else's blog real estate, make sure you're on topic and genuinely contributing to the conversation in addition to linking to your video. Don't just spam bloggers with your link without adding value.

5. CONCLUSION

The beauty of viral marketing is that the customer both passes on the message and identifies the target market: the susceptible others, the friends who would really appreciate that product, service or video clip. Viral marketing is really the digital version of word-of-mouth, buzz or network marketing.

The reach of successful virals expands exponentially. If each recipient of a viral communication passes it on to 5 friends, after 10 pass-alongs the clip has reached almost 25 million people. Using near instantaneous e-mail as the distribution method, those 10 iterations can easily be completed within an hour or two.

Email and viral marketing will continue for the foreseeable future as mainstays of digital marketing. It's important to note:

- a) As email grows further, its evil twin SPAM could ruin the party;
- b) There's a variety of important do's and don'ts that make the difference between success and failure with email marketing;
- c) As with the most things related to the web, consumers are taking control. Determining how to create effective viral pass-on consumers is essential today.

The most common implementation is the web site or e-mail link that encourages readers to "forward this to a friend". Some low-cost, but effective, viral efforts include: signature lines on emails, free screensavers, humorous images, jokes or articles or desktop games, some of which involve the user registration to play, so meeting a viral campaign's objective of gathering data on users.

Word of mouth or referral marketing can only be assessed by post event marketing research where the people are asked whether or not they received or passed on a marketing message. Any message that travels over the Internet leaves a digital trail for the marketer to examine and analyze.

Not only there is a trail to follow, but in many instances those participating in specific campaigns can be identified and targeted for other marketing efforts. And if the marketer wants to know what the public thinks of their or others' viral campaigns, they can visit sites like the Viral Chart (www.viral.lycos.co.uk). This site tracks the hottest and newest viral campaigns and features them in top ten chart. There's also an archive and a newsletter to keep the marketer in touch.

As with other elements of marketing, both off and online, viral marketing rarely stands in isolation. Though it can be used strategically, it is more likely to be a tactical element of a wider strategy.

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INCREASING ECONOMIC POTENTIAL OF VENTURE CAPITAL FOR EUROPEAN FIRMS

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ABSTRACT: *Innovative firms in Europe face significant problems in accessing the funding they need to start, grow and compete on global markets. European firms (especially SMEs) turn mostly to banks to obtain external finance and only in limited cases to alternative sources of financing - such as venture capital funds. But despite the venture capital funds have become increasingly important; this external source of funding still remains fragile. Therefore, the venture capital industry imposes the removal of the existing obstacles to cross-border investments within Europe so that the sector could exploit the opportunities that are available within European firms.*

KEY WORDS: *venture capital, firms, financing, investment, EU*

1. INTRODUCTION

Raising capital is one of the preconditions for successfully setting up a business and ensuring its further expansion. Relying on own resources or debt financing is often not sufficient for the firms (especially SMEs) in their early-stages or those with high-growth potential.

Many investors are reluctant to invest in small and medium firms due to high transaction costs, and because they estimate that the expected returns do not compensate for risk. Such companies typically look for venture capital that can provide them with amounts to break into markets and grow faster. Although venture capital is a small part of the asset class of alternative investments, it is essential for the growth of firms. The fragmentation of the European Union's venture capital markets along national lines seriously limits the overall supply of early-stage capital for firms. As a consequence, in member states, where the market is new, venture capital funds face problems reaching the critical mass they need to spread their portfolio risk and cover their costs. Facilitating cross-border operations could help them to overcome this hurdle and increase the overall supply of early-stage capital.

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Taking into consideration the necessity of improving the access to financing for the innovative SMEs, the European Commission established as one of its main objectives making cross border investments in venture capital easier and outlined a set of measures to help innovative SMEs by improving access to finance, in particular at their early stages, at both EU and Member State levels.

2. ECONOMIC POTENTIAL OF VENTURE CAPITAL

After the downturn due to the dotcom bubble bursting in 2000, European venture capital industry has shown an upward trend since 2004 and reached very high levels in 2006: of the total €12 billion of funds raised, 17 billion Euro went to venture capital representing an increase by 60% on 2005 levels.

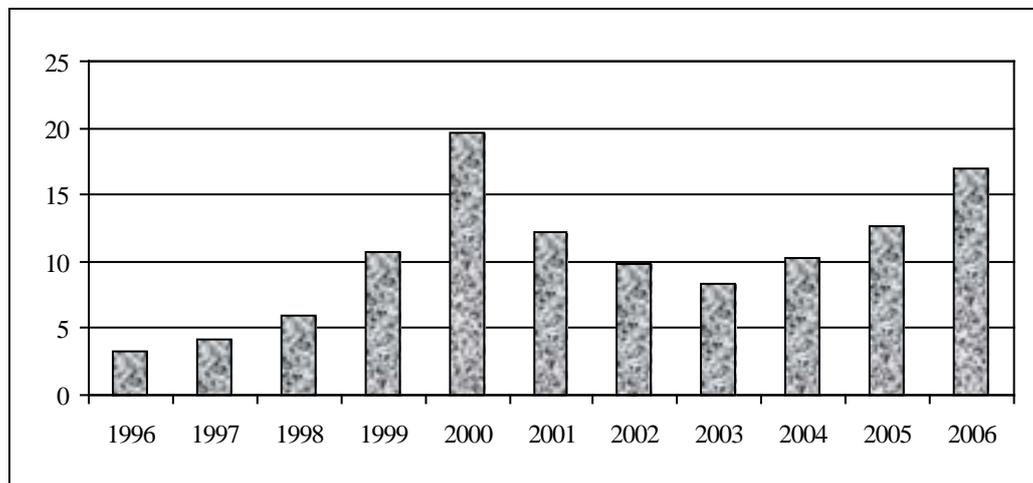


Figure 1. Venture capital invested in the period 1996 – 2006

Source: EC, *Removing obstacles to cross-border investments by venture capital funds, 2007* [1]

Although in 2006 it was registered a considerable growth in seed investment, the major share of venture capital investments still continues to go to expansion capital. The main challenge is to create an environment where seed investments can be kept at a high level despite the cyclical nature of venture capital.

Another challenge is that the growth potential is limited by the small amount of venture investments per deal. The European average deal size for early-stage investment is just 0.4 million Euro against 2.2 million Euro in the US [1].

In addition, although investments in clean-tech start-ups are increasing in Europe, these investments in the US more than doubled in the past two years and are now four times higher than in the EU. The challenge for Europe is to generate profitable clean-tech investments to sustain their growth.

Despite the positive impact innovative SMEs have on European competitiveness, they face significant problems in accessing finance necessary to start, grow and compete on global markets. Improved access to venture-backed investments would help them exploit technologies and compete globally.

While innovative SMEs are a relatively small proportion of SMEs, they have the potential to yield high benefits in creating new jobs and technologies. Accordingly, there are studies showing that venture capital contributes significantly to job creation. A recent study reported that companies in the EU receiving private equity and venture capital created one million new jobs 2000-2004; over 60% of these jobs were created by venture capital backed companies and employment in these companies grew by 30% annually [2].

In addition, innovative and growth-oriented firms backed by venture capital spend on average 45% of their total expenses on R&D. This amounts to an average 3.4 million Euro per company yearly, which is six times higher than in the EU-25 top 500 R&D spenders [7].

Econometric studies have also described a positive relation with economic growth [3]. Thus, a recent analysis estimated that an increase in investments at the venture capital stage by 0.1% of GDP contributes up to one percentage point increase in real economic growth. Moreover, venture capital is being increasingly important for environmental sustainability (1.25 billion Euro was raised in 2006) [6]. Sustainable venture capital funds invest in the range of 1-5 million Euro with focus on early-stage and typical investments in renewable energies and clean technologies [4].

At present, the potential of EU venture capital markets is not fully exploited and markets do not provide sufficient capital to innovative SMEs at early growth stages. The lack of an equity investment culture, informational problems, fragmented market and high costs are among the main reasons for this market failure.

The stage of development of venture capital markets varies. In larger Member States with more mature markets, sector funds are becoming more common; these funds could benefit from improved opportunities to invest across borders and raise money in the single market. In markets that are in the early stages of development, the catalytic role of country funds with public investors is beneficial to market growth. Yet in smaller or emerging venture capital markets, funds have difficulties in expanding, growing, specializing and reaching a critical mass of deals.

Further, divergent national policies create significant market fragmentation, which affects adversely both fundraising and investing within the EU. Venture capital funds and their managers are authorized and regulated according to national requirements. Those funds that would otherwise expand their portfolio across borders are hindered due to operational and regulatory obstacles. In a fragmented venture capital market with currently 27 different operating environments, fund structuring across multiple borders becomes increasingly complex and smaller funds tend to avoid operating outside their home jurisdictions.

3. IMPROVING FRAMEWORK CONDITIONS FOR VENTURE CAPITAL

The deficiencies in the framework conditions as well as the barriers in the Internal Market, including lack of availability of venture capital market, are hampering capital mobility, depriving businesses of the necessary scale to fully capitalize on investments, and limit EU innovation capacity.

In this context, the government policies can create incentives for the venture capital industry and encourage investments in innovative SMEs. Public co-funding can in particular help to address the shortcomings in seed capital provision, reduce the equity gap and help to develop the venture capital market, whilst acknowledging the differences in the development of venture capital markets in the Member States.

Targeted horizontal state aid can also play a role in encouraging private investments. In the new Community framework for state aid for research and development and innovation, state aid for young innovative enterprises allows to support SMEs' first years of existence, to overcome their initial cash shortages due to insufficient funding, and to facilitate their growth.

And the new Guidelines on state aid to support risk capital investments in SMEs include a light assessment procedure with a number of elements, such as a higher investment threshold of 1.5 million Euro per SME over a period of 12 months; below this ceiling the Commission accepts that a market failure is assumed to exist [1].

Moreover, a key aspect of any venture capital investment is the exit strategy – the point at which the venture capitalist can sell its shares and release funds for new opportunities. Venture capital thus also needs more liquid exit markets in the EU, in particular growth stock markets that provide liquidity and can achieve a critical mass of advisory services.

Although venture capital is in many ways a local business, relying on close connections between funds and entrepreneurs, it is also a global one that competes for both funds and investment opportunities. Venture capital thrives around clusters and universities that produce new ideas and entrepreneurs. The European innovation policy pays special attention to supporting clusters and their cooperation that can also help the venture capital industry and its long-term sustainability by providing deal flow.

Policies that directly support the financing of innovation will, however, not be sufficient to reach the critical mass and meet the challenges of a global economy. Public-private partnerships and public incentives can contribute to overcome the equity gap, but only increased investment by private investors can provide a long-term solution. For this, the Commission and the Member States have to act to improve the framework conditions for venture capital funds, as follows:

a) *The increasing role of free movement of capital.* The free movement of capital is a fundamental Treaty freedom and the main vehicle for financial integration. An integrated financial market brings benefits to the European economy through an

efficient allocation of capital that increases long-run economic performance. A well-functioning venture capital market is an important part of the financial market, especially for reaching the goal of more innovative and competitive Europe.

b) Improving conditions for fundraising. Venture capital market provides institutional investors, such as banks, pension funds and insurance companies, with an opportunity for portfolio diversification and the choice of different risk return profiles. In some Member States, pension funds are not permitted to invest in venture capital funds or face quantitative and geographic restrictions. Wherever this is the case, a possible source of capital is absent from the venture capital market.

c) Improving the regulatory framework. A better regulatory framework would contribute to lower operational costs and risk, higher returns, increased flow of venture capital and more efficient venture capital markets. This would be advantageous for all Member States since risk capital could find the most deserving entrepreneurs and companies with the highest growth and development potential.

d) Reducing tax obstacles. In addition to regulatory questions, tax issues are of paramount importance. In order to ensure that cross-border venture capital investment is not hindered, fund structures should have features that can accommodate the individual legal and fiscal needs of investors.

The Commission has already taken various initiatives in the direct tax field with a view to improving the functioning of the Internal Market. As the Commission has previously suggested about the implementation of the Risk Capital Action Plan, there is scope for further improving national regulatory frameworks and eliminating economic and juridical double taxation on cross-border venture capital operations.

e) Progressing with mutual recognition. The Commission believes that in order to remove the barriers to venture capital cross-border fundraising and investing and to ensure the benefits of the Internal Market, venture capital structures that are functioning well in some Member States, together with those structures that are appropriate for non-domestic investors, could be adopted and recognized elsewhere.

Efforts would in practice include some regulatory changes and their implementation would require commitment at both national and industry level. Optimally, a single venture capital fund structure could be established to provide the same conditions for every fund's investors throughout the EU. This solution would not preclude national structures being used for national and locally established funds.

f) Mutual recognition of venture capital funds: a venture capital fund could be established only in its home jurisdiction and recognized in other Member State as equivalent to domestic venture capital funds and not be liable for separate establishment in each jurisdiction. National authorities could recognize that funds domiciled in another Member State and operating in their market are already subject to the regulatory regime in the home country.

4. CONCLUSIONS

In order to improve fundraising and investing across-borders, some measure should take by the European Commission and the member states, as well.

In this respect the Commission will take the following actions:

- analyze national approaches and barriers to cross border private placement. A report on the possibilities for establishing a European private placement regime will be issued in the first half of 2008;
- identify, together with experts from the Member States, cases of double taxation and other direct tax obstacles to cross-border venture capital investments; the expert group shall report by the end of 2008;
- analyze the possibilities of defining common features in order to move towards an EU-wide framework for venture capital. The Commission will also study possible ways of assisting the Member States in the process of mutual recognition.

In order to reduce market fragmentation and improve conditions to venture capital fundraising and investing, the Commission invites the Member States to:

- extend the 'prudent person rule' to other types of institutional investors, including pension funds, where it is not yet the case;
- create a common understanding of the features of venture capital funds and qualified investors and consider a mutual recognition of the national frameworks;
- overcome regulatory and tax obstacles by reviewing existing legislation or by adopting new laws. The aim is to give all venture capital funds the opportunity to specialize and diversify, including smaller specialist funds. For this reason, the goal is for funds and management companies to invest across borders under the same conditions as domestically;
- enable cooperation and mutually acceptable levels of supervision and transparency;
- encourage development of competitive clusters and promote liquid exit markets.

The close cooperation between the Member States, the European Commission and the industry is essential to implement these recommendations and to progress towards a European venture capital market.

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PROMOTION OF EMPLOYMENT AMONG YOUTH - REMARKS FOR NEXT INITIATIVES

JANUSZ GRABARA, SEBASTIAN KOT *

ABSTRACT: *In the paper authors presets experience of Czestochowa University of Technology within collaboration with Czestochowa Business Incubator (CBI). In 2005, chosen staff of Czestochowa UT have been working within brand new Phare project "Promotion of employment among youth". Because relatively high unemployment level among young people in Czestochowa city and region, the project has been implemented in order to help graduates to find their strengths and to advise in planning individual job track, to extend their job skills adequate to present and foreseen market needs, prepare them to the job interviews, prepare and help in starting own business. Authors also describe CBI's other initiatives undertaken to increase number of new business set up by young people, especially.*

KEY WORDS: *unemployment, Personal Employment Plans, Vocational Effective Activities Centre*

1. INTRODUCTION

Unemployment is one of the most important problems of Polish economy in macro and micro scale. It causes economical and social problems as well. Unemployment rate in Poland is the highest of EU countries. It is quite higher than average total unemployment rate (9% [2]) for 25 countries of European Union (compare figure 1). Częstochowa is the city in Silesia province. The employment of Częstochowa City and the district is based on the one ironworks and many SME's both foreign and domestic. However above-mentioned business cannot fulfill the employment demand. In Częstochowa City and the district, there are 16.9 and 22.7 unemployment rate, respectively. Częstochowa City unemployment rate is lower than average unemployment rates in Silesia province and in Poland. However Częstochowa district unemployment rate is higher than average unemployment rates in Silesia province and in Poland.

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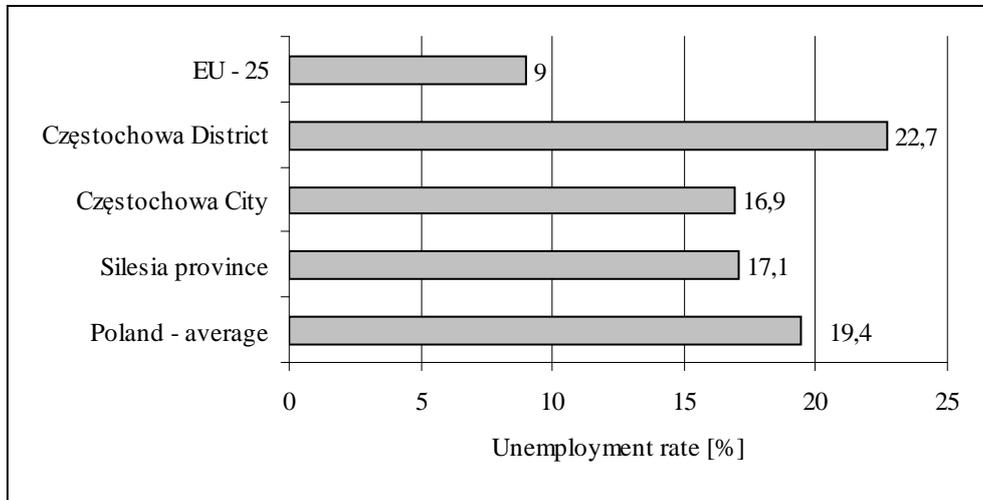


Figure 1. Unemployment rate - 2004

Source: Authors' elaboration based on <http://www.wup-katowice.pl>

Considering structure of unemployment in Silesia-province according to education level, it can be noticed that unemployed of the elementary and technical elementary education are the largest group of the jobless. Unemployed of technical and liberal secondary education are next the largest groups. The out of work of university education share amounts of 5.3% of total unemployed number, only (see figure 2).

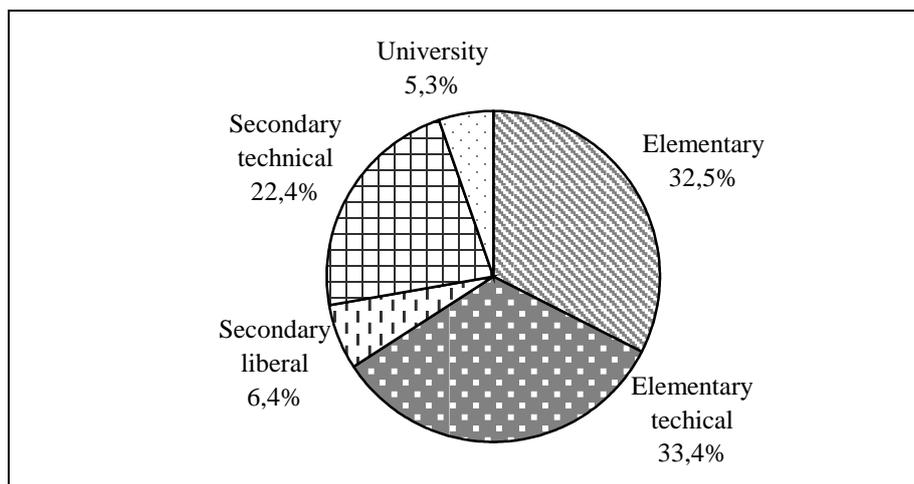


Figure 2. Juxtaposition of unemployment in Silesia-province according to education level

Source: Authors' elaboration based on <http://www.wup-katowice.pl>

In Częstochowa City and the district, there were 28450 total unemployed in January 2005. In this group there were 2386 persons of university education out of work. Namely, the share of university education unemployed amounted to 8.39% of total. Additionally, the university education unemployed number has been rising faster than other education groups (figure 3).

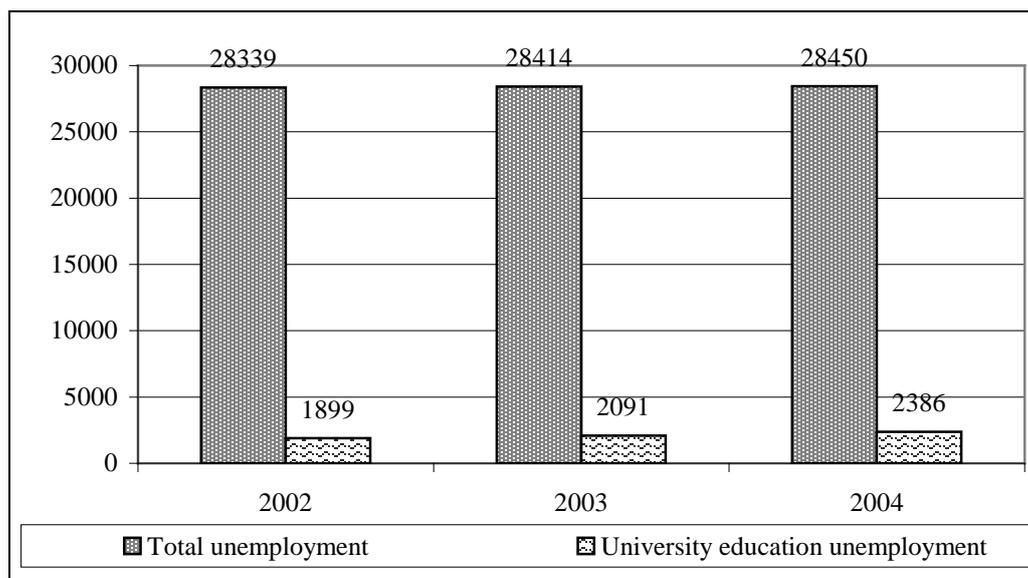


Figure 3. Czestochowa city and district unemployment - total and university education

Source: Authors' elaboration based on <http://www.wup-katowice.pl>

It is quite interesting from the scientific point of view but it is quite dangerous from the social point of view. In fact, contrary to many initiatives for employment of lower education unemployed, the university education graduates and jobless have not special government initiatives helping them in employment or in starting their own business. The university education graduates and jobless are treated as a persons those can help themselves. It is not true that those unemployed are pure educated or without a practical preparation for the job. Very often they are people with large knowledge, excellent practical skills but they are not prepared from the psychological point of view for the rising competitiveness. Many of them have excellent ideas for their own business but they have problems with legal, financial sides of business establishment.

2. THE PROJECT FEATURES

The Czestochowa universities' authority have started to look for the solution of this situation: changing curricula, improving the education quality, starting closer collaboration with the industries and local business. Czestochowa UT have participated

to some programs to help graduates in job searching [1]. In 2005, chosen staff of Czestochowa UT have been working within brand new Phare project "Promotion of employment among youth". The project is a partnership initiative of Czestochowa Business Incubator (CBI) and Czestochowa UT. The Czestochowa universities' graduates have been the project beneficiaries. The project financial assumption included fifty participants.

The project main aim – "increase young people opportunities on the employment market" could be realized through following particular aims:

- elaboration and introduction of Personal Employment Plans (PEP),
- professional skills improvement,
- collaboration with vocational guide and psychologist,
- professional experience increase within professional practice.

The aims have been realized through the following main activities:

1. *Vocational Effective Activities Centre (VEAC)* was established. Realization and coordination of all activities within the project were the VEAC tasks. The VEAC was an intermediary between the project participants and all activities. The main services of VEAC were as follows:

- personal vocational guidance,
- dissemination of information related to the project,
- help with CV preparation, preparing for the interview and salary negotiation,
- assistance in schooling organizing within the project framework,
- participants' data base elaboration for the employers, portfolio preparation,
- direct meeting organization with the employers and project participants contribution
- research and monitoring of the participants' professional future careers
- project public relations
- vacancy, professional schooling, local employment market information or newspaper free accessibility for participants.

Within the VEAC, there were two vocational guides with large experience working. Help with Personal Employment Plans elaboration and wide understood support were their main tasks.

2. *Personal Employment Plans elaboration.* Within this project activity, the participants were prepared for the job position that is inspiring and motivating for the effective work. Personal Employment Plan was divided on five stages.

The first stage consisted of participant recruitment, registering, interviews. This way the group of fifty participants was chosen plus five persons as a reserve group.

The second stage included: vocational guide interview in order to vacancy problem defining, special psychological tests determining participants professional predispositions, psychological training improving enterprising. In this stage the participants tried to elaborate their portfolios. They defined their own skills,

professional experiences, knowledge, potentials, personal features, life aims and activity motives. The participants' partition was the final results of this stage. They were divided in three groups:

- men of business initiatives;
- professional qualification transition and skills improvement;
- new professional image creation – “Independence in job searching”.

The participants had been divided according to their needs and their choice was verified according to their psychophysical predispositions based on the test and interviews results.

The third stage was composed of training suitable for the particular group. The results of this stage were participants employment or own business establishment. In the fourth stage, still jobless participants could start three months practice organized within the project to increase their experience. After that they would try to find a job once again. If some of them would fail they can be participants of the fifth stage. In fifth stage participants can use of individual vocational guidance and other below presented activities.

3. *Multimedia - stand.* The stand offering computer with the Internet access and printer were given for the participants in order to CV – preparing, job offers searching using the vocational guide support. The multimedia - stand could be used by the other unemployed.

4. *Advisory for the men of business initiatives.* Men of business initiatives could also be supported by the Advisory Point. The Advisory Point services consisted of:

- business plan preparation and initiative SWOT analysis,
- searching for the financial resources for the firm,
- advisory with the financial means gaining for the firm (grants, credits),
- searching for the partners and clients,
- customer market analysis,
- credits application fulfillment

The project participants own business establishment have been the effects of this stage of the project. Three full equipped office spaces in Czestochowa Business Incubator for six months were founded for the best business initiatives.

3. PROJECT RESULTS

During the time of this paper preparing the project schedule is on the fourth stage of Personal Employment Plan. So it is hard to point on final project results. However, hitherto: 50 participants elaborated their Personal Employment Plans, portfolios, they wrote their CV, they were trained within the suitable schooling modules, they achieve certificates that can strengthen their employment competitiveness. Four new businesses have been established, seventeen participants have found a new jobs. Twenty participants have started a professional practice. Moreover, five bulletins were published containing problems of professional trainings curricula, methods of job searching, motivation, interviews.

The experience gained within this project preparing and realizing started another initiative for youth employment. The Academic Business Incubator in Czestochowa University of Technology was established. In this initiative, students help themselves in employment increase and job searching using the experience of the staff of Czestochowa UT collaborating in the Phare project.

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THE BENEFITS OF THE SOCIALLY RESPONSIBLE PRACTICES

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ABSTRACT: *The beginnings of the concept and practices date back in time but with a greater emphasis during the 20th century. Nowadays, the definition and conceptual delimitations are subject to debate and controversy. According to the type of responsibilities assumed, the enterprise can adopt different attitudes. The socially responsible practices are initiatives that a company takes in order to voluntarily improve the way of operating such that to contribute to the good of the community and to the protection of the environment.*

KEY WORDS: *corporate social responsibility, socially responsible practices, discretionary, ethic, legal and economic responsibility*

1. HISTORIC APPROACH OF THE SOCIAL RESPONSIBILITY

The beginnings of the concept and practices date back in time but with a greater emphasis during the 20th century. Starting with the 1950s, every decade has known a new wave of definitions regarding the objective and limitations of the social responsibility of enterprises. These reflections evolved in time, as it follows: 1950-1960s: philosophical and normative approach – the first researches focused on the evaluation of the concept of CSR; studies have determined the enterprise's responsibilities regarding the society. The 1970s – pragmatic and managerial approach – the social sensitivity of the enterprise; a research trend focused on the means in which the company could really detect and manage the major issues of CSR. This approach led to giving privilege to a more procedural vision and working on the concept of corporate social sensitivity. The 1980-1990s a synthesis of the previous approaches: the social performance of the enterprise; this process was based on questions like what are the principles/ethical values of the enterprise? Or how can the enterprise put into practice its principles? 2000s – a pragmatic approach; this period can be characterised by the fact that the enterprise is looking for identifying the extra-financial factors that would allow it to contribute to the sustainable development

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without sacrificing its economic performance. Nowadays, the definition and conceptual delimitations are subject to debate and controversy. The differences between social performance, sustainable development, corporate citizenship are far from being clearly defined. However, in a large sense, it is generally accepted that the notion of CSR integrates in a global way two normative criteria: the enterprises need to fulfil their obligations regarding the social groups plurality, the enterprises have to know how to react to the emerging social demands resulting from their own environment. In these two cases it is about the qualification of the enterprises actions translated in a form of engagement towards the involved parts and this one beyond the pure legal and economic obligations. There are discretionary and ethic corporate responsibility which constitute the degree of social responsibility.

Caroll has synthesised the CSR dimensions as following:

Table 1. CSR dimensions

Social responsibility	Discretionary responsibility	This type points at the responsibilities towards which the society does not send any clear message and which remains at individual's degree of valuation (eg. Philanthropic activities)
	Ethical responsibility	This type points at responsibilities which the members of the society wait to be assumed by the enterprises even though not yet codified and comprised in laws (eg. Social norms)
	Legal responsibility	Corresponding to the enterprises' necessities to listen and obey the law
	Economic responsibility	Covering the classical roles of the enterprises during the economic life: the capacity to produce goods and services needed by the society within the framework of profitability

Source: Carroll (1979)

Considering these four types of responsibilities, the enterprise can adopt four attitudes: to deny them and adopt a reactive attitude, to do the minimum required and adopt a defensive attitude, to have a progressive attitude by continuously adapting, or to be a leader and have a proactive approach.

2. THE PRACTICE AND THE BENEFITS OF CSR

The starting points in favour of CSR are connected to two fundamental concepts: the industrial society is facing serious human and social problems due to the enlargement of corporations and the managers need to lead their businesses in such a way to solve or at least ameliorate the main concerns. The enterprise has to be open to the society's expectations in the long run in order to survive in its current status or a reduced one. Another important argument refers to the idea that "the initiative is better

than the riposte” as it is more practical and less expensive than the riposte [1]. A final argument in favour is that the public support it. According to a study done by the Business Week Review, the public will assume that the enterprises would not consider only the shareholders profits but also the responsibility towards the employees and communities even if this would mean to redistribute and diminish part of the profits.

The socially responsible practices are initiatives that a company takes in order to voluntarily improve the way of operating such that to contribute to the good of the community and to the protection of the environment. The voluntary feature is essential for an initiative to be considered as being part of CSR. It cannot be considered such an activity the initiative the changes that the company may adopt due to authorities, NGOs or consumers’ pressures.

A company can perform changes in order to adopt socially responsible practices in areas such as:

- The design of the location where they operate (designing the headquarters, production units or dispatching such that a high level of security is ensured, the environment is protected, the energy consumption is reduced etc.)
- Improving the production process (eg. Eliminating the residuals, reducing the level of chemical fertilisers etc.)
- Banning the use of products that may be considered as damaging, even though legally used (eg in 2004, McDonalds attitude to stop producing the “supersize” menus of chips and carbonated drinks)
- Offering product information in an objective manner (the packing has information about the potential negative aspects, the necessary amount the physical effort in order to burn the calories or the fats contained by a certain product etc.)
- Developing employees oriented programmes on well-being (social assistance, psychological counselling, sports and leisure)
- Ensuring responsible marketing policies especially regarding the children (prohibiting the online sales to minors, banning the marketing programmes for products that have bad influences in schools)
- Improving the access to products for the disabled people (access gates in the stores, accessible websites etc.)

3. THE PROMOTION OF THE CSR PROGRAMMES

From the media perspective, the CSR activities do not always pass over the perception according to which the “good news is not news”. The journalists are aware of the large amount of CSR reports assaulting them and creating the false image of a suddenly angelic transformation of the corporations. “It is too nice to be true”, the journalists say.

Nigel Middlemiss, CSR și Knowledge Director *Echo Research* has made a list of do’s and dont’s in order to promote the CSR programmes [4].

Table 2. Dos and Donts in promoting CSR programmes

Dos	Don'ts
Be credible, transparent, honest	Avoid disappointment, disagreement between real practice and the message, "spoiling in green" the image of the company
Be concise, clear and focus on facts	Promoting the social programmes at any cost, approaching the CSR policy exclusively form the PR perspective
Be realist and open when talking about the problem	Avoid promises that exceed possibilities
Create the communication strategy by considering also the expectations of the co-interested groups	Lack of dialogue and public consultations
Inform the public about the past CSR activities	Excess of irrelevant information
The communication component must be part of the CSR strategy	Isolating the communication component from the rest of the CSR programme

Source: Special issue "Transparență și credibilitate în practicile de responsabilitate socială corporatistă", în „Revista 22”, nr.11, 2007, p.5

What the journalists are interested in about the CSR programmes and what the companies expect from the journalists can be synthesised in the following aspects: failures, the companies' attempts to manipulate, promoting the successful CSR programmes, acknowledgement of the fact that without the CSR programmes, the governments would not be able to cover the public needs.

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QUANTITATIVE AND STRUCTURAL TENDENCIES IN INTERNATIONAL SERVICES TRADE

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ABSTRACT: *International trade in services has grown, year after year, in importance in the world economy. The trade with services undergoes a more accelerated ascension than the one with goods, but it still holds less than 20% of the global trade partly due to the barriers of entrance on the market. However, the foreign direct investments (FDI) in services are superior to those from the manufactory sector because of the growth of the efforts made by the traders in order to establish some commercial presences on the foreign markets. The liberalization of the international trade with services is likely to generate substantial benefits concerning the prosperity and the economical growth.*

KEY WORDS: *services, trade, global, growth*

The participation of the services in the world trade reached an unprecedented level in the context of the intensification of the national interests of the commercial players, as there were real possibilities of growth of the services weight in the international transactions. The evolution of the informational and communicational technology also acts in this direction. Thus, among the factors which facilitated the international transaction of services one can mention the technology of the internet, the telecommunications and the computerized system which creates a bridge between countries and transactions all over the world in easier conditions that it has ever been possible, ignoring the time and space barriers. The informatical applications codify and standardize the knowledge that stimulates the commercialization of the services, allowing their division into specific activities that are separated by other preoccupations of the firm. All these contribute to the promotion of the commercialization of the services and, therefore, to their globalization by reducing the transaction costs, innovation, location advantages, direct investments all these being, at the same time, at the basis of the commercialization and the globalization of the goods.

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Another factor that acted in the direction of the intensification of the trade with services during the last years is the globalization of the industry. The firms of services and those from the manufacturing sector that multiplied its international operations put pressure on the suppliers of services in order to support their operations whether through the export of their services, whether through the establishing of a commercial presence on the foreign markets. The technological evolutions also represent a key element in the expansion of the trade, since these ones emphasized the capacity of the suppliers to interact with foreign clients in real time, in an increased manner of effective cost. The development of a large variety of products that incorporate services created the premise of a concrete environment in order to stock and distribute information and knowledge.

An overview of the world wide trade shows a real growth of it in 2006, faster compared to the world production. The global exports with goods – in current prices – have increased in 2006, with 15%, summing up 11.76 billion dollars, while the commercial services have expanded with 11% summing up 2.71 billion dollars. Most of the exports with commercial services have been, in 2006, similar to those of the preceding years, and for the fourth year in a row, less obvious than merchandise trade.

Table 1. Global exports of goods and services, 2006

-Millions of dollars and %-

	Value	Annual rate of growth			
	2006	2000-2006	2004	2005	2006
Goods	11762	11	22	14	15
Commercial services	2710	10	10	11	11

Source: WTO, *World Trade Report*, 2007

Out of the main categories of commercial services – transports, travels and “other commercial services” – the later is the widest category and with the fastest growth. In 2006, the “other commercial services” category has registered a rhythm of growth of 13%, while the transportation and travel services have increased with 9%, respectively 7% compared to the preceding year. Beginning with the 1990, the transportation services have extended less fast than the travels, the situation being reversed in the year 2000. Thus, the weight of travels in the global exports with commercial services has registered a constant decline in the past years, from 31% in 2000 to 26.6% in 2006. The relatively slow growth of the travel services can be observed in most of the exporting regions, more obvious in North America. During this period, the weight of North America in the global exports with commercial services has diminished with 5 percentage points (from 23.2 to 17.9), while in Africa it has gain approximately 1.3 percentage points (from 3.0 to 4.3).

For the first time from 2003, the rhythm of growth of the transportation services has been lower than for trade in other commercial services; however, the weight of transportations in the ensemble of the commercial services has remained stable from 2000. The “other commercial services” category which includes business

services has been the greater contributor to the total trade of commercial services which means for the first time, almost half of these commercial exchanges in 2006.

Table 2. Global exports with commercial services, 2006

-Millions of dollars and %-

	Value	Annual rate of growth			
	2006	2000-2006	2004	2005	2006
Commercial services	2710	10	20	11	11
Transports	626	10	25	12	9
Travels	737	7	18	8	7
Other commercial services	1347	12	19	12	13

Source: WTO, *World Trade Report*, 2007;

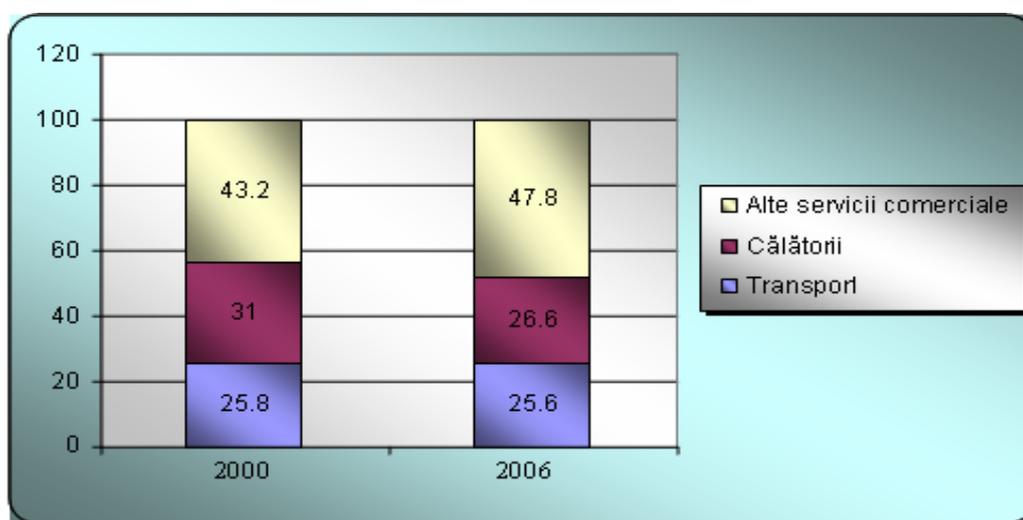


Figure 1. The global exports of commercial services per categories, 2000 and 2006

Source: WTO, *World Trade Report*, 2007

Europe has been the biggest exporter of other commercial services with 54% of the global exports of the above mentioned services category (37.4 if we take out the trade within EU), followed by Asia (21.8%) and North America (17.9%). Although in terms of value, a positive evolution has been registered, the weight of Europe and North America in the global trade with other commercial services has decreased, mainly in Asia's favor, and to a less respect, in the favor of CIS.

Europe and North America have registered, as they have in the preceding year as well, an increase of the exports and imports under the global average. Within the European Union, the commercial exchanges with services are considerably different from one country to another: France's and Finland's exports of services have had a descendent evolution, while those of Luxemburg and Poland have increased with more

than a fourth. The region with the most rapid increase of the exchanges with commercial services has been CIS who's exports and imports of commercial services have increased with almost 20 percents in the year 2006 compared with the preceding year.

Asia's exports of commercial services have continued for the third year consecutively, to expand faster than the global average, surpassing the services imports of the region, which led to the diminishment of the deficit from the services trade. Japan, the biggest exporter of commercial services of the region, has increased its exports with 12 percents and its imports with 8 percents. India has continued in 2006 as well its expansion with commercial services, the dynamic growth of the exports with commercial services being due especially to the software services, the commercial services imports being positioned with almost 5% under the exports with similar services.

The growth rhythm of the services trade of Africa and Middle East has been close to the global average in 2006.

Table 3. The growth rate of the exports of commercial services on categories and regions, 2004-2006

-% -

		Global	North America	Central and South America	Europe	CSI	Africa	Middle East	Asia
Commercial services	2004	20	13	15	20	28	21	16	27
	2005	11	10	18	9	20	12	14	15
	2006	12	9	13	11	23	11	14	17
Transports	2004	25	19	21	25	21	21	17	28
	2005	13	13	21	12	16	17	17	13
	2006	10	11	8	7	18	12	11	23
Travels	2004	18	14	14	15	39	22	8	32
	2005	8	8	13	6	10	15	13	9
	2006	9	5	11	8	22	12	7	14
Other commercial services	2004	19	11	13	20	30	19	22	12
	2005	12	11	24	10	35	3	13	19
	2006	15	11	20	13	30	9	21	21

Source: WTO, *World Trade Report*, 2007;

Based on the increasing of energy prices, the value of global exports of transportation services has increased with 10% in 2006 compared to 2005, summing up a total of 630 million dollars. EU-25 was in the above mentioned year the biggest exporter of transportation services, with a value estimated at 280 million dollars, half of it coming from the extra-community trade. The second position with 70 million dollars was occupied by the USA followed by Japan (38 million dollars). The three

above mentioned economies held over 60% of the global exports of transportation services.

With 842 million international travelers at world wide level (a 5% growth in 2006 compared with 2005), the tourism has followed an ascending path in 2006. The expansion of the low-cost lines that cover geographically dispersed destinations, has increased the degree of accessibility of a growing number of people for the international travels. During the period 2000-2006, the travels exports have increased with an average of 8% per year, although their weight in the total exports of commercial services has faced a continuous decline (from 31% in the year 2000 to 26.6% in 2006) based on the development of the commercial exchanges with other services.

In 2006, EU-25 was the biggest travel exporter (313 million dollars), although 30% of the number of the arrivals has represented visitors from outside the European Union. The United States have come second with 107 million dollars. Although the number of international tourists that have visited the USA has come to the level of the year 2000 (51 million), its weight in the world wide exports with travels has been in 2006, much lower.

Table 4. The top of exporters and importers of commercial services, 2006

-Millions of dollars and %-

Rank	Exporters	Value	Weight	The annual rate of growth	Rank	Importers	Value	Weight	The annual rate of growth
1.	SUA	387	14.3	9	1.	SUA	307	11.7	9
2.	United Kingdom	223	8.2	9	2.	United Kingdom	215	8.2	7
3.	Germany	164	6.1	11	3.	Great Britain	169	6.5	6
4.	Japan	121	4.5	12	4.	Japan	143	5.5	8
5.	France	112	4.1	-2	5.	France	108	4.1	3
6.	Italy	101	3.7	13	6.	Italy	101	3.9	14
7.	Spain	100	3.7	8	7.	China	100	3.8	...
8.	China	87	3.2	...	8.	Holland	78	3.0	7
9.	Holland	82	3.0	4	9.	Ireland	77	3.0	11
10.	India	73	2.7	34	10.	Spain	77	2.9	18

Source: WTO, *World Trade Report*, 2007

Doubling its gains from travels up to 34 million dollars in only six years, China has become the third biggest exporter on this segment. The number of international visitors in China has been estimated at 50 millions in 2006, meaning it has increased with 60% compared to the year 2000.

In 2006, EU-25 was the greatest exporter of other commercial services (684 million dollars, of which almost half represent extra-community exports). Therefore 50% of the world's exports for this sector belong to the European Union, the United States coming on second with 212 million dollars. In 2006, India's exports have increased with almost 40% and those of the Russian Federation with over 30%.

During the period 2000-2005, the sectors with the fastest growth were the informatics and informational services (17% growth), insurances (14%) and other business services (13%).

In the year 2005, the "other business services" category has had the most dynamic evolution, owing half of the global exports with other commercial services (595 million dollars), followed by the financial services (14%), author and license rights (11%), informatics and informational services (9%).

The commercial performance of the leaders that export and import services, has highly varied in the year 2006. The first three commercial leaders – USA, United Kingdom and Germany – have kept their hierarchical position both in the case of exports and imports (see table 4). France's exports of commercial services have diminished in 2006, its place being taken by Japan, the fourth in the top of the commercial services exporters. Italy has surpassed Spain, who now occupies the 6th position in the top. China's exports of commercial services have surpassed those of Holland and India, the later getting in the top of the exporters directly on the 10th position, by surpassing Hong Kong. In the year 2006, there has been no major change among the 10 first of the top of the commercial services importers.

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BRAND ORIENTATION: AN INTEGRATED MARKETING COMMUNICATION APPROACH

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ABSTRACT. *This article examines the role of tourism promotion as a component of destination image formation and describes the way to change a destination image. This is a lengthy, complicated and expensive process, hence it requires the coordination of many factors and resources and the assistance of professionals. To advance from the stage of drawing up a strategic plan for changing the destination image and creating a destination brand , it is advisable to start by defining the campaign's objectives and the target audience and analyzing the destination characteristics. In the last part of the paper, after briefly commenting the planning study and developing process of tourism destination image in Romania, points out the image of tourism destination has been playing an important role in tourism development. And in this part, we shape Romania country tourist image, based on geography characteristic and present situation of tourism industry development in the country.*

KEY WORDS: *destination brand; destination image; tourism development; marketing;*

1. INTRODUCTION

In this era of super-brands it may seem an unusual notion to consider a city, state, region or country as a brand. We buy brands because we enjoy them and they make our choices easier. In the context of a place being the focal point for the promotion and catalyst for economic development, it makes sense that it should be managed as a brand to enhance its identity and perceived value in an increasingly competitive marketplace. A branded approach should introduce focus, message consistency, and provide the leadership to unite community partners and become the focal point to add value for customers through the city's combined marketing efforts.

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Faced with growing global competition in which destinations are becoming highly substitutable, destination marketing organizations are in a constant battle to attract travelers (Pike and Ryan 2004). In response, destination marketing organizations are increasingly seen to embrace branding initiatives such as the use of taglines and logos to attract visitors and expenditures to their respective destinations (Blain, Levy, and Ritchie 2005).

Destination image is a blend of various elements (dimensions) that interfuse into destination attractiveness for the potential visitors (MacKay & Fesenmaier, 1997). Thus, the essence of destination image studies is to uncover how people visualize, think, and feel toward places. Dann (1996) states that "no two people see a destination in exactly the same way"; therefore, while investigating image of a destination, researchers focus on specific segments of a population such as local and foreigner, familiar and, close market and distant market, visitor and nonvisitor, country of origin, demographic characteristics, intending and not intending to visit, and different types of vacations.

2. CREATING IMAGES, CREATING SUCCESSFUL BRANDS

A destination brand can be developed in a variety of ways, most obviously in advertising, through direct marketing, personal selling, on websites and in brochures, but also through public and media relations, and through the co-operation of destination marketing organizations with journalists, event organizers and film-makers. Moreover, place promotion, defined as 'the conscious use of publicity and marketing to communicate selective images of specific geographic localities or areas to a target audience' (Gold and Ward, 1994), not only involves advertising and publicity, but also encompasses 'flagship' developments and 'spotlight' events in the arts, media, leisure, heritage, retailing or sports industries (Ward, 1998).

Destination branding, with its core objective of producing a consistent, focused communication strategy (Morgan and Pritchard, 1998), confronts at least three major constraints in Romania and other central and East European countries. First, a lack of adequate finance to support appropriate marketing campaigns - a common trait - has been exacerbated by limited experience of global markets and a lack of appropriate expertise. Second, tourism destination marketers may be pressured to return short-term results when long-term investment is required to build a consistent brand. Such a dilemma may be reflected in message inconsistency. Third, whereas centralized, relatively authoritarian regimes can impose some control and coherence over the component parts of a destination image, it is more difficult within market economies to develop a coherent brand for destinations that are composed of myriad products and environments.

Branding is perhaps the most powerful marketing weapon available to contemporary destination marketers confronted by tourists who are increasingly seeking lifestyle fulfilment and experience rather than recognizing differentiation in the more tangible elements of the destination product such as accommodation and

attractions. Most destinations have superb five-star resorts and attractions, every country claims a unique culture, landscape and heritage, each place describes itself as having the friendliest people, and high standards of customer service and facilities are now expected. As a result, the need for destinations to create a unique identity - to differentiate themselves from their competitors - is more critical than ever. Indeed, it has become the basis for survival within a globally competitive marketplace dominated by a handful of leading destinations which attract over two-thirds of the worldwide tourism market (Piggott, 2001).

The first step in the process of building or refreshing any destination brand is to establish the core values of the destination and its brand; these should be durable, relevant, communicable and hold saliency for potential tourists (Table 1). This should consider just how contemporary or relevant the brand is to today's tourism consumer and how it compares with its key competitors.

Table 1. The five steps in destination brand building

Step one	Market investigation, analysis and strategic recommendation
Step two	Brand identity development
Step three	Brand launch and introduction: communicating the vision
Step four	Brand implementation
Step five	Monitoring, evaluation and review

Once this market investigation is complete, the next step is to develop the brand identity. Of primary importance to this phase are the concepts of the brand benefit pyramid and brand architecture (more of which below). Once the brand's core values have been established, they should underpin and imbue every component of the brand identity, from photography, colour, typography and tone of voice to the brand marque, so that the brand values are cohesively communicated. A brand design style guide, which ensures consistency of message and approach, should also reinforce the brand values. The vision (which must be shared and 'bought into' by all its stakeholders and potential consumers) should be clearly expressed in the brand's core values, which are consistently reinforced through the product and in all marketing Communications, both above and below the line, every execution in all media contributes to maintaining brand presence. To be successful in creating an emotional attachment a destination brand has to be:

- credible
- deliverable
- differentiating
- conveying powerful ideas
- enthusing for stakeholders and partners
- resonating with the consumer.

To brand a place and deliver the desired message to the target audience, campaign managers must tackle many components that comprise the campaign. Most important are the place's logo and slogan and the used visual symbols. Each of these components contributes to the campaign's success or failure, and accordingly should be handled with utmost care.

From their accumulated marketing knowledge, many campaign managers now understand that a good slogan is a powerful marketing tool that can reflect the place's vision, create enthusiasm and be identified with the place for many years. Again, like a campaign, a slogan's wording is influenced by the target audience's characteristics and the campaign goals and has to be based on reality rather than fantasy. If a certain slogan spuriously promises golden beaches, turquoise lagoons and a unique experience for the visitor, tourists who go to the place will be disappointed and the place's image may be gravely damaged as a result.

Campaign managers have several options for delivering the campaign's central messages. The choice depends on the campaign's goals and timing, the target audience of the place and of its rivals, available resources and many other factors. The most common techniques are advertising, marketing places on the World Wide Web, sales promotion and public relations.

- *Advertising.* Advertising is based on purchasing space in the media and using it to deliver messages to target populations. Though very costly, advertising affords the campaign managers maximum control over the delivered message, the target audience and the timing of the publicity.
- *Public relations.* One of the classic definitions of public relations is given by Kerr (1993): "Public relations is the effort to build good relations with the organization's publics by obtaining favorable publicity; building up a good public image; and handling or heading off unfavorable rumors, stories and events." Public relations are a key ingredient in place promotion and its major tools are press connections, event publicity and lobbying. Despite the importance of implementing these tools simultaneously, here we focus on public relations only as they concern the news media and the effort to portray a place positively. Public relations efforts are primarily undertaken by a place's spokesperson/press officer or by an external public relations firm.
- *Marketing places on the World Wide Web.* The Internet has become a key tool in the marketing and promotion of countries, cities and tourist destinations around the world. Today the Internet offers thousands of place websites containing information for visitors, investors and immigrants. Information is provided on tourism services such as hotels and tourists attractions, education services such as schools and universities and also employment, sanitation and sports and cultural events. Some websites have maps, pictures, virtual tours, a visitors' guide, the place's vision, links to websites of local partners such as hotels, tourist destinations and firms and virtual aspect of the place.

- *Sales promotion.* By this technique limited-time bonuses are extended to encourage the target audience to consume the place and the services it offers tourists, investors or residents. Some of the more common examples of sales promotion are tax benefits for companies and factories that are willing to relocate to the place within a specified time frame, various sales and property tax exemptions, reduced prices in local hotels, free training for workers in relocating companies, inexpensive land for investors and benefits for relocating residents.

3. CONCLUSION

Integration into the global economy and accession to the EU have been prime foreign policy driving forces, especially of the more advanced economies of Central Europe. National identity and image formation have been consciously moulded towards these ends in a number of cases. International tourism has been recruited to play a significant role in this process, both in terms of image reinforcement and as an international binding agent. However, destination branding and positioning strategy are generally still poorly developed in much of the region's tourism industry, owing to a combination of lack of finance, experience and expertise.

All successful brands have social, emotional and identity value to users: they have personalities and enhance the perceived utility, desirability and quality of a product. When consumers make choices about products, including destinations, they are making lifestyle statements since they are buying into an emotional relationship. Choice of vacation destination has become a significant lifestyle indicator for today's consumers and the places where they choose to spend their increasingly squeezed vacation time and hard-earned income have to be emotionally appealing, with high conversational and celebrity value. The battle for consumers in tomorrow's destination marketplace will be fought not over price but over hearts and minds, and this is how places have moved into territories previously reserved for consumer brands.

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INCREASE OF COMPETITIVITY OF PRODUCTION MANAGEMENT BY UTILIZATION OF ENTERPRISE RESOURCE PLANNING (ERP) SYSTEM

ANCA JARMILA GUȚĂ, ANA PETRINA STANCIU *

ABSTRACT: *The paper presents the mode in which the utilization of enterprise resource planning (ERP) system contributes to the increase of competitiveness of production management. ERP system is a soft which incorporates inside all the aspects of an organization activity combining all the departments and functions of an enterprise into an integrating and informing system which is able to realize the highest performances if it is properly managed. Such systems suppose the integration of all informing functions of enterprise by using a unique data basis accessible in accepted limits of confidentiality of the various hierarchical steps. By introduction and utilization of such system are assured the transparency of business on the whole and are avoided incomplete or partial erroneous decisions determined by the deficiencies of communication process.*

KEY WORDS: *enterprise resource planning, material resource planning, computer-aided-design, computer integrated manufacturing, computer aided manufacturing*

1. INTRODUCTION

The aim of unfolding of the activity of every enterprise is the commodities realization or providing services that are meant to the market. As a result of the sale of these commodities or services the enterprise will obtain incomes which would permit to it to begin a new production / providing services cycle who leads to the carrying out of the same aim.

For a better understanding of the content of production management, the enterprise must be seen as being an economical system. Of this point of view it is composed of an ensemble ordered by the elements found in interconnexion and interdependence which, under the action of different stimuli, can realize some

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performances. This economical system is concretized in a production system; as part of this an ensemble of input elements is transformed into an ensemble of output results, through the agency of a process.

The production system (to understand enterprise) is formed of several component systems which can be decomposed in more little components. Thus, the production system includes:

- the manufacture system, which also includes the organization and management system of production; more analytically, these comprise also its component elements which also can be considered autonomous systems;
- the marketing system, which includes the component activities concerning the sales as well as those connected with the study of the market;
- the financial accounting system, which comprises all that is connected with the ensuring of financial resources as well as the pursuit of its spending by the accounting system of the enterprise;
- the human system which refers to all the aspects connected with the work force. The human being must be the central element of the activity of every enterprise. If the human factor is neglected, this aspect will have certainly repercussions, earlier or later, on the results of respective firm. Affecting its economical and social performances;
- the research and development system will include inside the aspects connected with promotion of the new inside the enterprise with an intensity which must be in concordance with the long term targets of the enterprise;
- the informational system, which comprises the information waves necessary for carrying on the enterprise activities; this one has an important roll in the ensuring of the feed-back without whom the enterprise can't work adequately, realizing in this way the proposed targets.

The production management comprises the ensemble of actions and decisions concerning the production process so that the resulted goods and services would be in accordance with of the customer specifications concerning the range of commodities, the quantity, the quality, the deadlines and a cost as reduced as possible.

The production management comprises two kinds of action and decisions, which are the following:

- *long duration decisions* which have a long term impact connected with planning of firm. Here are included the aspects connected with the choice of fabrication profile, of the products and services which will constitute the activity object, the choice of technical means which will realize the production process as well as the general problems concerning the location of the new objectives or connected with the general enterprise organization system and of the production management. These types of decisions define the development strategy of the firm.

- *short duration decisions* with the impact relatively restricted in time which are those connected with the work, monitoring and evaluation of the results of the organization and management implemented system. These decisions are found in the Operational Management of Production.

A distinctive stage in the evolution of the production management and implicitly of the production system constitutes the computer data processing of different component elements with direct consequences over the firm performances of the firm in its aggregate. In sixty years of last century the first computers utilization appeared as part of the firm activities and as part of certain activities of the system.

So, the first stage of the computer data processing of the production systems was Computer-Aided-Design – CAD. The computer introduction in the design activity was realized initially with the priority and exclusive aim to reduce the work volume of the employees of this domain. The computers have contributed to the realization graphic of a design for its different stages and they have offered the possibility to the designer to interfere with some modifications in the different phases, or in case when these are proved to be inopportune they should return to the initial design. All these interventions could be realized in a shorter time comparatively with the traditional manner of designing. Also by the testing computer data processing modulus of the prototypes could be discovered and remedied certain problems without arriving to engage supplementary costs by its establishment after the prototype has been realized and actually tested.

The following phase of the computer data processing was represented by introduction into the production – the CAM (Computer Aided Manufacturing), either by utilization of computers directly in the production process, or by the implementation of some systems which would contribute to a good development of the manufacturing process – the capacities planning, the supply, the quality management or the distribution activity. The equipments connected directly to a computer were helping to continuous production monitoring, offering the information connected with the hour productivity, the reject rate, the stocks management in every work place. If a computer was installed in a group of equipments – for example on the manufacturing line, it could be realized the co-ordination of this activity sector and a better pursuit of the whole process.

The following stage was the first phase in the computer data processing which approached in integrity the firm activity by considering also the other activities which weren't components CIM (Computer Integrated Manufacturing). We can appreciate that this stage is the one in which the system approach pass on the consideration of the firm as being a holon in which each component part is considered as a subsystem which by the realization of firm targets as aggregate. We can appreciate also that this approach lies at the basis of the present-day stage of the evolution of computerized systems, respectively ERP (Enterprise Resource Planning) by the organization in different modulus which has auctioned in integrity on the basis level.

The last stage in the development of computerized systems of the firm refers to the total integration on the computerized support of all the activities of its ensemble; this suppose that every employee realizes his work charges transparently and the results of his work must be transferred continually on the computerized support depending on its contents. These results will be processed at the level immediately superior of the hierarchical point of view and transmitted as such to the other levels interested in their knowledge in the limits of the confidentiality observance for certain information. This stage of computer data processing created the necessary premise for entering of the respective firm on the electronic business market, respectively the Internet.

In aggregate, we can appreciate that these computerized production systems lead to obtaining and supporting of a competitive advantage of the firms which implement them, by the advantages which those obtain if they are utilized correctly and systematically. Between these advantages we can remember:

- 1) the increase of flexibility degree and accommodation of the system to market's demands and its dynamics;
- 2) the possibility to interfere inside the system just as this signals out a deviation from the previous established programmes;
- 3) the realization of production in the minimum budgeted costs;
- 4) the rapid recovery of fixed costs determined by the big investments through the increase of the work productivity;
- 5) the realization of the minimum level of products quality;
- 6) the more efficient accounts and stock control.

Beside these advantages these systems have also disadvantages, between the most important are:

- 1) the system implementation is an expensive element both of material point of view and that of time consumption;
- 2) the post-implementation costs-between them an important roll having the maintenance and up-graduation-are very high;
- 3) the introduction of an such system supposes an increase of the ratio of high skilled personnel with the abilities in the utilization of a such system-system engineers, analysts, economists, engineers;
- 4) the decision of implementing a such system is relatively easy because in reality its efficient utilization supposes a new approach of work tasks on the part of the employees even the change of their mentality.

2. ERP SYSTEM - ENTERPRISE RESOURCE PLANNING - THE FIRM SOLUTION IN THE FUTURE

2.1. The historical evolution towards the present-day ERP

From 60 years of last century when appeared for the first time the concept of MRP - Material Resource Planning the evolution towards the computerized

contemporary systems has begun. Initially this MRP had a complex software for that time, but simple for today, in which the necessary of supply for a certain pre-established outputs. The intervention in such system was inexistent during the planned process that conferred to it the characteristics of a Push type system. In such system they didn't have taken corrective measures only at the end of a production cycle, the fact which conferred to it a low degree of adaptability to a dynamical market.

Towards the end of 60 years – the beginning of 70 years the MRP II system – Manufacturing Requirements Planning – appears. Having on the basis MRP system, this new takes into consideration also the other aspects connected with the development of the production process as would be those connected with the *human resources* – necessary, the pursuit of the activity and of their work results, the *equipments* – degree of utilization of the capacities, the possibility to realize certain production assignments, the *stocks level* not only at the supply level but also inside the production. We can say that a MRP system has an increased degree of integration in comparison with MRP and that it has a better adaptation to the dynamical economic environment. The limit of this system consists in the fact that it remains a software at the level of the function Production, but as part of it approaches by its contents the various up indicated aspects. The MRP II system makes the link to push type systems, which take continually in consideration the market and its demands. The following step in MRP II evolution has been its extension at the level of distribution process.

Still beginning of 70 years we can observe an interest for integrate the various activities inside the firm but we can appreciate that these attempts were timid and usually the integration degree was vague resulting often a global ineffective and fragmental system. The improvement was made on the system components and in most cases they weren't correlated between different components so that the final effects weren't always those expected. In this context, 90 years, which have brought the first ERP, represented a solution for solving the problems of old systems, which had begun generate more bigger costs of maintenance.

In 2000 years we can affirm for a certainty that ERP is a present-day solution which must be made topical according to the new demands of the market. Thus to the classic modulus the new function are added to the original packets as could be *Supply Chain Management* as extension to the initial packet Supply or *Service Customer Management*, an extension of already traditional CRM.

2.2. The content of an ERP

The ERP production system is a software which incorporates in its interior all the aspects of activity of an organization, reuniting all the departments and function of an enterprise in an integrating and computerized system which is able to realize superior performances if it is well managed. A such system suppose the integration of all informational flows of the firm utilizing an unique data base accessible in the accepted limits of confidentiality of the different hierarchical steps. By the implementation and utilization of such system is assured the transparency of the

business in its aggregate and is avoided taking some incomplete or partially erroneous decisions determined by the deficiencies of the communication process.

The departure point of the system constitutes the characteristic elements of organization and traditional management of the production reflected also in the other systems as MRP, MRP II and JIT. The problem of designing of a single software which can serve for the needs of all the departments of the firm is one difficult, because every department has an own computerized system specialized in different functions and charges. The ERP software combines all these systems and reunites them in that unique data base which permits the information exchange between the departments and the making efficient the interdepartmental communication process. The information are registered and monitored of multiple outlooks and the access is assured indifferently of department which has introduced them in the network.

The principal ERP function is to present the information in a “standardized” manner which can be utilized by every beneficiary and which allow a rapid and efficient collaboration between different compartments.

However, it is proper to be mentioned the fact that, finally, the decision is taken also by the point of view of the human element so that the power to take correct decision consists also in the human resource capacity with the support of ERP data base.

The ERP systems are the commercialized packets of software firms and for that reason in their interior can't found the complete needs of a firm. Essentially, these packets contain the following:

- the production planning;
- the supply management;
- the stocks management;
- the management of relations with providers;
- the management of relations with customers;
- the pursuit of manufacturing programs execution;
- the human resources management;
- the financial management.

When a firm decides to acquire such software it has at least two alternatives: either it modifies the internal process according to the own needs. The first variant is better because the personalization implies many times the supplementary unexpected high costs as well as a great time consumption until the efficient functioning.

3. ADVANTAGES AND DISADVANTAGES OF ERP SYSTEMS

From the facts told till now is evident that ERP represent an innovation of the traditional concept of production management and that their implementation can determine a competitive advantage for the beneficiary firms. Between the advantages of an ERP we can mention:

- 1) the existence of the unique data base, based on an informational flow continually brought up-to-date, which is accessible to the different departments indifferently of their specific character or their geographical position determines an efficient and transparent communication process which is possible in shortest time;
 - 2) the standardization and accuracy of data base at the level of the whole firm;
 - 3) the informing applications have on the basis the best “practices” of the respective branch;
 - 4) the specific objects of every function are approached unitary by their inclusion in the integrated system at the firm level;
 - 5) the process optimization inside of the firm and increase of capacity to provide sure information in real time which leads to a realistic and objective planning of the future objects;
 - 6) a better capacity of adaptation to customers demands by the continuous development and bringing up-to-date of modulus with customers as well as the data accessibility of this modulus towards the other interested departments;
 - 7) the possibility to interfere in every moment and, moreover, this intervention is known in the different requirements;
 - 8) high degree of adaptability to demands of every firm by offering of some specific packets to different requirements;
 - 9) the premises are created for an electronic business of the firm.
- Besides of all these advantages ERP have also disadvantages, between them are:
- 1) the unique data base is complex and this can determine the absence of comfort on the part of the employees in finding of different necessary information;
 - 2) the necessity to train the staff before to become ERP beneficiary, the trainings which are made as a rule by the person who sells ERP and which are expensive enough. In addition the concrete situations can be different of those met previously and the person must have some competences in solving some problem;
 - 3) the standardization can become a minus at a time when some aspects can't be included in those files which can't be modified and consequently can't be point out the problems ensemble which lies behind some data or information;
 - 4) the utilization difficulties of different information when the up gradation isn't realized;
 - 5) the implementation costs are large and make in practice impossible the acquisition of all component modulus and this determines more bad performances in comparison with the other firms which utilize all the component modulus.

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ECONOMIC ANALYSIS OF E-BUSINESS INVESTMENT PROJECTS

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ABSTRACT: *E-business and IT projects must offer a good return on investment (ROI) in order to be funded. This paper deals with the concepts we need for a clear understanding of this problem in order to calculate ROI for e-business and IT projects. Also, we have to know the limitations of calculating ROI and the best practices for identifying and incorporating uncertainty and risk into ROI analysis.*

KEYWORDS: *e-business project, information technology, return on investment, management decision, risk, cost, benefit*

1. INTRODUCTION

In the last years many companies had invested heavily in Internet, e-business and information technology. When capital to invest is insufficient, new e-business and information technology (IT) projects must show a good return on investment (ROI) in order to be funded. ROI is a project's net output (cost savings and/or new revenue that results from a project less the total project costs), divided by the project's total inputs (total costs), and expressed as a percentage. The inputs are all of the project costs such as hardware, software, programmers' time, external consultants, and training. Therefore, if a project has a ROI of 100%, from its definition the cash benefits out of the project will be twice as great as the original investment. But should a manager invest a company's money in an e-business project if it has a projected ROI of 100%?

There are many factors one should consider when making an investment decision. These factors include, but are not limited to those listed below:

- the assumptions underlying the costs of the project;
- the assumptions underlying the potential benefits;
- the ability to measure and quantify the costs and the benefits;

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- the risk that the project will not be completed on time and on budget and will not deliver the expected benefits;
- the strategic context of the firm - does the project align with the It objectives of the firm and how does it fit within the portfolio of all IT investments made by the firm.

The definition of ROI given above is not rigorous enough for good investment decision-making. Also, the assumptions underlying the model and risks associated with the IT project are key drivers of uncertainty in any ROI analysis. Awareness of these uncertainties and the impact of risks on ROI can significantly improve the likelihood of successful investment decisions. The return on investment for corporate information technology investments have been the subject of considerable research in the last few years. The most recent research suggests that investing in IT does on average produce significant returns.

The firms regularly calculate the ROI of IT projects prior to making an investment decision, ROI being an essential component of the decision-making process. Therefore, ROI is an important component of the information technology investment decision made in many large companies.

ROI analysis is primarily used to justify an investment decision before the investment is made. Performing post-project analysis provides valuable feed-back to the investment decision process to verify the validity of the original ROI analysis, and the feed-back improves ROI calculations in the future. Feedback enables the weeding out of underperforming projects. Full life-cycle ROI analysis translates into better information to make better decisions, which in turn should impact the returns for the total corporate IT portfolio of investments.

The total IT investments made by a firm can be thought of as a portfolio, similar to a financial portfolio of stocks and options. Each IT investment will have a different risk and return ROI and, because capital is limited, selecting the optimal portfolio is a challenging management decision for any firm.

The methodology for choosing and managing an optimal IT portfolio is called IT portfolio management. This process includes the use of scorecards so that executive managers can rate projects on multiple dimensions and ultimately rank projects in relative order of importance to the firm. A typical scorecard will include several categories that help quantify the value of a project to the business and the risk of the project.

2. PROJECT EVALUATION CRITERIA

The key concepts in the evaluation process are the time value of money and internal rate of return (IRR). We have to mention here that ROI analysis for e-business investments and IT is in principle no different from ROI analysis for other firm investments such as plant and equipment, research and development, and marketing projects. All use the same financial tools and metrics and follow the general framework. The correct approach in the project evaluation process is to consider the

time value of money and, therefore, to discount the cash - flows. The rate r used in discounting the cash - flows is called the discount rate and is the annual interest rate investors demand for receiving a later payment. This argument can be generalized to a series of cash flows $A_1, A_2, A_3, \dots, A_n$ received in time periods 1, 2, 3, ..., n . The value of these cash flows today is calculated from the discounted sum

$$PV = A_1/(1+r) + A_2/(1+r)^2 + A_3/(1+r)^3 + \dots + A_n/(1+r)^n \quad (1)$$

where n is the number of time periods and PV is called the present value of the cash flows. Discounting a series of cash flows is mathematically equivalent to weighting cash received in the near term more than cash received further in the future. The effect of inflation is generally ignored in the cash flows, so that $A_1, A_2, A_3, \dots, A_n$ are given in today's prices. Inflation can be included in the present value calculations by adding an inflation factor to the discount rate. This is particularly important in economies that have high inflation rates.

In order to compare projects that have different costs (investment amounts), it is useful to subtract the initial investment costs I from the present value, thus obtaining the net present value (NPV):

$$NPV = PV - I \quad (2)$$

When making investment decisions, one always strives to invest in positive NPV projects. If the NPV of a project is negative, this means that the initial investment is greater than the present value of the expected cash flows. Investments in projects with negative NPVs should not be made, because they do not add value to the firm and actually extract value.

If capital is limited or rationed one must select investments that have the greatest returns for a given dollar of investment. A useful ratio capturing this idea is called the profitability index:

$$\text{Profitability Index} = \frac{\text{Net Present Value}}{\text{Investment}} \quad (3)$$

The present value and net present value depend upon the discount rate. The discount rate used for investments in a specific firm is defined by the expected return of the combined debt and equity of the firm for a given industry. This discount rate is called the weighted average cost of capital (WACC) of the firm. The discount rate is related to the risk of an investment so that firms in high-risk industries such as technology have higher WACC. Due to this risk-return relationship, the discount rate for more risky technology project investments is sometimes increased relative to that for less risky investments when NPV is calculated.

The definition of ROI given before does not include the time value of money. It is therefore not a convenient way to compare projects when the inputs and outputs vary with time, and it is also not useful for comparing projects that will run over

different periods of time. Due to these deficiencies, one typically uses internal rate of return (IRR).

The IRR is the compounded annual rate of return the project is expected to generate and is related to the NPV of the project. The IRR is the discount rate at which the NPV of the project is zero or the average discount rate where the cash benefits and costs exactly cancel. When the IRR is greater than the project discount rate, or WACC, we should consider accepting the project - this is equivalent to a positive NPV project. When the IRR is less than the WACC the project should be rejected because investing in the project will reduce the value of the firm.

Another concept that is a useful tool when combined with IRR and NPV is that of payback period. The payback period, or payback, is the time it takes for the project to recover the initial investment. The payback period is calculated by cumulatively summing the net cash flows of a project. When the sign of the cumulative sum of the net cash flows changes from negative to positive the project has "paid back" the initial investment. The payback period for a typical e-business project can be in the range of 6 months to 2 years, depending upon the type of the project. It is unusual for an e-business project to have a payback period longer than 2 years. In making investment decisions, projects that have good IRR and the shortest payback periods are most often selected.

3. PROJECT PARAMETERS

The costs of a project are often the easiest component of the IRR analysis to quantify. These costs may include items such as hardware, software, license fees, programmers' time. Professional services, project management, hosting fees, outsourced contractors and ongoing operating expenses. IT managers strive to keep the total cost of ownership of new products and systems at a minimum.

Minimizing total cost of ownership is related to the build vs. buy decision for a new IT or e-business project. This is because custom-built applications can have high total cost of ownership over their useful life. A useful rule of thumb is that if less than 10% custom modification to a packaged enterprise application is necessary then it is generally cheaper to buy than build. Greater than 10% custom modification puts the cost of building vs. buying about even, because new version releases of the packaged software will require continual custom modifications.

Accurately quantifying all of the benefits of an e-business or IT system is the most challenging part of any ROI analysis. In practice one can often quantify the major hard cost savings. Revenue growth is more difficult to estimate and must come from market research, industry data and past experience. It is often not possible to quantify soft benefits such as customer satisfaction and strategic advantage. The analysis therefore typically includes cost savings and revenue generation that can be estimated, and unquantifiable soft benefits are not included. This means that the ROI calculated

will potentially be less than the realized ROI including soft benefits. One must then subjectively consider the project's soft benefits and how important they are to the firm. An ROI analysis is only as good as the assumptions that go into the analysis.

4. IT PROJECTS' RISKS

The risks of a technology implementation project can have a significant impact on ROI analysis. The majority of large IT projects fail to deliver on time and on budget. The technology implementation project enters into the ROI analysis through the cost of the project and delays in realizing the revenue benefits, so that risk events often increase the cost and time of the project, decreasing the overall ROI.

More IT project managers from U.S., Finland and Hong Kong, based on their research studies, listed the common risk factors for any technology project in order of importance. These are:

- lack of top management commitment to the project;
- failure to gain user commitment;
- misunderstanding the requirements;
- lack of adequate user involvements;
- failure to manage user expectations;changing scope/objectives;
- lack of required knowledge/skills in the project personnel;
- lack of frozen requirements;
- introduction of new technology;
- insufficient/inappropriate staffing;
- conflict between user departments.

What is very interesting about this list is that managers across continents and in very different cultures perceive the same major project risks in order of importance. It is also interesting to note that technology is mentioned only once in this list (it is third from the bottom). In the early and mid-1990s Internet technology was new and many new Internet technology projects of that time period were "bleeding edge". These new Internet solutions were much more complex than previous IT systems. In addition, the Internet mania and infusion of vast amounts of venture capital pushed product development to "internet time" in order to grab market share. ROI for such new technology, where costs and benefits were relatively unknown, was very difficult to define.

After 2003, with Internet technology entering the mainstream and distributed architectures becoming more the norm than the exception, practically all technology investments are required to demonstrate a good ROI. Fairly good and systematic cost estimates for e-business systems are available today. The business benefits of these systems, although still difficult to quantify, are easier to estimate than when the technology was introduced for the first time.

As we can see, the primary project risk factors are therefore not technological but organizational. These risk factors involve the people who will support and use the project and are risk factors that a project manager has little or no control over. Organizational issues are an essential consideration for the success of any technology project. The list mentioned above is a simple tool one can use to assess the major risks of a project that may impact the ROI. If any of these risk factors are present, they should be included at least qualitatively in the management decision.

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MARKET AND IMPACT STUDY SETTING UP MMX DISCOUNT STORE

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ABSTRACT: *The paper is focused on the following elements of the impact study's content: social and economic features of the area and the social, economic and commercial impact. Currently we witness the materialisation of the research's results by setting up such a store MMX DISCOUNT in the town of Vulcan from the Jiu Valley.*

KEY WORDS: *entrepreneurship, discount segment, retail market, implant area*

1. INTRODUCTION

The content elements of the impact and market study regarding the setting up of the MMX DISCOUNT store are:

- The motivation for choosing the implant area;
- The commercial map of the implant area and the description of the sales structures existing in the area;
- The demographic characteristics of the area;
- The social and economic characteristics of the area;
- The impact of implantation from the social, economic, commercial and urban point of view:
 - Location in space and the urban impact of the implantation;
 - Fitting into the overall traffic;
 - Protecting the consumers' interests;
 - Commercial, social and economic impact and job creation.

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2. SOCIAL AND ECONOMIC CHARACTERISTICS OF THE AREA

The town of Vulcan can be generally characterised as an area with a relatively low level of life quality, mainly due to the high rate of unemployment, most households having low and very low incomes. Only the people still working in the mining system, or the entrepreneurs, have average monthly incomes over 1000 de lei, but a large part of the employees from other fields of activity (including commerce) has incomes at the level of the minimum wage per economy.

Thus, of the 4133 employees, 2850 work in state-owned companies and institutions (most of the them in the mining industry), and 1275 are employees of commercial companies. The number of the unemployed is significant (808 unemployed persons according to official records), but we also have to take into consideration the category of the unemployed who do not have any benefits (this category is locally acknowledged, but it is not officially quantified).

The work methodology was based on the questionnaire technique. The values of the determined statistical the parameters are: total population: 32,514 inhabitants, number of persons surveyed: 311, 270 questionnaires were validated, sample $n=270$; dispersion $\sigma^2=0.0009259$; standard deviation $S=0030$; level of confidence 95%; error accepted $\pm 5\%$ probability $p=0.5$. From conducted the survey, in the context of this study, appeared that 13.8% of the respondents were either unemployed in payment (6.4%), unpaid unemployed/ supported (7.4%), as it can be seen in Figure 1.

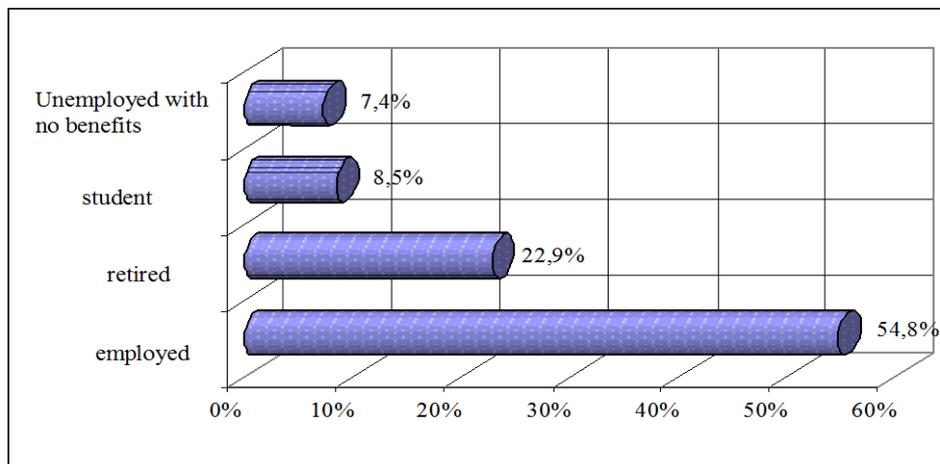


Figure 1. Structure based on social and economic categories

Also, most of the respondents (55.1%) said that the average monthly income per family is between 400 and 1,000 lei, and 13.7% had incomes under 400 lei (see diagram in Figure 2). This, as the national average total monthly income of one household was 1307 since the last quarter of 2005 and average gross wage in April of this year was 1387 lei (according to NSI data).

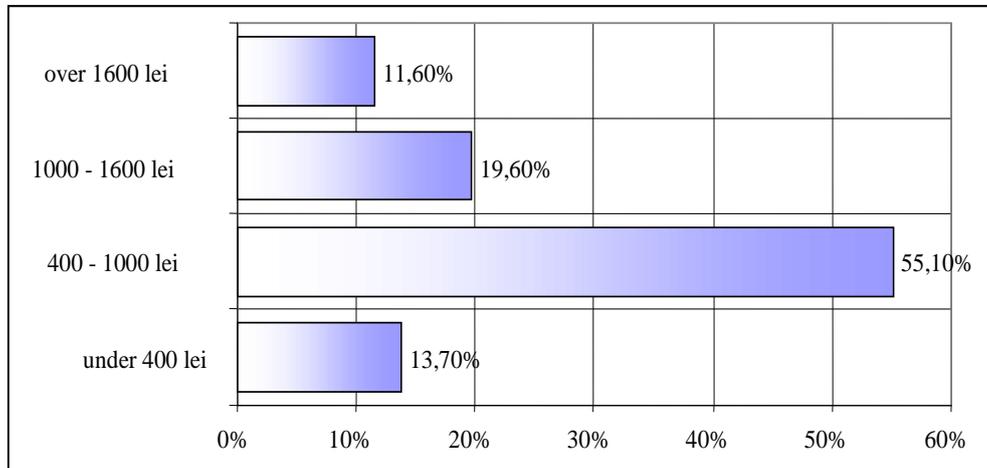


Figure 2. Structure of respondents from the average monthly income's point of view

As such, it is obvious that this situation requires us to start new activities that build local employment and contribute to the increase in employment rates and incomes of working-age population.

On the administrative area of the town of Vulcan there are 809 companies, of which 622 Limited Liability Companies (SRL), 87 family associations (AF), 85 general partnerships (SNC), 12 joint stock companies (SA), 3 sleeping partners companies (SCS). Related to the number of existing companies in 2001, it can be appreciated the positive dynamics recorded on the overall (increase of 2.2 times) and on categories (except for the last, the number of SCS reducing from 4 to 3). Thus, compared to the year 2001, signs of growth in the number of firms have been as follows: SNC - 3.5; LLC - 2.2; SA - 2; AF - 1.7.

The residential area of the town of Vulcan has the characteristics of an area with the small-medium height, in particular consisting of blocks ground floor +4 stores located in the central area of the town and houses. Industry, represented before 1990 almost exclusively by the mining units and related activities, saw a pronounced regression.

Observing the target area indicates that the process of buying on the local market (including the search and selection of consumer goods necessary, purchase and transport of these goods) is restricted not only by the reduced purchasing power, but offer limited (quantitatively and qualitatively) of the existing sale structures. Under these circumstances, the frequency of purchase for most of the people surveyed is two or three times a week (Figure 3), and the purchase decision are influenced mainly by the price of the products (Figure 4).

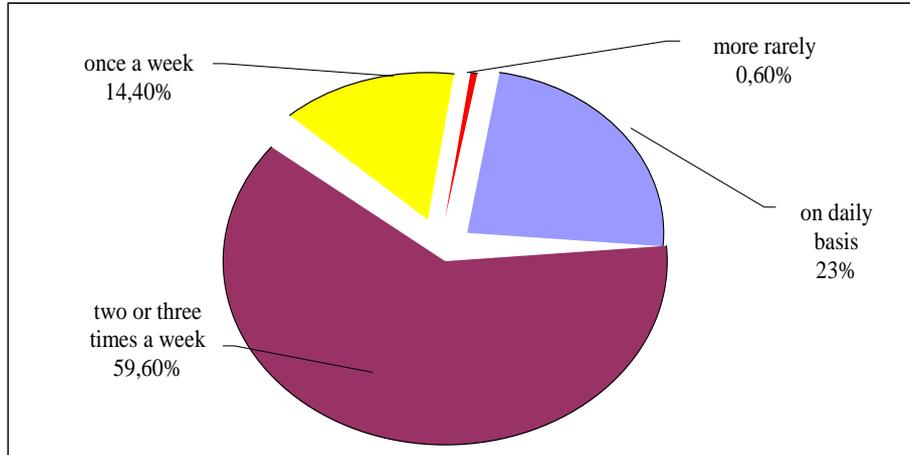


Figure 3. Repartition of buying frequency

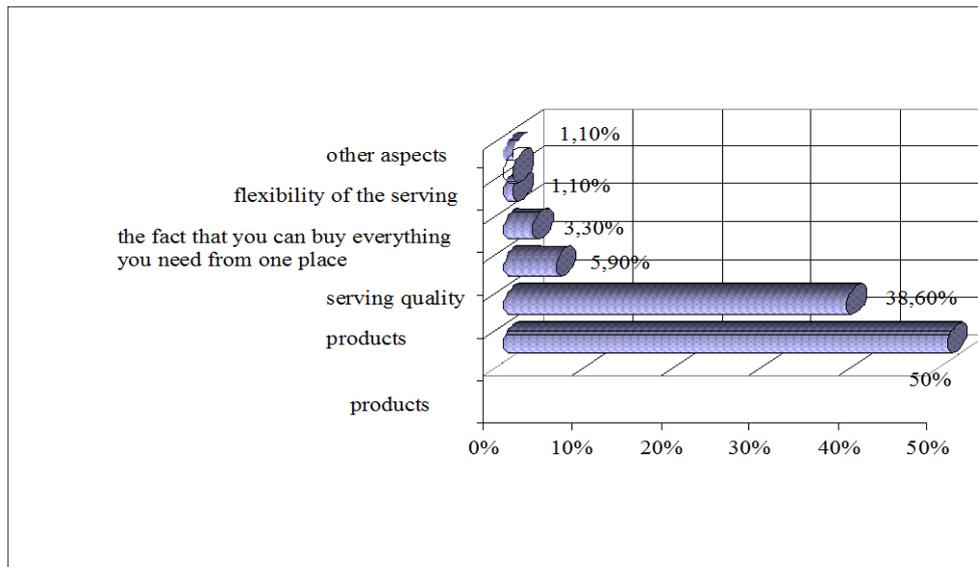


Figure 4. Prioritising factors that influence the decision to purchase (the choice of location)

All the socio-economic characteristics mentioned before influence therefore the consumer habits and the buying behaviour, dominated by purchases made through traditional channels/forms of trade in which existing stores fall (Figure 5).

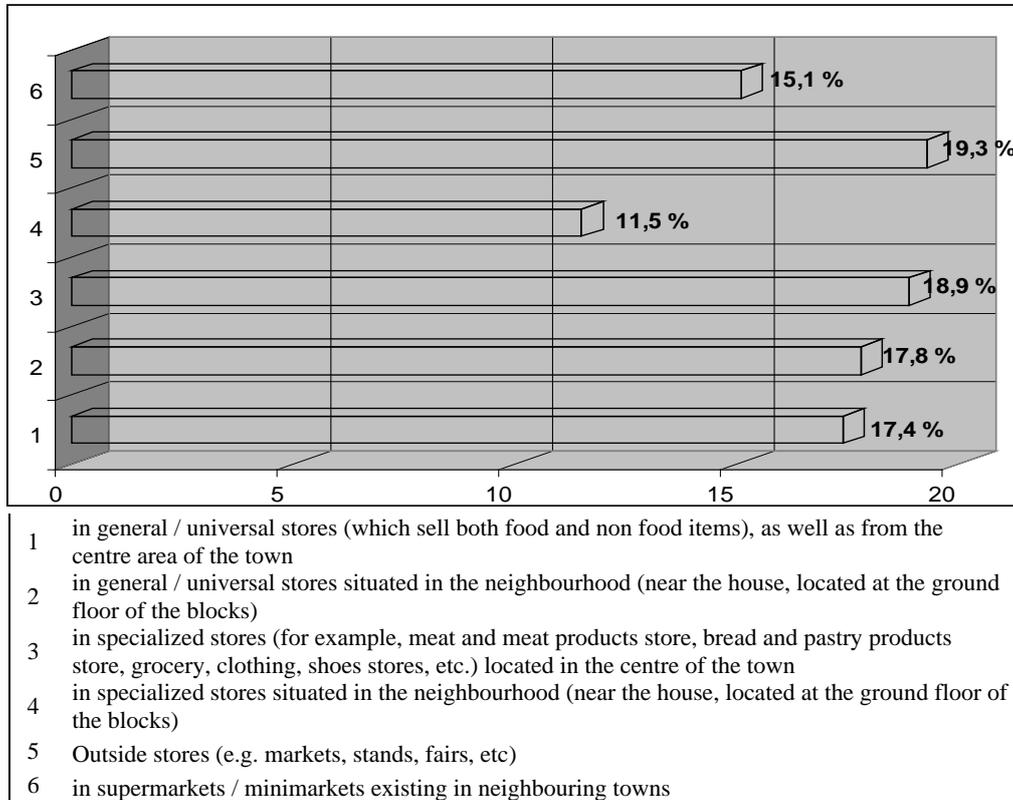


Figure 5. Buying habits on sales structures

Chart displayed in Figure 5 on the basis of responses to Item 2 of the applied questionnaire (regarding the buying habits on sales structure), reflects a relatively balanced distribution between purchases outside stores (19.3%) and stores specializing in the centre of town (18.9%), and between the different types (general/universal) neighbourhood (17.8%) and those located in the central area of the town (17.4%). However, it is also noted the habit of buying from supermarket/minimarket type stores in neighbouring towns, which was found in the responses of 15.1% of the respondents.

In this context, the proposed investment with the objective of implantation an MMX DISCOUNT store in the previously described area of the town of Vulcan, responds not only to the general requirements of urban development and to the objectives of local socio-economic recovery, but also to those of the representative individual buyer. It also addresses the criteria for spatial location (urban impact), to protect the interests of consumers, the socio-economic and commercial impact provided by GD 1454/2004.

3. IMPACT FROM THE SOCIO-ECONOMIC AND COMERCIAL POINT OF VIEW

The implantation of the "MMX DISCOUNT" shop will have a positive impact both on the local economy and community as a whole, and at the individual level, on the inhabitants of the town of Vulcan. Among the possible beneficial effects the following could be mentioned:

- the investment attracted in the area to build the store will be of about 750,000 euros, according to the MMX DISCOUNT network policy and, in addition to the opportunity to use local labour in the construction phase, opening the store will create about 20 new stable jobs, which would reduce the number of unemployed people previously mentioned by about 2.5%;
- the urban image will improve due to a modern building, equipped with its own parking lots, and by landscaping of the area adjacent to the area which currently is not decorated or properly maintained;
- local trade will align to national trends of expanding modern forms of trade through stores with facilities at the level of EU standards;
- competitive mechanisms of the local market will be fluidised through the diversification of products and increase of the quality of service, for the direct benefit of residents with middle and small incomes (segment of consumers who are addressed directly by the MMX DISCOUNT network's offer);
- belonging to a different segment than the traditional existing sale structures (discount segment), the MMX DISCOUNT store does not constitute a direct competitor for them. On the other hand, by increasing competition in the discount segment (locally represented by another store of the same type already in the construction phase, as specified), consumers will benefit from their fight to attract and increase loyalty in customers (through promotional offers and price advantages);
- the possibility to attract buyers from neighbouring towns, which do not have such structures for sale, with beneficial collateral effects for the increased influx of visitors to the town Vulcan.

The main elements whose result is the impact of implantation of the MMX DISCOUNT store in the proposed area in terms of urban, commercial and socio-economic aspects are listed below.

3.1. Protecting the consumers' interests

The results of the market survey conducted on the population of the target area have shown a considerable frequency of the responses of those who used to buy products for current use in the supermarket/minimarket type stores in the neighbouring towns (15.1%). This reflects the great interest of local consumers in making purchases from the modern sales structures, under which it is embedded the one proposed for implantation (MMX DISCOUNT store).

The definite confirmation that is a goal of broad interest to local consumers is given by the answers to item 1 (*How do you evaluate the idea of opening such a store in the central area of the town?*) and item 3 (*Would you buy these products from the new store, that would open in the indicated area?*) of the questionnaire, whose distribution is represented graphically in Figures 6 and 7.

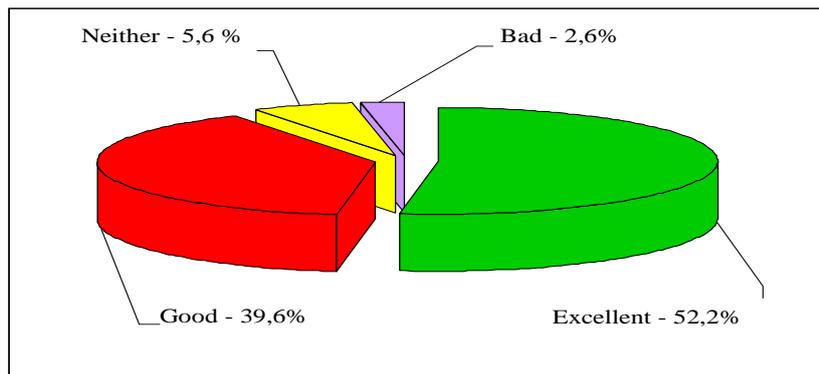


Figure 6. Public perception about the idea of opening a discounter type store in the proposed implantation area

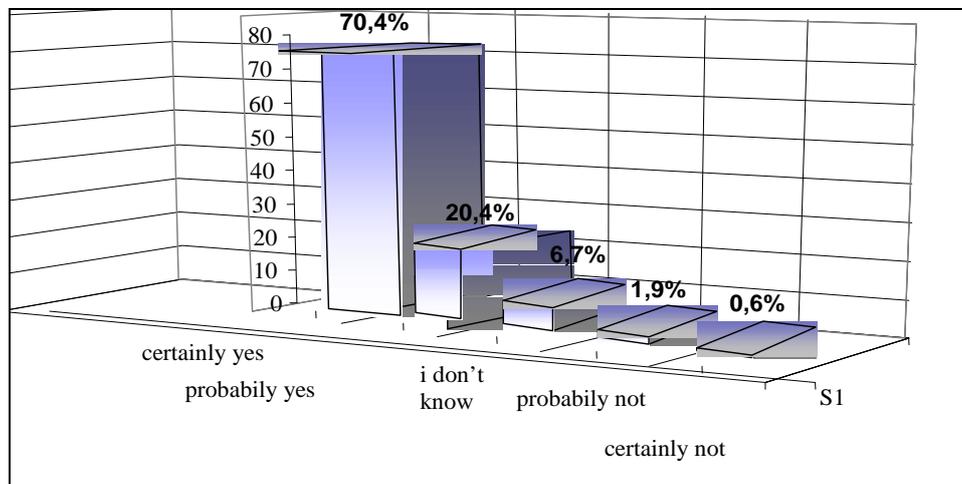


Figure 7. Scale of declared intentions to purchase from a discounter type store

The two graphs show that the implantation and opening of the MMX DISCOUNT store in the study area is viewed positively by over 90% of respondents, both as an idea (52.2% considering it an excellent idea and 39.6% a good idea) and as the materialization of it (the scale buying intentions shows that 70.4% will definitely buy from this store and other 20.4% will buy with a certain degree of probability). So, due to the offer range of everyday-use products that will sell (including around 1250

items), the MMX DISCOUNT store will satisfy the need shown by the people of Vulcan to purchase various products from the same location, at good prices, with the possibility of and choosing and checking these products themselves. The quality of the products (guaranteed by the network's policy to select the best suppliers on the market and to supply each store daily with fresh goods) as well as the verification procedures on a regular basis to preserve them on the shelves are fully in line with the regulations regarding the consumer's protection.

Both the technical characteristics of utilities presented in the earlier sections, as well as the staff policy promoted by the network, the built store will ensure the protection of consumer's interests. Under this policy, the employees of the stores are included in schooling programs, where they are familiarised with the work procedures specific for the MMX DISCOUNT stores, because all the teams in the shops have the same structure. They must show flexibility and understanding for all situations when their support is required and give due importance to each customer. Since the team in the MMX DISCOUNT shops is the daily interface between customers and company, each employee must be motivated to offer good service and satisfaction to the customers. The schedule will be operating daily from Monday to Saturday between 8 o'clock and 22 o'clock and from 8 to 20 on Sunday, which will allow each consumer to carry out his/her shopping in the time space appropriate to his/her own program.

3.2. Commercial, social and economic impact and job creation

The retail market in Romania has become in recent years a dynamic market, constantly expanding and changing, which attracted Romanian and foreign investors in the development of modern trade through hypermarkets, supermarkets and cash & carry type shops. If in 2001 only 6% of the sales were achieved through such networks of stores, their share has grown continuously and it is estimated to exceed 50% of total sales in 2010 (source: GfK Romania survey, quoted by NewsIn). The comparative evolution of the main channels of modern commerce, namely the number of stores by type and market shares is presented in graphs in Figures 8 and 9.

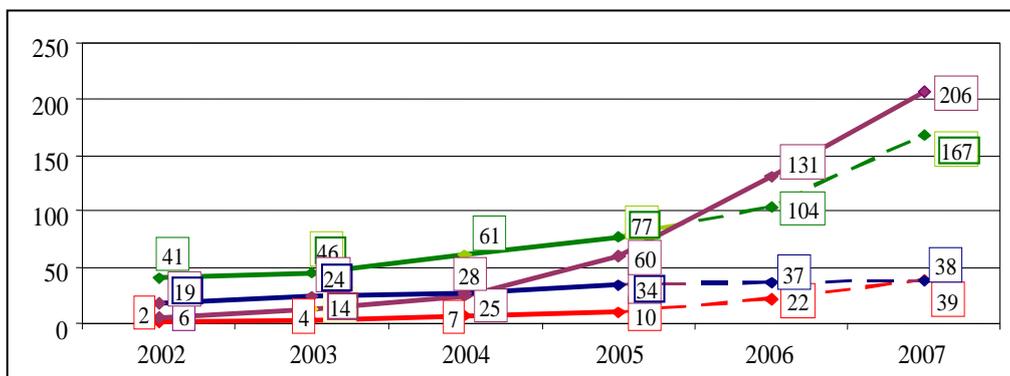


Figure 8. Evolution of shops number

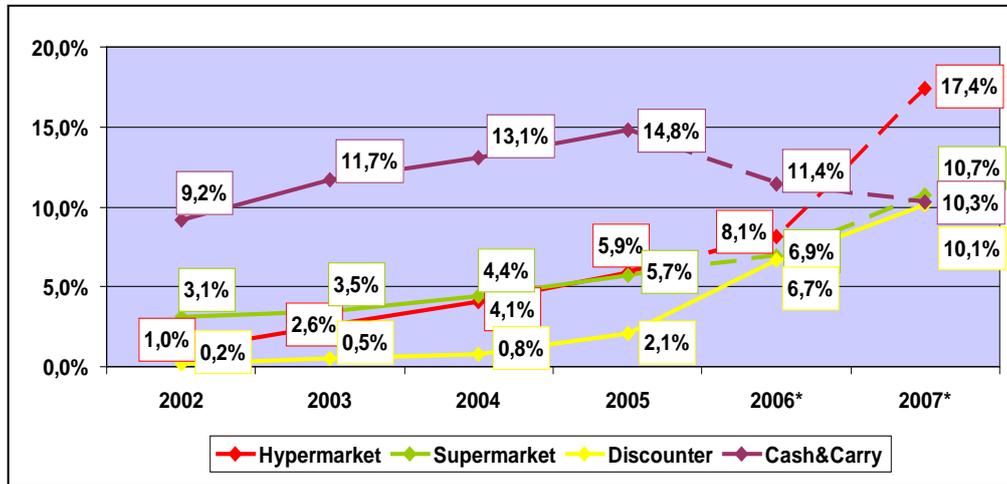


Figure 9. Evolution of market shares

These graphics show a spectacular evolution of the discounter type stores, whose expansion is justified both by aligning to the European trends (the discount segment is the most dynamic segment in Europe) and the Romanian realities. Referring to the fact that in the current situation, because the average income is under the European average income, monthly expenses of a family are allocated in proportion of over 50% for basic products (see Figure 10), representing the highest such rate in the EU.

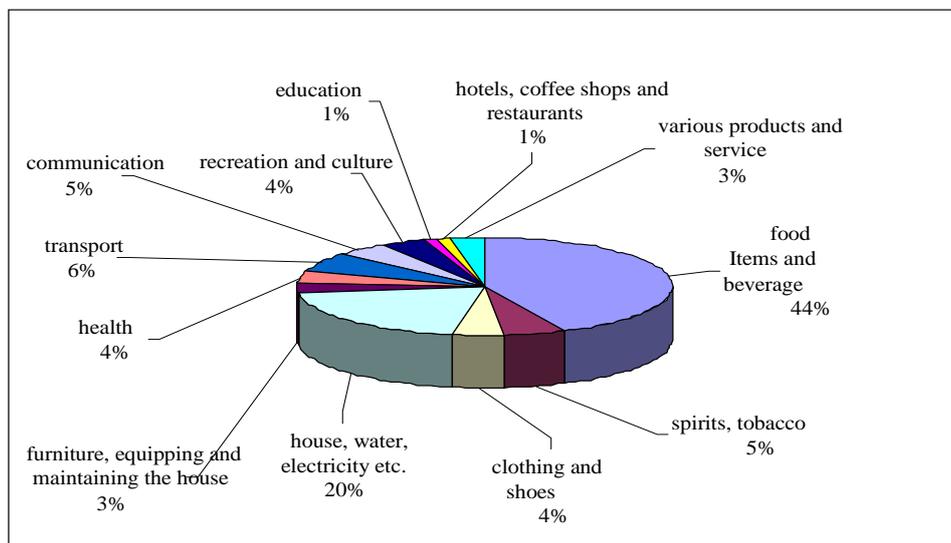


Figure 10. Structure of expenses by destination

As a result, this segment has attracted and will continue to attract significant investment to support plans for the rapid expansion of the discounters in all regions of the country, with an implicit beneficial impact on the local economies. In addition, the intensifying competition between major players (MMX Discount networks stores, XXL Mega Discount, Penny Market, Kaufland, Profi and Plus Discount) will be directly beneficial for the target segment of consumers - those with low and medium incomes.

The general model of discounter type stores is based on their location in areas with numerous population and heavy traffic, where clients have low and average incomes, being primarily sensitive to price. Low prices charged result from the optimisation of expenditure and procurement policy. To reduce costs that are included in the price, discounter stores work with a smaller number of staff than big retailers and sell mainly basic products, as these have a quick turnover and allow the reduction of other expenses, such as those for storage. The organization of stores makes it possible to optimise costs also by a relatively simple arrangement of shelves and by making all logistical operations on its own (taking over the goods, storage, preparation of orders and delivery of orders to each store, etc.). And the offer is less diversified than that of the large retailers, the typical range of products being of about 1,000 products including several brands of the distributor. The products under the distributor's brand are usually of good quality and at the same time have very advantageous prices. This is possible on the one hand, due to minimal marketing expenses and on the other hand, because having the approval of the distributor (which is already a strong brand) does not require large expenditures for marketing and advertising.

SC MMX DISCOUNT SRL is a young Romanian company established in Bucharest, which entered the market in the spring of 2005 by opening the first three shops in the towns of Slatina, Targoviste and Urziceni. Despite a less extensive history in time than the large international discounter chains, as noted above, the MMX DISCOUNT network is already recognized as an important actor in the discount segment of the retail market in Romania.

The company's stated goal is to develop a network Discounter type shops of medium-size in smaller towns in Romania. Most Romanian consumers do not have access to modern commercial facilities, as major international chains does not intend to open their shops with standard large areas in towns with population under 200,000 inhabitants. Therefore, MMX DISCOUNT has proposed to offer a solution to this problem through the construction of Discounter stores in towns with 20000-30.000 inhabitants. Currently, the network includes seven stores in towns like Slatina, Targoviste, Urziceni, Calarasi, Hunedoara, Oltenița and Mangalia.

For the first three stores the company has invested 2.25 million euros, and for construction of the others around 750,000 euros per store, in 2007 proposing to invest another 20 million euros to expand the network with 20 more retail stores. So, the average investment per store will be around 750,000 euros, but with the price of land purchase the amount will rise to around 1 million. Towns that are preparing to open new stores in the near future are: Brasov, Buzau, Slatina (the second store), Arad,

Campulung, Cernavoda, Pucioasa and Turnu Magurele. Long-term concern is opening 100 stores in the next 5-7 years.

The Discounter type stores of the network MMX are similar to a supermarket, but with reduced prices, each with 1000 square meters of space for sale, 6-8 cash registers and parking lots for 80-100 machines. The product range containing 1250 items seeks to combine the best quality-price ratio and cover the daily needs: fruits and vegetables, fresh meat, sausage articles, dairy products, frozen products, basic food, beverages, tobacco, spirits, cosmetics and detergents, household products and non-food items. The MMX DISCOUNT company promotes its own brands developed in partnership with local suppliers, for example, Steiner - beer, Blitz - carbonated juices; miniM - cheese; Mini - mackerel, flour; Minilact - dairy products; Maxim - rice, Montan - meat products/sausage articles; Sorina - sunflower oil; Ecomax - washable paint. The whole activity of the stores is managed and coordinated by MMX DISCOUNT logistics centre, situated on an area of 15,000 sqm in Bucharest. Here are delivered all the supplies of goods from the country, and from here using its own fleet of transport MMX DISCOUNT then distributes the daily supplies for each store.

Here are located the central offices as well, with the role of representation and connection between branches, respectively the departments that provide support for the proper development of the organization. To mention a few of them: the departments of purchasing, sales, stores organization, expanding public relations, legal, human resources, etc. As far as logistics and information systems go on the one hand, there are the departments responsible mainly for the reception, storage and arrangement of goods to enable the rapid distribution and resupplying of stores. The examples include the department of transport, management, invoicing. On the other hand, departments such as IT and telecommunications provide technical support.

Under the network's policy, each DISCOUNT MMX store is built entirely from scratch, equipped to European standards and in full agreement with the labour law's provisions. By opening the store in the town of Vulcan, 20 stable and long-term jobs will be created, with the possibility of individual recognition of the most efficient employees, influencing in a positive manner the unemployment situation in the area. Given the importance, which the employees' satisfaction in the work has on productivity at the workplace, the personal policy of the MMX DISCOUNT network promotes workplace safety and ensuring staff satisfaction.

Among the main benefits for local consumers due to the implantation of the store the following are included: the variety and quality of products and services offered (freshness of products, packaging, suppliers' quality, conditions of hygiene, workers' kindness, etc.). Being self-help store, it is met the consumers need to choose personally the product he wants to buy and check if it fulfils the requirements for the desired use. By the very concept of business of the MMX discount stores, based on reduced prices, but not at the expense of quality (the concept of discount), it will be stimulated the competition in price among the local market's actors, influencing in a positive manner the standard of living of the inhabitants, whose power of purchase will be increased.

From the description of existing sales structures in the area proposed for implantation it has emerged that there are no shops of the size proposed, most being of small size, the type of non-specialised neighbourhood shops. The implantation of the new store that does not directly affect them, but will give an favourable impetus to the existing trading environment, by upgrading local trade and aligning it with the trends recorded at national and European level. Also, the implantation of the MMX DISCOUNT store will solve the problem of the residents of town of Vulcan who now go shopping in neighbouring towns, where the modern stores are. They will no longer be forced to make trips involving transport costs and time, but it is possible to record even a migration in the opposite direction (from neighbouring towns into Vulcan), beneficial for the local economy and community.

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THE IMPLICATIONS OF THE QUALITY MANAGEMENT IN THE AUTOMOTIVE INDUSTRY DEVELOPMENT STRATEGY

NICOLETA ISAC *

ABSTRACT: *Organizations usually implement a management system both in order to „set the policy and the objectives” and to „accomplish those objectives”. Such a system is the quality (management) system itself which is „a management system through which we guide and control an organization in point of quality”.*

KEY WORDS: *quality, management, strategy, automotive, organization*

1. INDUSTRIAL EXTERNALIZATION FOCUSED ON THE AUTOMOTIVE INDUSTRY

Romania is among the European manufacturers of transport means. The existence, before 1989 of an industry that manufactured motor vehicles and the increase of the global competition in the field led to the revival of this sector in two ways:

- the strategic decision of two significant international manufacturers, especially Renault, to take control over the facilities and to improve the technology, by manufacturing under the brand Dacia a new generation of motor vehicles at European standards (the so-called Logan program), a part of the production being already exported;
- the increasing demand for automotive component parts manufactured by Renault created new business opportunities for the ancient suppliers of the Romanian automotive industry, the only condition being that of complying with the high requirements of the international manufacturer of motor vehicles.

According to the evaluation that has been carried out, the new pole of the automotive industry is gradually moving towards the Eastern Europe. Romania is well placed so that it may become, after Poland, the Czech Republic, Slovakia and Hungary,

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the next regional leader in the automotive industry as well as in the automotive component parts export, due to certain significant reasons:

- the interest of the strategic investor Renault to become an important exporter of motor vehicles manufactured in Romania and to integrate the production of as many components as possible in our country in order to become more competitive, increasing thus the national value chain;
- now that Ford company entered the market, we expect that the number of foreign companies investing in Romania will increase even more, the value of their investments being estimated at over one billion Euro;
- the concern of the international motor vehicle producers to integrate automotive component parts from Romania (According to the Romanian Agency for Foreign Investments *ARIS* there are approximately 250 automotive parts producers in Romania, out of which approximately 50 are companies with foreign capital whose investments raise to 7,5 billions Euro from 1990 until 2007);
- the existence of certain developed upstream industries such as steel and metal processing, plastics, electrotechnics that increase the capacity of the Romanian producers to enter the motor vehicle supply chains;
- the increasing interest of the ISDs in investing in the upstream industries in Romania.
- a favourable location, close to the European demand for motor vehicles and automotive component parts.
- In order to reach this vision Romania has to aim at the following strategic goals:
- the increase of the capacity of the local automotive component parts suppliers to adapt their production and to comply with the quality requirements of the motor vehicle manufacturers;
- the increase of the capacity to attract ISDs to the automotive component parts production;
- the development of new marketing and management skills in the upstream industries;
- a better access to financing for companies;
- the creation of a network of centres for applied research, innovation and technology transfer;
- a better promotion of the Romanian automotive/ automotive component parts industries abroad.

Complying with the trend characterizing the automotive component parts industry, the rest of the motor vehicle manufacturing industry follows similar trends of gradual development and vertical specialization within the European community market, as it appears below:

- the ship manufacturing, transport vehicle component parts and plane component parts industries shall continue their increasing trend and shall become new specialization poles in Romania;

- the industrial equipment and components for chemistry, petro chemistry, petrol and gas, electricity production, bearings and industrial pumps shall continue to play a major part in subcontracting.

The few weaknesses of the automotive industry (rigidity in organization and management, lack of marketing skills, technological difference, lack of the skills adapted to the new needs, incapacity to innovate and weak development and research activities) are counterbalanced by strengths (tradition in production, cheap work force, experience in subcontracting.)

The strategic vision of the sector is to increase its capacity to comply with the regional options for externalizing international clients and specialization in the export of the component parts having a bigger added value on the international value chain.

2.THE MAIN OBJECTIVES OF THE SECTOR FOR THE PERIOD 2005 – 2009

- The appropriate dissemination at the Romanian manufacturers of the quality conditions imposed either by the international standards or by the buyers (brief list of the requirements concerning the suppliers) for export purposes;
- The active promotion of the potential exporters at promotional events (suppliers' day) in order to comply with the concern of the large companies in searching for regional externalization options;
- The stimulation of the industrial innovation initiatives and of the development and research capacities;
- Efforts to improve the internal processes in order to increase competitiveness;
- The development of the marketing capacities; a better use of the existing resources
- The development within the Romanian companies and associations of the capacity to prepare for the international market; the creation of market intelligence for the Romanian industrial externalization.

3. THE IMPLICATIONS OF THE QUALITY MANAGEMENT

Just like, an exporting company depends on the capacity to adapt its offer in order to comply with the requirements of the foreign markets, the entire business community in Romania is confronted to this challenge of the market liberalization, of the integration and of the high level of competitiveness. By taking a better look at the internal conditions of the Romanian export offer, we identified major constraints in this inter-sectorial field. As a consequence, quality management is considered to be strategic for the clients of this strategy so that:

The general objective is to accomplish a development of the quality infrastructure able to increase exports' competitiveness. We estimate that over 4000 new Romanian companies shall be certified SR EN ISO 9001:2001 or other quality assurance/ standardization systems until 2009 and that they will implement and certify this quality management system. These management systems shall be introduced in

over 4.000 companies in Romania until 2009 in order to reach the objectives presented below:

Specific objectives:

- The institutional development of the national standardization body as a structure able to develop standardization activities and assistance services at the level of the European and international requirements and of the practice in the field;
- The development of the testing laboratories similar to the conditions in order to be able to measure the characteristic features or the performance of the exported products and materials.

From the sectorial perspective the quality standards vary a lot from one sector to another and the sectors must comply with the quality and specific standards solicited by the international buyers. As a consequence we have to carry out specific actions for improving quality management and for the certification of the quality systems by the automotive industry suppliers.

4. CONCLUSIONS

The implementation and the continuous improvement of the transfer of the quality system used in the European Union (standards, norms and technical regulations) simultaneously involve all the economic, public and private actors, each acting in its own responsibility field. According to the received information, to the level of gathered knowledge and of available resources, each company, each private entity plays a role in the implementation process, each public authority is directly involved in the success/ delay and/or failure not only of the transfer of these „tools”, but mainly in their efficient use.

This thing means the need for a planned, coherent and organized management at all the levels of responsibility: national, regional, local and individual. A general mobilization is necessary through all the specialized networks and with the implication of all the private and public entities.

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ON-LINE DATA TRANSMISSION TO THE PUBLIC ADMINISTRATION

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ABSTRACT: *The objectives and functions of automatic data processing in public administration can be deduced if we take into consideration the functioning principles of this system, that is to say the transparency in providing information and public services through ready access of both people and corporate bodies, the efficient way the public funds are used and last but not least, the confidentiality of personal data.*

KEY WORDS: *Public Administration, data processing, public information*

However complex the improvement of the informational subsystem may be, it is also important in the case of an accelerated innovation of its functioning under the influence of major movements, which can be recorded on an international level: information de-materialization and de-intermediation; changes regarding tasks and personnel training; informational outsourcing; the implementation of new organization patterns of companies; E-commerce development; virtual company development; materialization of informational management; proliferation of communication systems based on Internet and Intranet. Under these circumstances, the automatic data processing in public administration is developing very rapidly and its impact upon the functions and performance of a company is substantial.

Different opinions from specialized literature referring to the various methods of developing data processing state that the informational subsystem must be tackled very precisely, especially as far as the automatic component is concerned. Thus, the improvement of data processing in public administration is dependent on the automatic component: the automation of all departments, the increasing number of specialists with a new attitude towards information and the use of computers, and last but not least, the proliferation of Internet and Intranet.

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Our whole life is marked by the existence of some improved instruments and tools which should make easier our work and more agreeable our spare time. Among them, the computer is the most sophisticated but - at the same time- the most adaptable and the most powerful tool; the increase of the power of calculus generating the expanding of the horizon of applicability. Today it is used in the most varied fields: engineering, administration, trade, art, scientific research, services, etc. Their application has developed from the data and information processing to the knowledge and even the intelligence processing.

The **Internet** is an interconnected computer network which provides ready access to information and communication through e-mail, file transfers, instant messaging, newsgroups and Web services. The magnitude of Internet development is determined by the major advantages it provides for all users, generally, but mainly for users of information from public administration and it results in substantial reduction of time needed to access information, it improves the quality and rapidity of services provided to clients, and last but not least, it increases the efficiency of the entire decisional process. In local public administration, more and more town halls have created Web pages which offer various information regarding the history of the city, the organization and the services provided by the town halls.

On one hand in Romania a package of legislative programs for promoting the information technology is necessary to be endorsed and, on the other hand, the development of an infrastructure of telecommunications and equipments comparable with those from the developed countries. A study on 60 countries regarding the extent in which they are ready to turn to the electronic trade situates the countries from the Central and Eastern Europe in the second part of the classification. In accordance with figure no.1, on the top of the classification are the U.S.A., Sweden, Finland; Romania being rated on the 43rd place among the 60 countries.

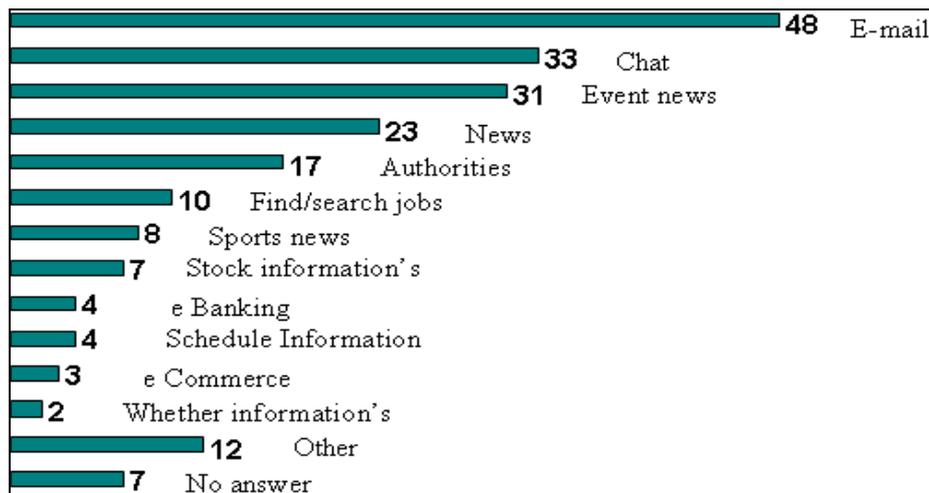


Figure 1. Internet services used

In our country, the access to and the availability of public information is ensured according to several laws like the one that gives free access to public information or the one that sets the rules of the procedures, which apply to decisional transparency.

In Romania's public administration, the need to institutionalize the reform has been felt since 1990. Although a lot of attention has been paid to the economic reform, it became obvious that it would be impossible to carry it out without carrying out the public administration reform first, or at least carrying out both at the same time. Among the objectives of the reform there are the following: encouraging citizens to take part in the public decisional process, strengthening the links and cooperation among governmental institutions and attracting citizens in planning and controlling the activities in the public sector, creating an electronic administration.

This is the main reason why non-governmental organizations have been involved, since the beginning, in implementing the public administration reform, in using new technology in order to collect taxes and duties on-line, to make public acquisitions through on-line auctions or to facilitate communication through videoconferences.

Under the circumstances, the Romanian Government sets up the National Electronic System, which is a public informational system for people and corporate bodies; it also guarantees the transparency in administrating public information and services according to the Law 161/2003. The first step towards the implementation of this system is creating the "e-guvernare" portal. Electronic government means using the information technology by public authorities in order to improve access to information and public services within administrative authorities, to eliminate paper work and simplifying working methods, to improve the exchange of information between central public authorities and to improve the quality of services of the central public authority.

The following objectives and functions of automatic data processing in public administration can be deduced if we take into consideration the functioning principles

of this system, that is to say the transparency in providing information and public services through ready access of both people and corporate bodies, the efficient way the public funds are used and last but not least, the confidentiality of personal data:

- Reducing public expenses, fighting off bureaucracy and corruption within public institutions;
- Increasing the degree of transparency of the usage and administration of the public funds;
- Improving the access to information and public services according to the law that protects personal data and free access to public information;
- Eliminating direct contact between clerks and citizens or economic agents;
- Good quality information and public services provided by computers;
- Improving the management of the companies in order to carry out their role and objectives;

- Encouraging collaboration among public institutions in order to provide public services using computers;
- Redefining the relation between citizens and public administration, between the business environment and administration, respectively, considering the advantage of information technology as it provides access to public information and services;
- Encouraging the use of Internet and high-tech within public institutions.

Thus, the Internet enables the downloading of blank forms, which are used by different institutions; then, these forms can be delivered by classic means: mail, post office, etc.

As computer technology is continuously developing, several on-line services are available now, services that use the Intranet and enable the filling out of blank forms; then, they can be mailed without going to the post office or they can be delivered using other means of transmitting document.

The **Intranet** is an inter-connected network within one organization that uses Web technologies for the sharing of information internally, not world wide. The main purpose of an intranet is to share company information and computing resources among employees. Such information might include organization policies and procedures, announcements, or information about new products. An intranet can also be used to facilitate working in groups and for teleconferences. The main components of an Intranet, “the Internet’s little brother” are:

- the interlinked local area network (which includes computers, software and regular Internet protocols) connected to a main server on which users can read, produce and administrate information;
- the data base, where all the information is saved;
- the firewall surrounding an intranet, which fends off unauthorized access of external users.

An Intranet can extend its function by providing various levels of accessibility to outsiders (partners, clients, suppliers), thus becoming an **Extranet**. You can access an extranet only if you have a valid username and password, and your identity determines which parts of the extranet you can view. In conclusion, the Intranet is part of the Extranet, and they both are subsystems of the Internet and of the informational management. (Figure 2).

In order to improve the process of cashing in taxes and duties by electronic means, the revenue office has to undertake several important responsibilities: it must provide users with an appropriate system which can supervise and maintain such operations; it must offer consultancy services and technical support regarding the use of this system and the transaction it can perform; it must supervise and see that legal regulations referring to the use of the system are obeyed; it must ensure confidentiality, integrity, permanent access and availability of information throughout the process of transmitting and saving information.

Thus, the Intranet in public administration implies the use of a secure complex system. The first step in this respect is creating “certificates” with the help of which users log on to the portal of on-line services. This certificate allows confidential data to

be transmitted and it consists in software which checks the identity of the one who uses it. These certificates use public key infrastructure PKI, through which only the person who knows the right public and private coding key can encode and decode information; this coding key is in fact a password.

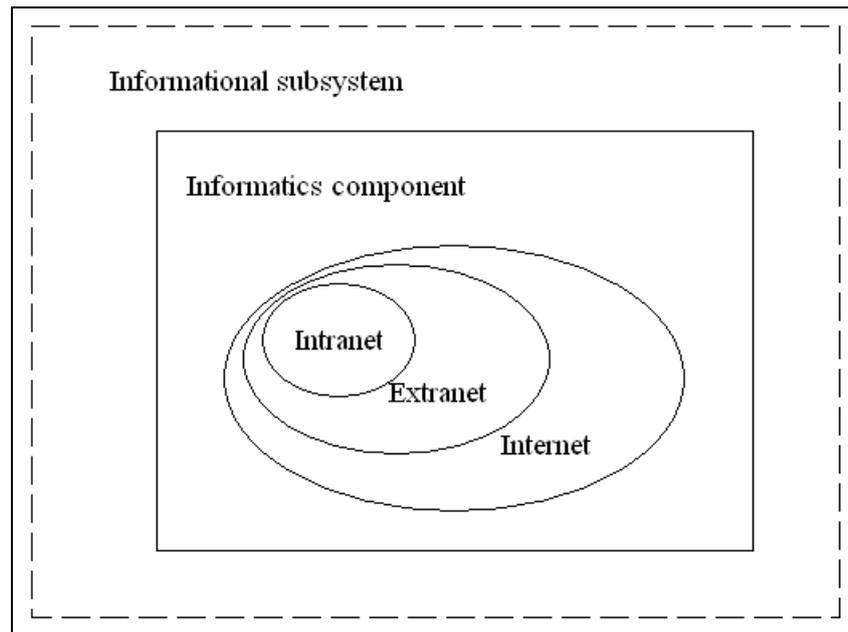


Figure 2. The interdependence among Internet, Intranet and Extranet

Functioning as a communication network between the Government, the citizens, business environments and service providers, the use of Internet enables administrative organisations to provide complex services like:

- an electronic tax and duty registry that contains information about the local payers.;
- the regulation that forced taxpayers to hand in, on an electronic support, declarations regarding duties towards the state budget, income taxes and expense accounts for the value added tax;
- on-line auctions regarding the distribution of public acquisition contracts.

Even though the automation of public administration is a necessity imposed by the modernization of this sector, we must point out a series of deficiencies in the process of automation of public administration.



Figure 3. The e-government portal

Thus, within the central administration, communication is still inefficient among central public institutions; financial resources are insufficient to cover the entire process of automation; the inter-connection of data bases which makes the network in not yet completed; computers within the public institutions are not secured and specialized human resources are scarce. In order to implement successfully the automatic data processing, it is necessary to define coherent application “architecture” and a set of predefined services and tools for the development, implementation and administration of these applications. This architecture must be updated in order to keep the pace with the new technologies and the requirements of the users.

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MANAGEABILITY COMPARISON: ORACLE DATABASE 10G AND ORACLE 9I DATABASE

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ABSTRACT: *In this paper we performed a basic and common DBA tasks on the two products and measured the time taken and the steps required to complete each task, to assess their relative manageability. The time taken to complete the tasks was then weighted according to their frequency of use in a typical DBA workday to arrive at an overall time savings percentage.*

KEY WORD: *manageability comparison, software application, management system*

1. OVERVIEW OF ORACLE BUSINESS INTELLIGENCE SOLUTIONS

Oracle Database 10g is the first designed for grid computing, reducing IT costs by automating management and clustering servers to dynamically allocate resources. Editorial reviews applaud Oracle's manageability, scalability, and value.

Information management systems today play an increasingly strategic role for businesses. We can exploit now the wealth of data your business collects every day to enable Corporate Performance Management and gain competitive advantage. Oracle Business Intelligence solutions deliver the right information at the right time, so you can make the right operational, tactical and strategic decisions.

Effective management of such systems, therefore, is vital to business success. With the cost of day-to-day operation and management of such systems easily outstripping their initial acquisition costs, it has become progressively more important for businesses to have systems that are easy to manage and maintain. Besides this cost of ownership factor, manageability also has serious ramifications for the availability, reliability, and maintainability of a system.

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With human error accounting for more than 50% of unscheduled downtime, any system that is simple and easy to use is less likely to encounter human errors and hence will be more immune from harm that such errors can cause. For all these reasons, it is no surprise that Oracle has taken significant steps to greatly enhance the manageability of its product by making it more self-managing, more proactive, and less complex.

Oracle Database 10g is the latest release of Oracle database software which contains a number of new features and functionalities designed to make businesses more productive. In this study, we will analyze the manageability improvement from Oracle9i to Oracle 10g and will attempt to establish a quantitative measure for the manageability differential between the two releases. This will give Oracle customers an objective basis for calculating management cost savings due to Oracle Database 10g and allow them to ascertain the business benefits of upgrading to this new release.

The tasks performed in this study covered the following four categories:

- Installation and Simple “Out-of-Box” Setup,
- Day-to-Day Database Administration,
- Backup & Recovery, and
- Performance Diagnostics & Tuning.

The study showed that Oracle 10g made tremendous gains in manageability. The main findings of the study are summarized below: Oracle 10g database administrators require 50% less time than Oracle9i to perform the basic management tasks included in this study; Oracle 10g needed 57% fewer administrative steps than Oracle9i to complete the same DBA workload.

As the results show, compared to Oracle9i, Oracle Database 10g reduces management complexity by half and therefore, makes the administrators twice as productive. This has huge cost savings implications for businesses, not only due to greater DBA productivity, but also due to the fact that increased automation in Oracle Database 10g reduces the chances of human errors leading to higher system availability and lower training and management costs.

Oracle 10g manageability features responsible for advances made over Oracle9i covered a wide range of areas, with the most remarkable improvements coming in the performance diagnostics and tuning category. With DBA’s spending nearly a third of their time doing performance diagnostics and tuning related functions, the new automatic diagnostic and tuning engine of Oracle 10g, i.e., ADDM and SQL Tuning Advisor, completely transform the way these functions are performed and were the biggest factors responsible for making Oracle 10g easier to manage. Other areas of noteworthy improvements for Oracle 10g were software installation & configuration, space management, and human error recovery.

The study clearly demonstrates the huge leap taken by Oracle 10g over Oracle9i in the area of manageability. DBA’s can significantly lower their workload and improve the availability and reliability of their system by simply adopting Oracle 10g. With Oracle 10g, businesses can expect to lower the cost of management and improve quality of service for their users.

2. METHODOLOGY OF MEASURING OR COMPARING EASE-OF-USE OR MANAGEABILITY

As there no exists standard method of measuring or comparing ease-of-use or manageability, we have used the approach employed by a similar study conducted by Rauch Associates comparing Oracle9i Database with IBM DB21. We performed a set of basic and common administrative tasks that reasonably represent a typical DBA's workload on both Oracle9i and Oracle10g, and measured them on a common set of metrics to gauge their relative manageability. The metrics used were:

- Time: Total time that a DBA spends in carrying out the task.
- Steps: Number of steps required to complete the task.

The time metric is used to ascertain the relative management efficiency of the two products.

The quicker a DBA can complete a task, the more efficient and productive he/she will be.

It should be noted that the time metric above represents DBA time and not necessarily task completion time, since the goal is to determine DBA time savings. For example, for certain tasks such as the backup database task, the time required to setup a regularly scheduled backup job by the DBA is measured and not the actual backup time, since actual backups normally happen unsupervised at off-peak hours when the DBA could be, and normally is, doing other things.

Hence, the time savings in this task comes from simplification of backup management and this is what has been measured in the study.

The second metric, steps, is used to determine and quantify relative complexity of the two releases. This, in our opinion, is a reasonable way of quantifying complexity as it would be difficult to refute the contention that if one product requires its users to perform significantly greater number of discrete steps to complete an identical task than its counterpart, then the former is more difficult to use and hence, more complex than the latter.

Once measured, these metrics were used to perform a comparative manageability analysis of the two products. However, before interpreting these results, it was recognized that not all of the tasks in the workload are performed with equal frequency. For example, software installation is not done as often database backup. To realistically account for this, a weighted average was used to weigh each set of tasks according to their typical degree of use. A survey of database administrators was used to determine the appropriate weights for the tasks. This weighted time was then used to compare the overall relative manageability of Oracle9i and Oracle 10g.

Tasks covering all the key DBA functions were performed. The tasks were grouped in the following four categories:

- Installation and Simple "Out-of-Box" Setup;
- Day-to-Day Database Administration;
- Backup & Recovery;
- Performance Diagnostics & Tuning.

The tasks were performed on two separate machines, one for each product, with identical parameters. The hardware and software details are as follows:

- **Hardware Platform**

- Dell single-CPU box with Intel Pentium processor, 1.7 GHz.
- Memory: 512 MB RAM
- Operating System: Windows 2000 (version 5.00.2195), Service Pack 4

- **Software**

- ✓ **Oracle9i**

- Oracle9i Database Release 2 on Windows 2000.
- Enterprise Manager and Packs (Oracle's bundled management tool including Diagnostics Pack and Tuning Pack)

- ✓ **Oracle 10g**

- Oracle Database 10g on Windows 2000
- Enterprise Manager and Packs (Oracle's bundled management tool including Diagnostics Pack and Tuning Pack)

Oracle Enterprise Manager (OEM) was the main tool used to perform the tasks for both Oracle9i and Oracle 10g. As this is the management tool that comes bundled with the

Oracle database product, it was considered appropriate to use it for the purposes of this study.

3. STUDY FINDINGS

The tables below summarize the main findings of the study. As noted earlier, two metrics were measured in this study, time and steps needed to complete each task. The first metric, time to complete task, was measured to compare relative efficiency of the two products.

The other significant improvement in the performance diagnostics and tuning category in Oracle 10g was due to the new SQL Tuning Advisor feature. This feature automates all the steps required for tuning SQL statements and gives comprehensive tuning advice, along with the exact commands for implementing the advice. A user only needs to run the advisor and then accept its recommendations to comprehensively tune SQL statements in Oracle 10g. In addition, Oracle 10g provides infrastructure for tuning multiple SQL statements together in one step using SQL Tuning Sets. In our study we only tuned a single SQL statement; hence this functionality difference between Oracle9i and Oracle 10g, which is very useful for real world environments, was not highlighted. The actual advantage of Oracle 10g in SQL tuning, therefore, is much more than what is revealed in the study results.

Table 1 shows the time comparison between Oracle9i and Oracle 10g. The time taken to complete the tasks has been aggregated by task category in order to show the advantage one product has over the other for the different categories. The timings shown are the actual timings measured in the study and have not been weighted to reflect DBA workload savings.

Table 1. Task Time (minutes) Comparison by Category

	Installation & "Out-of-Box" Setup	Day-to-Day Database Administration	Backup & Recovery	Performance Diagnostics & Tuning	Total
Oracle9i	45	35	46	19	147
Oracle 10g	29	13	17	5	64
Oracle 10g Time Savings	36%	63%	63%	74%	56%
Remarks	Oracle 10g took 36% less time to complete install and simple "out-of-box" setup.	Oracle 10g took 63% less time to ongoing day-to-day administration tasks.	Oracle 10g took 63% less time to complete backup and recovery tasks.	Oracle 10g took 74% less time to complete performance diagnostics & tuning tasks.	Oracle 10g overall took 56% less time to complete all the tasks.

Another area where Oracle 10g has made performance tuning very easy compared to Oracle9i is in memory management. With Automatic Shared Memory Tuning DBA's no longer need to tune individual memory pools of the SGA. Just like with Automatic SQL

Execution Memory Tuning feature introduced on Oracle9i, users simply specify an SGA target size and the database automatically adjusts the sizes of the various memory pools as needed. This new Oracle 10g feature makes memory tuning a very simple exercise for DBA's, as they only need to be concerned with 2 memory parameters (as compared to 6 for Oracle9i) whose optimal value is proactively recommended by ADDM. Thus, all a DBA has to do in Oracle 10g is to make sure that the value of the 2 memory parameters are in line with ADDM recommendations.

The last area of improvement in this category is the automation of query optimizer statistics collection in Oracle 10g. As a result, DBA's no longer have to identify objects with stale or missing statistics by regularly monitoring objects to see if they had undergone sufficient DML activity to warrant regeneration of statistics, and then collect statistics on them as needed. This task has now been entirely automated in Oracle 10g and the database itself determines what objects need new statistics and then collects them on a regular basis without requiring any user input.

These are main areas of improvement in Oracle 10g that are responsible for the considerable manageability difference between Oracle9i and Oracle 10g. The improvements are not confined to a single area but are comprehensive and cover all the major areas where DBA's spend most of their time. This across-the-board improvement in Oracle 10g is aptly reflected in the study by the huge margins by which Oracle 10g outperforms Oracle9i.

4. CONCLUSIONS

Oracle 10g represents a giant step forward from Oracle9i in making the database easier to use and manage. The key factors behind Oracle 10g's superior manageability are its new intelligent self-managing infrastructure that provides proactive, self-monitoring and diagnostic capabilities, and the increased automation of many manual but vital DBA tasks such as SQL and memory tuning, space management, and performance diagnostics. Oracle 10g is the first truly self-managing database that is intelligent, automatic, adaptive, and proactive.

The study clearly demonstrates and quantifies the manageability advances made by Oracle Database 10g. Oracle Database 10g reduces the DBA management workload by more than half and the management complexity by the same factor relative to Oracle9i. This translates into more productive DBA's, more reliable systems, and significant cost savings for businesses.

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THE REFORM OF ROMANIA'S EDUCATION SYSTEM WITHIN THE CONTEXT IMPOSED BY BOLOGNA PROCESS

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ABSTRACT: *Human capital represents one of the most important resources of development founded upon knowledge; its turn to good account within the process of diminishing discrepancies, finally reflected in the level of economic efficiency, implies a minute reform of education system according to the concept of continual education and professional training. As regards higher education an impetus should be given to the changes required by adhering to the European Space of Higher Education (ESHE) through implementing the demands of Bologna Process; they focus upon the quality of higher education, the adoption of a system of education founded upon well-defined cycles, the continuation of promoting students' and teaching staff's mobility, finalizing the implementation of transferable system of credits, the promotion of the European dimension of higher education and of the European Space of Higher Education attractiveness.*

KEY WORDS: *education system; education financing; educational process; research programs*

Between the „State” and „education” structures there is a relation of interdependence. The problem of quality of the educational act in the education system can be better understood when taking into consideration the whole contradictory evolution of society. The economic and social life of a nation is a sub-system of the economic and social life system having important implications in its functioning. In order to understand the evolution and the future of the economic and social life of a nation one should understand world tendencies; at the same time, the national education system should impose the necessary feedback adaptable to the educational perception of each nation (Antonesei L., 2000).

The basic law that stipulates the structuring and financing of Romania's education is Education Law no. 84/1995, republished with subsequent changes and completions. According to it, education is structured on levels, as follows: pre-school

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education, primary education (1-4 classes), gymnasia education (5-8 classes), high school and post high school education, art and crafts schools, higher education (university and post - university). All education levels up to higher education belong to pre-university education (Clark R. B., 2000). Corresponding to each education level, a distinct financing class is stipulated by functional classification (pre-school education, inferior secondary education, superior secondary education, vocational education, higher education).

In order to encourage personal development, social inclusion, and insertion on labor market, educational process should focus upon creating certain fields of key abilities understood as a transferable and multifunctional set of knowledge, skills, and attitudes, indispensable to active life in a knowledge directed society:

- Native language communication/multi-language communication
- Abilities of implementing math, sciences, and technology knowledge
- Use of ITC technologies in social life
- Capacity of personal development throughout the entire life
- Strengthening and use of social skills
- Development and reducing to practice entrepreneur spirit
- Forming inter- and intra-cultural skills
- Forming the personality of the young European citizen

Structured according to education types, the project of key abilities is going to focus upon the most important ones that are able to provide quality.

Pre-university education concentrates on education costs (implementation of de-centralizing strategy; stimulation of education and training private investments; multiplying financing sources; encouraging the development of private education; grants programs for school development; development of educational management; increase of institutional capacity with a view of elaborating and administrating projects), on the quality and efficiency of the system (the reform of early education, focusing upon disadvantaged groups and CES children; initial professional training for a didactic career according to fields and curriculum areas and according to specializations; qualification of un-qualified teaching staff in the rural areas through the program of re-launching rural education; access to information in less favored rural regions; training of rational, emotional, and behavioral intelligence; reviewing the national system of evaluating and examining pupils; fluidity of professional training and professional routes; implementation of the European education credits transfer and accumulation system; different remuneration according to the quality of the performance; re-structuring curriculum according to the objects of study in a comprehensive vision; promoting part time education and “second chance” programs at a national level), access to professional education and training (building school campuses; providing equitable conditions of hygiene and health education in the rural areas; technological high schools comprising a vast range of specializations; endowing all the schools in the rural regions with informatics equipments and connecting them to Internet; modernizing vocational and technical education - VTE (in rural regions), opening education and professional training towards society (elaborating a new VTE

curriculum where CD and CDL progressively grows from 15/20% to 35/40% of all classes; creating the systems and mechanisms capable of recognizing/ validating the skills acquired through non-formal/ informal routes; providing mobility for pupils and teaching staff; providing training, linguistics, and methodology courses through the European Union accredited structures; promoting a varied offer of continual professional training within the system; stimulating the employers interest in staff development; implementing the “memorandum of LLL strategy” established at a European level; introducing the “individual LLL portfolio” at the end of a training cycle), re-structuring and improving the condition of infrastructure/ of school equipment (schools campuses; re-launching rural education – school rehabilitation component; the national program of endowing schools with books and didactic means; endowing rural schools with informatics equipments; endowing schools with sports equipments and materials, rehabilitation of 1750 schools).

Education law settled down the fact that State education is financed from public funds representing, at least, 4% of the gross internal product (G.I.P.); a yearly increase of budget allocations up to minimum 6% of the GNP until 2008 is accordingly provided. When settling the level of education public expenditures and comparing them with the GNP, they have had in view the following financing sources: State budget, local budgets, inflows of external credits, the budget for unemployment insurances, non-repaying external funds, and the incomes of education units and institutions. In 2007, the percent of State education expenditures financed only from the State budget represented about 2.2% of the gross internal product. State higher education institutions and other units subordinated directly to the Ministry of Education, Research, and Youth are accordingly financed (school inspectorates, teaching staff establishments, children and pupils clubs, school sports clubs, central, university, and pedagogical libraries, university sports clubs as well as other units performing specific activities in the field, such as: the National Agency for Community Programs in the Field of Education and Professional Training, the Institute for Education Sciences).

Education actions that are the responsibility of other ministries (the Ministry of National Defense, the Ministry of Administration and Internal Affairs, the Romanian Intelligence Service, the Ministry of Culture and Cults, the Ministry of Foreign Affairs, the Ministry of Justice, the Prime's Minister Office, the Ministry of Transports, Buildings, and Tourism) are also financed from the State budget; yet, their share is quite limited. The assuming of the responsibilities settled by Bologna process by Romania has materialized in structural changes of the educational system, namely in extending the duration of compulsory education from 8 to 10 years, in re-organizing university studies according to three cycles as well as in implementing certain measures capable of increasing the efficiency of the educational system.

As regards the access and participation in initial education, available data emphasize the tendency of increasing the gross share of school inclusiveness at all educational levels, attaining an average of 71% during 2006/2007. Accordingly, while within compulsory education gross share of inclusiveness registers values of over 96%,

within high school and vocational establishments its level attains about 76%. Contrary to the secondary level, higher education witnesses an ascendant direction materialized in the significant increase of inclusiveness share; it attained, during 2006/2007, 41.3% as compared with 27.7%, during the period 2000/2001. The increase of the degree of inclusiveness of higher education is both the effect of the private alternative and of the capacity of labor market to absorb higher education and qualification persons. (European Commission, 2004).

An increased importance is given to creating a structured system of continual professional formation. The legislation adopted in the field of continual formation has in view the continuation of the reform of the system of professional formation through implementing the European principles regarding the providing of quality, decentralization, social partnership, and transparency of the system, as well as institutional strengthening of the system of professional formation. The norms framework targets the following: the problems of permanent education, continual professional formation through the educational system, adults' professional formation, giving subsidies for professional formation expenditures of certain specific categories of beneficiaries, identifying and implementing specific measures capable of improving the access to qualification, and continual professional formation.

An extremely important problem of the functioning of the educational system is, among others, the one regarding the manners of financing each level. Accordingly, Law no.84/1995 with subsequent modifications and completions, stipulates the fact that State education is free, being mainly financed from the State budget and local budgets, and from funds coming from companies, juridical and natural persons. (Popescu S., Brătianu C., 2004). Within higher education, legal stipulations state the possibility of organizing the activity of scientific research, technological development, planning, consultancy or expertise that can be developed by the departments, chairs or scientific research units of the universities, in collaboration with other educational units in the country and abroad as well. Higher education scientific research benefits for free from the whole network of information and documentation of the libraries belonging to the educational system.

The programs of fundamental scientific research as well as other programs of a special interest are financed, according to contracts, from the funds allocated yearly directly by the Ministry of National Education, from the State budget and are separated from the financing of the process of education. The financing of research contracts is done through competition on the basis of the evaluations done by the National Council of University Scientific Research. The programs of advanced technological research, those of applied research as well as the activities of planning, consultancy, expertise that are different from those having as a beneficiary the Ministry of Education, are financed, according to contracts settled directly with the beneficiaries of those researches or activities, from the State budget, the special fund for research, and other sources.

As regards private education as an alternative of State education, nowadays legislation stipulates the possibility of giving a support by the State to accredited

education units. Private education functioning should observe the terms regarding its organizing according to the non-profit and non-discrimination principle; it should also reject anti-democratic, xenophobe, chauvinist, and racist ideas, trends and attitudes, observing national standards

According to the law, the financing of State education is provided from public funds, representing up to 4% of the GNP. The system of financing State pre-university education should provide funds decentralization at the level of the educational units. Accordingly, the financing of State pre-university units is done from funds allocated by the local budgets of the administrative and territory units on whose area the schools deploy their activity, from the State budget as well as from other sources. The calculation grounds of the funds allocated to educational units by the local budgets for their basic financing is standard cost per pupil/child under school age, calculated according to specific indices of educational activity, to the quality of the educational and professional formation process, institutional management, the specific features of training, and residence environments.

Complementary financing is done from the local budget according to the needs of the pre-university school unit. The financing provided by the State budget and local budgets can be also completed by other sources; this fact does not diminish the allocated budget funds. Higher education is allocated a distinct fund for university scientific research out of the global budget of research, according to competition criteria, national priorities, and the obtained or anticipated results. In fact, higher education units function as institutions financed by the funds allocated from the State budget as well as from other sources.

The financing of higher education institutions is done according to certain criteria approved by the ministry at the proposal of the National Council of Financing Higher Education and of the National Council of University Scientific Research. Out of budget funds they give scholarships to pupils and students attending the full time courses of State education; these funds are also used in order to complete sources required by the maintenance expenditures of boarding schools, hostels, and canteens. State compulsory pre-school education provides text-books for free as well as medical and psychological assistance within State sanitary units. The State budget also provides the partly financing of public transportation as well and 50% diminished tariffs for visiting museums or taking part in concerts and other cultural and sports events organized by public institutions; such facilities are also given to the pupils and students attending the courses of accredited private schools.

The Ministry of Education also supports the foundations of university consortiums through practicing a stimulating complementary financing policy. The financing of the Romanian education system should nevertheless agree with the legislation regarding competition and State support as well as with that regarding community practice in the field. Accordingly, from the point of view of a competition

environment, the elaboration of financing schemes or the implementation of similar mechanisms that can be compared with those at the level of the community should allow the free and non-discriminating access to budget funds, either central or belonging to local authorities, according to competition grounds, open to all education units – public or private, accredited by the law.

On the other hand, the evaluation of the financing from the point of view of the State support should be differentiated. As we have previously mentioned, at the community level the manners of financing educational system significantly vary from one state to the other, ranging from total financing to a combination of private and public funds. The decreased financing potential of Romanian education out of private sources as well as the acute demands and requirements Romania has to face in the context determined by its statute of being a member state of the European Union demand an increased attention paid to the educational process by the deciding factors both regarding the quality of the process and the providing of a proper financing. Thus, the financing of the educational process according to its main component coordinates – pre-school education, primary, high school, post high school, and higher education – does not imply measures such as State support, education being regarded as a national priority and a general interest activity, the country's development largely relying upon its future.

Nevertheless, State support within the educational process can be encountered in case of certain specific financing mechanisms, such as programs, research grants given to universities, or other programs of training and continual professional formation. Generally, at the level of the European Union, education aids are considered to be compatible with the normal competition environment; their providing is to be done after being authorized by a Commission (the Government of Romania, 2007).

With these in view, in order to provide compatibility with community practice, the deployment of training programs, the giving of grants or the practicing of other specific forms of financing the educational system out of public sources should be based upon the elaboration of certain supportive schemes that observe legal stipulations.

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PREVISION, STRATEGY AND POLITICS IN CONCURRENCE ECONOMY

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ABSTRACT: *An instrument of maximum importance in fixing and self-fixing the proportion between the demand and the offer occurring on the goods market is prevision; it closely interacts with the devices of concurrence market. Concurrence market makes use of numberless devices in order to inform and direct the companies; nevertheless they are not enough when predicting the future evolution of the sizes and structure of demand and offer on internal and external market. Both consumers and producers are interested in knowing in due time demand, offer, and price; such a thing is only possible through deploying a vast prevision activity in the field of demand and offer. They need both the data provided by the devices of concurrence market and the conscious prevision activity.*

KEY WORDS: *prevision activity; devices of concurrence market*

The present period is characterized by a rapid rhythm of the changes that take place in various fields of society, influencing the evolution of the activities deployed in all the branches of economic and social life; such changes should be known, through anticipation, although this knowledge is relative, in order to give the possibility of preparing the solutions of adapting to the transformations which are to be envisaged in the future. Within such an approach the relative knowledge of the future also represents a manner with the help of which society tries to prepare itself in order to face unpredictable things; society should foresee the future in order to consciously achieve progress or to choose among the various available variants the one that best suits its aspirations and possibilities. Within such a context, prevision can be considered as a specifically human determination, a characteristic component of any human activity. The spread of prevision researches that takes place nowadays is explained, to a large extent, both by the increase of the changes in every field of the economic, social, and political environment and by the methodological progress in the field. In other words, prevision, in its broadest meaning, has always accompanied man's initiative and actions; accordingly, it has become an expression of man's natural

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manner of behaving as a rational being. With this in view, we should mention the meaningful statement of the French philosopher Auguste Comte who wrote: “*to know means to produce in order to achieve*”. The objective ground of the appearance and development of prevision is social labor, consciously deployed, according to a certain goal (Nicolae V., Constantin L. D., 1998). At the same time, J. Naisbith’s remark is also relevant: “Man only survives through his capacity of acting in the present, according to past experience, in terms of future consequences. Assuming the future, man makes present bearable and past significant. The past, present, and alternative future intermingle in anticipating and predicting future actions” (Naisbith J., 1989).

Taking into account the above information we consider that prevision, in its essence, emphasizes the variants of certain possible evolutions or future circumstances that can be used when formulating the strategies and decisions regarding the actions that are going to be undertaken within a certain perspective according to the goals which are to be achieved. When laying the foundation of prevision one should start from the conditions of economic, social, and political environments which are revealed only through the mechanism of concurrence market; the two fixing mechanisms, that of the market (self-fixing) and of prevision (of conscious fixing) have a complementary character; they imply one another and mutually develop although their share might differ from one period to the other, and from one country to another. The obvious conclusion is that *the ratio between the mechanisms and devices of concurrence market and prevision activity is and will continue to be a fundamental problem of the State and companies.*

Prevision expresses, at a macro-economic level, the possibilities of elaborating the strategies of achieving major goals at a national level or of developing priority branches of the public or private field, especially those that, owing to their character, do not belong to the common area of market mechanisms, such as: health, education, culture, art, and military field. Prevision activity is non-compulsory and non-engaging in the case of companies; yet, it has an important informational value for them and contains impulses that flow from the internal and external environment, from the macro-economic level, towards the basic components of economic activity. Macro-economic prevision can be considered a market research at a national level. Being an aggregated research of the market (Burtica M., Vârlan G., etc., 2002), prevision emphasizes the probability of manifesting partial lacks of balance and their generating factors, including their consequences upon the economic and social activity, such as: the non-correlated evolutions of imports and exports and, as an effect, the lack of balance of currency, of the population’s incomes, and of the offer of goods and services, of production’s, raw materials’ and energetic resources’ amount and size. Through emphasizing possible long term or periodical lacks of balance, prevision becomes a means of diminishing incertitude regarding the evolution of economic phenomena and processes and of identifying the manners of avoiding lacks of balance.

Within concurrence economy, prevision researches are elaborated in order to offer information regarding *the future evolution of the sizes and structure of demand and offer on the internal and external market.* Each consumer is interested in knowing,

at each moment, offer that belongs to a certain possible, well-anticipated evolution; each producer is interested in getting information regarding the performing techniques of production and retail. Demand and offer always manifest under concurrence circumstances which, on certain occasions, becomes acute; the investigation, with the help of prevision, of its perspective evolution gains accordingly an extreme importance; that means that the success of an activity implies the identification and occupying of the most favorable position on the market as compared to that of the other competitors. Within modern concurrence economy, prevision is necessary and useful provided it does not replace market or is considered its alternative. The problem is set in terms of “both plan and market”, and not in terms of “either plan or market” (Caracotă D., 1998), the market being an objective and necessary foundation of prevision.

In order to inform the companies, market displays, besides demand, offer, and price, economic and financial devices and tools in order to influence economic behavior during a certain period. Accordingly, under the influence of the market factors prices, salaries, interests, and currency courses are settled; at the same time, certain rules regarding the functioning of market devices through which the activity of companies is directly oriented are settled. These rules having an economic and financial character are formulated according to the realistic evaluation of the dynamics of market phenomena whose anticipation is favored by the possibility of employing various prevision methods and techniques. In order to decrease the incertitude that influences companies' behavior it is often necessary to know and evaluate the level and structure of future actions as they represent the only possible manner of planning and preparing the needed changes of allocating and using resources or of production structure. Market devices are not capable alone to give a real perspective of the various economic phenomena. Prevision researches give extremely useful data and are consequently considered to overcome market's shortcomings. At the same time, through market devices a series of short term problems find their solving - such as the improvement of the methods of selling products and services, besides long term problems – such as the avoidance or minimizing risk or maximizing effects; consequently, an ample and complex prevision activity is necessary.

Summarizing the above data, we consider that *between market and prevision there are interdependence relations so that in order to fully manifest the mechanism of concurrence market, under the circumstances of rational economic acts, the simultaneous use of the information supplied by the market and prevision researches represent an objective necessity.*

Prevision's interaction with the devices of concurrence market is emphasized, in our opinion, by the following main aspects:

➤ *The special part of prevision activity in concurrence economy.* The ratio between prevision activity and the devices of concurrence market represent a fundamental preoccupation of companies. Prevision is, within concurrence market economy, an important means of measuring the probable evolution of economic phenomena and processes, and, accordingly, of conceiving economic and social

strategies that contain practical solutions that are going to be reduced to practice by autonomous companies. Prevision's part in such an economy is extremely ample as researches offer real and useful information regarding offer's future evolution, the size and structure of demand both on the internal market and on the external one.

➤ *The limited character of the devices concurrence market employs in order to inform companies.* With a view of informing the companies upon demand, offer, and price, concurrence market employs a series of devices, such as: economic and financial devices of influencing economic behavior, namely differentiated taxes, preferential or restrictive custom tariffs, etc.; a legislative framework capable of positively influencing the meeting of the interests of the national economy and of the companies; orienting stipulations capable of directing the companies concerning those fields and products that become attractive and profitable; firm, compulsory stipulations regarding the execution of State orders. Within concurrence market economy the market is the main fixing factor of production, distribution, exchange and consumption; yet, its devices are not enough in order to provide the proper meeting of all categories of needs that exist in society, and especially of those that imply the use of public or semi-public goods which the market cannot or is not willing to offer. As a consequence, the conscious activity of anticipating and evaluating the new perspectives and of envisaging the opportunities or means of covering them intervenes.

➤ *The conditioning of achieving the part played by concurrence market by the existence of certain specific conditions.* Concurrence market is able to accomplish its part only in case exchanges are free, in case no producer and no consumer are so powerful to constraint or eliminate concurrence. Nowadays, such a thing is hard to be done; all over the world market is not free; this is the reason its devices do not properly and completely act. Accordingly, State's conscious action takes place; it stipulates certain rules regarding the functioning of the devices of concurrence market. Of course, the State does not decide upon the manner of organizing concurrence market; it only focuses upon certain rules regarding the functioning of companies according to the interests of society identified through prevision. Such an intervention from the part of the State is indirectly done owing to economic and financial devices.

➤ *Insufficiency of the data offered by the devices of concurrence market.* The devices of concurrence market accomplish their part through daily meeting the requirements imposed by the variation of demand and offer on various segments of the market. The necessary condition of providing the transparency of concurrence market with a view of actively directing the companies is the gathering and operative providing of the data regarding demand and offer. The maintaining of the balance between demand and offer according to daily correlations regards only the past and present no matter how well such a thing is done. As a result, the data implied by the action of the devices of concurrence market are not enough in order to direct companies in the future with a view of avoiding risks to a larger extent. Concurrence market, owing to its specific devices, does not offer solutions regarding the future needs, demands, and offers or the future evolution of prices; so that, in order to settle the foundation of the decisions of companies and in order to diminish incertitude the

evaluation and knowledge of future demand and offer is necessary; this represents the condition of planning and preparing the changes that are needed at the level and structure of production; it can also be adapted to resources allocation. Macro-economic plans of concurrence economy states are considered to be market researches. Accordingly, concurrence market does not exclude conscious action, the deploying of ample and complex prevision activities; such circumstances determine the conclusion that between market and prevision activity there are inter-conditioning relations so that it is extremely necessary to use both the information provided by concurrence market and by prevision activity.

➤ *The specific character of the interaction of planning with the devices of concurrence market.* Planning represents a main form of prevision. Within concurrence economy, planning and plans, due to their inciting character, represent a complement of economic policy. Plans explain the options, priorities, and evolutions that occur out of market relations. Accordingly, the French economist Fr. Perroux considers that a plan “is a national group of State macro-decisions that tend towards concrete equilibrium and intended dynamics different from those coming from the spontaneous functioning of the economy having an imperfect market” (Perroux F., 1968). Accordingly, *concurrence market and planning represent fixing sub-systems of modern economies.* Concurrence market and plans play a complementary part in nowadays economy although they have different objective determinations and although various conceptions regarding their part and place are encountered. None of these can alone provide the fixing of a complex system as national economy; they only are imperfect function fixing devices. Within economic theory and practice the ratio between plans and concurrence market represents an extremely controversial problem, meaning that they are or are not compatible. The intensity of the confrontations approaching this topic is due to the use of certain ideological arguments, meaning that this aspect has been transferred within the compatibility plan between the socialist economic system, identified with planning, and the capitalist economic plan, identified with concurrence market. The incompatibility of bureaucratic plans with concurrence market has been confirmed by the economic and political changes at the end of the 80s’ and the beginning of the 90s’, as a result of the over - embracing crisis of the monopolist state socialist economy and of the over-centralized, compulsory, and imperative form of planning. Almost all the imperfections of the socialist economic system have been considered as being determined by planning; subsequently the conclusion of eliminating plans and planning concepts out of economic vocabulary has been reached (Totu I.V., 1987).

The prevailing conclusion is that concurrence market economy and economic planning reciprocally exclude and, as a consequence, are not compatible. Within such an approach, Adam Smith stated the following: “a statesman who would try to guide private persons as to the direction they should use their capital, not only assumes an extremely useless responsibility, but assumes an authority that couldn’t be given to a person without any risk nor to a council or senate; at the same time, the statesman would be extremely imprudent as to consider himself worthy of it.” (Smith A., 1962).

In case prices express the tensions and oddities regarding the amounts of goods demanded and offered, the free market game and the “invisible hand” are enough to efficiently direct production and goods circulation. Consequently, the only useful plan is that capable of improving data; nevertheless, it should not confuse the mechanisms of concurrence market.

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* *Prof., Ph.D., University of Petroșani, Romania*

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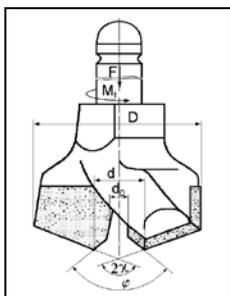


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