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Contents

Baron, M. - Concerns on Labour Power Selection and Training within „Mica” Mining Company, Directorate of Brad Mines, During 1920-1948	5
Biriescu, S.; Butuza, A. - Regional Development - Past, Present and Future in Romania	17
Brezeanu, P.; Celea, S.; Stanciu, A.P. - Forms of Tax Evasion in Romania. Analytical Perspectiv	33
Căruntu, C.; Lăpăduși, M.L. - Mitigation of the Crisis Effects in Public Authorities and Institutions from County Gorj	43
Cenar, I. - Guiding Marks Regarding the Reasoning of Scientific Research in Accounting	51
Ciocodeică, V.; Prodanciuc, R. - The Influence of the Mining Unions Over the Employees’ Socio-Economical Conditions in the Jiu Valley	59
Dima, I.C.; Vokorokosova, R.; Pachura, P.; Sandu, M. - Integration Process in Management Science - Theoretical Review	71
Dura, C.; Drigă, I. - The Use of Ranking Sampling Method within Marketing Research	77
Edelhauser, E. - ERP and BI Implementation in Romanian Organizations and Their Influence on Manager's Decision: A Case Study	89
Ghicajanu, M. - Romanian Companies Dilemmas - Business Reengineering or Kaizen	97
Hes, T.; Srnec, K.; Drašarová, M. - Proposal for Strategies to Build Missing Foundations of the Current Microfinance Industry	105
Kot, S.; Grabara, J.; Sandu, M.; Mihăilescu, M. - Trust in B2B e-Marketplaces	115
Lesconi Frumușanu, M.; Breuer, A.; Jurchescu, D. - The Role of Accounting Information Writing and Project Implementation	121
Man, M.; Marin, R.M. - Aspects Regarding the Evolution of Romania’s Public Debt in the Context of Its Integration within the E.U. and of Worldwide Financial Crisis	129
Mangu, S.I.; Mangu, C.D.; Csiminga, D.C. - The Mining Projects - An Approach in Terms of Particularities of Use the Factor of Production “Capital”	137
Modrak, V.; Grabara, J.; Vokorokosova, R.; Kot, S. - Promotion of Employment among Youth - Remarks for Next Initiatives	145

Muntean, C.; Hauer, I.; Butuza, A. - Decisions in Negotiations Using Expert Systems and Mathematical Methods	151
Mutengezanwa, M.; Gombarume, F.B.; Njanike, K.; Charikinya, A. - The Impact of Micro Finance Institutions on the Socio- Economic Lives of People in Zimbabwe	161
Nagy, C.M.; Cotleș, D. - Specific Aspects of the Technical Reserves of Insurance Accounting	171
Niță, D.; Fleșer, A. - Youngsters - Disadvantaged Group on the Labour Market – Alternative Employment	179
Njanike, K.; Mutengezanwa, M.; Gombarume, F.B. - Internal Controls in Ensuring Good Corporate Governance in Financial Institutions	187
Pârvulescu, I.; Pleșa, R. - Social-Economic Aspects Regarding the Activity of the Personnel Engaged in the Railway Transportation	197
Popovici (Bărbulescu), A. - Human Capital and Higher Education in Romania in the Last Years	207
Răvaș, B. - The Role of the Internal Audit in the Tourism Unit's Risk Management Process	215
Răvaș, O. - The Utility of the Barter Agreement in International Commercial Trade	223
Schmidt, M.C.; Andrioni, F. - Restructuring and Reform in the Jiu Valley	235
Slusariuc, G.C.; Răscolean, I.; Guță, A.J. - Sovereign Risk Assessment under Economic Crisis Conditions	245
Stoian, M. - The Evolution of Marketing Methods in a Tourism Association from Romania	253
Trandafir, A.; Brezeanu, P.; Stanciu A.P. - The Race to the Bottom and Its Impact on the Provision of Public Services in Romania	261
Vasile, E.; Carapancea, D.; Balan, M. - Types of Decisions Based on Multi-Criteria Analysis Applicable to Extractive Industry. Theoretical Approaches	267
Vătavu, S.; Pirtea, M.; Vătavu, S. A Review of Financial Regulations to Avoid the Nationalisation of Losses in the Banking System	277

CONCERNS ON LABOUR POWER SELECTION AND TRAINING WITHIN „MICA” MINING COMPANY, DIRECTORATE OF BRAD MINES, DURING 1920-1948

MIRCEA BARON *

ABSTRACT: *„Mica” Company, through the mining complex it owned in Brad area in the Apuseni mountains, was to be the largest gold producer in Romania between the 20s and the 40s of the twentieth century. The operation of the mining complex in Brad area, including mining sites, processing units, a power plant, a railway system, as well as social and cultural facilities, needed work force. Our study focuses on the way in which the managers of „Mica” Company, especially the ones of „Mica” Brad, selected and trained this work force in order to cope with the complexity of production activities.*

KEY WORDS: *Romania, the period between 1920-1948; “MICA” Company; Directorate of Brad Mines („Mica” Brad), selection and training.*

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„Mica” company was set up in March 1920, and between the years 1920-1948 it became the largest producer of gold in Romania and at the same time, the most important mining company from Central and South-Eastern Europe involved in the extraction of precious metals.

The first step, that proved to be the most important in setting up Mica Company until the process of nationalization in June 11th 1948, was the purchase of the group of mines near Brad within Hunedoara County, also known as the gold mines of the mining association „Ruda 12 Apostoli” divided into cuxas.

The mining establishment from Brad belonging to Mica mining company or „Mica” Brad, produced precious metals from the ores located in this part of Apuseni Mountains. The Board of Directors is subordinate to the General Direction Committee of Mica Company from Bucharest, with the task to organize and coordinate the technical work and to ensure the manpower required for the operation of the mining complex.

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„Mica” company took over, near Brad, not only an asset consisting of exploration lease, arable and untillable areas, galleries, mechanical installations, buildings, machinery, etc., but also a labor force well prepared to support effectively this company. Undoubtedly, in the long run the original work force will be replaced gradually with representatives of other generations, out of objective and subjective reasons, without affecting the continuity and, above all, the success of the activity claimed to be carried out at „Mica” Brad.

There was a two-way phenomenon showing both stability and also fluctuation due to subjective and objective factors. Most of those who were employed at „Mica” Brad, mainly workers, were locals, living in communes and villages in the area in which „Mica” Company operated.

Most of those hired by „Mica” Brad, whether they were locals or they originated from elsewhere, mainly engineers and part of the officials, they came here carry out their professional activity; their decision was also influenced by the fact that Mica Company would become during this period the most important economic institution in the area and in fact in the whole perimeter of Apuseni Mountains; being an employee with „Mica” Brad, as well as with other associated mining companies represented a matter of safety regarding the workplace, and last but not least, a matter of material status and prestige.

It is a truism to assert that among the determinants of personnel policy of the company economic factors will have a decisive role. It was a truth that had to be taken into consideration by the directors of „Mica” Company, the increase or decrease in the number of employees being influenced to some extent by the economic situation.

In table 1 we note that in the early years of taking over Ruda 12 Apostli by „Mica” Company there is a decrease in the number of employees. The process is due to the reduction of the productive activity by closing or reducing work in a few mines, and by the concern of the management of „Mica” Company to rationalize the productive flow. After 1927 the number of employees increases, alongside with the growth in production, but also due to related activities carried out by the Company for the benefit of business profitability; interestingly, during the economic crisis in the years 1929-1933, as a reflex and the due to the fact that the exploitation of gold did not because of the slowdown in the global economic activity, the number of employees continued to increase, a trend which, with a small rebound in the years 1942-1944 - when many employees had been mobilized causing a shortage of man power¹ - would worsen in the years 1945-1947 (table 2).

Man power was be higher in 1947 than in the year 1938, because the conditions were different. In 1938 they exploited rich and thick ores, and thus the effective power was higher; there were fewer jobs and supervision was easier, it did not require many supervisory workers. In 1947 mostly remnants of thin gold ores were exploited and enterprises were expanded, which led to lengthening transport lines and galleries the maintenance of which was difficult; at the same time surface facilities developed, mainly those for processing ore etc.². Perhaps this explanation encompasses

¹ Hunedoara County Department of the National Archives (hereinafter called DJANH), *Fond Societatea „Mica”*, dos. 11/1941, f. 1-22).

² *Ibidem*, dos. 4/1947, f. 86.

the pressure imposed by authorities for economic but also social reasons, have introduced serious restrictions regarding the ability of employers to dismiss their employees, and in the years 1945-1947, this trend aggravated; the owners permanently had to face the protest movements of laborers.

Table 1. Evolution of employees at „Mica” Brad during 1921-1935³

Year	Mines + Mine Directorate				Out of which	
	Ruda 12 Apostoli	Țebea	Other mines	Total	Technical staff and labourers	Administrative personnel and cleaning women
1921	1.883	322	-	2.205	2.174	31
1922	2.160	355	-	2.515	2.485	30
1923	1.990	497	-	2.487	2.441	46
1924	1.792	466	-	2.258	2.201	57
1925	1.489	386	-	1.875	1.818	57
1926	1.454	326	-	1.780	1.726	54
1927	1.989	337	-	2.326	2.283	43
1928	2.012	309	-	2.321	2.280	41
1929	2.052	300	-	2.352	2.307	43
1930	2.012	288	-	2.300	2.244	56
1931	2.133	289	-	2.422	2.366	56
1932	2.185	200	-	2.385	2.289	96
1933	2.326	181	-	2.507	2.392	115
1934	2.395	191	45	2.631	2.527	104
1935	2.406	193	70	2.669	2.540	129

Table 2. Evolution of employees at „Mica” Brad during 1936 – 1947⁴

Year	Total	Out of which			Year	Total	Out of which		
		Officials	Day labourers	Workers			Officials	Day labourers	Workers
1936	2.645	176	79	2.390	1942	2.859	211	76	2.572
1937	2.781	173	100	2.508	1943	2.951			
1938	2.991	155	107	2.729	1944	2.860	286	2.574	
1939	3.012			1945	4.048	322	3.762		
1940	3.230	191	142	2.897	1946	4.310	335	3.975	
1941	3.197	215	88	2.894	1947	3.952	319	3.633	

There were also people who favoured seasonal work because they considered other activities, mainly in the agriculture, more important than working in a mine. It is well known that, especially at the beginning of the interwar period, when there was a setback in gold mining, some workers from Apuseni Mountains, not necessarily

³ *Ibidem*, dos. 24/1922, f. 4-47; dos. 25/1922, f. 4-49.

⁴ *Ibidem*, dos. 50/1936, f. 49; dos. 13/1937, f. 49; dos. 4/1947, f. 321; dos. 11/1940, f. 76; dos. 23/1941, f. 31; dos. 11/1942, f. 30; dos. 5/1944, f. 45; dos. 4/1945, f. 38; dos. 11/1945, f. 116; dos. 226/1946, f. 37; dos. 35/1947, f. 42.

employees of Mica Company, however many of them being miners, left their native places to work in other areas of mining, especially in the Jiu Valley⁵.

At the same time natural selection still worked and those who measured up the demands and needs of the Company remained while those who did not adapt themselves left. Most of those who had been fired had to leave because: they did not obey moral standards, for example those who had stolen gold and other items that belonged to the company; they broke the rules according to which they had to work, which mentioned the relations between superiors and employees, between employees in general; they were not professionally capable to carry out their tasks, etc.

The company could fire some of its employees because of economic reasons. Thus, the number of employees at Țebea coal mine was reduced, after CFR Administration, had decided, for reasons that were linked to its own purchase policy, that starting from January 1st, 1929 not to buy coal from Țebea, which until then had been used to ensure the traction load on Arad-Brad railroad⁶. For the sake of economic reasons, the company refused, at times, to hire people who had applied for a job at „Mica” Brad: at the request of Arad Labour Inspection on April 9th, 1936 to consider the applications for employment of 36 inhabitants of Căinelul de Sus, they explained that „we can no longer hire personnel, man power is already overloaded. There are some other people as well without a job and as soon as the situation allows us to take on new workers we shall hire them”. On the other hand authorities are reminded that „until they find a job, these people deserve to be helped by the unemployment fund, to which „Mica” Company contributes during the winter months (December-April) with 1% of employees’ income”⁷.

One of the characteristics of the staffing policy developed by „Mica” Company in Brad, is the natural renewal of man power, as the old ones retire and keeping the useful ones, regardless of their ethnic origin. It seems that the directors of “Mica” Company and, in particular, the managers of „Mica” Brad, did not favour an excessive nationalism and they considered that it is more important that the mechanism should function, therefore the value of the human being was placed above all other considerations. This explains why, in 1933 „Mica” Company had 2741 employees: 2.539 workers, 38 engineers, 164 technical workers and administrative officials. Among them, 214 were Romanian citizens of a different nationality, five foreigners and an individual with Nansen Passport; among the engineering there were five Romanian citizens of a different nationality and a person with Nansen passport⁸.

In the long run „Mica” Brad has undertaken a large number of employees. They were mainly people with specialized training, either technical and administrative staff with higher education or graduates of commercial schools, schools of arts and

⁵ Mircea Baron, *Cărbune și societate în Valea Jiului. Perioada interbelică*, Editura Universitas, Petroșani, 1998, p. 274-275.

⁶ Societatea Mica, *Darea de seamă a Consiliului de Administrație și Raportul cenzorilor către Adunarea generală ordinară a acționarilor din 17 mai 1930. Exercițiul 1929*, Institutul de Arte Grafice și Editură „Îndreptarea”, București, 1930, p. 11-12.

⁷ DJANH, *Fond Societatea „Mica”*, dos. 2/1932, f. 166-167.

⁸ Societatea „Mica”, *Darea de seamă a Consiliului de Administrație și Raportul cenzorilor către Adunarea generală ordinară a acționarilor din 24 mai 1934. Exercițiul 1933*, Institutul de Arte Grafice și Editură „Îndreptarea”, București, 1934, p. 19.

crafts, apprenticeship schools, professional schools. In the latter case in particular we refer to graduates of mining schools from Petroșani and of metallurgical schools from Baia Mare; in 1937 the metallurgical school became the School of technical miners and chemical-metallurgists⁹ and in the autumn of 1940 it was forced to relocate to Brad, on the premises of the „Mica” Gurabarza apprentice school¹⁰; it was open until 1945, when it returned to Baia Mare¹¹.

Fundamentally, mine foremen and foremen of other specialty, with at least 2-year experience were employed with a probationary period of six months, and those who have just graduated from schools were employed on probation for one year; even under these circumstances, the probation period could not be respected, especially by people with weak references from school or from companies where they had worked before¹². A mine foreman was hired at Valea Morii mine on November 7th, 1936, on a probation period of one year and „after this period and if you measure up to the requirements of Company mines, we shall submit your application to the General Assembly”; the employee would then receive a salary of 4,000 lei per month, plus a share of the bonus generated by the production of native gold¹³.

Most of those who were employed were young people without specialized training; some of them were trained by the Company in apprenticeship schools, attending professional courses, to become specialists in mining activities either underground or on the surface.

Until 1940 when „Mica” Company set up its own apprentice school, they had been trained at the Communal School of Industrial and Commercial Apprentices, under the aegis of the Ministry of Public Instruction and since 1931 under the aegis of the Labour Ministry. The Company selected young apprentices who signed apprenticeship contracts. The apprentices were carefully selected according to the immediate needs of the company and also to the ability of those who applied for such a job. Young people outside the company were accepted and also some of the boys who had already been employed at different services within „Mica” Brad¹⁴. Due to the fact that the number of applicants was high there was a waiting list as well as some categorical rejections without explanation¹⁵. At the same time, there were those who had a specific training or a precarious material situation; while a graduate of four classes from „Avram Iancu” high school from Brad, who was no longer able to continue his studies, would be accepted immediately as apprentice at the Electric Workshop in September 15th, 1935, another student was told that he would be accepted only after the completion of at least six primary classes¹⁶.

⁹ *Regulament pentru funcționarea școlilor miniere din țară*, Tipografia Ducret, Baia Mare, 1938, p. 5; DJANH, *Fond Inspectoratul General al Minelor de Cărbuni din Valea Jiului*, doc. 19/1923.

¹⁰ Ioan Marin, *Școala de conductori minieri și metalurgi din Brad*, *Miniera*, XVIII, 1943, nr. 8, p. 244-245; Ioan M. Lăzărescu, *Școala de conductori minieri și chimico - metalurgi de la Baia Mare, refugiată la Brad*, *Miniera*, XIX, 1944, nr. 1, p. 17-19.

¹¹ *Monitorul Oficial*, I, nr. 169/28 iulie 1945, p. 6478; *Miniera*, XX, 1945, nr. 12, p. 177.

¹² DJANH, *Fond Societatea „Mica”*, dos. 35/1935, f. 46.

¹³ *Ibidem*, dos. 20/1936, f. 60.

¹⁴ *Ibidem*, dos. 1/1932, f. 32-33.

¹⁵ *Ibidem*, f. 2-3.

¹⁶ *Ibidem*, f. 57-59.

According to this attitude, „Mica” Brad sought to attract young professionals, even 2nd or 4th grade high school students from „Avram Iancu” high school from Brad, who „would like to pursue a career as electrician and wish to register as apprentice at „Mica” Company¹⁷. Once admitted as apprentices they had to attend, for three years, theoretical courses of the Industrial and Commercial Apprentice School from Brad; practice was carried out where the apprentice was employed. He would be paid for the work carried out at „Mica” Brad, in accordance with the collective pay agreement and he had to comply with the rules of service; any deviation, both in the workplace and in the school of apprentices, was penalized either verbally or financially and when the delinquency was serious - gold-stealing, for example - or frequent, the apprentice was expelled. Apprentices had to take a final examination and those passed were employed by „Mica” Company according to the job openings; they were hired in a workshop for a trial period of four months; after this period, those who did not measure up to the needs and the interests of the Company were rejected while others were to be employed, with a four-year contract and receive some salary¹⁸. „Mica” Company encouraged the work of professional schools by granting certain quantities of wood and coal, by donating books¹⁹, rewarding students and teachers especially for the work carried out in practice²⁰.

Retraining courses were organized at „Mica” Brad as well. For example, in 1939 the courses were held for some of the workers in the mine: drivers and assistant miners. Courses, for which the workers had not been paid, since they were held after working hours, lasted six hours per week, grouped in two meetings. Those who attended these courses benefited from a reduction of the working category period and they were promoted sooner than others²¹.

„Mica” Brad would hire a large number of unskilled workers mainly because the specifics of activities not required special training, and on the other hand, some considered the work at the mine, as I have said, as second job; thus, they were not so interested to develop professionally; among the unskilled workers, some would develop professionally in the long run, gaining experience in order to be selected to carry out the tasks of specialists, without attending specific training courses. A document issued on November 11th, 1944 shows us that a miner hired for the underground work was regarded as a „cleaner”; higher classes, above the cleaner are: drivers, assistant miner, miner; for maintenance activities there are: assistant woodworker, woodworker, assistant builder, builder. Promotion is made from cleaner to driver considering three alternatives: assistant miner and then a miner; assistant woodworker and then woodworker; assistant builder and then builder. The courses for each category lasted on average two years, but the transition from one professional category to another was based on skills, the needs of mines, job opportunities, etc.²².

¹⁷ *Ibidem*, f. 34.

¹⁸ *Ibidem*, dos. 10/1926, f. 374.

¹⁹ *Ibidem*, dos. 1/1932, f. 46.

²⁰ *Ibidem*, f. 12-13, 15-17.

²¹ *Ibidem*, dos. 46/1944, f. 5.

²² *Ibidem*.

At the same time, „Mica” Brad would select the miners with good results in order to promote them to the position of first miner; for example, on April 28th, 1928 the Mine Management from Brad agreed with the proposal of Musariu mine that six first miner assistants, who worked in exploitation be promoted to first miners, considering that „they have trained more than six months as first miners and it is only fair to promote them as first miners, especially since we need supervisors for the exploitation works”²³. Though there was a time when, to some extent, the Company was entitled to decide upon the position of employees or promotions, a decision of the Ministry of Labour, Health and Social Protection from February 27th, 1937²⁴ pursuant to the provisions of art. 2 b within the Law on vocational training and exercise of trades from April 30th, 1936²⁵, would regulate the manner in which an employee within the mining industry - skilled and unskilled workers from the surface and the underground; stamp workers; miners and assistant miners, foremen and mine igniters - is allowed to carry out his activity.

After the implementation of this ministerial decision, mining enterprises could no longer employ workers without worker or craftsman certificates to carry out qualified activities and without evidence of unskilled workers for unqualified work. On the other hand, it is mentioned that these certificates are not in favor of their holders, it is the obligation of the company to employ workers for activities corresponding to their title and qualifications. The complexity of the work carried out at „Mica” Brad, its amplification in the long run, led to an increase in the number of technical and administrative staff with higher education; this is statistically demonstrated²⁶.

Table 3 presents the situation according to categories of employees for four years taken at random; there must be noted an important increase in the number of technical staff with higher education, as well as of administrative and technical officers, alongside with the amplification of the activity and thereby of the problems faced by „Mica” Brad. „Mica” Company and thus, „Mica” Brad were interested in attracting deserving graduates of Polytechnic Schools from the country and from abroad, of Universities, Trade Academies, etc. Therefore „Mica” Company leaders were open to receive students, especially from the Mining and Metallurgy departments – that became Universities in 1938 - of Polytechnic Schools from Bucharest and Timișoara, to complete their on-the-job training. For example, a 4th grade student of Timișoara Polytechnic School would be hired to complete his training at Musariu and Brădișor mines, from July 14th to September 1st, 1927. During this period he would be an apprentice at Musariu mine for one week, another week for getting acquainted with the veins of each mine and he would spend the rest of the training period at Gurabarza processing plant. During the training he would receive a monthly salary of 2,500 lei, dwelling in Barza colony, a free pair of boots and a set of miner clothes that needed to be returned at the end of practice²⁷.

²³ *Ibidem*, dos. 26/1926, f. 148-149.

²⁴ C. Hamangiu, *Codul general al României*, vol. XXV/I, 1937, Imprimeria Centrală, București, 1938, p. 613-614.

²⁵ *Ibidem*, vol. XXIV/I, 1936, Imprimeria Centrală, București, 1937, p. 663.

²⁶ DJANH, *Fond Societatea „Mica”*, dos. 24/1922, f. 22, 48; dos 25/1922, f. 20; dos. 90/1947, f. 19-20.

²⁷ *Ibidem*, dos. 31/1926, f. 182.

Table 3. "Mica" Brad staff according to categories of employees

Categories of employees	Year				Categories of employees	Year			
	1921	1930	1938	1947		1921	1930	1938	1947
<i>I. Officers</i>					<i>III. Surface workers and other categories</i>				
Engineers, chemists and geologists	14	19	37	34	Apprentices	13	49	-	153
Technical underground officers	63	91	75	76	Students	13	-	104	42
Technical surface officers			43	65	Day labourers	679	613	824	988
Administrative officers	19	31	107	163	Women	6	-	33	168
<i>Total I</i>	<i>96</i>	<i>141</i>	<i>262</i>	<i>338</i>	Craftsmen	81	167	237	458
<i>II. Underground workers</i>					Machine attendant	12	107	-	-
Prime miners/supervisors	-	79	117	173	Carpenters	62	-	-	-
Miners	735	557	317	577	Cableway workers and supervisors	-	124	-	-
Assistant miners	496	438	133	180	Administrative staff	6	21	-	-
Woodworkers			150	154	Trainers	6	-	-	-
Assistant woodworkers				48	Doctors	-	4	-	-
Builders			94	60	<i>Total II+III</i>	<i>2.109</i>	<i>2159</i>	<i>2.729</i>	<i>3.550</i>
Assistant builders				30	<i>General Total</i>	<i>2.205</i>	<i>2.300</i>	<i>2.991</i>	<i>3.888</i>
Drivers			565	402					
Cleaners			155	117					

„Mica” company would provide on-the-job training for students from other countries as well; it was the case of five students from the Delft Polytechnic School from the Netherlands who came to Brad for a month in the summer of 1938²⁸. At the same time it would create conditions for the training of foreman students, as well as of students from The school of technical mine drivers and chemical-metallurgists that was to be set up in Brad; they were legally required to attend a two month training during the holidays within the four years of study²⁹; during the summer holiday it would train high school students, students of commercial or industrial gymnasium³⁰.

Those who wanted to complete their work for diplomas or doctoral theses would also come to Brad. As an example, on October 17th, 1940 a graduate of Timișoara Polytechnic School and a future engineer with „Mica” Brad, was hired as an intern at Brădișor mine for two months, in order to complete his Bachelor's degree; during the training period he was paid with a salary of 2,500 lei per month³¹.

In June 1939, the mine engineer Mircea Socolescu, head of Prospecting Department within the Geological Institute of Romania received approval to conduct a

²⁸ *Ibidem*, dos. 60/1931, f. 87.

²⁹ *Ibidem*, dos. 17/1941, f. 253; dos. 60/1931, f. 12-13; dos. 10/1926, f. 368.

³⁰ *Ibidem*, dos. 54/1937 f. 4.

³¹ *Ibidem*, dos. 60/1931, f. 5.

geological and mining study of the gold fields from Brad in order to complete his doctoral thesis in geology that was to be submitted to the Polytechnic School in Bucharest. He could visit different places in the mine and he was shown plans and technical data; he was staying in Gurabarza colony and he would have an assistant for the duration of his staying in Brad³².

„Mica” Brad enrolled groups of students from the two Polytechnic Schools in Bucharest and Timișoara who came on study trips³³ and also Romanian or foreign students, pupils, who came to visit the Apuseni Mountains, the mining facilities, the Mineralogical Museum from Brad etc.³⁴; there was a fund of grants for deserving students which included 60 beneficiaries in 1937³⁵, etc.

This concern, of course not impersonal but real, allowed the directors of “Mica” company to assert in the year 1930 that „we are ... proud of the progresses of our company that have served as model and emulation for others”³⁶, and in the minutes of the Board of Directors of „Mica” company in the year 1933 it is shown that, „we continue to receive a number of young engineers, polytechnic graduates in order to train the necessary specialists for this industry. This year we have sent three engineers trained by us to our twin mines”³⁷.

The decision of hiring engineers at „Mica” Company and implicitly at „Mica” Brad lay with the Directing Committee³⁸, which set the type of employment, temporary or definitive, the location of work, the social aspects and the payment. Engineers who started working with „Mica” Brad followed a path that became classic among young graduates and even older engineers; such was the case of engineer Aurelian Băltenoiu, who had worked for many years in the mines of the Jiu Valley within „Petroșani” Company and who was highly appreciated due to his „extensive practice in coal mines. On May 20th, 1939 the General Management of „Mica” company informed the Management of Brad Mines that in accordance with the decision of the Directing Committee, engineer Aurelian Băltenoiu would be employed on June 1st, 1939 and he would receive a gross salary of 17.500 lei monthly, plus other gratification offered for employees in his category. „Mica” Brad was going to make a letter of employment, in accordance with the usual clauses, and considering the special provisions contained in a letter dated May 19th, 1939 „after having completed all the services, engineer Aurelian Băltenoiu should be granted the position decided by the General Manager”³⁹.

Young engineers were hired temporarily for a trial period; if they proved themselves skillful they would be employed permanently. All those who were taken on by „Mica” Company, including technical and administrative staff, had signed a contract which presented the rights of the employee in exchange for services, but also

³² *Ibidem*, dos. 1/1936, f. 165.

³³ *Ibidem*, f. 42, 86.

³⁴ *Ibidem*, dos. 31/1926, f. 164.

³⁵ *Ibidem*, dos. 83/1937, f. 1-2.

³⁶ Societatea „Mica”, *Darea de seamă a Consiliului de Administrație și Raportul cenzorilor către Adunarea generală a acționarilor din 2 mai 1931. Exercițiul 1930*, Institutul de Arte Grafice și Editura „Excelsior”, București, 1931, p. 7.

³⁷ *Ibidem*, 1933, p. 19.

³⁸ DJANH, *Fond Societatea „Mica”*, dos. 16/1926, f. 27-28.

³⁹ *Ibidem*, dos. 48/1938, f. 89-90.

his obligations towards the company⁴⁰. For example, the commitment signed on March 7th, 1944⁴¹ between „Mica” Company and Dr. eng. Ion Marinescu (1905-1946), who was head of the „Mica” Brad laboratory and professor since October 1st, 1942 at the Department of minerals and coals within Timișoara Polytechnic School⁴².

An increase in the number of personnel will be accompanied by an increase in the number of technical and administrative officers; this is statistically proved. At the same time, it must be said that, over the nearly thirty years since „Mica” Company has been operating in Brad area there has been an exchange of generations and that there are people who have completed the whole period of activity and they inevitably left traces of their presence here.

We must emphasize the fact that technical officers, mainly engineers, will have the role of coordinating the productive activity and because of their obligations or due to their interest showed they were involved in finding practical solutions to the multitude of technical problems that arose. At the same time they will be involved in the social and cultural life of the economic entity which was „Mica” Brad and, by extension, in the life of the community where they worked. It is well known that all superior officers who worked at „Mica” Brad were graduates of prestigious universities in the country and abroad and they will succeed to a large extent, to remain connected to the open and modern spirit claimed by the interwar period.

Furthermore, the involvement in the Company’s issues and encouraging the process of modernization was an obligation given to understand. For example, by a minute of Brad Mine Management from March 24th, 1943 the „engineers are asked to study, beside the problems presented by the Directorate and by the management of mines, various issues in connection with the activity they perform and to make written proposals regarding the improvement of working methods, mechanization, organization and other measures that would contribute to the efficiency of the enterprise. The management of mines will ask engineers to solve various issues that would contribute to the improvement of the activity... For the necessary study material - books, magazines – a written application should be submitted with the Board in order to purchase those materials that can not be found in the library of Brad Company or in the libraries of the mines. The most important issues are to be discussed and settled in conferences convened by the Board”⁴³.

Of course that the involvement, especially in finding solutions that provide modernization or defining changes, will not be compulsory for all, at least not equally compulsory. We have heard about the scientific activity of Dr. eng. Ion Marinescu, but just as important is eng. Victor Eugene Mastero, the former head of the Laboratory, who drew the project Flotației II which was built at „Mica” Brad in the years 1933-1934. in order to perform this type of activity, technical engineers needed to be aware of the specialized literature, and therefore a technical library was set up in Brad by purchasing books, catalogues, technical journals in general, referring to mining in

⁴⁰ *Ibidem*, dos. 12/1925, f. 244; dos. 6/1922, f. 35.

⁴¹ *Ibidem*, dos. 50/1943, f. 145.

⁴² I. Felea, *Prof. dr. ing. Ion M. Marinescu*, Revista Minelor, vol. 100, nr. 7/1999, p. 38-39; Analele Minelor din România (hereinafter called, A.M.R.), XXV, 1942, nr. 9, p. 189.

⁴³ DJANH, *Fond Societatea „Mica”*, dos. 43/1931, f. 49-50.

particular⁴⁴; engineers would travel across the country and abroad, in order to gather information on technical developments and to visit facilities that could be installed at „Mica” Brad as well⁴⁵.

Regarded as an information tool but also as a means for specialists from „Mica” Brad to submit in writing their technical and scientific achievements, under the auspices of the Geological Service of „Mica” Company, a publication of approximately 20 pages, A4 format called “Mica” Company Bulletin was issued periodically; the articles were typewritten, not always stating the date of issuance; it contained original studies, translations, compilations of foreign magazines, information from extractive industry, etc.⁴⁶.

The Association of Engineers and Technicians from the Romanian Mining Industry, created on March 4th, 1918 and the magazine of the Association called the *Analele Minelor din România* (Annals of Romanian Mines) held an important place and plaid an important role in the the life of the technical community from „Mica” Brad⁴⁷. The Apuseni Mountains Department of the Association was set up in January 1932; during its sessions there were presented conferences dedicated to the professional and scientific matters⁴⁸.

It must be said as well that engineers from „Mica” Brad have published specialized articles in the magazine of the Association⁴⁹ and also in another significant mining magazine, „Miniera” („Mining”)⁵⁰; supported by the 17 communications they had an important contribution to the evolution of the Congress IV of the Association, held in Bucharest on 18-21 of May 1939⁵¹; they would publish books⁵².

From what I have presented, we note the fact that an economic entity of such dimension as „Mica” Brad, the selection and training of personnel was a necessity; the high standards of accomplishment of this task depended on the operation and the prosperity of Society „Mica” as a whole. And in order to fulfill this task, what we define as the reproduction of labor power, great human and material investments were made that led to a positive result.

⁴⁴ *Ibidem*, dos. 35/1935, f. 22; dos. 122/1935, f. 46.

⁴⁵ *Ibidem*, dos. 1/1936, f. 112.

⁴⁶ A.M.R., XX, 1937, nr. 5, p. 190.

⁴⁷ Mircea Baron, Ion Pârvulescu, *Analele Minelor din România (1918 - 1945) - Revista Asociației Inginerilor și Tehnicienilor din Industria Minieră*, in, *Lucrările științifice ale simpozionului internațional „UNIVERSITARIA ROPET 2000”*, Petroșani, 2000, p. 5-8; Mircea Baron, Oana Dobre - Baron, *Congreșele „Asociației Inginerilor și Tehnicienilor din Industria Minieră” din România, în perioada interbelică*, *Annales Universitatis Apulensis, Series Historica*, 6/I, 2002, p. 227-236.

⁴⁸ For instance, Octav Ulmanu, *Metodele de abataj din minele de minereuri americane*, A.M.R., XVI, 1933, nr. 1, p. 39-40.

⁴⁹ For instance, A. Sieber, *Problema aurului în România*, A.M.R., XVI, 1933, nr. 1, p. 13-15.

⁵⁰ For instance, Ion Marinescu, *Cercetări asupra posibilităților de cianurare a concentratelor obținute prin flotație, din rămășițe de stampare sau flotare directă*, *Miniera*, VIII, 1933, nr. 12, p. 2821-2825; IX, 1934, nr. 1, p. 16-28; nr. 2, p. 8-29.

⁵¹ Mircea Baron, Oana Dobre - Baron, *op. cit.*, p. 234-235

⁵² For instance, Octav Ulmanu, *Organizarea științifică a lucrului în mină*, „Concordia”, Arad, 1942.

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REGIONAL DEVELOPMENT - PAST, PRESENT AND FUTURE IN ROMANIA

SIMONA BIRIESCU, ANTOANETA BUTUZA *

ABSTRACT: *Romania's participation in the implementation of EU regional policy means, first opportunity to benefit from a system of values that can be found between economic efficiency, environmental protection, ensuring minimum standards of existence, the definition of a "European lifestyle, urban values, qualified human resources. Moreover, European integration and openness to the EU internal market and the challenge involves increasing competitiveness, which can negatively affect the process of building an economy, like Romania. In this context, structural instruments are the most important resource that Romania will have to face the challenges of change and integration. However, regional development policy can not solely be the key to overall development of a state, especially in terms of its actual effects on growth are difficult to assess. A critical dimension of this is represented on the nature of economic and quality of other public policies that form the core of economic policy mix of a state: the legal protection of property rights and market economy, taxation, antitrust, etc.*

KEY WORDS: *regional development policy; managerial competencies; public administration; decentralizations; territorial planning; operational program.*

JEL CLASSIFICATION: *O2, O29*

1. INTRODUCTION

Regional disparities in Romania has experienced since the interwar period. After the Second World War, the communist leadership has opted for a unique solution of economic development, industrial sector development. Communist Party and its governments have pursued the policy implementation process of industrialization a number of major principles for the location of new industrial facilities. Throughout its history, various provinces and parts of Romania have had different degrees of economic development.

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Among these may be mentioned as priorities the following: *location near sources of raw materials or the main urban agglomerations; maximum utilization of labour resources available, especially in underdeveloped areas; recovery through industrialization and processing of local raw materials; support growth and development of new industrial sites in urban areas.*

These four priority directions of the process of industrialization policy, in general, all former centrally-planned socialist economy based on, contain contradictory elements. In an attempt to ensure a balanced development (in the egalitarian sense) of all regions of the socialist-oriented planning and infrastructure investments in the industry to all areas of the country, whether these investments were justified or not economically. The effect of this policy was the rapid industrialization of less developed counties, the expense of more developed, which was accompanied, as in other countries, a process of migration of rural population in urban areas. While industrial activity was concentrated in certain regions of the country where they were mainly mineral and energy resources available and other regions characterized by the dominance of agricultural activities and services.

2. THE PAST REGIONAL DEVELOPMENT POLICY IN ROMANIA

Planning made based on individual state developed the National Plan at the national level included, since 1976 and in territorial planning, based on the imposition of the centre has a unique pattern of development. The goal is development was diminishing differences between counties, the sole criterion, the level of industrial development. Following this process of industrialization was creating a database of industrial production in each county, regardless of the economic viability of this development. This kind of redistribution of national resources in the global fund, eventually led to a slowdown in the pace of economic development. The result was contradictory: an excessive diversification of the types of industries located in the counties, but also the appearance of many localities are dependent on a single large or small industrial enterprise, usually in heavy industry, chemical engineering.

Also, many rural villages were declared towns without meeting minimum international standards in this respect, the communist regime was concerned about the decreasing percentage - very large - the rural population in Romania and who do not support, formal ambitions to place the country among countries developed world. The result of this policy was rather realization Romanian cities, their architecture standardization, working-class neighbourhoods of large transformation blocks in slums.

The whole extent of this process, rural residence remained substantial in Romania, the phenomenon of "commuting" with all its economic and social consequences, as their entire communist period. In general, the process of industrialization and urbanization forced imposed communist regime in Romania, in a brutal manner and massive displacement of the prevailing traditional structures of Romanian society. Correction to normal market economy and modernization of the company were halted.

However, as a result of this process of industrialization in many areas of the country's massive disparities in their economic development were substantially reduced during the centralized economy. With the transition to a market economy, regional disparities problem reappeared. After the collapse of the socialist regime and since the introduction of market economy, resources tended to be directed towards those areas where it was possible to maximize their utilization. As a result, the poorest regions, which have seen an artificial industrial development, now supports a severe impact of transition and structural adjustment in the transition to market economy system.

Statistical data, with all their shortcomings shows that Romania has entered the transition with a relatively low level of regional disparities, compared to the new Member States, but that these disparities have increased rapidly, first in Bucharest area and the rest of the country and, in lesser degree, among other regions.

Economic and social analysis revealed, after 1990, a process of increasing economic and social development disparities between regions. Development differences between the most developed region (Bucuresti - Ilfov) and the least developed (North-East), in terms of GDP per capita increased almost threefold.

At the same time, there is a growing disparity between regions located in the western half of the country (North-West, Centre and West), with positive economic developments and an increasing level of many indicators of economic and social development and those in the middle east of the country (North-South East, South and South-West), less developed. Market forces tend to favour the widening gaps. Industrial centres or areas that present a strong service sector are usually more developed, while the peripheral areas of agriculture, infrastructure predominantly poor become even more marginalized.

The first analysis of regional disparities in post-communist Romania has been made under the PHARE program for the period March to July 1996 and was included in two reports aiming primarily an analysis of sectoral differences and then global ones, between counties, with using aggregate indicators. Based on this information has been made a map of regional disparities in Romania, which allowed the spatial location of poverty and under - development in the country's two main areas: north-east, which includes virtually all the historical region of Moldova and the South, that the largest agricultural area of the country - Romanian Plain. The second report was completed in July 1996 ("B"), and established hierarchies of two counties, ordered on the basis of global development called DEVELOP, calculated for 1990, 1994. The second report followed, in particular, to analyze trends on the evolution of sectoral imbalances in the period 1990 - 1994, in order to identify their major causes and significant changes. In this variant were used 12 indicators, grouped into five categories.

Regional development in Romania is a new concept that aims at stimulating and diversifying economic activities, stimulating investments in the private sector, contributing to decreasing unemployment and, last but not least, a concept that would lead to an improvement in the living standards. In order to apply the regional development strategy, eight development regions were set up, spreading throughout the whole territory of Romania. Each development region comprises several counties. Development regions are not territorial-administrative entities; do not have legal personality, being the result of an agreement between the county and the local boards.

From institutional viewpoint the Government of Romania has responded to the new challenges generated by the post-accession period designating the institutions, the units in charge with the implementation and administration of the EU financial assistance via structural instruments (H.G. 497/2004). The definitions of the programming documents (Community Support Framework (subsequently replaced by the National Reference Strategic Framework), Operational Programmes, Complement Programme) have been introduced in the Romanian legislation on this occasion, at the same time with those of the key – actors, institutions that will deal with the implementation of the structural instruments (Management Authority, Monitoring Committee, Payment Authority). Each Operational Programme will have its own management authority, as follows: the Ministry of European Integration for the Regional Operational Programme, the Ministry of Economy and Commerce for the Sectoral Operational Programme on Economic Competitiveness, the Ministry of Transportation, Constructions and Tourism for the Sectoral Operational Programme on transportation and energy infrastructure, the

Ministry of Environment and Water Management for the Sectoral Operational Programme on environment infrastructure, the Ministry of Labour, Social Solidarity and Family for the Sectoral Operational Programme on human resources development, the Ministry of Administration and Interior for the Operational Programme on administrative capacity development, the Ministry of Public Finance for the Operational Programme of technical assistance.

The Operational Programmers will implement the priorities established by the National Reference Strategic Framework (NRSF). This document will harmonies the national priorities with the EU ones, included in the Community Strategic Guidelines for the Cohesion Policy. The NDP for 2007-2013 will remain Romania's internal working document for the Ministry of Public Finance. Two major differences can be noticed between the NDP and the NRSF, as follows (Ministerul Finantelor Publice, 2008): first, from financing viewpoint, the sources for the NRSF are exclusively the Structural Funds and the Cohesion Fund, whereas for the NDP there are additional sources such as national and local investment programmers, external credits, European Agricultural Fund for Rural Development, etc.; second, the NRSF does not address the rural development priorities included in the NDP since they are supported by the National Strategic Plan for Rural Development and financed via the European Agricultural Fund for Rural Development. The national co-coordinator for the Structural Instruments management will be the Ministry of Public Finance. The Ministry of Public Finance will also act as the Payment Authority for the European Regional Development Fund, the European Social fund and Cohesion Fund

Regional development policy is an ensemble of measures planned and promoted by the local and central public administration authorities, having as partner's different actors (private, public, volunteers) in order to ensure a dynamic and lasting economic growth, through the effective use of the local and regional potential, in order to improve living conditions. The main areas regarded by the regional policies are: development of enterprises, the labor market, attracting investments, development of the SMEs sector, improvement of infrastructure, the quality of the environment, rural development, health, education, culture.

Analysis in this paper have confirmed the general conclusions on the spatial distribution of disparities, namely the fact that the main problems of regional development are located in the north-east and the lowlands in the south, while the western and central areas of the country remain most developed. Unlike the two above-mentioned areas, Western and Central areas of the country is emerging as the richest and most highly developed in terms of revenue from households, equipping and technical endowment of the potential social and economic. Both shows, finally, that in terms of spatial distribution can be seen a remarkable group of global imbalances, the major differences between the east and south and central and western areas. Most poor and very poor counties were developed in Moldova and Wallachia, while most of those with high and very high growth were in Transylvania and Banat. Maramures historical regions of Oltenia and is characterized by a medium level of development. It is also surprising finding as one of the less developed areas are situated around the capital, except for the industrialized and urbanized area of the region Prahova.

Disparities in levels of development of different regions are the result of "equipping" their natural resources and human differentiated, and the teaching of evolution relatively specific (economic, technological, demographic, social, political and cultural) that shaped his development throughout history. This led to agriculture as the predominant economic force in regions where climatic and soil conditions were favourable, the heavy industry in areas where resources have been found in iron ore and coal industries and the concentration of services in the administrative centres. Some border regions have benefited from greater opportunities in terms of services and cross-border communication (Timis, Arad, Bihor, etc.).

Specific programs have been established for regional development severely disadvantaged areas (Apuseni Mountains, Danube Delta, Botosani, Vaslui, Giurgiu). However, it seems that these state interventions in the regions have been largely conducted on an ad hoc basis when specific request came more than being the result of regional development policies defined a priori. Currently, the country's economy can be characterized as an economy in the final phase of transition from central planning to a market economy functioning.

Although economic performance has been limited, Romania has inter-regional disparities, expressed synthetically by GDP values. Level generally low GDP, even in more developed regions of the country, indicate a lack of an area of great prosperity and economic strength, able to significantly influence these values. Although the growth rate nationwide has been raised in recent years and the inflation rate had a downward trend continues, the degree of economic polarization, dispersion distribution measured by gross domestic product per capita of the eight regions reported average country, had an increasing trend. Currently, the ratio between the maximum (Western region) and minimum (North - East) gross domestic product per capita stands at around 1.7 (Bucharest region, which has a very high GDP per capita relative terms) higher compared to the level of 1.56 recorded in 2003. Table 1 shows the regional disparity indices calculated for the period 2003-2006 and estimate for 2009.

The main objectives of the regional development policies are as follows:

- to reduce the existing regional disparities, especially by stimulating the well-balanced development and the revitalization of the disadvantaged areas

(lagging behind in development) and by preventing the emergence of new imbalances;

- to prepare the institutional framework in order to comply with the integration criteria into the EU structures and to ensure access to the financial assistance instruments (the Structural Funds and the Cohesion Fund of the EU);
- to correlate the governmental sector development policies and activities at the level of regions by stimulating the inter-regional, internal and international, cross-border cooperation which contributes to the economic development and is in accordance with the legal provisions and with the international agreements to which Romania is a party.

The principles that the elaboration and the application of **the development policies** are based on: decentralization of the decision making process, from the central/governmental level to the level of regional communities; partnership among all those involved in the area of regional development; planning – utilization process of resources (through programs and projects) in view of attaining the established objectives; co-financing – the financial contribution of the different actors involved in the accomplishment of the regional development programs and projects.

The process of decentralization of decisions and the development of local autonomy is a complex process that is intended - in line with European policies - to provide more relevant and real territorial communities and to create a financial system that would allow them greater involvement in activities that occur on their territory. The transition of responsibilities to local communities is a prerequisite for the success of local development policy.

Table 1. The Region of Romania

	2003	2004	2006	2009
Region North - East	0,723	0,692	0,675	0,676
Region South - East	0,857	0,907	0,845	0,841
Region South Muntenia	0,812	0,834	0,822	0,822
Region South - West	0,847	0,833	0,843	0,840
Region West	1,129	1,147	1,149	1,140
Region North – West	0,966	0,972	0,920	0,915
Region Central	1,072	1,042	1,087	1,084
Region Bucharest	1,940	1,915	2,044	2,067

Source: Convergence Programmer 2006 - 2009, Government of Romania

The main activities on the progress of the decentralization process aim to creating an appropriate framework for decentralization / devolution, which involves the establishment and operationalization of the Interministerial Technical Committee and Working Groups involved in ministries and districts, clarification of competences at different levels and structures of public administration, analysis and amendment aimed at primary and secondary legislation to support this process strengthening the financial autonomy of local authorities, redefining skills prefects, monitoring the decentralization process.

The purpose of local public administration reform is to make it able to perform their functions so as to contribute to economic and social development in the region. This highly complex process, which is currently underway, will conclude with a general strategy that would ensure consistency and coherence of the decentralization process. Continued reform of public administration is based on the growth of local autonomy by making both the decision-making autonomy as well as the financial ones.

So far, this process has undergone a series of steps to create the necessary legislative framework:

- The first elements of fiscal decentralization have emerged with the Law 189/1998 (which represented a milestone for achieving financial autonomy of local authorities) on public finances, completed by GD 36/2002 on local taxes and revenues. GEO 45/2003 on local public finances (which replaced Law 189/1998) adds clear and explicit rules and procedures, directing the entire public management performance criteria.
- Law 273/2006 on local public finances (the main changes concern: the division into administrative unit, planning in the county, the amounts deducted from certain income to balance the state budget to local budgets, increase capacity by increasing local investment limit debt from 20% to 25% of total own revenues of local budgets).
- Law 215/2001 on local public administration encourages inter-county cooperation and local governments to develop programs to stimulate investment in capital to support development priorities. Law 286/2006 amends the Local Public Administration Law no. 215/2001.
- Approval of Law 326/2001 regarding public services operators favoured the emergence of municipal public services (water, wastewater, solid waste, district towns and local transportation), which can cause a high level of economies of scale at the county level. This law was repealed by Law 51/2006 on public utility community services.
- Law 350/2001 on Urban and Regional Planning.
- Framework Law 339/2004 on decentralization, repealed by the Framework Law no.195/2006 of decentralization - that the local government's financial resources should be commensurate with skills and responsibilities transferred. It is shown that the development of this framework has been achieved in terms of institutional dialogue as a result of the creation of the Federation of Local Authorities in Romania, including associations of communes, towns and cities of Romania, as well as the National Union of County Councils.

This reform process has created massive problems in the local administration institutions encounter difficulties in processing and adaptation to numerous updates and requirements. Although there are training programs for local government staff are still problems of institutional capacity at local level regarding use of the opportunities created by this new framework. So far, ineffective management, public management autocratic bureaucracy attributes remain as long as local governments' policies and procedures do not apply or not apply in appropriate terms.

Poor representation of citizen interests by local elected and appointed decision makers is a major constraint in achieving a more democratic political process. Working

groups on decentralization in Romania (both elected and formed of specialists from local and central public administration) have identified during their work on several dimensions of this process: political, financial and administrative. So far, decentralization has been brought forward by the decentralization of financial responsibilities, which was made without full coverage of financial needs.

Relations between central and local administration, there has been progress in parallel with the development of associative structures of local administration. However, there are still regulations issued by ministries that impact on local budgets, without consulting and without associative structures to ensure funding. Implementation of regional development policy and investment support in the context of decentralization cannot ignore the national budgetary constraints. Although there is a clear trend of decentralization of government functions in Romania, the volume of financing granted to local authorities to implement economic and social policies remains quite limited.

To continue the successful process of decentralization, it requires an inventory of sources of financing responsibilities and administrative units and their proposals for the delimitation of administrative levels, depending on the strategy of decentralization of each field and with the involvement of associations and ministries line.

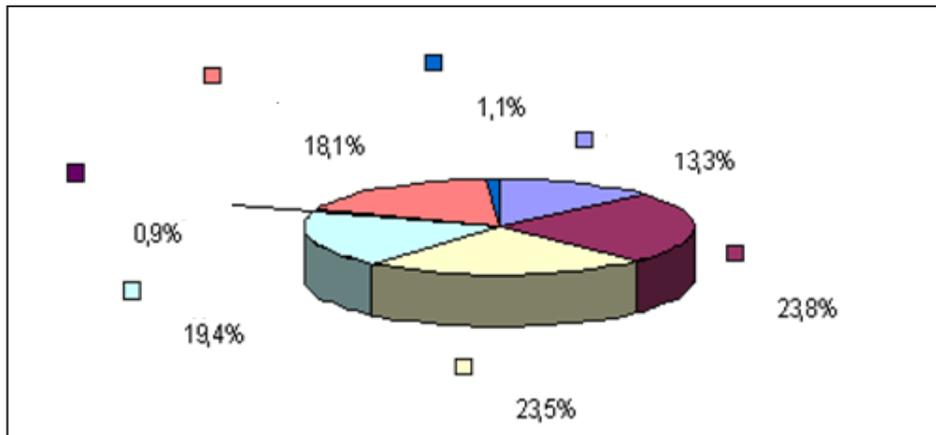
In accordance with EU regulations, Romanian regions are eligible under the convergence objective since their GDP is below 75% of average EU GDP. The total financial allocation of structural and cohesion funds for Romania in the programming period 2007 - 2013 is around 17.3 billion Euros, of which the Convergence objective: 16.9 billion Euros (11.2 billion euro funds allocated by Structural and Euro 5.7 billion represented the contribution of the Cohesion Fund) and European Territorial Cooperation Objective approximately 0.4 billion (including transfers IPA and ENPI). Allocations for the EAFRD are approximately 7.1 billion Euros and approximately 0.2 billion Euro EFF.

This operational program implements the first priority of the NDP 2007 - 2013: "Increasing economic competitiveness and development of knowledge-based economy" and the second priority of NSRF: "Increasing Economic Competitiveness in the long term, contributing at the same time the implementation of all other priorities of the NSRF. The overall objective of this program is to increase the productivity of Romanian firms in accordance with principles sustainable development and reducing disparities in productivity compared to EU average. The target is an average annual growth of GDP per employee approx. 5.5%, which will allow Romania to reach a level of approximately 55% of EU average productivity by 2015.

Objectives:

- ✓ Strengthening and developing the productive sector in Romania, in a manner that is favourable to the environment.
- ✓ The key element of this benchmark is to support innovation and modernization of existing businesses and creating new ones, in particular SMEs in the productive sectors and business services. Increase in value and quality production equipment based on the expansion and modernization, innovation, production processes and support the adoption of international standards, lead and support the development

of new products. Also, increasing the supply of specialized consulting and support the internationalization contributes to increase market share.



Source: National Strategic Reference Framework 2007-2013

Figure 1. Operational program implements the first priority of the NDP 2007 – 2013

Legend: 18.1%- resources humans; 1.1%- administrative capacity; 13.3% competitiveness; 23.8%- transport; 23.5%-average; 19.4%-regional; 0.9%- technical assistance.

- ✓ Establishing a business environment conducive to sustainable development: it aims to create a favourable framework for developing entrepreneurship by reducing constraints in the areas of market failure - access to finance, innovative financial tools, access to infrastructure and services business - the creation of new businesses and to develop existing ones. Achieving these two objectives above can be gauged by "increase SME contribution to GDP by 20% in 2015.
- ✓ Increase the research and development (R & D), stimulating cooperation between institutions of RDI (research, development and innovation) and the productive sector and increase business access to R & D: it is intended to finance projects of CDI, which generate results directly applicable in economy, modernization and infrastructure development and R & D capacity, increased quality and greater choice of innovative services and stimulate demand for innovation in the productive sector. Achieving this objective will contribute to increasing the value of total R & D expenditure (GERD) up to 3% of GDP in 2015.
- ✓ Potential of ICT and its application in the public sector (administration) and private (citizens, businesses) - by harnessing skilled human resources and know-how and improving infrastructure particularly in the areas of market failure. The aim is to promote the introduction of innovation in the productive, administrative processes in everyday life and development of the market for a new generation of products and services. Target is an ever increasing number of Internet users (access to services businesses online) to 52% in 2003 to 70% in 2015.
- ✓ Increasing energy efficiency and sustainable energy system development, promoting renewable energy - by reducing energy intensity in the energy sector by

implementing new technologies to increase productivity, increase energy efficiency throughout the production cycle and increase the share of renewable energy. It will provide significant support and implement new technologies to reduce emissions from large power plants. The aim is to contribute to national goals: reducing primary energy intensity by 40% by 2015 compared with 2001, increase energy from renewable sources to 33% of gross national energy consumption by 2010 and reduce emissions contaminant in the energy sector, according to the National Programmers for reducing sulfur dioxide (SO₂), nitrogen oxide (NO_x) and dust in large Exploitation of regional advantages is essential, so they are transformed into a key driver of market growth and competition. Starting from the conditions that have to do a region to be competitive in a competitive market (a favourable business climate, highly skilled workforce and adaptable, adequate infrastructure, and an innovative environment conducive to quality macroeconomic management), skills fundamental level would need to cover:

- strategic planning based on analysis of advantages and disadvantages - the knowledge and commitment to their strengths and weaknesses and consequently promote actions: finding workable solutions to improve the problems of development, operation, strengths and turning them into internationally competitive advantages;
- culture partnership: strategic approach and community involvement and the most relevant actors at national, regional and local issues so that both common and specific but different regions and communities to find solutions within this framework;
- administrative capacity - the availability of competent personnel at central and local administrative structures, effective cooperation with the private sector as well as other interested groups are factors that ensure good management of financial and material resources available to regions;
- innovation capacity, or where appropriate, research and innovation infrastructure necessary to foster the emergence of innovation, as a condition for an economy based on the results of research and innovation;
- ability to identify resources to encourage the emergence of new economic activities and diversification and qualification of human resources to adapt to the market needs (by adapting school curricula). Correlated with many objectives of cohesion policy (full employment and active labour market policies, the development of lifelong learning, research-based economy / development / innovation, sustainable development), the following key competences should be considered, so each individual, to personal development, as well as at the level of education and initial and continuing training:
- ability to adapt and meet the challenges of a dynamic environment in constant change through continuous improvement of knowledge and specialization in technical fields, as well as in services, in this context, ICT skills are essential for the whole population, contributing to increased information and communication capacity;
- entrepreneurial skills - key competences required by the market economy, competitive;

- managerial competencies - it is important to be developed in all sectors, as well as basic skills for better work organization and productivity growth, for understanding decision-making and accountability;
- linguistic and multicultural competencies - knowledge of several languages facilitate communication and dissemination of best practices and exchange of experience on problem solving, while helping to increase information capacity.

Moreover, regional policy can be successful by implementing isolated from other policies. In this sense, knowledge of relevant national policies and community, along with their integration into a coherent and well-defined strategic concept, which can make the best potential development value of a hard or a region or zone is essential.

Strengthening capacity for cooperation and effective absorption of funds by all available means: such as exchanges of good practice, joint actions, exchange of new technologies, developing partnerships, creating thematic networks, etc.. Leads to effective and efficient implementation of cooperation programs in place and also will create prerequisites to develop new partnerships of regional cooperation, including distant countries outside the Union and the United States, China or Russia.

Management of the area at MRDH level. At the level of the Ministry of Development, Public Works and Housing, the attributions regarding spatial planning, urban planning and housing policies are assigned to the General Department for Territorial Development. Thus, it provides a unitary legislative and regulatory framework in the area of territorial development, supports the elaboration, adoption and implementation of Romania's Strategic Concept of Spatial Development – CSDSR 2007-2025, elaborates spatial planning documentations, supports the elaboration of urban planning documentations, creates the information system specific to urban real estate and urban databanks.

According to the MRDH organizational chart, the *General Department for Territorial Development* is structured in *three departments*, as follows:

- Department for Spatial planning – organized in two services: a) *Service for territorial planning*, b) *Service for European inter-regional territorial cooperation*,
- Department for urban planning and local development – constituted of: a) *Service for urban planning*, b) *Service for local development*, c) *Service for information system specific to urban real estate area and urban databanks*, d) *The secretariat, organized at compartment level, for the enforcement of GD 834/1991 regarding the establishment and assessment of lands owned by commercial companies with state capital, with further amendments and completions*. e) *Service – Secretariat for the declaration of public utility with a view of carrying out expropriation*
- Department for housing policy – made up of: a) *The secretariat of the National Centre for Human Settlements (CNAU – Habitat)* b) *Service for legislation and regulations*.

For the management of this area, a series of specific laws specific to spatial planning and urban planning have been adopted, some under promotion and modification, while other normative acts have incidence on the activity and constitute connected legislation, of help in fulfilling attributions. In the area of spatial development, Romania is the signatory of strategic documents that set up objectives

agreed by several states, members of European or international bodies in this line. Fourthly, *the geographical distance from the European developed countries*:

- under the conditions of an extremely poor infrastructure, may have increased;
 - the gap between Romania's western and southern or eastern regions;
 - several directions of action should be followed to diminish the territorial inequalities growing even more deeply:
- defining and improving the present regional development strategies and achieving spatial social-economic cohesion;
 - increasing the officials' responsibility for the targeted use of the existing funds allotted through spatial cohesion programs, financed by EU or by the Romanian Government;
 - adapting the present legislation in the field of regional development and correlating it with the European one. Also, Romania's characteristics in the field of regional development should be taken into account in the essence of legislative papers so that they could be a real support in the territorial development process;
 - developing and implementing the new and old spatial cohesion concepts on the theory of poles and growing centers, on the network- or cluster-type development;
 - involving specialists in drawing up territorial strategies and policies; monitoring the implementation process;
 - identifying the best locations in implementing local and regional investments so that the amplified effects could really diminish the uneven development process;
 - learning from the mistakes made by the developed countries in the territorial development process.
- enumerating some of the actions connected with a better implementation of local and regional development process can rectify the so-called taboo;
 - procedures and achieve a performing territorial management.

The innovation phenomenon for present has different manifestations depending on the companies' profile or the EU region where they are located.

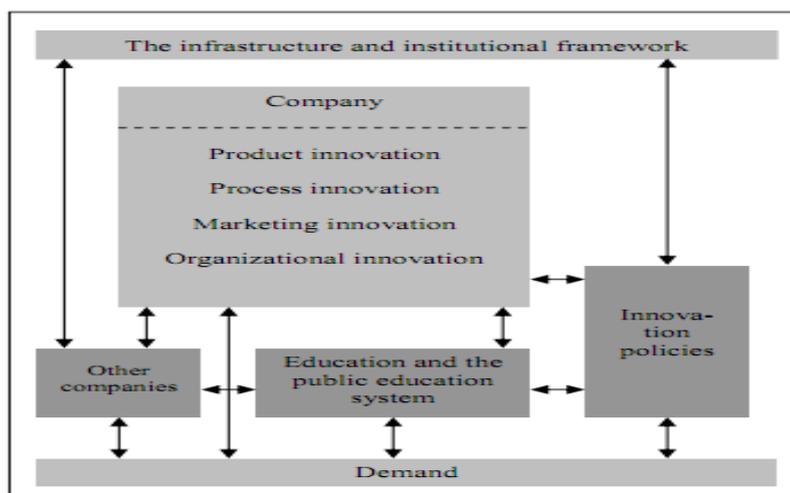


Figure 2. Organizational dynamics of innovation

- Innovation is essential for sustainable growth among the averagely developed countries, so that simply emulating other countries' innovations will not do.
- Despite the massive foreign investments implementing technology and know-how, this has not led to a similar development in our national economy.
- During the past five years, innovation has only reached modest levels in Central and Eastern Europe compared with the EU's developed countries, a trend that continues to be seen.
- Some of the local SME's have proven that successful innovation and export are possible even in the absence of brand recognition abroad.

The same analysis performed by the Economist Intelligence Unit made it possible to design an innovative model around two main components: innovative performance and facilitating innovation.

Table 2. Inovative performance

	Innovative performance 2003-2007	Innovative performance 2008-2013	Facilitating innovation 2003-2007	Facilitating innovation 2008-2013
Slovenia	7,68	7,86	7,16	7,34
Hungary	7,26	7,64	7,29	7,68
The Czech Republic	6,83	7,04	7,41	7,62
Estonia	6,75	7,09	7,34	7,69
Slovakia	6,26	6,25	6,84	6,82
Latvia	5,89	6,42	5,87	6,41
Bulgaria	5,79	6,06	5,98	6,26
Poland	5,65	6,14	6,21	6,71
Lithuania	5,52	5,77	6,09	6,35
Romania	5,25	5,87	5,61	6,25
EU 14 ⁵ average	8,54	8,66	8,53	8,67

Source: Economist Intelligence Unit, *A Time for New Ideas. Innovation in Central Eastern Europe*

This year's activities also include a large spectrum of target groups, including young people, teachers, companies, public players, and citizens, and highlight the factors that can contribute to promoting creativity and innovation capacity:

- *highlighting openness to cultural diversity as a means of encouraging intercultural*
- *communication and promoting a closer connection between the arts, as well as with schools and universities;*
- *stimulating aesthetic sense, emotional development, creative thinking, and intuition in all children, from the youngest age, including in preschool education;*
- *heightening awareness of the importance of creativity, innovation, and the entrepreneurial spirit for personal development, as well as for economic growth and employment, as well as for encouraging an entrepreneurial*

- mentality, especially among young people, through cooperation with the business environment;*
- *promoting education in the fields of mathematics, science and technology, basic and advanced skills that favor technological innovation;*
 - *encouraging openness to change, creativity, and solving problems as competencies favorable to innovation, which can be applied to a variety of professional and social*
 - *contexts;*
 - *heightening public awareness, both within and outside the labor market, regarding the*
 - *importance of creativity, knowledge, and flexibility in an age of technological changes, and of fast global integration for a prosperous and satisfying life, as well as offering the means that*
 - *will enable citizens to improve their job opportunities in all the fields where creativity and innovation capacity plays an important part;*
 - *developing creativity and innovative ability in private and public organizations by training and encouraging them to make better use of the employees' and clients creative potential in the knowledgebase society and especially in the creative economy, strategies and policies dedicated to research, development, and innovation are considered a priority.*

3. CONCLUSIONS AND PROPOSALS

Practically, Romania does not have a management model of uneven development. The discussion on drawing up the national strategy of spatial development has reached its final stage, but it has engaged only a part of the specialists involved in territorial analysis and management.

The main way for reducing territorial discrepancies seems to be a polycentric development. We expressed this idea publicly when Romania's regional development policy was being defined, but it was marginalized. Today, when Europe promotes such an idea, it has been embraced with no comments.

Elements of value added generated by the implementation of EU Regional Policy Understanding the European Union as a complex system, whose operation depends primarily on sub-component unit is the first condition to understand the need for coherence at all levels, including regarding policies, strategies, plans and development programs. Under this system, it occupies a special place at the Community regional policy formulation, which continues at national and regional level, with the programming strategies, plans and programs to implement this policy for determining which term macroeconomic medium term. If the European Union, this policy is especially important because it directly influences the direction of the Community and national financial resources to those projects that support the development of the whole groups.

In identifying and adopting best solutions to ensure an optimal level of development, both as decision makers and policy researchers aim to establish regional best ratio between responsive to the needs of development - continue quantitative

change and qualitative and administrative constraints, financial and cultural manifested in the construction of the complex system required for the formulation and implementation of regional policy, which is often characterized by a low degree of flexibility.

However, measuring the consequences of all these units is more difficult, especially if attempts are beyond the raw results of an evaluation of growth rate and the evolution of territorial imbalances. In recent decades there has been a reduction of the imbalances and inequalities between wealthier areas and less developed EU. This process has been generated in part by existing long-term trends in advanced market economies, the regional efforts for equalization of national policies, other EU policies and rules established in favour encourage trade and mobility, as well as community interventions by regional politics.

The magnitude scale of the last element cannot be appreciated because, as noted professor Andre Sapir, "... in practice, the evolution of regional GDP data are not sufficient to distinguish the effects of this policy, the absence of other categories of regional indicators, such as initial income, human capital, quality of local administration and in the absence of other influences separation.

Regional Development Strategy will be developed in Romania in the fall guidelines and trends. Its successful application in future years will depend not only on ensuring necessary financial support but also how they can meet the so-called "challenges Behavioural: participation, communication, mentalities and attitudes. An approach to strategy focused on the needs of citizens (people-centred approach) may lead to broadening the knowledge base, understanding and commitment of groups involved in regional development, improving links promising local initiatives. In the implementation phase strategy can be identified actors involved: central and local government, business, non-governmental organizations and Last but not the latter, local communities, citizens. To think that participation is all non-governmental problems would be a big mistake: the government, central government and are local ones that should contribute to creating the conditions necessary for participation.

In a democratic political system, local government is a key element. Its institutions provide a range of services essential to economic and social welfare of residents, use a significant proportion of public money and are, directly and indirectly, a source of jobs. But local government is more than one service provider. It is the most closer to citizens and has an important role in representing the concerns and views outlined in local level. Local government must build the structures, environment able to support active participation. The only pertinent conclusion is that you cannot establish any relative performance of these regions in the absence of regional policy. In conclusion, the results of its regional policy are somewhat modest in terms of contribution to the overall objective of cohesion and the annual financial reporting transfers of around 40 billion Euros for the period 2000-2006.

However, there are some positive elements and effects generated by implementing this policy cannot be neglected. First, there is a symbolic dimension of regional policy as an expression of solidarity. The spatial management of the country's territory constitutes a compulsory, permanent and of perspective activity, carried on in the interest of the collectivities that use it, in keeping with the values and aspirations of

the society and with the requirements of integration in the European space. Territorial development is achieved through spatial planning and urban planning, which represent ensembles of complex activities of general interest, contributing to the balanced spatial development, to the protection of natural and built patrimony, and to the improvement of living conditions in urban and rural localities.

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FORMS OF TAX EVASION IN ROMANIA. ANALYTICAL PERSPECTIVE

PETRE BREZEANU, SORIN CELEA, ANA PETRINA STANCIU *

ABSTRACT: *This study brings to the fore an analysis of the phenomenon of tax evasion in Romania. The perspective is broad, with a descriptive substrate, originally founded by highlighting the dimensions that define this phenomenon; later, the perspective is materialized by the presentation of tax evasion schemes that often takes the form of real complex fiscal and also financial engineering. The purpose of this work consists in the awareness of practitioners, academics and the public of the tax evasion forms useful in order to identify precise modalities to combat it. Since the volume of funds subject to the phenomenon of tax evasion is greater, the negative effects of macroeconomic environment.*

KEY WORDS: *avoidance; engineering; fiscal risk; fictive society; tax haven*

JEL CLASSIFICATION: *H20, H26*

1. INTRODUCTION

Tax risk is a separate component of the phenomenon of tax evasion, in essence, tax evasion is possible by the valorization of high fiscal risk elements. A relevant approach to tax risk is not effective without highlighting the forms of manifestation, the causes as well as the effects at the microeconomic and macroeconomic level.

From a global perspective, tax evasion is stealing fully or partly by any means, to pay taxes and other amounts owed to the state budget, local budgets, state social insurance budget and special funds off-budget, by Romanian or foreign individuals or legal persons. Its scope has similarity in terms of extensibility with the area and variety of taxes. Recent analysis has shown that tax evasion is strongly manifested in direct

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taxes, with an impact on their performance. Globalization of the corporate sector has favored the emergence the international dimension of tax evasion through international double taxation, the high heterogeneity manifested in the national tax regimes and thus different levels of fiscal pressure, which led to multiple opportunities for arbitrage. To evade tax, the taxpayer orients towards protected areas in fiscal terms. Gradually, there have been drafted tax and financial engineering schemes by the intermediary of which various combinations that ground on fraudulent behaviors. Thus, a company can capitalize on arbitrage offered by protected areas by declaring incomes as being made in another country in the form of billing by the parent company or subsidiary; transfer pricing mechanism is a modality for acts of tax evasion to take shape. Frequent manifestations of this kind have led to the need to exercise strict fiscal controls in the group consolidated financial statements of companies, particularly in light of the origin of declared income and tax regime applicable to them.

International tax evasion has developed in the context of directing excessive investment flows to emerging countries. In order to ensure that foreign direct investment act as an engine of economic growth, emerging countries have used, in addition to low labor cost, low tax advantage, by offering incentives to foreign investors. Recently, many studies have been channeled towards the tax advantages that support absolutely artificial, inconsistent devices to attract foreign investors. In general, the analysis revealed that foreign investment directed only under the tax advantages do not ensure economic solid growth, their character being temporary.

2. FORMS OF FISCAL EVASION

At the international level, there can be remarked multiple financial engineering schemes which reflect a high degree of creativity as for the combination of various elements in order to obtain fiscal advantages. The most frequent forms of fiscal evasion consist of abstinence and concealment; they represent, in essence, the grounds for the other forms of fiscal evasion. In case of the abstinence, the tax payer, discouraged by a high fiscal rate, is oriented towards an area with a low fiscal rate, and decides the cessation of any activity that could be subject to fiscal burden in his origin country. In comparison with the corporate sector, the mother company located in a country with a high fiscal burden will advise its subsidiaries to avoid dividend distribution, which will protect the profit accumulation. Concealment implies hiding the real revenues or disclosing them in an imprecise manner in order to elude fiscal rules.

While abstinence is related to the concept of lawful tax evasion, made under the protection of relocation or transfer pricing, risk concealment involves a higher tax evasion since evasion tends to become illegal. In general, international tax fraud is materialized through the following techniques: directing profits to a country with low rates of taxation through transfer pricing; non-repatriation of income earned abroad by implementing reward support systems. Techniques are supported by different organizational schemes such as holding companies, mother companies and fictitious companies. Located in countries such as Lichtenstein, Luxembourg or Bermuda, holdings boast a multitude of functions. They are specialized in portfolio management,

identification and use of financial resources, investment resources and are generally recognized by the phrase "Offshore Financial Centers".

What is characteristic for these protected areas the tax is the high degree of confidentiality of information relating to the managers of such companies? Generally, these companies are located in countries with low political and currency risk, taxation benefiting from the absence of income taxation, which provides connection to developed countries. In literature, the reference to tax havens is the opposite of "tax hells" which includes developed countries, the latter being recognized as practicing excessive tax rates.

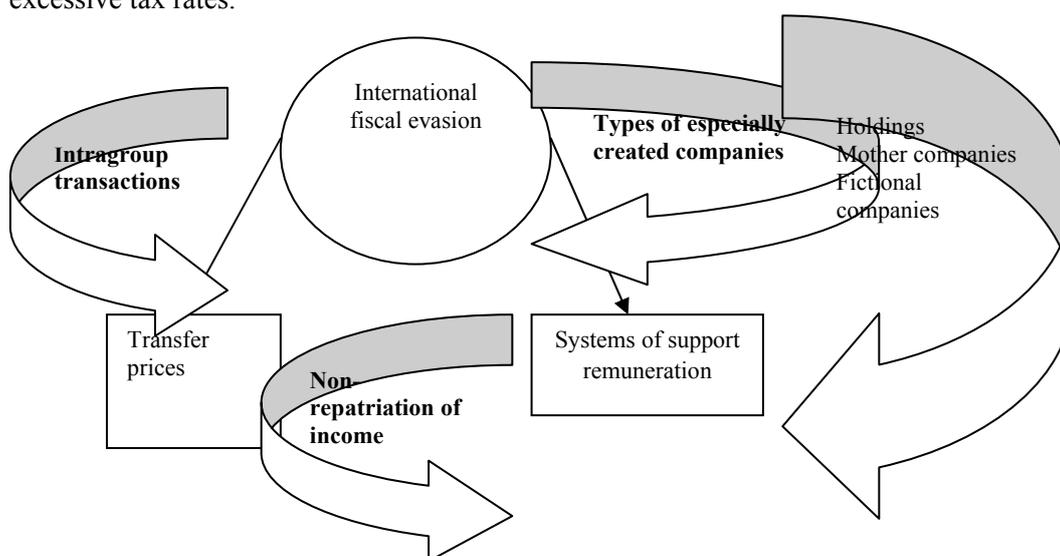


Figure 1. International fiscal evasion

However, the latest trend in the related literature is to highlight the fact that developed countries show both a high tax rate and the tendency to offer special tax regimes and laws of certain categories of investors that offers many amenities. Financial engineers are implemented by companies holding a high degree of creativity. A financial transaction subject to frequent engineering is the issuance of bonds. Thus, a company wanting to avoid high taxes imposed on income from capital in its country of origin will launch a bond loan through a holding company established in Cyprus. The holding company created for this purpose will issue securities in the country with a low tax burden and will transfer the amount obtained towards the origin country in exchange for an interest rate equal to that of bonds issued. Interests directed to investors by the company in Cyprus will not involve withholding that, normally, the company located in the country of origin would have borne it.

In this manner, the cost of funding is reduced for the company located in a country with a high level of taxation. In case of mother companies, they are distinguished by their own activity. These companies are implemented in order to manage the financial benefits achieved in other countries by group entities. Mother companies are concerned mainly with the company treasury and are located especially in Switzerland.

Fictitious companies (sham companies) have no material existence in itself, being frequently limited to a point of correspondence associated with a bank, law firm or accounting service. These companies are created focusing on two objectives: to locate in countries of refuge the profits made by various financial engineering schemes; to render difficult the fiscal control oriented towards the accounts of companies in the group.

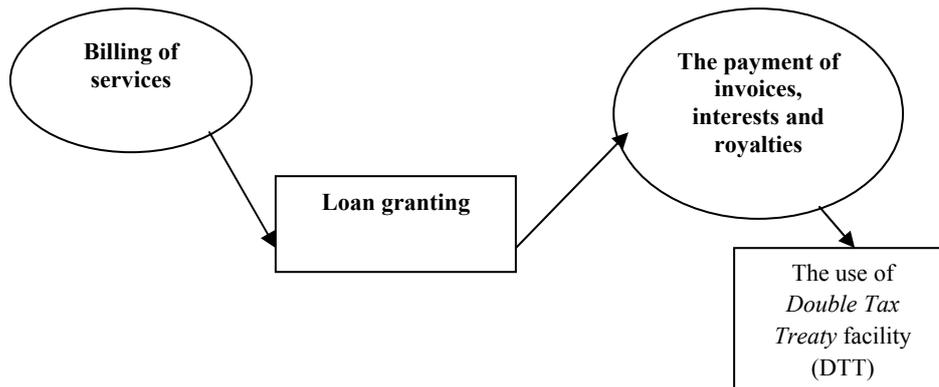


Figure 2. International fiscal evasion flows

Among sham companies, there can be found patents companies, on whose behalf it is possible to obtain patents which are then leased, or auxiliary services companies which have the habit of services over-billing. In general, in case of sham companies, billing is done on services like advertising, financial or legal. Concerning the mother companies, they are distinguished by their own activity. These companies are implemented to manage the financial benefits achieved in other countries by group entities. Mother companies are predominantly concerned with the company treasury and are located mainly in Switzerland.

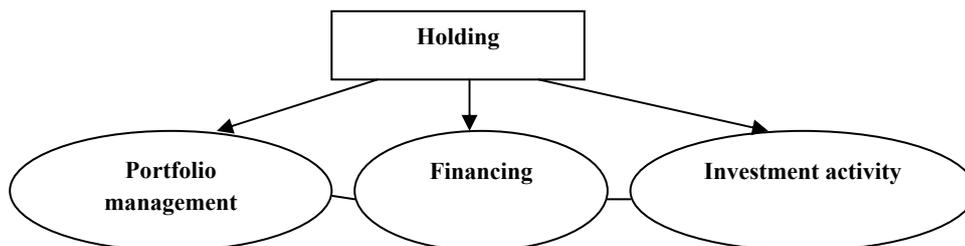


Figure 3. The activity of the holding

3. LEGAL FISCAL EVASION

Legal tax avoidance involves reducing the tax base under the protection of tax legislation. In essence, in case of the legal tax evasion, tax avoidance is not considered a contravention or crime. Cases of legal tax evasion are more numerous in the context

of legislative changes as well as in the context of providing support by fiscal policies in order to encourage certain economic sectors.

Tax evasion can meet legal form as such:

- permanent fiscal facilities (exemptions, reductions, deductions);
- temporary fiscal facilities (for example, newly created companies taking advantage of this status for avoiding to pay income tax. Another example of this kind is the lax legislation in some countries that allow companies to opt for either income tax for individuals or as capital for companies.
- if the state is facing a high level of debt or an alarming trade deficit, then it resorts to exempting from tax income revenues deriving from bank deposits or investments;
- if there are precise rules on company expenses, then there is the tendency to overestimate them for deduction purposes. An example is the depreciation expenses that firms tend to overstate in comparison with the wear degree in order to reduce the tax base. For the same purpose there can be manipulated the hospitality expenses as well.
- taxation made by certain socio-professional categories based on average income rules that encourage taxpayers who have an income above average to not pay tax on that difference;
- tax havens that are created in order to escape the tax authorities. Offshore companies are supportive to avoiding the payment of taxes, in order to increase profitability in a favorable macroeconomic environment, characterized by political stability, currency flexibility and absolute privacy.

Tax haven is usually valorized in order to distort transparency of the income and to give rise to apparently reliable documents attesting to the long existence of the company. Although the existence and the proper functioning of the company is essentially informal, being used only for tax purposes, apparently authentic documents are used to certify the credibility of the company, its solvency or value of property in relation to its business environment.

Tax havens ground on: transactions apparently legal in accordance with the laws known as tax planning. In general, tax planning involves channeling profits from home company to the parent company implemented in the tax haven. These returns require services or export-import operations whose content is manipulated favorably; transactions that hide under the protection of legal unintended inaccuracies are considered circumstances of tax evasion. In this category there are integrated captive insurance companies, investment companies and some companies providing various services done through tax havens.

In both cases, reality is distorted in order to obtain considerable tax advantages. Fraud is done under the protection of geographical relocation, increased fiscal risk resulting in invaluable tax losses.

3.1. The implementation of an off-shore company in the business circuit

A commercial transaction involves the initial delivery of goods or services – the real flow that are subsequently charged, which generates cash flow. Tax base is the

acquisition cost plus other expenses. In general, the offshore company is integrated in the median transaction and the profit is recorded in its own documents. In this way, profit is oriented from a high fiscal burden area to one with very lax taxation. The offshore company will receive further orders from customers and goods will follow the same circuit. The interesting thing is that the advantages are for both the seller and the buyer.

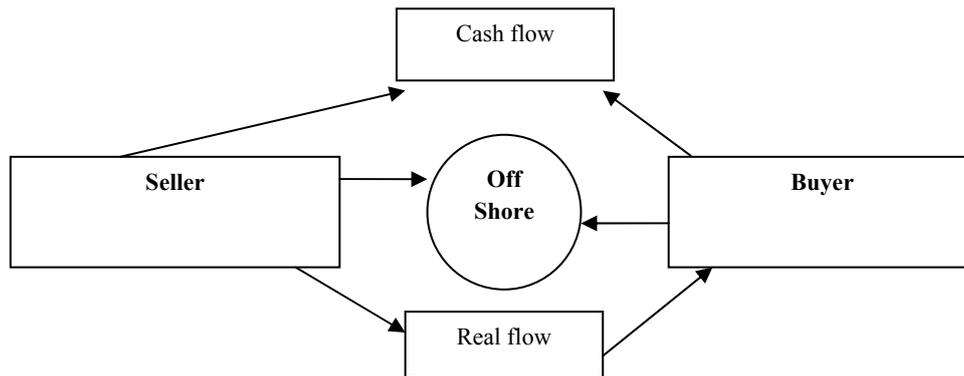


Figure 4. The implementation of an off-shore company within a commercial transaction

The seller will transfer the profit arising from the differential between the cost of goods sold and the selling price and the buyer will not pay tax on the difference between the purchase price of goods and the selling price of goods in his country. A holding company may be incorporated in a fiscally advantageous jurisdiction to finance the group entities located in tax disadvantaged areas. There can be remarked the following positive aspects: by exploiting the double taxation agreements, entities within the group obtain funding at a reduced cost; deductibility will apply to profits generated by sub-entities within the group by virtue of the interest rate, and tax due on interest is reduced up to elimination; a share issue becomes possible within the entities in the group without incurring tax imposed on profits from the capital; there can be directed fees towards the off-shore company as well.

3.2. Illegal fiscal evasion

Illegal tax evasion involves the deliberate avoidance of payment of taxes, being subject to punitive action. Generally, tax evasion involves unlawful clouding of part of taxable materials in order to reduce the tax burden. The following forms can be distinguished:

- ✓ traditional fiscal evasion in virtue of avoiding tax liability payment by making false related documents or non-creation of these documents; In this case, there can be used the following procedures: the elaboration of false VAT documents; intentionally reducing the tax base by not including income. In general, sales are made without billing and cash receipts without receipts; intentional cost reduction in order to reduce the tax base; production of illegal goods and services; carrying

- out clandestine activities; reducing the value of real estate to reduce the transactions tax base;
- ✓ legal evasion lies in hiding the true substance of the contract for avoiding tax payment;
 - ✓ accounting evasion is to achieve certain accounting tricks by using false documents in order to increase spending, reduce revenues and, consequently, taxable income and state tax liabilities;
 - ✓ evasion through assessment derives from the reduction in value stocks, supra-valuating and provisions for handling taxable income;
 - ✓ evasion through assessment derives from the reducing inventories value, amortization and provisions overestimation in order to manipulate the taxable net income.

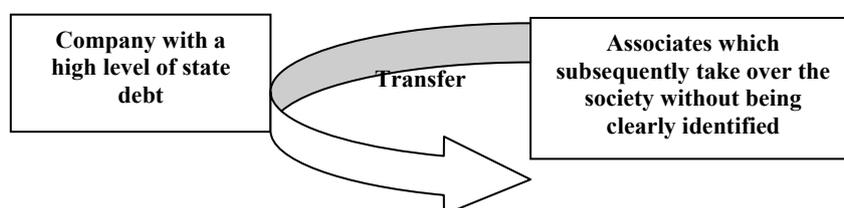


Figure 5. The transfer of an indebted company to the state

There are many companies that seemingly operate legally, but can not be clearly identified according to their official head office. In general, the establishment of such companies is done in order to avoid payment of tax obligations. Such traders may appear gradually as well, by transforming a real company which accumulates debt over a certain period of time in a phantom company.

This transformation takes place through the initial company's assignment to associates hard to identify in terms of fiscal residence. Such companies issue bills which generally reflect sales prices equal to the purchase prices, inputs of fixed assets or fictitious services, which causes real fiscal frauds such as circumvention of tax payment or illegal tax refunds. In general, to carry out this scheme, import operations are made at underestimated prices in comparison with the real prices and the related payments are mostly in cash.

Tax evasion is materialized, in general, by the special relations between different business actors. For example, a company specializing in producing pastry specialties invoices a distributor who supplies a commercial chain. This distributor has developed various business lines, one of which being represented by financial and accounting services which ensure the bookkeeping and the control of the financial operations developed by the supplied commercial chain; this last aspect allows the issuance of false invoices for the purchase and sale of commercial chain partners thus providing a legal real flow. Pastries were actually following an underground flow under the protection of false import labels that allowed the practice of selling prices four times higher than the purchase prices. Another example is represented by the case of an offshore company specialized in medical equipment leasing. Invoices issued in

order to record income derived from the equipment rental were drawn up in the country the equipment was rented and the income was taxed in a very lax manner in tax havens.

Creating a phantom company involves the following steps: setting up a company in good faith with observance of the official stages, in parallel with the inclusion of people with false identity as shareholders. In general, against such firms, the founding shareholders disappear, the company being taken over by other agents; manufacturing false incorporation documents, allowing the involvement of the company in a chain of commercial transactions that are intended to exploit various tax avoidance schemes; conversion of a company in good faith in ghost company, after accumulating a high level of tax debts to the state-by assigning it to third parties, which gives difficulty to the clear identification process of the initial company.

In many cases, tax evasion is supported by a predisposition to certain types of tax evasion phenomenon. For example, indirect taxes have a higher degree of fiscal risk in relation to the direct taxes from the perspective of the below aspects: high tax rates; extended segment of application; principle of reimbursement for certain types of commercial transactions; a time differential between the moment it is generated and chargeability, which allows for various operations involving phantom companies, and dispose of a certain level of funds for a while.

Tax evasion is done often through smuggling at the level of customs duties. In general, the customs are paid, except customs duties and other taxes - such as VAT, which gives serious evasion operations. Another method used for tax evasion is the presentation of under-valued prices as a basis for required customs documents, as the falsification of the origin of the traded sold goods' by their location in geographical regions that have a lax tax regime.

Also, applying a different tax treatment depending on the material characteristics of the product (technical structure, concentration) favored the emergence of the tendency to falsely register certain categories of products in categories that do not reflect in any way the fiscal material characteristics. Fiscal fraud has been registered in the VAT. The complexity involved in the process of calculating the tax evasion phenomenon allows variety. Frequently, before the financial year end, oversized acquisitions are made, allowing the increase of collected VAT because in the beginning of the next financial year the procurement operations are to be cancelled.

At the level of the transfer prices, various intra-group transactions are frequently made based on certain oversized goods in terms of value, but undersized in terms of practical use in order to influence financial results according to the group interests. These VAT evasion schemes applied at the level of direct taxes translate at the level of the direct taxes as well; it is noted that tax evasion is facilitated by accounting and financial instruments. Applying- linear, accelerated, decelerated-amortization principles, the methodology to determine the provisions, as well as the VAT payable or receivable in some cases provide the necessary support to tax evasion phenomenon.

4. CONCLUSIONS

Research has shown fiscal risk as a separate component of the tax evasion phenomenon, in essence, tax evasion is possible in terms of high fiscal risk elements valorization. Relevant approach to tax risk is not possible in terms of materialization in the absence of the fiscal evasion from the perspective of the forms of manifestations, causes and also effects at the microeconomic and macroeconomic level.

Globalization of the corporate sector has favored the emergence of the international dimension of the tax evasion through international double taxation, the high heterogeneity manifested in the national tax regimes and thus different levels of fiscal pressure, which led to multiple opportunities for arbitrage. To evade tax, the taxpayer is guided by protected areas in terms of fiscal burden. Gradually, tax and financial engineering schemes have been drafted that embodying various combinations whose substrate lies in fraudulent behaviors.

Research approach emphasized the main mechanisms of tax fraud at national and international level as well as the intensity of national tax evasion phenomenon. They showed characteristics of the Romanian economy during the transition; the abrupt transition from a centralized economy to a capital market economy was favorable in the context of the fiscal evasion phenomenon in Romania. The emergence of non-performing sectors supported by excessive tax arrears has been a proliferation framework for acts of tax evasion.

The absence of a precise regulatory framework and accounting sphere has allowed export-import operations, predominantly in cash, to be performed in an incoherent, chaotic manner, which generated the excessively avoiding tax payment. In this way, we can appreciate that the period immediately following the year '89 was marked by the existence of a high fiscal risk. By crass corruption actions materialized by tick companies, profitable activities have been directed from state enterprises to the private sector, thus maintaining non-profitable activities within state enterprises.

The research presented various schemes of legal and illegal tax evasion in order to highlight the fundamental dimensions of this phenomenon. In this context, it was revealed the need to strengthen fiscal control actions mainly at the level of by the indirect taxes in order to develop a more efficient system of tax revenues collection.

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MITIGATION OF THE CRISIS EFFECTS IN PUBLIC AUTHORITIES AND INSTITUTIONS FROM COUNTY GORJ

**CONSTANTIN CĂRUNTU,
MIHAELA LOREDANA LĂPĂDUȘI ***

ABSTRACT: *The economic crisis that is still present, both locally and nationally, has produced and will certainly cause further financial disruptions at both micro and macro level. Economic crisis, global phenomenon affecting structurally the Romanian economy, requires exceptional measures, which, through their efficiency and timeliness of application, lead to reducing its effects and to create premises for national economic revival. Any public institution may face a crisis, able to endanger its normal operation and reputation from in a particular community. Some crises are predictable and preventable or others can not be suspected or can not be anticipated correctly. This study is done in order to grasp how the economic crisis has reshaped the public sector in Gorj County and to synthesize the strategies of mitigating the effects proposed by the professionals working in the field. Also the article gives a holder so that the participants in the process of developing mitigation measures for public authorities and institutions crisis in the county can benefit from an objective source, containing information relevant to the identification of major effects and priorities.*

KEY WORDS: *economic and financial crisis; objective; strategies; crisis effects; economic development.*

JEL CLASIFICATION: *H83; G01.*

1. INTRODUCTION

Crises are complex phenomena that may affect either the whole social system or certain parts of it (the economic, political, international relations, banking sector, social structure, educational institutions and culture, etc.). Consequently, they have

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attracted the interest of economists, sociologists, anthropologists, psychologists, historians and, implicitly, the theorists and practitioners of public relations.

Thus, public relations define the crisis or pre-crisis phenomena as disruption of normal functioning of public institutions and as moments of freezing or bad organization in exchanging information between the institution and its public institution, internal or external. Crises occur, therefore, as phenomena which may cause damages to public institutions, both in terms of material losses, and in that of social prestige, through the deterioration of the public image (reputation).

Crisis can be defined as a phase of acute or chronic difficulties (economic, political, social, ideological, military, human, moral, related to the conduct, behavior etc.) when the economic, political and social contradictions, gained by that society over time, manifest violently (Costea&Popescu&Tașnadi, 2010).

For public relations professionals, the crisis is a favorite ground for the conceptualization and implementation of communication strategies to limit or stop the damages.

The *crisis* appears to be a rupture, a situation undesirable, that interrupts the normal operation of a public institution or public authority and affecting its image in the public. Therefore, there should be a welcome global strategy for crisis management (crisis management), a group of well trained specialists (cell crisis) and an appropriate communication policy (crisis communication).

Regarding the causes that are attributed to changes in the size of funding, a decrease of it is associated, for most indicators, to the economic crisis phenomenon. Regarding the sources of organizations funding, the downward trend is put into relation with economic recession for self-financing and financing from the state budget. The forecast for sources of funding assumes that the economic crisis lead to the anticipated decline in bank lending, the self-financing, the sponsors and the state budget.

2. ASPECTS REGARDING THE CRISIS AT MACROECONOMIC LEVEL

The economic and financial crisis from the world level has affected dramatically also Romania, GDP recording a decline of over 7% in 2009, for 2010 is estimated a decrease of almost 2% of GDP, with serious effects on the labor market and on the social situation of the population.

The Romanian economy remains in recession also in 2011, estimations related to the economic loss relies between -0.5% and -2%. Public debt will explode until the end of 2012 when it is estimated to reach over 62% of GDP, exceeding the criteria for joining the euro zone(if appropriate measures of economic and financial adjustment are not taken now).

Since the beginning of the crisis so far, daily about 800 Romanian people have lost their jobs. We have a debtor every five customers who have taken bank loans. In the past year, every day, 250 Romanians could not pay the bank rate. Over 300,000 companies are seriously affected by the economic crisis (every day, more than 1,800 companies were affected by the crisis).

The crisis effects are dramatic in the Romanian economy. Investments in infrastructure have decreased, the number of unemployed reached 765,285 (according

to the latest bulletin of INSSE in March), the financial blockage tends to generalize and arrears grow. State companies have debts of over 1.5 billion RON. The budget deficit this year will exceed 6.8% of GDP (according to its commitments with the IMF), becoming increasingly difficult to finance. Cuts in wages, pensions, unemployment benefits and social benefits will make the poverty rate to increase by about 4 percentage points this year, reaching 27%. Supporting the small and medium enterprises takes place only on the paper.

Nationally, CNP estimates an economic growth of 1.5% in 2011 and an increase of 5.2% of the net average wage, up to 1.472 lei per month. A quick exit from the crisis is for the counties of Cluj, Sibiu, Brasov, Arges, Ilfov, which recorded strong economic growth, meaning an advance of more than 2% of GDP. In contrast, the most difficult situation is recorded in Giurgiu, Ialomita, Bihor, Salaj, Satu Mare and Covasna, the GDP advance is less than 1% this year. According to CNP, other counties will record medium or temperate rises, with an advance of 1.5% of GDP to 2% and 1% to 1.4%.

3. ASPECTS REGARDING THE CRISIS AT THE LEVEL OF GORJ COUNTY

Country's economic growth is different from one region to another. The data on the evolution of key economic indicators in territorial profile, centralized by the National Commission for Prognosis (CNP), shows that Gorj county recorded a curbed outflow of the economic crisis. After the period 2001-2008 when Romania and therefore Gorj County, has experienced some economic growth, start a period marked by the crisis, due to the effect of driving the economic and financial crisis that broke out in the U.S. in October 2008. The economic growth of our county is one tempered of only 1.3%, the average wage in 2011 being estimated at 1.597 lei at the level of Gorj.

The economic crisis implies further problems raising the risk of poverty due to lower employment, mainly because of the decline in the number of employees and increasing unemployment, and also due to reduced purchasing power, especially in the case of low-income population, under the impact of inflation and restrictive policies in the allocation of wages and social protection. The role of social protection has to be increased, but there is a risk of adoption, under pressure, of measures insufficiently prepared, which could affect the equilibrium system, the application of rules and the principles on which its components are built.

Also, overlapping of responsibilities between the local structures, inadequate financial resources to support development and diversification of social services, inefficient management of existing funds or inconsistency and lack of continuity in providing long-term resources are other drawbacks to the welfare system.

4. EFFECTS OF THE CRISIS IN THE LOCAL AUTHORITIES AND INSTITUTIONS FROM GORJ COUNTY

Year 2011 was the year of projects for Târgu-Jiu city. Whether we speak about projects on the educational system, or about construction projects, the city is

flourishing and it seems that it is due to foreign funds that public institutions from Gorj attract.

Based on the economic crisis, public institutions work on projects regarding the development strategy of the county. At a meeting of the County Council it was presented the project named "European Strategy, European Management, European Citizens", submitted to the Operational Programme: Administrative Capacity Development, Priority Axis 1 "Improvement of structure and process of the management of politic policy" , Area of intervention, Operation "Local Development Strategy. "

The financing agreement was signed on 2nd of November 2010 by the Ministry of Administration and Interior, as Managing Authority for the Operational Programme: Administrative Capacity Development. It should be mentioned that the project implementation period is 12 months from the date of signing the contract. According to the County Council representatives' the sustainable development strategy of the county refers to the period 2010-2020.

The project goal will be achieved by performing two specific objectives. The proposed project will update the "Social and economic development strategy for 2007-2013 of Gorj county", based on updated legislation, which will form the basis of four research studies.

Despite these positive aspects regarding the institutions and the local authorities from Gorj, there occurred a number of effects due to the financial and economic crisis in Romania, and implicitly in the world. Among the most important effects recorded in Gorj at these institutions we mention: reduction in income due to economic downturn both nationally and regionally, limitation of the ability to raise revenues, staff restructuring, rise of unemployment due to restructuring the economy and administration, usage of a legal and regulatory framework that is incomplete and unstable for the economy (investments, taxes, customs facilities, etc.), political instability, credit limit, stopping the economic development of companies from Gorj.

The main obstacles to economic development of companies are county taxes, limited financial resources and difficult access to financing, bureaucracy, lack of support from authorities / institutions, political influence and economic crisis.

As main ways to reduce these obstacles, we should take the following measures: a higher involvement of authorities in supporting the business environment, reduce / eliminate the influence of political factors and reducing the taxes. Other identified ways are the improvement of the legal system, ensuring the fairness and professionalism of civil servants and facilitating the access to financing.

5. MEASURES OF REDUCING THE CRISIS EFFECTS IN THE INSTITUTIONS FROM GORJ COUNTY

The general economic context of the county is marked deeply by the economic and financial crisis, plus the previous economic problems of Romania and of the county. Locally, the crisis has decimated businesses and reduced excessively the power of business environment to support the return on an increasing slope of the county economy.

One of the sources from which operators resorted frequently in previous years for investment and development - crediting - is currently very expensive and the risk involved based on uncertainty and generalized disbelief, contributes decisively to avoid loans. This has direct implications on accessing the EU grants, because the beneficiary's own contribution came, in general, also from credits.

The social and economic development of the county must take into account the national development priorities set by the National Development Plan, the strategic guidelines and the European Union's integrated guidelines for growth and job creation. It aims to develop basic infrastructure in order to reach European standards regarding the effective use of human capital, strengthening the administrative capacity, to promote a balanced territorial development by creating conditions for the development of backward areas.

In these circumstances, to which have been added stringent fiscal measures, a large part of local employers have restructured their work, emphasizing the scarcity of jobs at the county level. Staff and revenue reductions in the public sector have a clear contribution to the worsening of the situation, particularly in rural areas where employees of public institutions were among the best paid employees. In this way, the risk of reaching poverty by the population has increased and the negative effects of this has on the local economy (decrease in consumption, labor migration, etc.) resulted in a recurring process of involution.

In a basic theoretical framework the impact of the global financial crisis has also affected local government budgets in Romania in two ways: through lower allocations from the state budget and lower own income.

Under these effects was also found the Gorj county, of which public authorities should adopt mainly two basic measures:

- in the context of a declining economy and with reduced access to the domestic financial market, the local authorities from Gorj County, whose budgets have been affected, should reduce the costs incurred.
- some of the public authorities could use positive balances from previous years to mitigate the negative impact of the crisis.

In order to combat the effects of the crisis in the county the authorities and institutions should formulate a set of goals, objectives and strategies of economic development that would significantly reduce the effects and consequences of the crisis in the Gorj county.

The objectives represent an overall vision and the desired result of the local economic development process and define the general direction of action on the medium and long term. The general objectives set performance standards and identify those areas of the county which should receive assistance. Strategies (policies) are the ways through which each of the general objectives is reached.

The role of public policies to reduce the impact of economic crisis on the local community is to reduce the effects of the economic and financial crisis on the administrative capacity at local government level. Development of policies to mitigate these effects will be based on a diagnosis of the social and economic framework and budget execution operations. The social and economic development strategy must take into account the peculiarities of the new economic environment nationally, regionally

and locally. Also, short-term goals and the related action plan will make direct reference to mitigation solutions to this crisis.

The increased capacity to plan and partnership strengthens the capacity to absorb EU funds in the county, through an innovative approach to achieving the following results (www.cjgorj.ro. Plans- Projects- Strategies):

- identify and promote the real interest of communities;
- promoting social dialogue and improve communication between all actors in the development of the community and county;
- active involvement of local actors in the process of decision making related to future community and county development and the initiation of projects;
- linking local initiatives and strategies to those of county and regional level and foster partnership in townships (government, private and NGO sector) and at territory level (partnerships between municipalities and cities in the county);
- assuming responsibilities and strengthening the collaboration between local actors with the view of increasing chances of accessing funds.

The activities and actions that contribute to reducing the effects of the crisis in the county are conducted in a framework in which responsibilities are shared between authorities of the county and should be directed to:

➤ *supporting public investment by:*

- increasing the absorption of EU funds grants for investment – aims to increase the absorption of EU funds to finance municipal and local investment projects. Implementation of this measure by the County Council would require to supporting permanent access for local authorities to information on funding opportunities to support existing investments.

- issue securities to finance and/or co-finance investments – is a relatively quick and simple credit option for supporting investments, the advantage being that the funds can be released when they are required, payment being due only after the crisis period passed;

-promoting the possibility to guarantee government loans for co-financing investment projects financed from European funds – lending is a viable and fast alternative for obtaining funds for co-financing. The measure aims at promoting opportunities to guarantee such loans accessed by the county government according to GEO no. 9/2010.

Investments made by the public administration are a very effective way to intervene in crisis situations as investments support both the supply and demand simultaneously. The impact is even greater as companies and labor involved in investment projects are local, increasing demand in upstream and downstream sectors. In this way, the investment effects are multiplied and result in the development of local economic agents and employment growth.

➤ *sustaining local economic agents through:*

-promoting public-private partnership – this measure offers a series of real advantages as: various financing sources, short execution time, superior know-how, modern management techniques, superior quality level of the works and services etc.

-temporary reduction of local taxes for SMEs - at least temporary reduction of local taxes or by applying the maximum reduction in the cases provided for by applicable law aimed at supporting local economic crisis. A specific activity in this sense is the temporary reduction or granting a grace period for paying rent on premises owned by local government and that are leased to local SMEs.

- promoting the consumption of local products - public authorities can support the consumption of local products by promoting them in local fairs organized with this purpose and / or in trade fairs organized in the country. Public authorities may organize or support events that highlight local products (traditional or not) such as festivals, local holidays, gastronomic competitions, international conferences, economic forums, etc.. Also important are the activities of consumer education and awareness about the importance of the use of local products for the county's economic support.

The economic and financial crisis primarily affects the private sector which, in a healthy economy, should be the main driver of local development. The reduction of the activity of economic agents means high unemployment, low earnings taxes, etc.. Therefore, the main concern to reduce the impact of the crisis is to support and protect the local economic environment, particularly SMEs, giving them a higher vulnerability to crisis.

6. CONCLUSIONS

For the Gorj county, the year 2011 should be a continuous action on the crisis that has affected our county through the continuing the modernization actions at the administrative-territorial level, supporting the increase of the general competitiveness of the economy of the county by keeping up the pace of development of the county, the institutional modernization, de-bureaucratization of public institutions and taking best practices in all areas, while promoting local traditional values and actively protecting the interests of our national unity and identity.

The harmonization of objectives and local legitimate interests with policies and national programs has required a series of studies and analysis followed by consultation with experts in specialized structures of the Institution of the Prefect, the County Council, the decentralized Public Services, Local Authorities and representatives of trade unions, employer's associations and civil society.

The Gorj County is, and must remain, a major player in the South-West of Oltenia development region, because of its industrial force, especially in the energy sector and the importance and diversity of the natural, tourist and human resources.

Briefly, the public authorities and institutions need to have in view three categories of measures: training and prevention measures, early intervention of supervising authorities and solving tools and kits.

In this sense, a program based on this kind of measures should take into consideration three major priorities:

- major public investment in the public infrastructure;
- increasing the absorption of European funds;
- sustaining the disadvantaged categories.

It is an unanimous opinion of the researchers in the field of local economic development that the main sources of attraction and, also, of competitiveness in the area of local communities are:

- quality of life resulting from a number of factors such as income level, consumption structure, the level of local prices, especially of land, construction and tariffs for public services and environmental conditions; economy structure, respectively the share of services and the level of intellectual capital;
- infrastructure for all categories and public local services of quality;
- local institutions capable and efficient in the decizional process and a civil society, both available for creating an attractiv economic environment for locan, national and foreign investors;
- the cost of business and related legislation, regulations and national standards.

A county multi-annual budget planning document for a future period can not be an exact one, because of several factors: economic instability, lack of a clear forecast of the development of national economic indicators, the lack of linearity in the training budget from previous years etc.; consequently, an amount that County Council may allocate annually for financing investment projects supported by EU funds can not be assessed clearly.

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GUIDING MARKS REGARDING THE REASONING OF SCIENTIFIC RESEARCH IN ACCOUNTING

IULIANA CENAR *

ABSTRACT: *The scientific research activity in accounting is governed by the principles of logic thinking, is not subject to change and must be conducted according to a strict and rigorous schedule. For these reasons, it is a planned activity, but it shouldn't be seen as rigid, because it can withstand changes or adjustments during its deployment. Naturally, scientific reasoning is at the foundation of any research undertaking, including in the area of accounting. This paper deals with issues related to the positioning of accounting within the areas of research, the components of the reasoning used in all the stages involved in accounting research, from establishing its objective or research subject to exploiting the obtained results.*

KEY WORDS: *scientific research; accounting, reasoning.*

JEL CLASSIFICATION: *M41.*

1. INTRODUCTION

Today, competence is the main validation criterion in the profession, regardless of the work's content and the conquered position in the social frame.

Given the liberalization of international economic and political relations, the existence of a world without borders and of a global market, the scope and features of interface are conferred by the existence of a research object and by expressing an opinion about it, by using specific exploration and research methods and techniques, by using scientific language, by demonstrating the validity of the obtained results, by pursuing a theoretical goal that has practical applicability and is recognized and accepted by specialists.

J.J. Rousseau thought that "the excess of books kills science" because there is the risk of believing that what was read is known and then believing that is not longer necessary to "learn" what was read (Ristea&Ioan Franc, 2009). Today, this sentence is

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tougher because the information explosion makes the assimilation of the content of a multitude of publications uncertain, even more so as the quality of scientific research is in tandem with time pressure and growing requirements regarding their qualitative level.

Accounting, as a major area of scientific and practical concerns, deals with preparing, interpreting and using financial information and other crucial economic information to manage and assess the organization's activities (Andone, et. al., 2011).

At the root of improving human condition is knowledge (including in accounting) built on the reasoning of those who wish to understand and govern better the world behind the accounting figures.

The existence and development of accounting start from observed facts and stop at its theoretical ideas. Methodology is interposed between them as an organized ensemble of intellectual persuasion, which operates in transforming the research object into scientific ideas.

2. RELATIONSHIPS AND FORMS OF SCIENTIFIC RESEARCH IN ACCOUNTING

Considering the other areas of scientific knowledge or of the socio-economic context, contemporary accounting research doesn't go through a self-sufficient type of development.

Research in accounting has been more influenced by other social sciences (such as economy, psychology and sociology) than the other way around. Accounting researches have the tendency to borrow models, metaphors and methods from other scientific disciplines that have a prestige measured through the advertising space in journals and the allocated funds for research. Consequently, economy, mathematics, psychology and sociology have started to become models for the contemporary accounting researcher.

In turn, accounting is (or could be) a subject of interest for research in other fields, such as anthropology and sociology, which study human behaviour, accounting being a human activity, practiced by accountants. Many discussions in accounting have a philosophical interest and concepts like profit, accurate picture and business continuity are (also) philosophical concepts.

Accounting is a specific system of information because of its multiple valences, among which are included: providing real, comparable, synthetic and analytical information for the analysis of various aspects taken on by economic phenomena; communicating information starting with the moment of occurrence and ending with its use; enhancing the control function regarding economic phenomena; the considerable growth of the provisional role, etc.

Any act of knowledge has a very broad feature. The science regarded as a form of specialized knowledge, strictly focused on a certain field, is a clearly circumscribed "part" of the general framework of knowledge.

Science represents the organized body of data that shows the objective and subjective knowledge of reality, organized in a coherent, intelligible and tidily system according to a system in perfect tune with logical principles (Enachescu, 2007). It aims

at studying the laws that govern facts and which can be used to develop scientific provisions (Raboaca & Ciucur, 1999). Knowledge about a certain area of reality is crystallized into a science only when it is integrated in a theory on the basis of principles and laws.

Regardless of its complicated (Einstein) or simple (Kotarbinski) definitions, science is revealing its content if we assert that it represents a set of information that is systematized and verified/validated by practice, a knowledge based on real facts that explain and resolve practical problems, but a knowledge that can be empirically (experimentally) verified and confirmed, because science deals with studying the laws that govern reality and which can be used to develop scientific provisions (Andone, et. al., 2011).

During the accounting research process, the existence of a theory (on the basis of which a hypothesis is identified, which will subsequently be tested or recommended as the foundation of a model resulted from observing the real world) is crucial. With the help of the theory, we try to organize and explore certain issues existing in a knowledge field.

The following theories have been outlined in accounting:

- Normative theories provide explanations about “how” to build the representation of an “accounting reality” (Ionascu, 1997). They are rather predicative than descriptive and are based on deduction; the normative research may also be used to detect the endangered accounting concept and treatments or to influence the future accounting regulation by making decisions to maintain, redefine or abandon an accounting principle, an accounting treatment or an accounting concept.
- Accounting positivism – implies that any theoretical formulation can’t be valid unless it is empirically verified, aims to explain and forecast accounting behaviour and deals with accounting sociology;
- Constructivist theories – according to which accounting is a social “construct”, developed according to certain norms and values internalised by the accountant or researcher. The focus is on language, interpretation and understanding human action. This research also includes subjects ignored by positivists (to role of women in accounting) or less approached issues (the social implications of accounting systems). Accounting constructivism places a great deal of importance on political and social aspects, integrating ideologies in research.

There are researchers who support the theory titled “grounded theory” or “field theory” (Andone, et. al., 2011), a derivate of the study of the phenomena they represent. The starting point of this theory is the relevant phenomena from which is developed a theory that can explain them on the basis of the observations resulted from research.

Another theory, titled decision theory, demonstrates the concept of financial statement. In accounting, in order to conduct a viable study, researchers use concepts from economy, finance, financial markets, etc. Accounting researchers should focus on the decision theory, as it is enunciated by other sciences (starting with management science), to work in a pertinent manner with theories relative to decision, communication, economy and philosophy of the entrepreneur.

The accounting research helps conduct rational investigations with the aim of improving communication between users of accounting information and society so that the accounting practice will progress continuously.

3. THE PRINCIPLES OF SCIENTIFIC RESEARCH IN ACCOUNTING

The principles of scientific research are absolutely necessary guiding marks to which a serious and honest researcher should continuously relate his ideas and activity in order to maintain and follow “the right path”, namely the method, in finding and discovering the truth applied to the object of his research (Enachescu, 2007).

They are also “moral guiding marks” that force and impose a certain ethical attitude to the researcher towards his study object, and especially towards the results obtained after the methodical analysis of the investigated subject.

The principle represents the assertion that underlines a deduction. The principle provides explanations for a large number of cases, being checked thoroughly. The principle derives its validity from previous empirical tests, unlike the hypothesis, which “derives its validity not from what precedes it, but from what follows it”.

Achieving the fundamental objective of accounting, the accurate picture, requires turning to accounting postulates, principles and rules. When referring to research in accounting, the synthesis of the principles to be observed by researchers is:

- Setting the objective. According to this principle, the accounting research’s subject has a certain objective that represents the aimed goal of that research.
- Truth. The scientific research in accounting should aim to discover the truth about the studied object, to be coherent, logical and continuous and to be consistent with the reality of the researched object. At the same time, the results of the scientific research should be expressed by using an articulate, precise and intelligible language, avoiding subjectivity or speculation in thinking.
- Methodology. The research should be conducted on the basis of a rigorously established plan. It is necessary to keep in line with the stages and working methods, and the working techniques and methods should be appropriate to the nature of the studied subject, as well as to the objectives of the research.
- Demonstration. The research’s results should be demonstrated and verified. They should also be included in the data system of the scientific area where the accounting research is integrated.
- Correlation. The results of the scientific research in accounting should be correlated with the available data in the field or the data in related scientific fields.
- Assessment of the results. All the results of the research should be accurately assessed in a strictly rational approach, and compared with the data available in literature.
- Utility. Other specialists should routinely use the research’s results in theory and practice.
- Psycho-morality. Scientific research in accounting should be conducted according to deontological principles of an elite profession; collaboration with experts in the field or in related fields in order to avoid overlapping or errors that may occur when obtaining and interpreting the results; it should be opened and sincere.

These principles lend to the strategy of the scientific research volume and coherence, fluidity and unity, open horizons, analysis and synthesis skills, ability to express and to make connections and predictions.

4. SCIENTIFIC REASONING OF ACCOUNTING RESEARCH

Scientific research in accounting should be consistent with a certain type of scientific reasoning. It should be adapted to the particularity of the knowledge field, it should be appropriate to the nature of the researched subject and it should have precise final goals in order to obtain positive results that reflect the pursued truth, both in theory and in practice.

The reasoning behind a scientific research was analysed for the first time by the Japanese researcher Takeda and his collaborators.

The layout of the research’s design (including in accounting) is presented below:

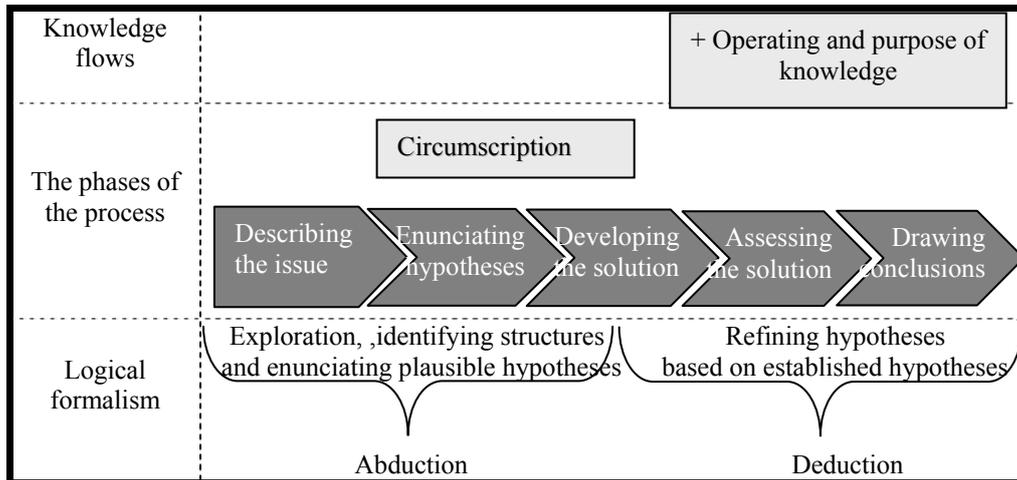


Figure 1. Research design (Takeda 1990, adapted after Andone et. al., 2011)

The elements of logical formalism help understand the researched phenomena, and induction adds quantitative details to knowledge.

In the general theory of scientific research, regardless of its area, scientific reasoning must be consistent with a single plan or model that represents a certain scientific thinking.

According to B. Colasse, accounting research has three main functions:

- Assorting and theorizing accounting practices;
- “Engineering” of the accounting system, meaning adapting accounting to the new needs of information, extending the scope of accounting, etc.;
- Advancement of knowledge in accounting (Ionascu, 1997).

“Those who want to deepen accounting as science will first understand that it isn’t a cluster of facts, but an observation and interpretation of facts” (Rusu, 1977).

The accounting science also has another dimension due to its particularities concerning art: it shows reality by eliminating subjective aspects. It has a paradigmatic core and a structure that includes: factual material gathered over time, confirmed and unconfirmed hypotheses, results of experiments and observations, research methodology or a research model of reality (Andone, et. al., 2011). The aesthetic aspect of art entwines objective reality with human subjectivity.

To achieve the three functions mentioned previously is recommended to develop a draft of the research plan with the following structure:

The precise delimitation of the research scope and of the interest area of the involved research team;

The precise delimitation of the research subject, mentioning:

a. if the theoretical knowledge (basic research) of the research object is aimed – in this case, the problem that needs solving is a knowledge problem;

b. if it concerns an applied scientific research – the problem that needs solving is substantive, with practical meanings

- Setting the goal and the objectives aimed by the scientific research that will be conducted;
- Establishing the stages of the scientific research (gathering data and information; analysing and interpreting data);
- Defining the final exploitation of the scientific research/exposing results (Ristea & Ioan-Franc, 2009).

The known and the unknown are two necessary scientific poles. The known is based on previous research, and the unknown is searching the great truths, for which reason and experience are trying to find a scientific enunciation.

The details of the research plan are reflected in a structured content as follows:

- The introduction – describes: the chosen research area, the subject, its importance, the stage of the research, existing approaches of the subject, research limits and contributions;
- The description of past achievements, which is intended to ensure a research framework and to justify the research's originality;
- The description of the research methodology based on: simulation model, data collection techniques, measurement techniques, experiments, historical methods of analysis;
- The illustration of research's results and their analysis;
- Summary and conclusions directed towards obtained results and personal contributions, suggestions for future research (Lungu, 2007).

“We know nothing to be certainly good or evil, save such things as really conduce to understanding, or such as are able to hinder us from understanding” (Spinoza, 2000).

Therefore, a scientific research should have the formal aspect of a logical reasoning, in which are distinguished: the overall stage (where the scientific reasoning of the research begins), the stage of the actual research and the conclusion stage, followed by a verification of results (Enachescu, 2007).

Using critical thinking to find solutions during the accounting research process means using in a rigorous manner the eight elements of reasoning, namely: goal,

problem, information, concepts, hypotheses, interpretation, implications and conclusion (And one, et. al., 2011).

In conclusion, the accounting research requires a systematic and logical approach based on analysis and critical thinking in order to obtain an unbeatable proof, which represents the conclusion and the solution to the accounting problem.

5. RESULTS OF THE RESEARCH – END ... AND START AGAIN FOR THE SCIENTIFIC REASONING IN ACCOUNTING

Scientific research in accounting has to answer the question “what is the use of the results obtained by the conducted scientific research?” on one hand, and, on the other hand, “what is the meaning of that scientific discovery?”.

The results of a scientific research in accounting can be systematized as follows:

- All the results of a scientific research satisfy a certain intellectual need, a certain need for knowledge;
- Results produce a state of emotional satisfaction by reducing or even cancelling emotional and intellectual tension that exist within the researcher and are related to his questions and doubts;
- They represent the solution to theoretical or practical problems, therefore contributing to the overall scientific knowledge (Enachescu, 2007).

The significance of the discovery that results from the scientific research may be enunciated in terms of two aspects: theoretical value and practical-applicative value. Society needs theoretical research, as well as practical research.

Any accounting research leads to a conclusion, which will build a scientific theory. This is either added to the previous ones, complementing or changing them, or will represent an element of prediction, the starting point for another scientific research.

The horizon of scientific knowledge in accounting involves discovery also. It is a complex process that requires ability: to see something where others cannot see, or, if they see, they don't understand; to understand things, phenomena or people; to analyze and then to rebuild observed objects or phenomena; the mental ability to suddenly grasp what is essential.

But not every discovery has scientific value. It must reveal the scientific truth, it must be verified and accepted by other researchers through different methods and techniques, leading to the same results; it must be generally accepted; it must be imposed as a reality for all the accounting specialists. In other words, reasoning is at the foundation of any scientific research.

6. CONCLUSIONS

Knowledge is the most important good of any researcher and the key of his rise in the era of spectacular changes in all the fields of science.

Accounting research is developing in a dynamic environment as a result of the continuous development of professional standards, economic globalisation, the use of

modern communication and information technologies, the increased power of investing in capital markets, etc., even if research clarifies endlessly the concern for seeking the truth: “A cripple in the right way may beat a racer in the wrong one. Nay, the fleeter and better the racer is, who hath once missed his way, the farther he leaveth it behind” (Francis Bacon).

In other words, the rational and ethic attitude in achieving a higher qualitative level in accounting research is crucial. Perseverance and stimulus are also added to this. Man cannot fight unless he is heated by the flame of enthusiasm, by the light of hope, by the grimness of hatred. What he needs in this fight is not “the truth”, but “the stimulus” (Karl Marx).

Scientists do not grow in trees (Friedman), discoveries are not something to be ordered (Lavoisier), so, in order to raise the knowledge level in accounting, morality, legitimate values and scientific reasoning are needed.

The scientific research in accounting means the sublimate achieving of higher intellectual instincts, for which the researcher doesn't have to issue final verdicts. This is due to the fact that “the principle of intangibility” is applied in research, namely the terminus of a research process is the beginning of a different research process. The circle of scientific knowledge never closes. This shouldn't be discouraging. Researchers should persevere in order to achieve a richer, more diverse and subtle universe of knowledge.

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THE INFLUENCE OF THE MINING UNIONS OVER THE EMPLOYEES' SOCIO-ECONOMICAL CONDITIONS IN THE JIU VALLEY

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ABSTRACT: *In this paper we tried to capture several realities that are present in the Jiu Valley and also tried to have a deeper comprehension of them by analyzing the present reality through the premises set by the past actions. The first step was to present the general situation of the Romanian union world. After that, we used a historical perspective over the present situation of the mining unions in the Jiu Valley and their becoming. We ended the paper with some conclusions drew from a research on a representative sample of miners from the Jiu Valley mines. We statistically analyzed their perceptions regarding the way they feel about the unions and came up with some pretty interesting conclusions.*

KEY WORDS: *the Jiu Valley; mining; union; confederation; socio-economical status; employees' interest promotion.*

JEL CLASSIFICATION: *J51.*

1. UNIONS IN ROMANIA

There are several trade union federations and county unions affiliated with one of the great union confederations in Romania. The most famous union confederations, which are recognized at the tripartite negotiations between the government, the unions and the employers, by the C. E. S. body (Consiliul economic și social – The Economic and Social Council), are (www.util21.ro):

1. C.N.S.L.R. – Confederația Națională a Sindicatelor Libere din România – Frăția (The Romanian Free Unions National Confederation – The Brotherhood);

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2. B.N.S. Blocul Național Sindical (The Unions National Group);
3. C.N.S.C.A. – Confederația Națională Sindicală Cartel Alfa (The Unions National Confederation Alfa Cartel);
4. C.S.D.R. – Confederația Sindicatelor Democratice din România (The Romanian Democratic Unions Confederation);
5. C.S.N. Meridian – Confederația Sindicală Națională Meridian (The National Unions Confederation Meridian).

The Romanian Union world is changing (Enache, 2007). After the merger of the biggest union confederations from Europe, the most important Romanian unions are observing the same pattern. Four of the most powerful union confederations in our country - CNSLR – Frăția, BNS, CSDR and Meridian are to make up The General Work Confederation.

The interests of over a million and a half people will be represented by only one body that will be named The General Work Confederation. There has been talk of these changes in the Romanian union world for some time. A couple of years ago BNS and CNSLR – Frăția had some high level talks about a possible merger. At that time, though, nothing happened, the two union members gave up the idea because of the pride of some of their leaders. Mean while, there have been some important international changes, that have climaxed with the merger of two of the largest union confederations from Europe. The International Free Unions Confederation (CISL) and the International Work Confederation (CMT) made up a huge union, with over 200 million members. In this context, the representatives of the employees organizations from our country realized that faced with globalization, they cannot remain divided. The talks restarted and the general agreement was that the merger had to be done as soon as possible.

2. THE UNION STRUCTURE OF THE JIU VALLEY MINING

The trade union phenomenon from the Jiu Valley developed under the conditions of informational deficiencies, as well as incorrect social perceptions regarding the social problems of the genuine democratic countries, with a policy dominated by several parties, with a free market economy and a civil society based on humans' fundamental rights and on the background of political, social and economical events that marked the union actions and the relations of the union with the management of R.A.H. (Regia Autonomă a Huilei – The Autonomous Mineral Coal Company).

The institutional and power void in 1990 made the mining unions get organized and form claim platforms that were met by the Government too easy.

Starting with January 1990 the union organizations of the Jiu Valley, without a previous consultation and negotiation with the management of the Romanian National Mineral Coal Company, form a delegation of 50 leaders and other representatives and go to Bucharest to plead “The Note of the Jiu Valley Miners Claims” to President Ion Iliescu, Prime-minister Petre Roman and Mines Minister Nicolae Dicu. The note was made up of economical, social and legislative claims. It is the first funds request from

the budget for the mines and preparations rebuilding and conservation and the first interference in the management of the Coal Company (Ciocodeică, 1998).

The delays of the decisional factors from Bucharest in handling these claims led to the first miners strike at Vulcan in March 1990. Under the pressure of the miners delegation led by Miron Cozma (employee of Lonea Mining Company back than) and also with elections purposes, the Government gave up too easy and institutionalized new rights for the miners through Decision No. 267 from the 14th of March 1990, signed by the Prime-minister Petre Roman.

As a result, the miners feeling that they were favored by the political power and not wanting to lose a government that supported them, in June 1990 went to Bucharest to stop the “University Square” phenomenon. The aggressiveness and the violent character of the events of the 13th – 15th of June 1990 were determined by the macro-social reshaping, by the political interests but also by the failure of the Government to find a different approach that of manipulation and generating wrong perceptions and deformed visions regarding the conflict situations that marked that period (Vlăsceanu, 1993).

The period that followed up to September 1991 was marked by aspects that influenced and maintained a climate of social tension in the Jiu Valley.

The “success” obtained in June 1990 generated an unnatural balance of force in the relations between the Jiu Valley Mining Union League (LSMVJ) and the management of the Mining Company. Looking back objectively, we must underline that the management of the Coal Company proved to be weak and incompetent giving up on countless occasions to the pressure of the union leaders, accepting the change of some top managers (the general manager of Lupeni Mine, the head engineer of Lonea Mine), although they were considered to be good professionals and strict in observing the financial discipline (Comisia parlamentară de anchetă a evenimentelor din septembrie 1991, 1992) and even declining their competence totally or partially in favor of the unions in order to solve some problems of the Company like: technology updating, investments, supplying. There were also tacit agreements in between the Union and the Company to obtain funds from the budget in the interest of increasing the wages.

In regard to all these, the movement to Bucharest that took place in September 1991 cannot be blamed on the Company management which, in order to do away with the tense situation in the Jiu Valley, agreed to all the claims of the miners. The political factors marked a group of people that was easy to manipulate.

After the strike of September 1991 the management of the company agreed to all the demands of the union at the negotiations of the first collective work contract for 1991-1992 having, verbal or writing approvals from the decision factors from Bucharest, with the granting of funds from the budget, thus up to 1993 the Company had no financial loss.

The first major disagreements in between the Union and the Company appear with the negotiations of the collective work contract for 1993-1994, when the talks are adventitiously and the Union knowingly ignoring the law is requesting financial compensations for the union members. At the negotiations, the management of the

Company reasoning that the approved budget is not allowing any wage increases is pointing towards the Government for a solution.

On the 2nd of August 1993 the miners had another strike. Once again, the Government proved political indecisiveness and found resources and solutions to most of the strikers' demands.

It must be pointed out that this time the legal procedure of a general strike was observed in an attempt to prove that the union leaders matured and are willing to accept a face to face dialogue. This time also there were destructions, especially at the Company headquarters, where the personnel were deterred from doing their job.

Giving up to the demands of the Union is continued on behalf of the Company as well as the Government with obvious repercussions on the financial situation of the Company. The first negative financial results are registered at the end of 1993, although they are small about 5 milliard lei, they continue to build up over the first six months of 1994 – about 9 milliard lei. In regard to all these, the balance sheet of the Company was almost balanced and there were financial resources to recover. The collective work contract negotiated for 1994-1995, effective of the 1st of July 1994, which introduces the fidelity wage increase calculated by applying a percentage of 40% to the base pay, as a way to increase the wages and the agreement of the Company Administration Board, is leading towards the beginning of the end of a normal financial situation, thus at the end of 1994, the Company registered a loss of 179 milliard lei, loss that grew over the next years.

As observers to the events that took place back than we must point out the fact that the Administrative Council of the Company had verbal agreements from the Government to sign that ill-fated collective work contract, based on promises that a supplementary subvention from the budget will be received up to the end of 1994, subvention that would cover the financial demands of the unionists, but the supplementation was not approved accepting though that the Company would not pay off the debt to the state budget.

Regardless of the constitution of the Company's Administrative Council, as long as it didn't have the support of the Government, the union pressure was unstoppable. Further more, by address no 180923/21.03.1995 sent to the Company by the Ministry of Industry points towards some dysfunctional relations between the unions and the administration and underlines that „the union problems must be understood and treated with all the required attention in order to prevent conflict situations from appearing”.

At the same time realizing that any financial request of the Company will not be met until the unions intervene on imperative tones, the leadership of the Union starts to pose as the leadership of the Company, intervenes to the decision factors from Bucharest and on most occasions gets what it wishes and also organizes work meetings with members of the Government in order to solve the financial problems of the Company.

So on the 9th and 10th of March 1995, there was a work Meeting with representatives of the Government, the mining unions, county prefects, presidents of county councils, mayors of the Jiu Valley towns and general managers of the mining companies. The general character of the talks is given by the tone of the opening

phrase belonging to Miron Cozma – the Union leader: “We promise a new beginning. We direct your attention towards the fact that if there will be any talk about closing down any Romanian mine, than this will really be a new beginning. The miners are making common cause and that is well known”.

None of the problems raised at the meeting in March 1995, in Petroșani was solved, so the Jiu Valley mining unions requested and organized a new meeting on the 9th of November 1995. This time the meeting is taking place at the Government headquarters. The tone of the discussions is set once again by Miron Cozma, but also the Finance Minister who is making declarations that are to create future conflicts.

As a result of the promises made by the Government, any Union demand that isn't met by the Company is resulting in blame over the Company that is considered to be incapable of obtaining what the Government promised.

In 1996, analyzing the financial situation of the Company, the Administrative Council is trying without any success to stop the wage increases and while the general manager of the Company was on the waiting list at the Ministers, Miron Cozma was “solving” the economic problems of the Company closing deals that had no finality and being deceived by the leaders of the Government. All these things generated the miners strike on the 30th of July 1996 that ended by approving all the demands by the Finance Minister Florin Georgescu. Once again the Administrative Council of the Company was considered incompetent by the miners. At the end of 1996 the financial loss of the Company was 747 milliard lei reflected into debts at the state budget and without any chance of ever being paid off.

In 1997, the Minister of Industry, continuing to consider that the blame for the disastrous situation of the Company is on the Administrative Council, is appointing a general manager from Bucharest, Gheorghe Rancea, which proves to be an even worst manager than his predecessors. After the miners strike of June 1997, he leaves for Bucharest. As always, at the negotiations between the unions and the Government the Administrative Council is ignored. The requests of the unions are quickly approved by the new Government. The results are losses of over 1000 milliard lei only for 1997. Also it is important to mention that the miners' leader, Miron Cozma, has been in prison since January 1997. For the union requests there are always new leaders ready to take his place but they aren't able to maintain there power.

After the personnel lay offs of September – October 1997, that lead to a decrease of the number of miners to almost half, it looked like the relations between the unions and the Company management would finally normalize. The ones that remained to work in this sector realized that the Government is not protecting them any more. The new Government elected in November 1996 didn't consider mining to be a priority and subventions from the budget are cut down wanting to eliminate them completely. Surprisingly the collective work contract for 1998-1999 is also extremely disadvantageous for the Company.

Although the amount of the subventions was unknown, new wage standards were approved, starting with 1996 the rest and treatment tickets were discounted by the Company and also premiums for holidays are approved under the pressure of the Union and without any financial support. Under these conditions we can only assert

that the managers of the Company wanted to maintain their jobs, social status and wages giving up too easy and without any grounding to the union demands.

After the miners' strikes of January and February 1999, followed by the arrest of Miron Cozma and of other union leaders, the strength of the Union League collapsed. It all culminated with the rip of 2005 when three powerful unions detached from the Union League and set up The Mines and Energy Union Association which is affiliated to the confederation ran by Marin Condescu.

3. THE RESEARCH METHODOLOGY

The analysis of any given situation is first of all based on the objective data of the reality hereof. For the social protection we took into account the real number of individuals that benefit from it, the available funds and the used funds, the type of expenditures that are made, their real structure, their legal basis etc. The sources of such an analysis are the statistical data, balance sheets, legal rights, the collective work contract etc.

But the objective reality is doubled by its subjective reflection into the peoples' consciousness. In other words, it is important to know not just that there are certain funds that are used in certain ways. It is more important to know what the people think about these actions, what their motivations are, what is their satisfaction – so we are interested in knowing what their attitude is toward the social protection that they are offered.

The only way in which we can grasp the attitude is by surveying people opinions. There is a difference in between attitude and opinion: the attitude is more profound and fully engages the individual's personality while the opinion is more superficial and often fluctuates.

The research methodology used had a complex character, combining the use of several techniques of data gathering: the document analysis of some statistical situations and of the data regarding the work force; observations regarding some realities from the mining companies and the union activity; sociological interview on a sample of employees.

The volume of the sample was made up of 2% of the total population (of over 10,000 employees). As sampling technique, we used non-random multistage sampling. The build up of the sample was done in two stages:

a) Establishing the statistical weight that the employees of different mining companies are going to represent in the final sample. First of all the percentage of employees of each of the seven mining companies was calculated out of the total number of seven mining companies. The total number of employees from each mining company that make up the final sample is: Lonea 29, Petrița 32, Livezeni 32, Vulcan 19, Paroșeni 26, Lupeni 44, Uricani 20.

b) Establishing the other criteria for the sampling. We considered two main criteria – age and qualification – so we ended up with four quotas.

For the criterion age there were “up to 35” and “over 35” categories and for qualification criterion the categories used were “worker + foreman” and “engineer”.

The age criterion was used out of operability reasons, but also because it usually implies a certain length of service. The qualification had only two categories also out of operability reasons.

In respect of any sociological research demands, the anonymity and confidentiality principles were observed.

We will now present the investigated population having as criteria the factual variables just as it was identified after the sampling.

We also specify that the percentages haven't been rounded in order to try to be as objective as possible.

Table 1. The Age Structure of the Population

Mine	Age							
	Under 35		36-45		Over 45		Total	
	abs	%	abs	%	abs	%	abs	%
Uricani	3	15	15	75	2	10	20	100
Lonea	8	27.78	15	51.72	6	20.68	29	100
Petrila	5	15.63	24	75	3	9.37	32	100
Livezeni	2	6.25	18	56.25	12	37.5	32	100
Vulcan	3	15.78	14	73.68	2	10.52	19	100
Paroşeni	6	23.07	17	65.38	3	11.53	26	100
Lupeni	7	15.90	33	75	4	9.09	44	100
Total	34	16.83	136	67.32	32	15.84	202	100

Table 2. The qualification structure of the population

Mine	Qualification									
	Unskilled Worker		Skilled Worker		Foreman		Engineer		Total	
	abs	%	abs	%	abs	%	abs	%	abs	%
Uricani	-	-	12	60	5	25	3	15	20	100
Lonea	-	-	19	65.51	9	31.03	1	3.44	29	100
Petrila	-	-	22	68.75	8	25	2	6.25	32	100
Livezeni	-	-	9	28.12	21	65.62	2	6.25	32	100
Vulcan	-	-	5	26.31	13	68.42	1	5.26	19	100
Paroşeni	2	7.69	16	61.53	4	15.38	4	15.38	26	100
Lupeni	-	-	21	47.72	14	31.81	9	20.45	44	100
Total	2	1	104	51.48	74	36.63	22	10.89	202	100

As it is easy noticeable, the lowest percentages are found for the young workers (under 35 years old) and also in the opposite category of over 45 years old. The middle section is represented by three quarters of the total investigated subjects. The age structure of the investigated population is representative for the age structure of the entire personnel of the National Mineral Coal Company. The same situation is to be found at all the mining units taken separately except at Livezeni, where the age group of up to 35 years old is less represented; there is a balance in the other situations.

This situation is mostly due to the fact that at this mine has workers that that came from other units that were closed down.

The qualification structure is representative to the qualification structure of all the units of the National Mineral Coal Company. Most of the people working at these units have graduated a middle level school (vocational or secondary school) and they are employed as skilled workers as well as a smaller part of the people that have higher education. The most important need of all the mining units is for people that would do heavy physical labor. There are also situations in which a certain subject has graduated some university and is not employed on a job that requires such a high level of education, but these isolated cases are exceptions.

Table 3. The length of service structure of the population

Mine	Length of service									
	1-3		4-10		11-15		Over 15		Total	
	abs	%	abs	%	abs	%	abs	%	abs	%
Uricani	-	-	-	-	2	10	18	90	20	100
Lonea	-	-	1	3.44	4	13.79	24	82.75	29	100
Petrila	-	-	1	3.12	4	12.5	27	84.37	32	100
Livezeni	-	-	-	-	6	18.75	26	81.25	32	100
Vulcan	1	5.26	1	5.26	2	10.52	15	78.94	19	100
Paroşeni	-	-	5	14.38	4	15.38	17	65.38	26	100
Lupeni	-	-	1	2.27	5	11.36	38	86.36	44	100
Total	1	0.5	9	4.45	27	13.36	165	81.68	202	100

Closely connected to the subjects' age is their length of service. Due to the socio-economical situation of the Jiu Valley, especially after the lay offs and of the unemployment rate in the area, in most of the cases the length of service that the subjects declare is totally in the mining sector and even in the same unit. The smallest percentages are registered at the 10 to 15 years. These people are young; their age is up to 35 years old. The last part of the interval is represented by people that have worked for over 15 years and is the best represented sector.

The explanation for this situation can be found in the fact that the National Mineral Coal Company hasn't employed any personnel for a long time, the lay offs are constant and as a result the average age as well as the average length of service are higher. It can also be observed a certain "professional ageing" of the employees.

The good news is that there are a high percentage of personnel that has a longer length of service and that also means that there are more experienced professionals. Besides the positive aspect, we can also notice a certain amount of conservatism and reticence towards everything that is new and means change.

The marital status structure of the personnel is important especially when talking about the socio-human component of technology updating. Aspects like work security, the decrease of the number of work accidents or their severity have a greater impact on the family life compared to the people that are not married. And as it can be seen from Table No. 4 the proportion of married employees and even of the ones that have children too is the largest, exceeding the other percentages by far. The situation of

some families in the Jiu Valley is more complex and complicated because in most of the cases when only one adult of the family is working, if that person were to lose his/her job, were to suffer a work accident or were to have his/her work ability impaired, than the situation of all the family becomes extremely precarious.

Table 4. The marital status structure of the population

Mine	Marital Status									
	Not Married		Married		Married and having children		Other		Total	
	abs	%	abs	%	abs	%	abs	%	abs	%
Uricani	2	10	7	35	9	45	2	10	20	100
Lonea	3	10.34	14	48.27	12	41.37	-	-	29	100
Petrila	1	3.12	10	31.25	21	65.62	-	-	32	100
Livezeni	4	12.5	12	37.5	16	50	-	-	32	100
Vulcan	2	10.52	5	26.31	12	63.15	-	-	19	100
Paroşeni	3	11.53	8	30.76	15	57.69	-	-	26	100
Lupeni	1	2.27	16	36.36	27	61.36	-	-	44	100
Total	16	7.92	72	35.64	112	55.44	2	1	202	100

4. THE UNION ACTIVITY AND ITS EFFECTS

From the analysis of the answers received at the questionnaire comes out the fact that the most important problems for the Union are: technology updating, work conditions, wage, life conditions, and job safety.

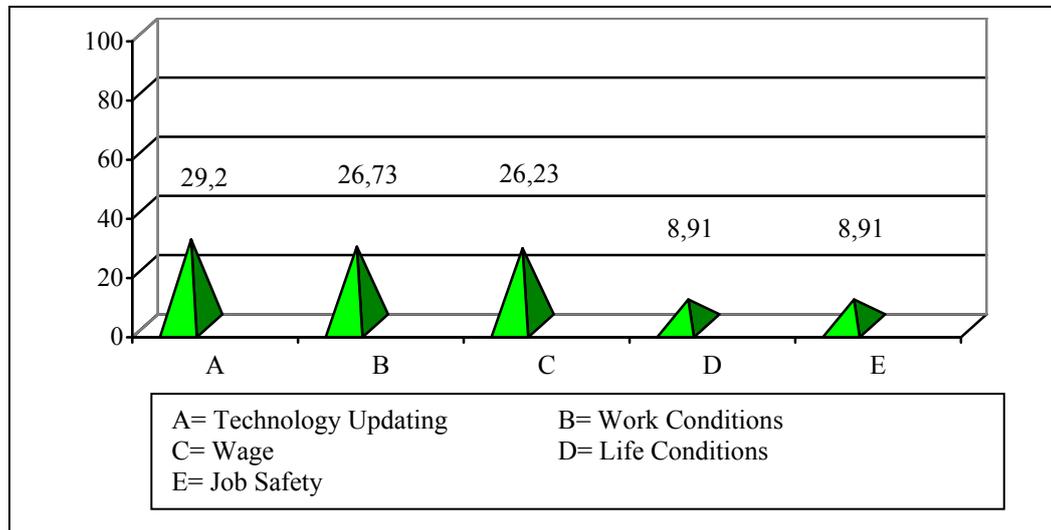


Figure 1. The Most Important Problems for the Union (%)

Almost half of the subjects agree that the social problems are the ones that the Union should mainly focus on solving. On the second place in the subjects' choices with a small difference (38.61%) from the first is another subject that should be of focus for the Union – professional problems. Third and last choice is the problems of the technology updating.

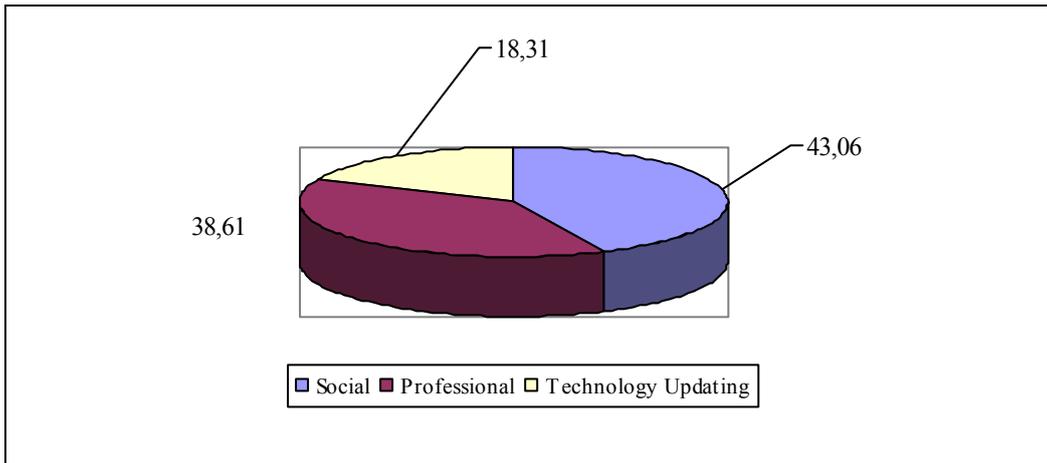


Figure 2. The Most Important Problems that the Union Should Take Care of (%)

Most of the subjects, regardless of the mining unit that they work at, assert that their interests are not being promoted enough by the Union (64.35%).

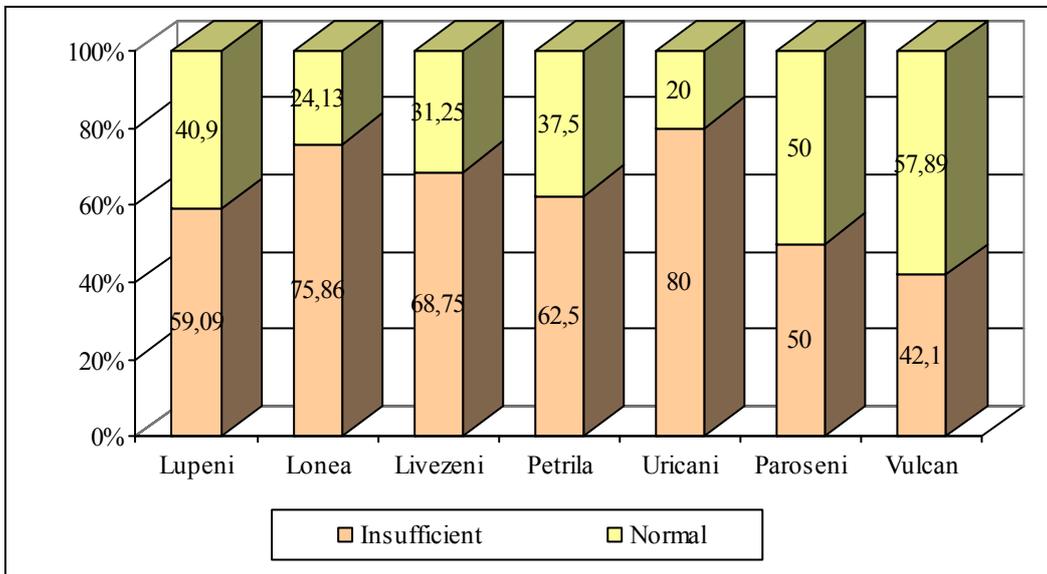


Figure 3. Interest promoting by the Union (%)

More than half of the subjects agree that the effects of the fact that there are five unions are negative. Taking into account that a unitary approach of any problem by five independent union bodies is impossible, the results of negotiations could differ more or less and under these conditions the consequences could be altercations and professional conflicts that are not beneficial for any professional activity in general. The next represented opinion with 33.66% is of the people that say that the effects of the existence of five unions could be beneficial. The smallest percentage of 13.86% represents the subjects that declare to be indifferent towards this problem.

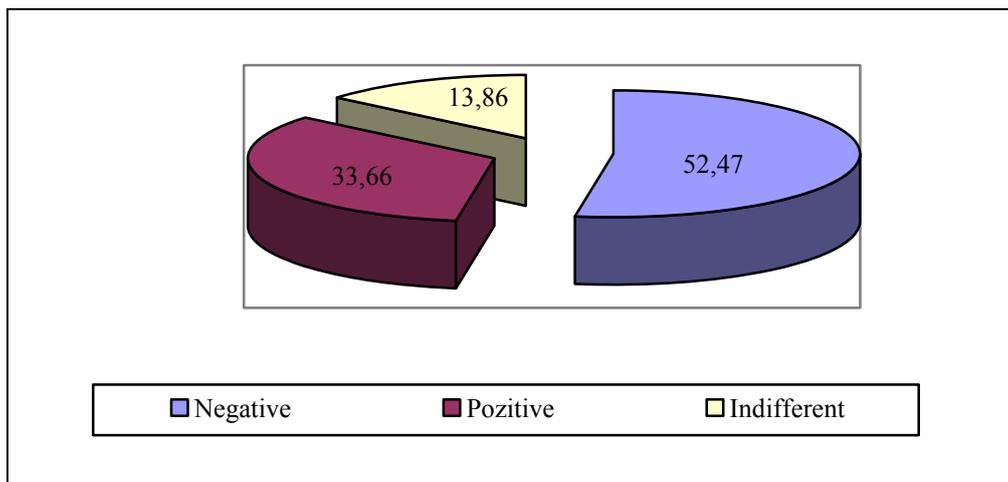


Figure 4. The Effects of the Existence of Five Unions (%)

The percentages that define the social services that they would give up in case the Company couldn't afford to provide any more are close but define different realities. Most of them are related to the wages. The first percentages are related to the cooked meal that they are not to happy about but still, they wouldn't give it up. They tend too agree that the holydays premiums are a little welcomed financial help that rounds their incomes and as a consequence they wish to keep them. Due to the fact that part of the subjects have their jobs in other locality than where they live, it is only normal that they do not wish to give up the free of charge transportation. Most of the subjects cannot imagine giving up the safety equipment that assures their work security and is a vital component of the technology updating process.

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INTEGRATION PROCESS IN MANAGEMENT SCIENCE - THEORETICAL REVIEW

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ABSTRACT: *Complexity of phenomena found in the social, economic and environmental sphere of modern economic systems constitute one of factors in favor of attempts to apply examination approaches based on the analysis of the management integration phenomena in modern theoretical and practical studies concerning management. The aim to this paper is to present chosen approaches to integration process in theory of management science mainly strategic management and system approach.*

KEY WORDS: *management theory; integration; strategic management; system approach.*

JEL CLASIFICATION: *M11, M12.*

1. CLASSIC APPROACH TO INTEGRATION

The evolution of management studies starting with their development in the 19th century through domination of various classical schools, behavioural trend, quantitative school of recent decades, head for a systematization of various orientations together with a parallel development of different investigative aspects¹. While analyzing theoretical achievements in the field of management studies in recent years one can see a certain trend aiming at synthesization of accomplishments of different

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¹ Krzyżanowski, 1999, defines three investigative aspects: engineering-technical and economic, psycho sociological, multi-aspect (integrating)

streams in this domain² as well as attempts of global approach (*integrative, integrated approach*). Among orientations aiming at integration of approaches to management one can find an orientation recognized as the oldest universal approach bearing characteristics of integration – *Henri Fayol's*³ classical theory of organization. Among modern ones one can enumerate the following: systems concept and analysis, contingency approach, strategic management.

Another direction of development of modern streams in management studies which are connected with integrating processes constitutes a concept of strategic management. Its creation is parallel to other approaches started in the 70's, its dynamic developed however took place in 80's and 90's. At present it is becoming more and more independent. Strategic management constitutes a way of seeing problems found in management “whose nature is based on creating conditions for organization's operation in situations of crisis, when its existence is in danger” (Obłój, 1987). It thus represents a trend according to which there exists a need for creation of an integrated theory of management. “Strategic management is a conceptual extension of a category of strategic thinking and ways of perceiving all domains of management” (Glinski et al. 1996). Referring to achievements of management sciences it can be seen that one of instruments of integration planning and restructuring process implementation constitutes an approach connected with *strategic management*.

Analyzing theoretical achievements of strategic management one may conclude that there exists a characteristic sequence: analysis – strategy – implementation (Krzyżanowski, 1999) as well as division into three levels: strategic – tactical and operational⁴. The figure below constitutes one of numerous examples of strategic management concepts. It presents specific stages: strategic analysis, strategy planning and finally implementation.

A sequence composed of four action blocks can be said to be a classic model of strategic management: analysis of external and internal environment; strategy formulation (missions, goals, strategies, policies); strategy implementation (programs, budgets, procedures); evaluation and execution control (Glinski, et al., 1996).

A concept of strategic management accentuates the environmental analysis and adaptation of goals and actions to environmental conditions. *R. Griffin* defines strategic management as a management process aiming at formulation and implementation of strategies favouring a higher level of organization's harmony in relation to its environment (Griffin, 1998).

In the light of Polish and foreign literature review as well as trends in development of management, an integrated approach to management (*integrated*

² See numerous works in this domain: Griffin, Stoner, Grudzewski, Zbichowski, Mikołajczyk, Martyniak, Wawrzynik et al.

³ See Stoner, Griffin, Koźmiński et al. H. Fayol systematized management activities into a compact draft. According to him, there exists a need for constructing a compact universal theory on which practices of management can be based. Fayol forged a notion of *management function* as well as *rules of management* presented in his work *Administration industrielle et générale*

⁴ literature concerning strategic management is fairly rich, see: R. Griffin, A. Stoner, Polish authors such as M. Romanowska, A. Koźmiński

management, fr. une gestion intégrée) can be analyzed in two fields: management processes inside an enterprise⁵ and spatial structure system management of a precise territory (local, regional)⁶. In the first case the concept relates to management processes inside an enterprise and relations between an enterprise and its environment (Lewandowski, 1998). "Integrated management can be treated as a complex concept which embraces linking the management process at all levels of its structure" (Blaik, 2001, p.178). Furthermore, situational approach relates integrated management to the notion of contingency of the organization's environment as well as to the level of organization of enterprise's structure⁷. Main postulates of *Lawrence and Lorch's* theory include ensuring a high level of integration of processes in enterprise management in a situation of low as well as high contingency of environment⁸. The authors developed a stream according to which a complex look at the management process is necessary, where the object of study is integration of organizational structures in relation to the environment⁹.

The approach concerning integration of processes inside an enterprise is also connected with process orientation where "the subject of integrated management is a process, which is an intentional structure or chain of activities constituting a result of integration and structuralization of activities" (Blaik, 2001, p.99). Examples of building a concept of integrated process management constitute theoretical and practical accomplishments in the field of logistics in aspects concerning integration of processes and system analysis.

One can speak of an integrating approach in the context of integration of systems of quality, environment as well as *Occupational Health and Safety* management¹⁰. The philosophy of integration is based on recognizing issues of environmental protection and OHS issues as equally important aspects in activities of an enterprise. They have to be taken into account as enterprise's mission and system of values (Lewandowski, 1998). As to practical application, integrated management may also concern issues of project management (*integrated management plan*) embracing integration of planning, budgeting, evaluation and control processes (Integrated Management Plan, 2000). This practice is frequently connected with management of projects for public institutions (Integrated Management Plan, 2000). It can be pointed out that integrated management as a global approach to management processes

⁵ this notion is dominant in English and Polish literature

⁶ this notion on the other hand is dominant in French literature

⁷ „structural elements can be analyzed as a level of diversification and integration:; see: Lawrence P., Lorch J., *Organization and its environment*, Homewood, Richard D. Irwin, 1969

⁸ „organization's effectiveness in a highly contingent environment is connected with a high level of diversification and a high level of integration”, “organization's effectiveness in a environment characterized by a low level of contingency is connected with a low level of diversification, the level of integration however remains high”, *ibid.*

⁹ Other researchers representing this stream: F. Kast, J. Rozenzwaig, *Contingency views of organization and management*, F. Luthaus, T. Stewart *General contingency theory of management*

¹⁰ Building and integrated management system can be assured through introduction of TQM quality system as well as norms ISO 9001, ISO 14000

becomes a result of many social and economic processes such as: globalization and internationalization; high level of dynamics in technological progress; availability of producing factors characterized by similar quality and price; development of market offering management services (Nowicka-Skowron, 2002).

In the second approach which is present mainly in the Western literature integrated management relates to a complex management of territorial development, which takes into account availability of natural resources (Decoster, 2000) (*une gestion de développement local intégrée*). Frequently, in French-language literature the very term integrated management relates to a development of agglomerations and urbanized areas (*la gestion intégrée de l'environnement urbain*) (Decoster, 2000). Multi-contextual character of development management is stressed and the following elements are taken into account: economic, social, technical, cultural, political, environmental.

Development of integrated management is connected with globalization processes which lead to a loss of integrating role of territories. This fact is mirrored by disintegration of social and economic systems. *W. Welfe* (Welfe, 1996, pp.26-27) confirms a high rank held by integrated approaches to processes of development of national economy. By building supply and demand models as well as by carrying out real evaluation of economic mechanisms *Welfe* concludes that an integrated approach towards investigated phenomena is of crucial importance. This comes from the fact that in national economy all elements of production process are characterized by feedback loop. Thus, an integrated approach towards management becomes indispensable in economy as a whole.

Another reason to consider the subject of integrated management constitute accomplishments of possibly most important event in recent years in development management i.e. *United Nations Conference in Rio de Janeiro in 1992 – Agenda 21*. Its achievements next to well known notions such as “sustainable development”, which shapes today’s approach to socio-economic development, constitute in fact an implementation of integrated approach. *Agenda 21* states that “integration must be carried out with three areas bore in mind: ecological, social and economic”. It also promotes “reorganization of planning and management towards integrated management of natural resources and development” (*Agenda 21*, Chapt. 10).

The review of chosen approaches presented above concerning concepts of integrated management cannot present the totality of the issue. It may however constitute an argument for integrated approach to management of economic systems seen as a multi-contextual process in which the use of theoretical and practical knowledge gained through management theory is fully justified.

2. SYSTEM APPROACH - THE CONCEPT OF INTEGRATION

Cartesius in his “*Discourse on Method*” states that one of stages towards discovering truth is to “divide each examined phenomenon into as many components as possible required for finding the best solution” (*Cartesius*, 2002, p.17). The consequence of the accepted method was derivation of the totality in relation to its components as well as linearity of phenomena and sequence of cognizance implying division of a problem into components and then its “recomposition”.

Predominant concept applied in science was to investigate phenomena in eliminating conditions, separating phenomena from their environment. The goal of this approach was to find a “simple” description of the investigated phenomenon, most frequently by using a model or a mathematical formula. It was not earlier than in the 20th century that a concept arose according to which complicated phenomena and complex objects cannot be analyzed partially and reduced to simple (partial) chains of cause and effect. A natural scientist *Ludwig von Bertalanffy* is widely considered as father of a new approach in sciences. According to him, all kinds of phenomena should be investigated as mutually interacting systems not only inside them but also in relation to their environment. Together with an economist *Kenneth Boulding* they founded (1954) a scientific society named *Society for General Systems Theory* (later renamed into *Society for General Systems Research*) (*The System Approach to Societal Problems*, 1982). According to those researchers the general goal of systems research is to create theoretical concepts and tools for interdisciplinary research.

Interest in systems research resulted in large part from a development of analysis and interdisciplinary studies started during World War II aiming at finding solutions to military problems. System analysis is an example of coming back to a holistic vision of the world, a concept known already in the Antiquity¹¹. At present it has become more visibly present in many research concepts¹². Particularly one element of reality which is economy requires a holistic approach taking into account its complexity and impossibility to methodologically reduce its phenomena.

The system approach based on a postulate of *Society for General Systems Research* is one of the most distinctive features of development of sciences concerned with organization and management in the second half of the 20th century (Kozłowski & Piotrowski, 1998). The integrative importance of the system approach is based on a postulate of a complex approach towards objects treated as open systems that is interacting with the environment. Simultaneously, aiming at integration of various concepts through fighting interdisciplinary obstacles as well as using analogies and similarities to construct models (Pachura, 1992) can be observed. According to some researches the system approach “will gradually lead to integration of all other approaches in the theory of management” (Stoner & Wankel, 1992, p.66). Management by objectives is considered to be one of practical methods of representative management in case of the system view (Kozłowski & Piotrowski, 1998).

Development of the system theory through analysis of interactions of systems with their environments and a growing role of the environment, influenced a development of another stream in modern management namely situational approach. This trend concentrates on a special approach towards problems of organization and management based on analysis of specific practical cases in relation to a changing dynamics of the environment. This approach stresses and “existence of relations between parts of an organization” (Krzyżanowski, 1999) and analyzes which of those relations are of primary importance for a specific goal or problem. R. Griffin states that

¹¹ Aristotle and a maxim attributed to him “a whole is more than the sum of its parts”

¹² its sign may be a growth in interdisciplinary research

“system and situational approaches may be useful for integrating all previous streams in management” (Griffin, 1998), which have been developed since the neoclassical economic thought appeared in the 19th century. Similarly, J. Stoner states that “both approaches may constitute ways to enable integration in the process of development of management studies” (Stoner & Wankel, 1992). System structure of strategic management is based on a paradigm concerning harmonizing organization’s activities with its environment and understanding activities in a context of feedback loop with the environment.

The importance of the system approach is based on a postulate of a complete investigation of objects treated as open systems, i.e. interacting with the environment (Koźmiński & Piotrowski, 1998). Simultaneously there exist a strive to integrate various concepts through fighting interdisciplinary obstacles as well as through use of analogies and similarities to construct models (Pachura, 1992). Certain researches present an opinion that the system approach “will gradually lead to the integration of all other approaches in the theory of management” (Stoner & Wankel, 1992).

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THE USE OF RANKING SAMPLING METHOD WITHIN MARKETING RESEARCH

CODRUȚA DURA, IMOLA DRIGĂ *

ABSTRACT: *Marketing and statistical literature available to practitioners provides a wide range of sampling methods that can be implemented in the context of marketing research. Ranking sampling method is based on taking apart the general population into several strata, namely into several subdivisions which are relatively homogenous regarding a certain characteristic. In fact, the sample will be composed by selecting, from each stratum, a certain number of components (which can be proportional or non-proportional to the size of the stratum) until the pre-established volume of the sample is reached. Using ranking sampling within marketing research requires the determination of some relevant statistical indicators - average, dispersion, sampling error etc. To that end, the paper contains a case study which illustrates the actual approach used in order to apply the ranking sample method within a marketing research made by a company which provides Internet connection services, on a particular category of customers – small and medium enterprises.*

KEY WORDS: *market analysis; ranking sampling; proportional survey; non-proportional survey.*

JEL CLASIFICATION: *C83, M31.*

1. INTRODUCTION

Needs of rapidly growing information and the efficiency with which it must be obtained and analyzed have defined selective research as a quasi-general approach used in marketing studies. Selection offers the opportunity to obtain information relating to a general group by investigating only some of the components of the latter. Therefore, choosing and implementing an appropriate sampling technique, in relation to the objectives of each research project, becomes the key element that makes a selective research successful. The arguments which recommend selective research

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instead of the total research (like the population census) include substantial cost savings, time savings, human resource savings and other benefits for those who use the information obtained with the purpose to intervene in the economic life.

Sampling is the process of extracting a number of subsets from a general frame, in order to find out its characteristics. Through logical inference, one can establish general rules for the whole frame, rules which have not been verified directly, but they derived from the information obtained from the sampling (Cătoiu, 2002).

Marketing and statistical literature available to practitioners provides a wide range of sampling methods that can be implemented in the context of marketing research. If in case of probabilistic methods the calculation of sampling error is possible, in case of non-probabilistic methods they remain unknown. In order to choose between a probabilistic or non-probabilistic sampling technique it should be taken into consideration if a random procedure provides higher value information than a non-probabilistic one, at a certain level of cost. This decision is taken according to: costs, nature of information to be obtained (in case of generalizing the results to the entire population), desired accuracy of estimation, estimated effect of sampling error on results, homogeneity of population. Despite of relatively high costs involved, the probabilistic model remains one of the most rigorous designed research models for both macroeconomic phenomena and for microeconomic level: attitudes, opinions and behaviours of consumers, operators or managers (Dura, et al., 2010).

2. RANKING SAMPLING METHOD

Ranking sampling is based on grouping the investigated collectivity into subpopulations (stratum), i.e. into relatively homogeneous subgroups according to certain characteristics. The studied sample will be formed by random selection from each stratum, of a proportional number of elements, in order to achieve the predetermined volume of sample.

The use of ranking sampling method implies the following steps (Cătoiu, 2002):

- creating the sample frame and identifying the sampling criteria for the general collectivity;
- weighting and determining the size of each strata within the final sample in relation to the sampling scheme used (proportionate or disproportionated);
- random extraction, from each stratum, of a predetermined number of observation units according to the appropriately calculated volume of the sample.

There are two categories of characteristics (variables) which may be the subject of investigations in marketing researches: *quantitative characteristics* - measurable or numeric (such as the average time between two consecutive purchases, the frequency of visiting an exhibition stand and others) and *qualitative or alternative characteristics* which evaluate the attributes of some elements of the frame by making grouping them into a relatively small number of classes (consumer / non-consumers, people who prefer / reject a product, etc.). In the case of alternative characteristics there are several features related to the calculation of the sample size, of the dispersion

and of the selection error (table 1); they are to be highlighted further on in the paper where there are made concrete references to the calculation of the indicators mentioned above.

Table 1. The calculation of the average value and of the dispersion for the analyzed characteristic in the general collectivity and in the sample

NUMERICAL CHARACTERISTIC	
The general collectivity (N)	The sample (n)
The average value: $M = \frac{\sum_{i=1}^N x_i}{N}$	The average value: $m = \frac{\sum_{i=1}^n x_i}{n}$
Dispersion: $\sigma^2 = \frac{\sum_{i=1}^N (x_i - M)^2}{N}$	Dispersion: $s^2 = \frac{\sum_{i=1}^n (x_i - m)^2}{n}$
Mean square deviation: $\sigma = \sqrt{\frac{\sum_{i=1}^N (x_i - M)^2}{N}}$	Mean square deviation : $s = \sqrt{\frac{\sum_{i=1}^n (x_i - m)^2}{n}}$
ALTERNATIVE CHARACTERISTIC	
The average value: π (the occurrence of state „yes” within the general collectivity)	Average: p (the occurrence of state „yes” within the sample)
Dispersion: $\sigma^2 = (1 - \pi)$	Dispersion: $s^2 = p \cdot (1 - p)$
Mean square deviation : $\sigma = \sqrt{\pi(1 - \pi)}$	Mean square deviation : $s = \sqrt{p(1 - p)}$

The general population of size N (including consumers, users, distributors, voters etc.) must be analyzed according to characteristic x which can take individual values $\{x_1, x_2, \dots, x_N\}$.

A sample research involves collecting necessary information from a number n of subjects which, most often is much smaller than the total population. The representativeness of sample n will depend on its size which in its turn is influenced by the dispersion of the characteristic studied.

Table 1 details the method of calculating the average and the dispersion of the characteristic studied, both in the case of the general collectivity and in the sample (Şerban, 2004).

The difference between the average of each sample and the real average (as determined for the entire population) is called estimation error limit (E) and it actually represents the maximum permissible error for a characteristic or an estimator, its size depending on both the size of the representativeness average error (σ_m) and the confidence of the forecasts. The average error of representativeness is nothing but an

error committed when the researcher instead of considering all the N units of the general collectivity, investigates only a fraction of it - n .

In most cases, the parameters of the general collectivity (average dispersion etc.) are unknown to the researcher. Therefore, earlier judgments must be translated into probabilistic terms starting from an imaginary experience of a consecutive extraction of a series of samples of volume n from the total population N . In this case, we can determine *the selection dispersion* given by the average dispersion of each sample of volume n around the real average:

$$\sigma_m^2 = \frac{\sigma^2}{n} \quad \text{or} \quad \sigma_m = \frac{\sigma}{\sqrt{n}} \quad (1)$$

where:

σ_m^2 - the selection dispersion

σ^2 - the average dispersion of samples of volume n

σ - the mean square deviation of the general collectivity.

$$\sigma = \sqrt{\sigma^2} = \sqrt{\frac{\sum_{i=1}^n (x_i - M)^2}{N}} \quad (2)$$

It is worth mentioning that σ_m - the square average deviation of the selection is frequently used as a measure unit of the average error of typicality.

In order to approximate σ^2 the dispersion corresponding to the general collectivity, the researcher has several options (Prutianu, et al., 2002):

- to use the results of a similar study conducted in a prior period of time (if available);
- if there are no such recent studies, a preliminary investigation will be conducted on a pilot sample established by a random method;
- if the maximum (x_{\max}) and the minimum value (x_{\min}) of the analyzed characteristic are known, then the relation $s \cong \frac{x_{\max} - x_{\min}}{6}$ leads to a rather good approximation of the square deviation.

Using one or another of the three processes, we obtain an estimator \hat{s}^2 of the dispersion of the characteristic which enables the approximation of *the selection dispersion* σ_m^2 with the help of the following relations:

$$\sigma_m^2 \cong \frac{\hat{s}^2}{n} \quad \text{or} \quad \sigma_m = \frac{\hat{s}}{\sqrt{n}} \quad (3)$$

where:

$$\hat{s} = \sqrt{\hat{s}^2} = \sqrt{\frac{\sum_{i=1}^n (x_i - m)^2}{n}} \quad (4)$$

\hat{s} - the constant square average deviation of the volume sample n .

For alternative characteristics, the average error of typicality noted σ_p^2 is calculated using the same formula:

$$\sigma_p^2 = \frac{\hat{s}^2}{\sqrt{n}} = \frac{p \cdot (1-p)}{\sqrt{n}} \quad (5)$$

$$\text{meaning } \sigma_p = \sqrt{\frac{p \cdot (1-p)}{n}} \quad (6)$$

For a given estimation error E , we can determine a range of selection averages from the overall average with the help of which we can measure accuracy of the estimation: $I = (M - E, M + E)$, where I represents *the confidence interval*. If we represent graphically the distribution of the average volume samples n as a normal curve (Gauss-Laplace) - Figure 1, the confidence interval will be highlighted by the shaded surface area.

The probability $P(M - E < m < M + E) = 1 - \alpha$ is called *confidence level* and it reflects the *safety* with which it can be said that the average is inside the confidence interval. Its complement, α is called *the significance level or threshold* and it corresponds to the probability that m is outside the confidence interval. Graphically, α results immediately from the sum of the areas of the two surfaces below the Gaussian curve, within its ends.

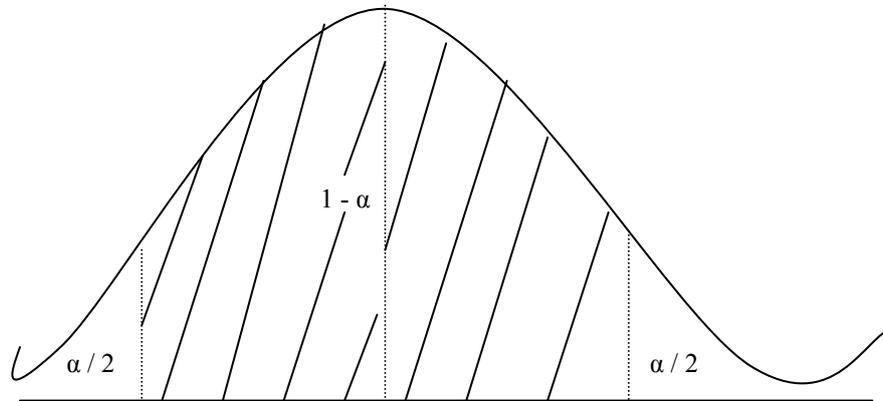
The confidence level $1 - \alpha$ (and accordingly, the level of significance α) are chosen taking into account the specific problem to solve. The levels of confidence most frequently used in practice are the following values 90%, 95%, 98%, 99%, 99.9% which correspond to the significance levels 10%, 5%, 2%, 1% and 0, 1%.

The estimate error ($M-m$) can be assessed using standardized normal variable values - z corresponding to the level of significance α . For this purpose, the following relationship is used:

$$E = z_\alpha \cdot \sigma_m = z_\alpha \cdot \frac{\hat{s}}{\sqrt{n}} \quad (7)$$

where:

z - is the coefficient corresponding to the confidence level predetermined by the researcher



Source: Prutianu, Ștefan, Anastasiei, Bogdan și Jijie, Tudor (2005) *Cercetarea de marketing. Studiul pieței pur și simplu*, Iași, Polirom Publishing House

Figure 1. The distribution of the average values of n size samples by Gauss curve

The value of z is taken from the relevant statistical tables. In some cases (the case of samples of small volume) z – the argument of Gauss-Laplace function is replaced by t – the argument of the Student function. The value of t corresponding to the desired probability of guaranteeing the results of the research will be sought in this case, in the statistical tables of the Student distribution.

For an alternative characteristic, the formula for determining the estimation error is written, taking into account the actual way of expressing the mean square deviation - s , as follows:

$$E = \frac{z_{\alpha}^2 \cdot p \cdot (1 - p)}{n^2} \quad (8)$$

If it is considered a level of the limit error (E) set at the beginning of the research, one can obtain the required sample size by using the relationship:

$$n = \left(\frac{z_{\alpha} \cdot s}{E} \right)^2 - \text{for the numerical characteristic} \quad (9)$$

$$n = \frac{z_{\alpha}^2 \cdot p \cdot (1 - p)}{E^2} - \text{for the alternative characteristic} \quad (10)$$

3. APPLYING THE RANKING SAMPLING METHOD WITHIN MARKETING RESEARCH – A CASE STUDY

Managers of “PC Market”, a company which provides Internet connection services, demanded a marketing research on a particular category of customers - SMEs operating in the region. The objective of the research is to estimate the average monthly turnover of a SME, thus gathering the necessary information to substantiate

the price policy within "PC Market". The error limit accepted by the beneficiaries of the research is 120 lei, and the confidence level desired is of 95.44%. The first stage of the research involves carrying out a survey on a control-sample consisting of 36 enterprises in order to estimate the average value and the dispersion of the turnover in the total collectivity (consisting of about 6000 active SMEs within the area). The information provided by the preliminary survey is summarized in Table 2.

Table 2. Information provided by the preliminary survey

Domain of activities	Number of SMEs	The Average Turnover (lei)	Mean Square Deviation (lei)
Production	1000	20000	1000
Comerce	3000	14000	1500
Services	2000	12000	1700
Total	6000	-	-

First, we assume that the survey is **proportional**. The proportional sampling is characterized by the fact that the number of observation units extracted from each stratum is appropriately determined so that the final sample structure should reproduce exactly the general collectivity structure in relation to the criteria used during the analysis.

In other words, the weight of each stratum i (k_i) is determined according to the report below:

$$k_i = \frac{N_i}{N} \tag{9}$$

where:

N_i – represents the number of elements from stratum “ i ” of the general collectivity;

N – the size of the general collectivity.

Starting from the general selection proportion (k_s):

$$k_s = \frac{n}{N} \tag{10}$$

the number of elements of the same type i (n_i), which will be taken in the sample, is determined based on the following relation:

$$n_i = k_i \cdot n \text{ or } n_i = \frac{n}{N} \cdot N_i \tag{11}$$

The corresponding weights of the three strata in each sample (enterprises within the productive sector, service firms and commercial companies) will meet the general collectivity structure:

$$k_1 = \frac{1000}{6000} \approx 0,17$$

$$k_2 = \frac{3000}{6000} = 0,50$$

$$k_3 = \frac{2000}{6000} = 0,33$$

The average value of the sample obtained through stratified sampling – m results from the following relation (Şerban, 2004):

$$m = \sum_{i=1}^n k_i \cdot m_i \quad (12)$$

where:

m_i – the average value of the analyzed characteristic of the stratum i ;

n – the number of strata corresponding to the general collectivity.

The average turnover for SMEs within the region can be determined using the relation:

$$m = 0,17 \times 20.000 + 0,50 \times 14.000 + 0,33 \times 12.000 = 14.360 \text{ (lei)}$$

The mean square deviation of the sample - s is determined as follows:

$$s = \sqrt{\sum_{i=1}^n k_i \cdot s_i^2} \quad (13)$$

where:

s_i - the mean square deviation of the analyzed characteristic of stratum i .

In the case of “PC Market”, the mean square deviation of the turnover results from the relation:

$$s = \sqrt{\sum_{i=1}^3 k_i \cdot s_i^2} =$$

$$= \sqrt{0,17 \cdot 1000^2 + 0,50 \cdot 1500^2 + 0,33 \cdot 1700^2} \approx 1500 \text{ (lei)}$$

We now have the necessary information to calculate the confidence interval of the estimation:

$$I = (m \pm E) = \left(m \pm \frac{z_\alpha \cdot s}{\sqrt{n}} \right)$$

$$I = (14360 \pm 2 \cdot \frac{1500}{\sqrt{36}}) = (14360 \pm 500) = (13860; 14860) \text{ (lei)}$$

As a consequence, the turnover falls between 13860 and 14860 lei per month, with a probability of 95.44%. This precision provided by the pilot-sample is not satisfactory for the managers of the company, because the error of the turnover estimation ($E = \frac{z_{\alpha} \cdot s}{\sqrt{n}} = 500$ lei) is four times greater than desired.

The sample size, which might ensure an estimation limit error of 120 lei results from:

$$n = \left(\frac{z \cdot s}{E} \right)^2 = \left(\frac{2 \cdot 1500}{120} \right)^2 = 625 \text{ (enterprises)}$$

If the permissible limit error was of 60 de lei, the sample would be of size:

$$n = \left(\frac{2 \cdot 1500}{60} \right)^2 = 2500 \text{ (enterprises)}$$

Therefore, improving estimation accuracy by reducing by half the admissible limit error requires increasing by four times the number of companies taken in the sample.

The volume of the proportional sample is calculated using the same formula:

$$n = \left(\frac{z \cdot s}{E} \right)^2 = \frac{z^2}{E^2} \left(\sum_{k=1}^n k_i \cdot s_i^2 \right) \tag{14}$$

$$\begin{aligned} n &= \frac{2^2}{120^2} (0,17 \cdot 1000^2 + 0,50 \cdot 1500^2 + 0,33 \cdot 1700^2) = \\ &= 624,63 \approx 625 \text{ (enterprises)} \end{aligned}$$

The sample size that provides an estimation of the monthly turnover average with a maximum permissible error of 120 lei and a confidence level of 95.44% is of 625 enterprises, and it is equal to the unstratified sample. However, the elements of the sample will be selected in a way that the structure of the general collectivity should be reproduced exactly. The size of each stratum results from the relationship:

$$n_i = k_i \cdot n$$

$$n_1 = 0,17 \times 625 \approx 106 \text{ (enterprises)}$$

$$n_2 = 0,50 \times 625 \approx 313 \text{ (enterprises)}$$

$$n_3 = 0,33 \times 625 \approx 206 \text{ (enterprises)}$$

The research sample includes 106 companies from the productive sector, 313 commercial enterprises and 206 enterprises specialized in services.

In the case of **non-proportional survey**, the total population structure cannot be kept in the sample composition, either because the dispersion of the analyzed characteristic is different from one stratum to another, or because some strata are more important for the decision makers than others. Regardless of the situation, the non-proportional ranking procedure leads to estimates very close to reality, while research costs are generally low.

The weight of a stratum in the sample (k_i) is determined by the dispersion of the characteristic of that stratum:

$$k'_i = \frac{N_i \cdot \sigma_i}{\sum_{i=1}^n N_i \cdot \sigma_i} \approx \frac{N_i \cdot \hat{s}_i}{\sum_{i=1}^n N_i \cdot \hat{s}_i} \quad (15)$$

where:

σ_i – the mean square deviation from stratum i ;

\hat{s}_i – the mean square deviation estimator corresponding to stratum i .

The number of elements forming stratum i (n'_i) from the final sample can be calculated as the product of:

$$n'_i = k'_i \cdot n = \frac{N_i \cdot s_i}{\sum_{i=1}^n N_i \cdot s_i} \cdot n \quad (16)$$

In the example above, the weights of the strata within the sample can be determined with the relation:

$$k'_i = \frac{k_i \cdot s_i}{\sum_{i=1}^3 k_i \cdot s_i} \quad (17)$$

$$k'_1 = \frac{0,17 \cdot 1000}{0,17 \cdot 1000 + 0,50 \cdot 1500 + 0,33 \cdot 1700} = 0,11$$

$$k'_2 = \frac{0,50 \cdot 1500}{0,17 \cdot 1000 + 0,50 \cdot 1500 + 0,33 \cdot 1700} = 0,51$$

$$k_3 = \frac{0,33 \cdot 1700}{0,17 \cdot 1000 + 0,50 \cdot 1500 + 0,33 \cdot 1700} = 0,38$$

In order to determine *the sample volume*, we can use the mean square deviation estimated with the help of the pilot survey of 36 companies. The formula used in the case of the non-proportional survey is (Şerban, 2004):

$$n = \frac{z^2}{E^2} \cdot \left(\sum_{i=1}^3 k_i \cdot s_i \right)^2$$
$$n = \frac{4}{14.400} (0,17 \cdot 1000 + 0,50 \cdot 1500 + 0,33 \cdot 1700)^2 \approx 609 \text{ (enterprises)}$$

Each stratum of the sample including 609 enterprises shall be in direct proportion to the dispersion of the monthly turnover of the companies within. Thus, 67 productive enterprises (11% of the sample), 311 commercial enterprises (51% of the sample) and 231 service providers (38% of the sample) shall be analyzed.

As we can see, when the number of criteria used for stratification is limited, the ranking sampling method is highly efficient, ensuring an improved representativeness of the samples and high accuracy of estimates made in terms of reasonable research costs.

4. CONCLUSION

Using statistical survey for market analysis, as well as for other research domains, is due to the fact that sampling theory is based on the law of large numbers. This statistical rule asserts, with a sizeable probability (which is closer to one), that statistical indicators which characterize the sample are very few different from statistical indicators belonging to the statistical population, provided that the sample is large enough. Sample research had a steady increase in scope, precisely because it offers clear advantages for analysts and decision makers.

Ranking sampling is particularly effective in situations where the general collectivity is focusing on a set of general criteria which allow a detailed characterization - geographic, demographic, economic, behavioural, etc. From this perspective, ranking sampling is similar to the procedures of market segmentation; the differences between the two are especially noticeable in the objectives pursued: collecting information in the first case and marketing strategy formulation in the second case.

The main advantage of this method is the improved representativeness obtained in comparison with using simple random sampling. In addition, stratified sampling is suitable for comparison between the characteristics of different subpopulations (from this perspective we can analyze, for example, the votes of young people as compared with those of the elderly, the electoral preferences of those living in rural areas as compared with those of the townspeople etc.).

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ERP AND BI IMPLEMENTATION IN ROMANIAN ORGANIZATIONS AND THEIR INFLUENCE ON MANAGER'S DECISION: A CASE STUDY

EDUARD EDELHAUSER *

ABSTRACT: *ERP systems are usually complex, expensive, powerful, proprietary systems which are used widely as integrated multi-module commercial packages suitable for tailoring and adding "add-ons" as and when required. A lot of research has been done over ERP and implementation of ERP. However, most of the research so far has been done over ERP in an effort to implement it successfully in an organization. In this paper I offer the results of a case study undertaken to see the effect of ERP implementation on a few variables of manager's decision. This study has found that the job tenure and job type of an employee influences the attitudes towards ERP system.*

KEY WORDS: *enterprise resource planning; business intelligence; industry studies via computer software; hypothesis testing; IT management.*

JEL CLASSIFICATION: *C12, M1, L86.*

1. OPPORTUNITIES TO IMPROVE THE MANAGEMENT METHODS OF ROMANIAN ORGANIZATIONS

Respondent organizations under investigation were chosen from Romanian SIVECO portfolio implementation and provided answers for the ERP implementation for the 2010 year. I made some reference throughout the paper to concepts as Management Information Systems (MIS) and Decision Support Systems (DSS), known in the IT economical literature as well as ERP (Enterprise Resource Planning) and BI (Business Intelligence). These concepts have long ceased to be considered software applications, in fact these tools are advanced management methods that provide both data management organization to the managers and are used as management tools for modeling and forecasting. The data themselves are of two types: current from the current activities of the so-called dedicated transactional processes,

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and operational management data made of historical data from the activities carried out in a longer period of time, called data warehouses that are dedicated to strategic management of an organization's strategic decisions.

Research methods used were diverse and included methods of gathering, recording and processing data and information such as questionnaire, interview and study documents, benchmarking to highlight "best practices" from other countries and holding companies in Romania, and also creativity sessions and meetings that we have conducted through the research in the company, where managers, implementers and designers who implemented advanced management tools.

2. INVESTIGATED ORGANIZATIONS THROUGH THE SITUATION BEFORE THE IMPLEMENTATION OF ERP AND BI APPLICATIONS IN THESE ORGANIZATIONS

The 14 organizations under investigation come from both public and private sectors. So we submitted the questionnaire to 10 public organizations in various fields as follows:

- 3 energy organizations (with branches at present as the power plants, but probably in the process of reorganization in which the will call it) - SE
- 2 organizations providing services to the energy sector's - Hidroserv
- 2 organizations from utility services of water and heat - CET and Apaserv
- 2 organizations from air and naval transport
- 1 land management organization

The four private firms under investigation are:

- SC Aerostar SA Bacau (Aerostar Bacau), is an industrial group specializing in manufacturing aircraft parts and equipment specific to general and civil aviation.
- SC Meva SA Drobeta Turnu Severin (Meva Severin), a company specialized in building railway wagons.
- SC Romvag SA Caracal (Romvag Caracal), a company specializing in the construction of railway wagons.
- SC Cam Serv SRL Berceni (Cam Serv) is a family business located in Ilfov county and focused on construction, excavation, demolition, pilots and platforms.

3. DESIGNING A QUANTITATIVE QUESTIONNAIRE AND A QUALITATIVE INTERVIEW DEDICATED TO THE MANAGERS OF THE ORGANIZATIONS THAT USE MANGEMENT INFORMATION SYSTEMS

After the development of quantitative survey I proposed 27 questions, a number of questions that if I exceeded, I would abused the respondents. Than I found it necessary to elaborate a qualitative survey in which the managers responded by presenting a case study for each organization. The quantitative survey respondents were also responsible for IT departments of organizations investigated, and the implications of the use of advanced methods in the Romanian organizations were investigated through the managers who apply these methods in those organizations.

The 19 questions of the second questionnaire were conducted on the influence, impact, consequences and organization involved in the use of advanced management methods. My objective was that these data could assess the implications of implementing these methods and also to highlight the risks that arise during the use of these methods in an organization.

After the data collection phase was accomplished through these two questionnaires, I have identified the need for direct dialogue with the managers of organizations about the subjective element that was missing in these questionnaires.

The interview for the investigated organizations dedicated to the managers have tried to capture the image of the organization in terms of using advanced management methods through modern methods of IT enterprise resource planning and through decision support system.

Such an approach needed a few standard steps such as: required to achieve a successful implementation, namely: the situation prior to the implementation of the organization, assess the possible benefits of implementing and evaluating the methods of implementation, how the implemented solution is used, the advantages of its use and the effect induced in the organization and also how implementation has affected the organization's management.

4. INDUCED EFFECTS OF THE IMPLEMENTATION OF ERP AND BI APPLICATIONS IN THE MANAGEMENT OF ROMANIAN ORGANIZATIONS

4.1. Implementations of the DSS Packages to Assist Managerial Decision through SIVCO Business Analyzer, and the Integrated ERP Systems through SIVCO Applications

In Romania the main SIVCO implementations are considered: Aerostar Bacau, Meva Drobeta Turnu Severin, Romvag Caracal, Anticorosiv Bucharest, General Turbo Titan Heavy Machinery, Romanceram Roman, CNE Prod Cernavoda, Constanta Maritime Port Administration, Congaz Constanta, Butane Gas, OMV / Petrom, Termoficare 2000 Pitesti, Timisoara Colterm, SE Constanta, Mures Termoserv, Hidroserv Hateg, Hidroserv Portile de Fier, and six of them responded to our questionnaires and qualitative interviews. (<http://www.siveco.ro>)

In the public services and utilities, SIVCO is well represented in fields as: suppliers of gas, water, steam, heat, electricity, sanitation or recycling services, where companies can benefit from flexible and configurable tools depending on the particular requirements of each category.

In the private sector SIVCO is mainly addressed to the industrial environments with over 1,000 employees. A study by SIVCO Romania among 330 companies in the country who work in production, reveals that they seek solutions to reduce costs and this is based on the benefits of implementing IT solutions. Industrial companies – such as companies or firms that produce continuous production or small series volume - believes that cost-control tools are absolutely necessary for the production process, the more need as the crisis deepens efficiency savings and

spending. Production component of the integrated package SIVECO Applications is one of the most powerful and advanced software tools that currently exist on the Romanian market, easier to manage the preparation, programming, launch, tracking and control of production processes. The product is used by a large number of prominent companies in the Romanian industry and its consolidation and validation as a product is based on customer comments and needs of different industries: aircraft (Aerostar), machine building and cars (Astra Bus, Meva, Romvag), producing furniture (Libertatea), telecommunications (Topex), manufacturing equipment (Anticorosiv, Romceram, Uztel) etc.

5. STATISTICAL ASSUMPTIONS ON TESTING LINKS BETWEEN MANAGEMENT DECISION AND INFORMATION TECHNOLOGY

Hypothesis 1. Implementation of ERP applications in all functions of an organization can lead information technology in a strategic resource of the organization (Jones, 2006).

To prove this hypothesis we started to quantify the effects induced by the implementation of ERP applications in all functions of an organization. Thus we used data on turnover and clear profit for eight organizations (six public capital organizations were exempted from this investigation as part of organizations like the ANR or Termoelectrica) We took additional data that were not in the quantitative questionnaire from: <http://www.doingbusiness.ro/financiar/>, <http://www.siveco.ro/web/>.

Table 1. Organizations' financial statements

Organizatia		2004	2005	2006	2007	2008	An implementare Siveco	influenta ERP	crestere CA	crestere PN
aerostar sa	CA		102.734.723	140.976.614	139.190.732	152.690.000	2.005	15%	1,37	1,98
	Profit Net		6.800.130	13.450.668	10.146.868	10.918.559				
meva sa	CA		90.802.614	155.011.404	209.629.504	328.826.131	2.005	15%	1,71	2,65
	Profit Net		-6.992.582	11.528.766	4.747.312	7.867.540				
romvag sa	CA		60.911.735	130.263.915	235.895.459	302.726.345	2.005	15%	2,14	3,13
	Profit Net		4.745.474	14.874.455	15.325.519	9.082.897				
Camser Sa	CA		26.955.087	47.580.665	73.061.618	110.160.481	2.005	15%	1,77	1,45
	Profit Net		443.074	641.107	822.363	1.077.039				
Anif RA	CA		179.696.769	214.390.573	288.268.864	324.877.828	2.007	15%	1,13	0,42
	Profit Net		526.938	4.271.825	9.211.456	3.855.090				
Apaserv SA	CA	11.859.977	11.593.374	10.745.401	10.704.345	12.258.359	2.004	15%	0,98	0,84
	Profit Net	338.915	283.794	-429.255	-1.825.127	-6.152.954				
Aeroport TV SA	CA		17.122.761	19.634.749	23.472.912	30.544.667	2005	15%	1,15	0,52
	Profit Net		294.102	152.459	2.417.314	4.873.558				
Hidroserv Hateg SA	CA		13.971.037	15.016.682	18.628.756	26.569.491	2.005	15%	1,07	0,70
	Profit Net		76.170	53.158	178.185	247.465				

We then gathered the information related to the increase of turnover and clear profit for the year following the implementation, and data on the average ERP implementation in organization business functions. We used five variables for this purpose.

Table 2. Variables used in proving Hypothesis 1

organizatia1	ERP_Mediu	Proprietate	CA_efect	PN_efect
Aeropotul Timisoara	0,50	0	1,15	0,52
ANIF Dunare Olt	0,50	0	1,13	0,42
Hidroserv Hateg	0,83	0	1,07	0,70
Apa Serv Valea Jiului	0,83	0	0,98	0,84
Aerostar Bacau	1,00	1	1,37	1,98
Meva Severin	1,00	1	1,71	2,65
Romvag Caracal	1,00	1	2,14	3,13
Cam Serv	0,50	1	1,77	1,45

We used a t test and F test. By means of a t-test, we have tried to test equality media for the implementation of ERP systems and the effect induced on the clear profit organizations, for public and private case (two populations).

Table 3. Independent t test environments for testing equality
Independent Samples Test

		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
ERP_Mediu	Equal variances assumed	,130	,731	-1,336	6	,230	-,21000	,15716	-,59456	,17456
	Equal variances not assumed			-1,336	5,606	,233	-,21000	,15716	-,60121	,18121
PN_efect	Equal variances assumed	8,487	,027	-4,405	6	,005	-1,68399	,38226	-2,61935	-,74863
	Equal variances not assumed			-4,405	3,378	,017	-1,68399	,38226	-2,82708	-,54091

Significance level is .027 Sig is small for PN_efect ($0,027 < 0,05$), and higher for ERP_Mediu variable. The conclusion is that the average growth in clear profit equal to the type of property.

We conducted a regression analysis to determine the link between the degree of implementation of ERP applications on the functions of the organization and profit growth effect induced by these organizations, and I noticed that there is a good link (with a significance of correlation $R = 0.73 > 0.63$ for 7 degrees of freedom). F-test also has a high enough value (6843), and the Sig. corresponding F statistics is slightly less

than 0.05 (0.04) which gives significant linear relationship between two variables. Because both F that has a high level, and significance Sig. is reduced, can be concluded that the results are not coincidental. (Radu, 2009)

Table 4. Regression analysis on ERP implementation degree of organization functions and the effect on profit growth

Model Summary					ANOVA ^b						
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Model	Sum of Squares	df	Mean Square	F	Sig.	
1	,730 ^a	,533	,455	,76035	1	Regression	3,956	1	3,956	8,843	,040 ^a
						Residual	3,469	6	,578		
						Total	7,425	7			

a. Predictors: (Constant), ERP_Mediu

b. Dependent Variable: PN_efect

Hypothesis 2. Implementation of ERP and BI applications in all functions of an organization increases the influence of the advanced management methods in the decision making processes of the organization (Bach, 2007). Hypothesis 2 will be tested in particular from the perspective that BI applications influence the organization's performance management processes and less in terms of ERP applications.

Table 5. Variables used in proving the hypothesis 2

	organizatia	ERP_Mediu	Proprietate	CA_efect	PN_efect	BI_Mediu	BI_ERP_Mediu
1	Aeropotul Timisoara	0,50	0	1,15	0,52	0,25	0,71
2	ANIF Dunare Olt	0,50	0	1,13	0,42	0,75	0,14
3	Hidroserv Hateg	0,83	0	1,07	0,70	1,00	1,00
4	Apa Serv Valea Jiului	0,83	0	0,98	0,84	0,25	0,86
5	Aerostar Bacau	1,00	1	1,37	1,98	0,25	0,43
6	Meva Severin	1,00	1	1,71	2,65	0,75	0,29
7	Romvag Caracal	1,00	1	2,14	3,13	0,75	0,57

Table 6. Regression analysis BI degree of implementation and effect on profit growth, private organizations

Model Summary					ANOVA ^{b,c}						
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Model	Sum of Squares	df	Mean Square	F	Sig.	
1	,908 ^a	,825	,650	,34347	1	Regression	,556	1	,556	4,717	,275 ^a
						Residual	,118	1	,118		
						Total	,674	2			

a. Predictors: (Constant), BI_Mediu

b. Dependent Variable: PN_efect

c. Selecting only cases for which Proprietate = 1

We conducted a regression analysis to determine the link between the degree of implementation of BI applications such specific BI tools and profit growth effect induced by these organizations, and noticed that it is a very good (with a significance of correlation $R = 0.908 > 0.63$ for only two degrees of freedom). Due to the low number of degrees of freedom F ratio is small and value Sig. is greater than 0.05 (0.275), and although the linear relationship between two variables which is very good ($R = 0.908$) is not necessarily explained by the influence of variable change on the dependent variable PN_efect and independent variable BI_Mediu for private organizations. (Radu, 2009). In public organizations R is 0.19, so there is no correlation.

Table 7. Regression analysis grade ERP & BI implementation and the effect on profit growth in public organizations

Model Summary					ANOVA ^{b,c}					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Model	Sum of Squares	df	Mean Square	F	Sig.
	Proprietary = 0 (Selected)									
1	,800 ^a	,641	,461	,13682	1	,067	1	,067	3,567	,200 ^a
						,037	2	,019		
						,104	3			

a. Predictors: (Constant), BI_ERP_Mediu
b. Dependent Variable: PN_efect
c. Selecting only cases for which Proprietary = 0

We conducted a regression analysis to determine the link between the degree of implementation of the mix type BI and ERP applications and profit growth effect induced by these organizations, and noticed that it is a very good correlation with a significance of $R = 0.908 > 0.63$ for only two degrees of freedom). Due to the low number of degrees of freedom, F ratio is small and value Sig. is greater than 0.05 (0.2), linear relationship between two variables that is good ($R = 0.8$), so this is not necessarily explained by the influence of variation in the independent variable on the dependent variable PN_efect BI_ERP_Mediu for public organizations. (Radu, 2009) In private organizations R is 0.418, so there is no correlation.

6. CONCLUSIONS

In the case of Hypothesis 1 we have concluded that the increasing of average clear profit is equal to the type of property. Regarding the link between the degree of implementation of ERP applications on the functions of an organization, and the effect induced by the increase in profit in these organizations have noted that there is a good link. F-test also has a high enough value, and value Sig. corresponding F statistics is slightly less than 0.05 which gives significant linear relationship between two variables. So the Hypothesis 1 is confirmed. In the case of Hypothesis 2 because of the low number of degrees of freedom (we received responses on the issue of BI only from 6 organizations, 3 public and 3 private), and although because the linear relationship between variables that quantify the implementation of BI type applications and the effect induced in profit organization, this relationship is not necessarily explained by

the influence of variation in the independent variable. So the Hypothesis 2 is not confirmed.

As a general conclusion I would say that public organizations successfully implement ERP applications, the private one are already focused on the implementation of BI applications, and the HRM field is an deployment vanguard of advanced methods that combining computer science with management.

In this context the basic concepts of computer system provides the technical and behavioral foundation that helps applications such as ERP and decision-making process for building a company's strategic advantage over competitors. IT systems are reflected by the structure and IT hardware equipment and base software. Using the IT systems and their applications in operational management, can develop a competitive advantage for the organization at local, national and up to forms of electronic commerce and information exchange level.

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ROMANIAN COMPANIES DILEMMAS - BUSINESS REENGINEERING OR KAIZEN

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ABSTRACT: *This paper presents an analysis of two American and Japanese management strategies, the reengineering and Kaizen strategies, which can be used successfully by the Romanian companies, too. Reengineering is the fundamental rethinking and radical redesign of business processes to achieve dramatic improvements in critical contemporary measures of performance such as cost, quality, service and speed. Kaizen is a philosophy of life that addresses to the best who want to be more and better. It is a process of improvement that never ends and it results in many advantages. The Japanese leadership model has shown that progress in small steps, but fast, reliable and leads to long-term wins. Kaizen method, implemented in Romania, too, has brought to people satisfaction and more money in their pocket.*

KEY WORDS: *management; innovation; Kaizen; performance; steps; strategy; work; quality; company; reengineering.*

JEL CLASSIFICATION: *M10; M19.*

1. INTRODUCTION

The European economy, the global economy, are terms commonly encountered in the discussions with local managers, which shows that the Romanian firms are more and more connected to these economies and to the European and global business environments. Under these conditions, the competition increases, the Romanian companies must deal with other firms with higher labour efficiency and spectacular economic and financial performances and with accelerated changes in these business environments. Therefore, in order to survive in such a competition, but even more to become the best managers of Romanian companies, they should always seek effective strategies and management solutions.

A solution could be a radical change of business that is based on principles of reengineering (redesigning the business management or rethinking the processes of an

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enterprise). Another efficient solution could be to keep on improving the existing business processes of the company, which is based on principles of the Japanese management from the Kaizen philosophy. In order to identify which of these solutions or strategies is the most appropriate for a company or another, depending on their objectives and needs, I will highlight reengineering and Kaizen's most important characteristics.

2. THE CONTENTS OF REENGINEERING IN THE OPINION OF M.HAMMER AND J. CHAMPY

2.1. The concept of reengineering

The term of reengineering was launched by Michael Martin Hammer and James A. Champy, the authors of the bestseller "Reengineering the Corporation: A Manifesto for Business Revolution" - 1993, noting that if a company wants to obtain a significant increase of its performance, it must radically change its way of working.

The two specialists have promoted and developed the management strategies based on re-engineering in a radical approach, their principle was "do not automate, eliminate", therefore the note which they have drawn attention in the second edition of the paper in 1994, that "Many of those who use this word do not understand it. "

The basic idea from where this concept goes is that: to get success in business in a continuous changing world, it is necessary optimum organization of business activities so that it is oriented to external environmental requirements. The concept of the two Americans is that the reengineering or redesigning the business processes (Business Process Reengineering-BPR), does not seek to improve work with 10-20-30%. The desired result is a redesign of the business by 100%, with the meaning of optimizing and remodelling – with a radical change.

"Business Process Reengineering" means to take everything from the beginning, from the foundation, to change fundamentally, drastically and dramatically. For this, the business is reinventing itself from a blank sheet of paper that you put in front of you and begin to answer this questions: "Why exactly do we do what we are doing?" and "And why do we do it like this?".

In the organizations where the management is asking: "How do we do it sooner?", "How can we do it cheaper?" or "How can we do it better?" it gets to apply, in the end, only process improvements , a concept that belongs to the philosophy of Kaizen, but that does not belong to the reengineering.

In a few words, a situation of "business reengineering", in their view might look like this: Company X is the second in the world in steel industry. It closes the doors and does not dismiss the people. It sells all capital goods and retraines all staff. Buys other assets. After a year it reopens its doors and soon it's ranked the best in the world in offshore drilling.

Another pioneer of the concept of reengineering is Thomas H. Davenport who, through his paper "Process Innovation: Reengineering Work Through Information Technology", published in 1992 which represents a landmark in the history of Business Process Reengineering ,believes that improving the performance of an enterprise can

be divided into two categories of initiatives: improving the processes and innovating the processes. Other authors such as H. Johansson ("Business Process Reengineering – Breakpoint Strategies for Market Dominance, H. Johansson, JWS 1993) have proposed toning the BPR projects themselves, which may be of different types, depending on client's objectives and its ability to adapt to changes. Davenport's and other authors' approaches (eg, H. Johansson) does not contradict Hammer, but they complete his approach.

International practical experiences (subsequent to the occurrence of the mentioned authors' work) and the experience of the various consulting companies in the field have shown that it would be ideal to make drastic changes in processes. However, in practice, this vision is more difficult to come to life. The level of development of many companies, the existing constraints (such as organizational, financial, legal, etc.. types) are often making it impossible to organize a project of remodelling processes in a radical way.

Thus, one can say that reengineering is a management approach which seeks to obtain benefits and major improvements in financial performances through increased efficiency and effectiveness of the work processes (obtained through a fundamental/radical change) and increase the speed of response of the organization.

2.2. The reengineering definition and its attributes

The reengineering consists in "the fundamental rethinking and radical redesign of the work processes, to achieve dramatic improvements in modern performance criteria such as the cost, the quality, the service and the speed" (Hammer & Champy, 1993).

Also, the reengineering involves " innovating the work processes that include the consideration of some new work strategies, the actual projection work processes and implementing the change in all its complex dimensions of technological , human and organizational orders" (Davenport, 1993).

A general definition of reengineering is that it "requires a fundamental rethinking and radical redesign of the business processes to achieve spectacular improvements in the indicators, considered critical in assessing the performance today, such as cost, quality, the service and the speed" (Calin & Aldea, 2000). From this definition we can accentuate four key words that can be considered reengineering's attributes, specifically: The first attribute is "*fundamental*" - *fundamental thinking*; The second attribute in the definition is "*Radical*", which derives from the Latin word "*radix*", meaning root - radical changes; The third attribute is "*Spectacular*" - spectacular results; The fourth attribute used in the definition is "*Business processes*" or "*Work Processes*."

2.3. Context's application of business process reengineering

The key factor to apply BPR is a visionary management who wants to anticipate the market evolutions and to facilitate the company development. It would be ideal that the management of one company to provide the accelerated business

growth or the competition on the market on which is activating and to run an early BPR type project, so the company would be prepared for the following tests;

- The most important task for managers is to eliminate the activities that do not produce the added value and not to use technology to automate them;
- The inefficient activities within an organization should be eliminated and not accelerated through automation;
- The organizations need to rethink their work processes to maximize the value offered to the customers, at the same time minimizing the consumption of resources needed to provide the product or the service;
- The technology of information can be used as a catalyst to optimize the work processes, as it enables new methods of collaboration and working.

3. KAIZEN'S PHILOSOPHY CONTENTS

3.1. The Kaizen concept

KAI = change;

Zen = good, for better, or continuous improvement.

Kaizen is a Japanese concept which, essentially, means continuous improvement. It comes from Buddhism, where it means "renew your heart and make it all better." In martial arts, Kaizen means "to move forward with small and fast steps." The method has been gradually expanded in management, too.

Kaizen has become known as a new discipline of management in the last two decades of the last century. Though the Kaizen management developed in Japan between 1950-1980, the period has been officially recognized and registered as a trademark in the U.S. in 1986, when Professor Masaaki Imai of Japan published the book "Kaizen: The Key to Japan's Competitive Success", published by the McGraw-Hill publishing company, which was then translated into over 20 languages and published in over 30 countries.

Until then the kaizen term was just a common noun in Japanese, with the meaning of "always better". Professor Imai has given it the significance of managerial principle - Kaizen, continuous improvement management and he amounted an entire structure of concepts, techniques and management systems used by Japanese companies that had shown a remarkable competitiveness in occidental markets.

Currently, Kaizen is studied outside Japan, too, in major institutes in the U.S., Canada, Western Europe, considered a middle path between two traditional styles of management: quality management, oriented towards achieving compliance with established standards and redesigning business-oriented management, based on major changes in processes or the structure of the organization. Kaizen is a philosophy of life that addresses to the best people who want to be even better. It is an improvement process that never ends and which generates multiple benefits.

3.2. Kaizen's definition and attributes

Zen Koan (Japanese philosopher) wrote: *"If you do not understand anything, nothing changes"*. Based on this principle it's actuating to learn Japanese quality, considering that *"Enthusiasm is not enough - you need knowledge"* - "Knowledge is not enough - you need profound knowledge. From the Japanese empiricism we quote Confucius, a revered ancient Chinese sage who said: *"To know without to act doesn't mean true knowledge"*.

Based on these lessons, and on the Professor Imai's considerations, by Kaizen we mean -continuous improvement process for small increases that makes the process more efficient, effective, under control and adaptive. Improvements are usually performed without expensive equipment or a sophisticated technique. Improvement is made with mind, not with money. The concept is based on simplifying the complex process by dividing into smaller processes and then by improving. By applying the methods based on the philosophy of Kaizen, losses from the process are eliminated by significantly improve it, by using systematic observation and statistical data, continuously changing tools and techniques that are being used. Exceptional financial results can be achieved if these principles are associated with the working personnel, which by opening become more aware and disciplined.

From all mentioned above we may identify some keywords that can be attributes of the Kaizen philosophy: The first attribute is *"Simplification"* or *"Split"*; The second attribute is *"continuous improvement"*; The third attribute is *"small increases"* with small but safe steps; The fourth attribute is *"process"*- business process or work processes.

In a Kaizen improvement project participate all those involved: workers, foremen, engineers and the manager. It doesn't matter the hierarchy, it matters the added value produced by the each person's intelligence and force of action to increase the strength of the group. The mentality specific to Kaizen philosophy is opposed to the model often practiced by people, according to the principle of minimum effort, "It works this way, too."

3.3 The context of applying the Kaizen strategy

- When applying The Kaizen management methods can not only participate a higher level managers, but also foremen, engineers or workers, whereby they can become more aware and more disciplined;
- The managers' task is to simplify complex work processes to simple processes and to identify activities which do not produce added value and also the ones that produce added value and to use technology to automate them;
- The organizations need to rethink their work processes to maximize the value offered to the customers, reducing or eliminating the losses by improving its process. Seven classes of loss are identified by overproduction: delay, transport, processing, inventory, wasted motion, repairs / rejections.

4. THE COMPARATIVE ANALYSIS OF KAIZEN AND REENGINEERING

Table 1. Comparative analysis of kaizen and reengineering

Characteristic	Reengineering	Kaizen
1. The term's origin	American	Japanese
2. The basic principle	Radical change of a process	Continuous improvement of an existing process
3. Keywords(basic concepts)	Basic thinking Radical change Spectacular results Business or industrial processes	Simplification of the thought and actions Continuous improvement Results with small steps Business or industrial processes
4. Goal	Performance, Efficiency, Effectiveness	Performance, Efficiency, Effectiveness
5. Participants	Consultants, top managers and / or project managers	All those involved: workers, foremen, engineers and the manager
6. Implementation period	It usually is the one of a project with a limited duration to execute it	It never ends, the processes can be continuously improved, repeatedly
7. Costs	Requires high costs, with new technologies and systems	Very low costs. One of the principles is that "improving is done with mind not with money"
8. Basic methods	BPR Business Process Reengineering (Redesign) Business Transformation (Transformation) Business Process Change Management Innovation; Creativity and Benchmarking	Methods of organizing the continuous flow process: Just-in-time JIT, KANBAN, HEIJUNKA, Bucket Brigades, Taguchi method Methods of reducing the time of manufacturing change: the SMED method (Single Minute Exchange of Die), Total Productive Maintenance (MPT) Specific methods for processes control: 6 Sigma, SPC Methods of analysis and processes improvement: VSM method(the value stream map) Methods of organizing the workplace: 3S and 5S methods or the suggestions system Methods of excellence for continuous improvement of processes: Kaizen Method, Deming (PDCA cycle) Juran, EFQM of excellence methods, Baldrige method of excellence
9. Benefits	Spectacular results	There are generally low costs
10. Limits	High costs Teams of specialists	Results in time (or with small steps) Perseverance, harshness and daily efforts

5. EXEMPLIFICATION

If theoretically it can be made a clear separation of the two concepts, the concept of engineering and the concept of Kaizen, regarding: the definition, basic features, the context and the methods and techniques of application, things are more complicated in practice.

I don't have sufficient information so I can claim that there are Romanian companies that have applied by the book only processes of reengineering or contrarily only Kaizen strategies. But there are known many cases where in the Romanian companies have been applied both reengineering principles and strategies and methods that are based on the Kaizen philosophy.

For example, the company S.C. Automobile Dacia SA, known as the Dacia Factori in Pitesti (Member of the Renault Group - The Renault Group has a stake of 50.96%) has applied since 2002 several continuous improvement techniques, such as the JIT technique (Just-In - time) and 5S especially in the body-assembly departments. This thing led in 2003 to launch the new model of the factory named Solenza, an improved version of the Supernova model (which was taken out of production in 2003). But a radical change in manufacturing process of the manufacturing process was launching Dacia Logan with Renault Group's massive investment and the launch of this model on the market in 2004.

This radical change was perceived by the customers too, and it has followed the success of this model on the market by the large number of sales both in the country and abroad (France and Germany). Since then the factory vigorously implemented in other continuous improvement methods such as SMED method (Single Minute Exchange of Die), Maintenance of Total Production, methods of excellence and continuous improvement of processes and of quality management, the Poka-Yoke technique and others. Thus, it followed other new variants of Logan, such as Dacia Logan MCV (2006), Dacia Logan Van (2007), Logan Pick-Up (2007), Dacia Sandero (2008) and its variants, Dacia Logan facelift (2008) and its Diesel version, Dacia Duster (2010).

The reengineering processes consisted in fundamental rethinking of the car models produced, radical image change both of the company and the cars produced, in massive investments, but also spectacular results in the recent years. The Kaizen methods and techniques can be characterized by functionality, efficiency, effectiveness, flexibility and not least through simplicity. The combination and collaboration of the two strategies, reengineering and continuous improvement has led to some positive economic and financial effects highlighted by: increasing the number of cars produced and marketed; increasing the market share, both internally and externally; reducing the costs; reducing the time of production and fulfilment of orders from customers; improving the quality, reliability and maintenance of the vehicles, etc.

Such examples can continue with other companies, especially those who have foreign capital, such as Romstal, Arctic, Murfatlar Romania, Tarom, etc.

6. CONCLUSIONS

Business Process Reengineering (BPR) is beginning to be a concept with a higher and higher incidence among the Romanian companies. It's true, not too often in small companies, and not even in the medium or large companies, which reduces the area of use. But there are arguments that a real demand for BPR begins to take shape in Romania, too.

The Japanese management model has shown that progress in small steps, but fast, leads to reliable long-term victories. The Japanese prefer to obtain performance progressing with "small steps". Many companies in the country have adopted the Kaizen philosophy of management. These include companies operating in the automotive, banking domains or providing services in design, architecture and marketing, and public services in the county state or national agencies. This interest could be explained by the fact that although the Kaizen management type requires daily efforts to improve the production of all the company employees, progresses are seen over time and persist for a long time.

The reasons why the interest in the concept of Business Process Reengineering or the Kaizen is growing in Romania, besides other countries, are numerous and intertwined. On the one hand, there is already a critical mass of companies with an appropriate volume of business, combined with significant experience in the local market and / or regional, which have reached a threshold of maturity and which for the remodelling and continuous improving the business processes is a real need.

So there are many reasons for the need of the Romanian companies to seek the complex processes of the re-engineering or to implement methods of the Kaizen management type to record an upward trend.

It remains to be seen if the need is actually understood and acknowledged. Then who are the potential customers and what their requirements are. And last but not least, what is the most suitable strategy for the company. Also, the practice has shown that companies can successfully apply both the principles of U.S. management based on the processes of reengineering and the principles of the management that is based on Japanese Kaizen.

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PROPOSAL FOR STRATEGIES TO BUILD MISSING FOUNDATIONS OF THE CURRENT MICROFINANCE INDUSTRY

TOMÁŠ HES, KAREL SRNEC, MARTINA DRAŠAROVÁ *

ABSTRACT: *As microfinance approaches the status of mainstream asset class, it inevitably starts to entice Socially Responsible Investment¹. However, precocious capital inflow can be detrimental to all players involved. The industry is unprepared for global SRI arena. The gap between different microfinance concepts is widening, while identical terms are being used to describe different contents. The term „microfinance“ continues losing its informative value as divergent development foments nomenclative disorder. Microfinance is becoming too varied to be presented under a single term. MIVs², States and multilateral institutions must therefore in a concerted action impose basis of unified definitions, methodologies and coordinates, otherwise different concepts might mislead international public. The lack of standardized set of definitions, social impact reporting, bankruptcy procedures and evaluation infrastructure, while overstating development benefits can discredit microfinance, once SRI systems open their gates.*

KEY WORDS: *microfinance; funding; inefficiency; coordination; centralization; development; FX risk; guarantee; SRI.*

JEL CLASSIFICATION: *G21, L26, O16.*

ABBREVIATIONS: *ESG - environmental, social, governance; GMFA - Global Microfinance Financing Authority; MFI - Microfinance Institution; MIS - Management*

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¹ Sustainable and Responsible Investment concept incorporates Environmental, Social and Governance issues into fund management.

² MIV: microfinance investment vehicle

Information System; MIV - Microfinance Investment Vehicle; SRI - Socially Responsible Investment.

1. INTRODUCTION

The capital flows originating in developed countries provide key link between local needs and international capital sources. 29% of the total of microfinance funding today is channeled internationally. The total investment to microfinance is expected to triplicate from USD 6.6 bn in 2008 to USD 20 bn by 2015. (Harris, 2009)

SRI market, opening to microfinance, is today an enormous market, encompassing almost a tenth of all professionally managed assets, reaching €7.5 trillion in 2009.³ Ever more investors are conscious of impact of their investments and seek double bottom line.⁴ So far, among ESG⁵ issues, the environment and governance have attracted most attention, while the importance of the social issues lacked behind. Microfinance is therefore a logical target of SRI. While mere 0.02% of the total of European SRI flows in 2009 were channelled to microfinance, Eurosif⁶ concludes that microfinance will be of significant interest to SRI investors in the near future.

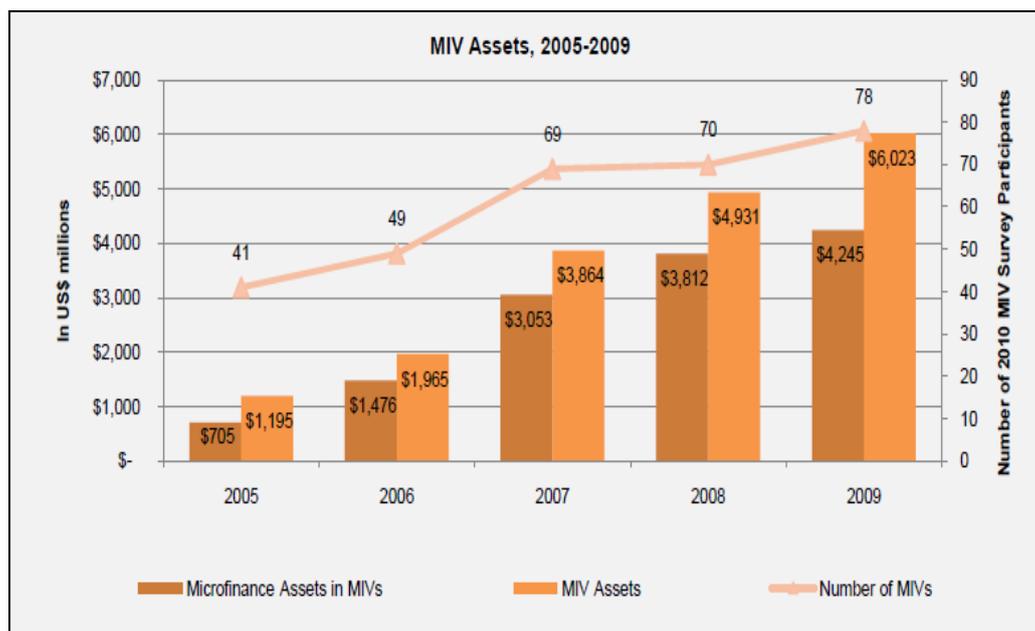


Figure 1. Growth of MIV assets (Microrate, 2010)

³ CGAP MIV Surveys 2006 – 2008

⁴ Combination of financial return and social impact

⁵ Environment, Social, Governance

⁶ The European Sustainable Investment Forum

Albeit the role of microfinance as SRI asset is marginal for SRI market, it is crucial for the future of microfinance. SRI is already the largest source of international microfinance funding, (47% in 2005) (Eurosif, 2010). Yet despite the importance of SRI for microfinance, the sector is unprepared for the expectations of the SRI investors, who are 92% institutional and who will demand accountability (Eurosif, 2010). Deep differences reign between the corporate presentations and the reality in the field. Growing numbers of practitioners are relying on practices considered unethical in mature financial markets, such as untrue information, usurious interest rates in particular, as well as lack of adequate customer protection, opening the door to exploitation of the poor (Park, C.K., 2007).

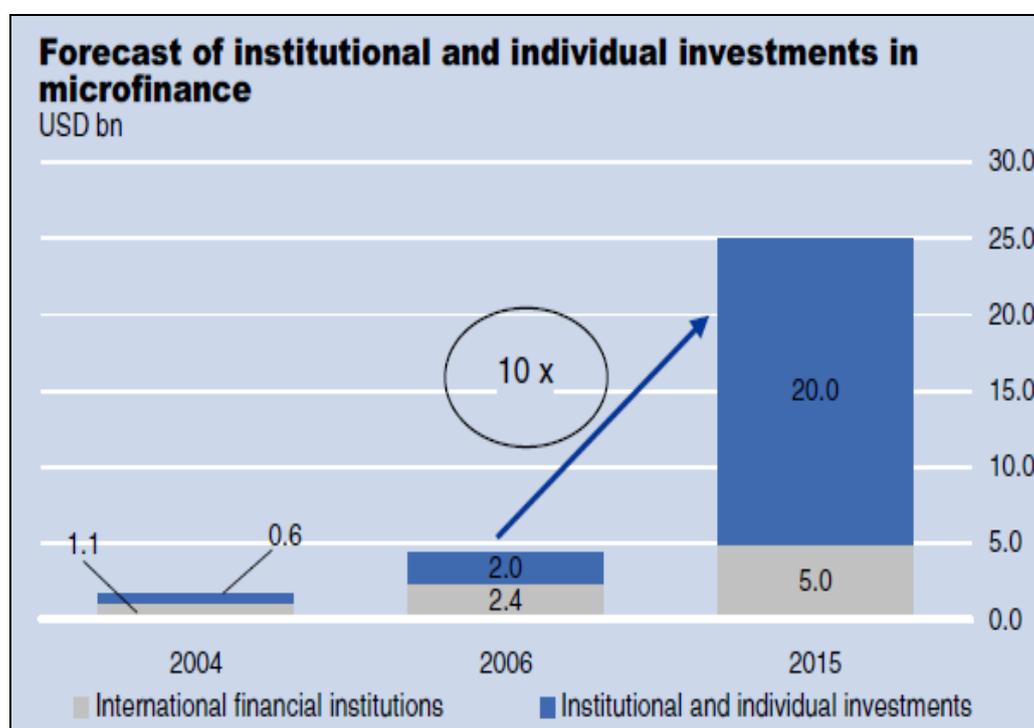


Figure 2. Investment Forecast (DB, 2007)

In consequence, the global media focusing on few salient cases, antagonistically oversimplify the industry as a profit-making financial predation, while at the same time denoting microfinance as the most promising tool to combat poverty. Abysmal differences can be found not only in terminology used by MFIs, but also in nomenclature applied by MIVs and rating agencies. In order to establish microfinance as a social development promoting industry, the sector evolution needs to be guided from above, through a set of standards and criterias, defining expectations and setting the bar for acceptable lending policies, excluding profiteering MFIs. Microfinance funders, government agencies, and technical assistance providers, must in a concerted

action define „social microfinance“. If they do not, the reputation of microfinance as social industry, may reap unwelcome volatility of SRI sources, leading to detriment of all involved. This paper proposes creation of a Global Microfinance Financing Authority (GMFA), formed by representatives of the sector, multilateral institutions and states, in order to establish sectorial standards related to social impact measurement, unification of terminology, audit certification, ratings and bankruptcy procedures. Such multitasked endeavour could synergically concentrate knowledge, strategically act on planetary level, create transparent space for microfinance evolution as a strategy to fight poverty.

2. MISSING FOUNDATION OF MICROFINANCE

2.1. Insufficient Poverty Impact Assessment Tools

Although robust poverty assessment tools have been available for more than a decade, they have failed to become used on daily basis by MFIs. Standard methods for measuring poverty have proven impractical given the scarce resources and technical constraints, problems with data collection, analysis, and interpretation. Zohir and Matin (2004:301) argue that the ‘impact of microfinance intervention is being underestimated through conventional impact studies’. Thus, three decades after global popularization of microfinance, claiming to be an essential component of the fight against poverty, there is still no convincing social impact measurement tool readily used by MFIs. Yet, routine day-to-day reporting is the only way real impact of microfinance can be identified in the long term and provide robust feedback to investors. MFIs are recently starting to report en bloc on social performance, due to requirements of the funders. Nevertheless, recently invented social performance⁷ indicators, only speculate on achieved social impact.

The frequently used indicator, CERISE, considered the pioneer of social audits, is today used by over 250 MFIs. CERISE assesses the social impact through a thorough questionnaire of the principles, actions and measures implemented by MFIs to achieve social aims in the light of outreach, adaptation of products, socio-economic benefits for client’s families, staff, community and environment. The results transform into quadrangles permitting quick assessment of the MFI social performance. In real conditions, CERISE questionnaires are considered a „must“ by the MFIs, obliged to fill the sheet as a pre-condition for funding. Without control nor feedback of the data in the field, the value of CERISE is hardly representative.

The IRIS - PAT developed by USAID, and PPI created by Grameen Foundation, are poverty measurements based upon matching the data collected in field with national expenditure surveys. The survey data analyzing rank indicators that correlate with poverty, such as family size, the number of children attending school and others, are collected in the homes of clients during short interviews. Each indicator receives a score reflecting client response. The total score is combined with the

⁷ Social impact refers to outcomes that can be directly attributed to programs. Social performance encompasses the process by which impact can be achieved.

country's national household survey, serving as a baseline from which client progress is measured. Unfortunately, the PAT and PPI are limited to the relatively small sample of countries with available household expenditure data, are expensive corroborate and make no distinction between urban and rural households, with different poverty characteristics.⁸ Social ratings provided by rating agencies⁹ are dynamically developing products of the consulting industry complementing financial ratings of MFIs.

The rating agencies provide an analysis of the development context, MFI services, systems, portfolio and a statistical field sample to analyze outreach and services of the MFIs. Based on quantitative and qualitative analysis, the social rating report includes an analysis of the performance, an assessment of strengths and weaknesses and a final opinion of the MFI's social performance. The major weakness of the social rating lies in its cost and superficiality of the validation of data provided by MFIs, but also in the fact that rating agencies view the social ratings as their core business. Their interest, is thus to maximize profit, supposing minimization of the costs (time of the analyst spent in field) and reduction of reputational damage caused to a paying client (MFI).

Only few MFIs measure their social performance. Out of 1928 MFIs reporting to Mixmarket as of 12/2010, 350 MFIs (18%) reported on their social performance. Most of those committed use the methods described above, exemplifying lack of the microfinance social impact measurement at present. Applied measurements focus on social performance of the MFIs that may or may not result in a social impact. Although lenders are becoming conscious of the non-income aspects associated with poverty, in the sector reigns an anecdotal absence of an industry-wide framework for social impact reporting and it is arguable if any MFI could stand the test of external social auditing, since the current auditing tools for such task are either frail, speculative or non-existent. (Lapenu, 2009) The lack of accountability may in the future cause reduction of credibility for public investors.

2.2. Insufficient controls over veracity of microfinance data

Investment placement in immature or weakened MFIs, unfit to manage private capital, leads in the long run to moderation of performance standards, harming MIVs, as probability of default increases. Wellperformed due dilligence is therefore in interest of all stakeholders of the microfinance industry. The control of hard data presented by MFIs, executed during due dilligence, is at present as diverse as the pool of MIVs, in most cases deficient and speculative. The control is typically performed prior to disbursement on behalf of investors verifying that performance is accurately reflected in the financial statements and reports, and that management and operating systems are robust enough to sustain the capital inflow and handle its performance.

Unfortunately, financial statements are often compiled to present the positive face of the MFI. Auditors, who approve the financial statements, often belong the acquaintances of those interested in disbursement. In many cases, even international

⁸ PAT = Poverty Assesment Tool; PPI = Progress out of Poverty Index

⁹ Currently PlanetRating, Microfinanza, M-Cril and Microrate

auditing firms fail to discover structural problems of the institution, due to lack of profundity or sufficient experience in social finance. Due diligence methods learned in regulated financial sectors in developed markets, where the analysts rely on the information provided available, are insufficient in social economy in developing countries.

The inaccurate representation of portfolio quality belong to the principal weakness to disclose. Discrepancies between real and reported portfolio quality are common in MFIs. In fact, many well-known MFIs have experienced at least one significant portfolio crisis, sustaining delinquency and default rates well above what they reported to the public (CGAP, 2009). Out of the methods currently used for MFI appraisals, there is currently none that entirely faces the portfolio control issue, the key element for a stability of any MFI.¹⁰

The sample controls, during which the analysts compare randomly chosen client files against the interviews in the field, are often orchestrated to fit in the funders expectation. Also, the riskiest regional portfolios are usually geographically distant from the headquarters and not likely to be visited for time and cost reasons. It is truly impossible for a single analyst to acquire a complete picture of a microcredit portfolio, consisting of tens of thousands of clients, in a few days. No concerted approach towards this issue is being developed at present, also because the MIVs guard their methodologies as a commercial secret.

2.3. Failing ethics and client protection

Failures of microfinance become threatening, once the MFIs funded by MIVs, cause damage to the clientele, due lack of ethics, despite proclamations expressed during the fundraising. The ethical failures usually concentrate in lack of pricing transparency, excessive interest rates and abusive loan recovery. The effective interest rate paid by a borrower may be different from the stated interest rate. Non-transparent pricing, common in microfinance, creates imperfections generating opportunities for higher profits. Pricing transparency is therefore essential to promote efficiency.

MFIs organizations routinely hide the actual interest cost by charging interest on the original value of the loan rather than on declining balance, charge up-front fees, force security deposits deducted from the loan amount and compulsory savings as well as insurance premium charges. The potential for consumer exploitation in the case of microcredit is a direct result of market failure, caused by little competition as some MFIs exercise significant local market power resulting in high interest rates, or by the ill information of the consumers of microcredit.

¹⁰ Several public tools exist, such as ACCIÓNs CAMEL, WOCCU's PEARLS, CGAP's Tool for appraising MFIs.

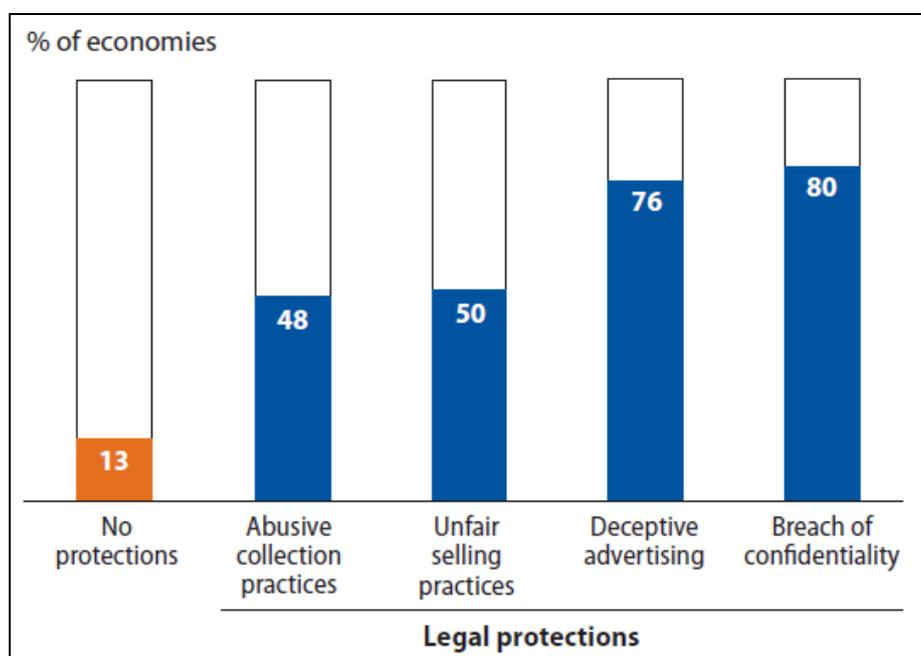


Figure 3. Few economies out of 137 sample group have legal protections against unfair practices in financial sector¹

2.4. International Bankruptcy procedures

Due to nature of MFIs, leveraging capital without significant own equity or other assets, MIVs take portfolio as a pledge. However, the frailty of the microloan portfolio, due to its integrity-based instead of asset-based character, is paltry and elusive. As a good example serves the case of FINDESA, Nicaraguan MFI that transformed into a regulated bank in 2008. Born out of the non-profit INDE, FINDESA had grown for several years over annual 50%, without belonging to any microfinance network organization, and transformed into BANEX, the 5th largest bank in the country. The Nicaraguan microfinance, hit by the financial crisis, culminated in populist „movimiento no pago“¹¹ supported by Ortega’s government. The excessive growth fueled by investment inflow, inadequate internal controls, over-indebtedness of the clientele and failures of the rating agency,¹² caused collapse of the institution in 2010. Undisclosed losses of MIVs, are estimated in range of tens of millions of dollars, due to the incapacity to sell the microcredit portfolio. Similar cases are frequent in other markets, but receive few publicity, due to confidentiality agreements between MIVs and MFIs.

¹¹ “No re-payment movement”

¹² Fitch Rating Agency

3. PROPOSAL FOR CREATION OF A GLOBAL MICROFINANCE FINANCING AUTHORITY

The authors propose creation of a Global Microfinance Financing Authority (GMFA), formed by representatives of the sector, multilateral institutions and states, in order to create on synergy in sectors, where taxonomic and organisational inefficiencies take place. The institution is self-financed by interest margin paid by both MIV and MFI members. MFA as one of its primary function, tackles the issues mentioned above: social impact measurement, customer protection, taxonomy and definitions, audit methodology and imposition GMFA definition of microfinance, as a social development sector open for investments by MIVs, under following rules:

- MFIs, certified according to GMFA criteria regarding transparency, social impact and client protection, are allowed to use the registered mark of Development Microfinance Institutions (DMIs);
- The DMIs are under full scrutiny of GMFA supervisors, regarding social impact measurement as well as audits;
- MIVs can invest into DMIs only under full disclosure of conditions, using standardized loan contracts and capital products according to GMFA imposed limits;
- DMIs acquire access to SRI capital sources. The MIVs, conversely, gain more certainty on the impact of their investment;
- In case of default, GMFA procedures imply standartized bankruptcy proceedings.

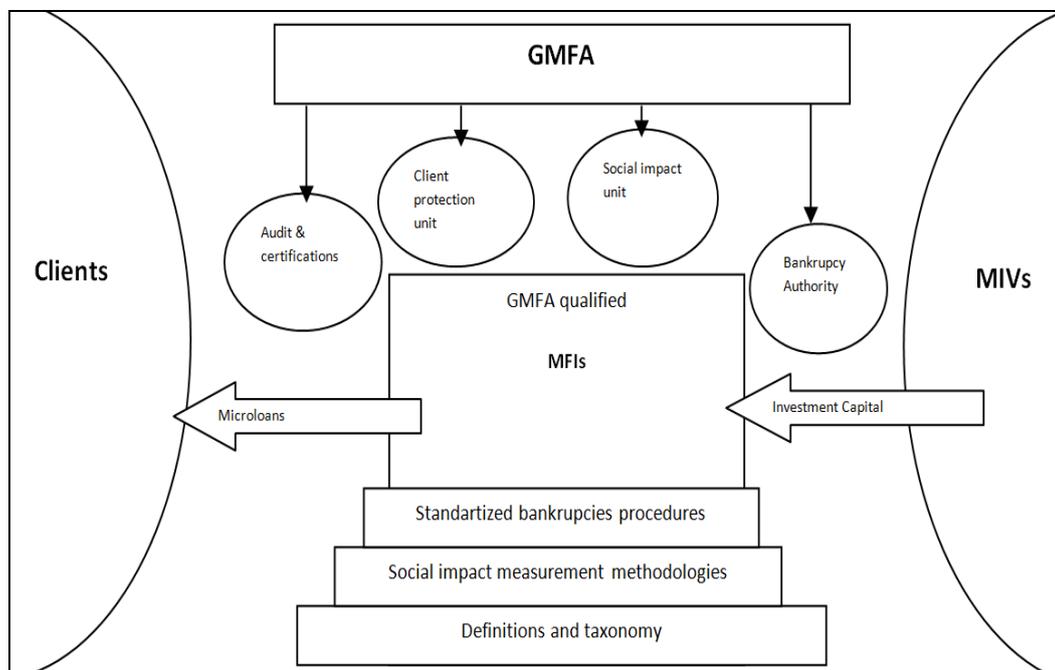


Figure 4. GMFA infrastructure

The multitasked endeavour of social impact measurement making use of economies of scale, unification of global terminology, certified audits, qualification of MFIs, standardization of ratings and bankruptcy procedures, could reap synergies due to its concentration of knowledge, strategic acting on planetary level, creating transparent space for microfinance evolution as a true strategy to fight poverty.

The GMFA membership might snowball, creating benchmarks in the midst of uncertainty becoming the basis of healthy microfinance industry.

4. CONCLUSION

Microfinance is currently enwrapped in a nomenclative disarray and may not stand the test of a serious asset class claiming social development. Thus, it will deter SRI investors. Concepts without benchmarks will blend and reputation of microcredit may fall prey to dichotomy between rhetoric and reality, highlighted by superficial media reports. The current planetary microfinance groundwork has succeeded in attracting many actors, but has neglected to build the regulatory base, in order to protect the poor, and investors alike. Thus, it is urgent to set up a central authority, supervise and guide the development of the sector, in order to save its social mission as well as reputation.

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TRUST IN B2B E-MARKETPLACES

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ABSTRACT: *The paper presents background of B2B exchanges and review of their forms and functionalities. The benefits and fails reasons are noticed. European enterprises interest in B2B trade is next aspect of consideration. Finally, the trust barriers of B2B exchanges are presented.*

KEY WORDS: *business-to-business; e-marketplace; online purchasing.*

JEL CLASSIFICATION: *D85, L14.*

1. INTRODUCTION

It is in the business-to-business (B2B) domain that the real e-commerce revolution is happening – in contrast with the business-to-consumer (B2C) domain that may follow a more evolutionary path. B2B is the core of the e-market – the most important in economic terms, with more than 80% of total ecommerce activities. It is the fastest growing and most rapidly evolving area of e-commerce.

Business-to-Business (B2B) exchanges are electronic marketplaces in the Internet where suppliers and buyers interact to conduct transactions. B2B marketplaces can be defined as a World Wide Web site where goods and services can be bought from a wide range of suppliers¹.

Stockdale and Standing defined an e-marketplace as a neutral web-based location where businesses can conduct buying and selling transactions for goods or services. Buyers looked to e-marketplaces for more favorable pricing, improved

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¹ Ramsdell G.: *The real business of B2B*, The McKinsey Quarterly, No. 3, 2000, pp.175-6.

efficiencies in the purchasing process, improved supply market knowledge and visibility, and improved aggregation and control of spend across the firm. Suppliers looked to e-marketplaces to discover new markets and customers for their products. The rapid expansion in the number of e-marketplaces with overlapping service offerings created a clouded picture of the e-marketplace landscape (Grieger, 2003, p.280).

Generally, there are three types of e-marketplaces (Dawei & Jiju, 2003, pp.173-179): marketplaces based around a specific industry sectors; marketplaces based around products and services; marketplaces focused on the functions.

Marketplaces based around a specific industry sectors are called vertical marketplaces. Petroleum industry is an example. We can point on the Chevron's Petrocosm with Texaco participation and BP Amoco marketplaces as the examples those help buyers source goods and services that are largely specific to industries.

The type of marketplace which is formed around a wider supply market that cuts across several industries is called horizontal marketplace. Examples include the marketplaces for maintenance, repair and operating (MRO) goods such as safety and office supplies. The value of the horizontal marketplaces is that they efficiently match the needs of the one with the offerings of the other.

The marketplaces focusing on functions gain value from concentrating functional capabilities and quality services. For example they help HR departments manage employee benefits; help companies dispose of excess inventory and so on.

There are many benefits to be gained by companies trading across the Internet through the e-marketplaces. The three main ways of creating value through B2B marketplaces:

- B2B marketplaces expand everyone's market reach. Without B2B marketplaces, buyers can have great difficulty finding suppliers with the right equally encounter difficulties in finding motivated buyers.
- B2B marketplaces generate lower prices for buyers. The price improvements for the buyers result from ability of buyers to reach more suppliers or the most efficient supplier as well as from increased price competition and in some cases, access to excess inventory stocks.
- B2B marketplaces cut the costs of buyers' operations. Most B2B companies now provide services that cut the costs of B2B procurement processes, which traditionally consume much staff time and effort.

However application of B2B trade does not give the foreseen profits in every case, the reasons of marketplace fails can be as follows:

- A B2B exchange cannot wring huge efficiencies out of all elements of supply chain. B2B exchanges can have no impact on certain supply in its physical goods flow. There is still need for organizations to keep surplus inventory to meet any unanticipated demand until more components arrive from the suppliers.
- B2B exchanges have perceptual certain inefficiencies by failing to realize that the same supply chain segment in the different industries and different supply chain in the same industry, may require different improvement levels.
- Organizations fears of sharing information freely, seriously inhibits adding value. Although the information can benefit the other members of supply chain, the fear

of losing crucial competitive advantage leads companies owning the information refusing to share information (of forecast, products life cycle and bills of material) freely.

2. B2B E-MARKETPLACES DEVELOPMENT

Since the beginning, B2B exchanges have had a tremendous growth, Goldman, Sachs and Co. had projected that US B2B sales on the Internet would reached \$1.5 trillion by 2004 compared with \$114 billion in 1999. The growing interest in B2B e-business is also reflected by the fact that in 1999, venture capitalists poured \$17 billion into B2B endeavors, compared with \$11 billion in Business-to-Customer (B2C) ventures².

Real growth of B2B sales has met above mentioned forecasting. In 2003 US B2B exchanges was estimated on \$1,33 trillion. The largest participation in this amount had B2B platform trading computing and electronics, motor vehicles, petrochemicals and utilities.

Despite of rising trade value reached via B2B platform we can observe that since 2000, a consolidation process has started which seems not yet fully completed. It is estimated there were around one thousand B2B e-marketplaces world-wide, with about 300-500 active in Europe in 2002 and about six hundred and three hundred in 2010 (Table 1).

Table 1. Estimated numbers of active B2B marketplaces by region of activity

Active in	Berlecon Research		eMarketServices	
	4/2002	2/2003	4/2002	6/2010
World	1060	889	1189	615
North America	669	556	619	274
Europe	381	324	540	307

Sources: B2B marketplace databases from Berlecon Research (www.berlecon.de) and eMarketServices (www.emarketservices.com)

*Note: The regional information denotes activity within the respective region, not necessarily the headquarters.

Concerning the usage of B2B Internet trading platforms by enterprises, the *e-Business W@tch* reports for the 4 largest EU Member States (Germany, France, UK and Italy) that around 5% of European enterprises used e-marketplaces in mid-2002 and early 2003 and that a further 3-4% are planning to do so in the near future. These figures suggest that the overall impact of B2B e-marketplaces is still relatively low, but considerable differences exist between different industry sectors.

In the Information and Communication Technologies (ICT) services sector, for example, 7-12% is regularly trading via e-marketplaces, while a further 6-9% has reported that they are planning to do so. Also the tourism industry shows an above-average use of e-marketplaces. It is also interesting to note that the plans to use e-

² "To B2B or not to B2B" U.S. News & World Report (2000, February 7)

markets seem to be more developed in those industries that already use them to a larger extent, such as in ICT services, tourism or business services³. This suggests that e-marketplaces are more suited to the Internet trading demands for some sectors than for others.

Some industries show considerable differences between the e-marketplace use of small and large companies. Generally, large enterprises are more likely to use e-marketplaces than SMEs. While almost 10% of the large enterprises confirm that they use e-marketplaces for selling or purchasing products and services, only about 5 % of the SMEs do so. This picture prevails in the data available for early 2003. The respective ratio is 7% to 5% for a subset of the industries studied in 2002. Among current non-users, the percentage of enterprises that plan to start using marketplaces is higher among large enterprises (5%) than among SMEs (about 4%), but not as significant as in terms of active participation. Also this picture is the same in 2003.

Less interest in on line and B2B trading platforms usage is noticed when comprising B2B purchasing in Poland to situation in other EU countries. 12% of all enterprises (with 19% employees) in Poland make purchases on line. But 2% of enterprises do it via B2B trading platforms. This share is relatively higher in other presented countries (Table 2). Comparable or even higher share of enterprises in Poland to other EU countries exchange their documents online with suppliers but there is a few enterprises in Poland using supply chain management systems.

Table 2. Online purchasing, B2B connectivity in 2009/10

	Online procurement / sourcing					
	Make online purchases		Online purchases >5%		Buy on B2B trading platforms	
	% firms	% empl.	% firms	% empl.	% firms	% empl.
Germany	39	56	27	30	12	20
Spain	20	28	11	15	8	9
France	27	37	14	16	6	7
Italy	27	30	17	15	4	6
United Kingdom	48	58	25	29	5	8
Estonia	28	35	6	11	2	3
Poland	12	19	5	9	2	4

Source: Author's elaboration based on: *The European e-Business Report 2010 edition*. Office for Official Publications of the European Communities, Luxembourg, September 2010

The reasons of such a low interest in online purchases and B2B trading platforms usage can be lower share of enterprises with the computer and the internet access. The percentage of enterprises using computers in Poland amounts to 77% (86% of employees) while in Germany 93%, in UK 80% but with staff of 94% of total employees number in both countries. The Internet access has 66% of total enterprises

³ *The European e-Business Report 2004 edition*. Office for Official Publications of the European Communities, Luxembourg, September 2004

in Poland while in Germany 80% and in UK 75% almost 90% employees in both countries. Moreover the internet access in Poland is realized applying technologically less advanced analogue modem. Considering lack of ICT infrastructure one should remember important assertion made by Carr that it was no longer possible to gain strategic advantages from ICT, since their use has become a commonplace (Carr, 2003).

3. TRUST IN B2B INTERNET TRANSACTIONS

Development of the B2B e-marketplaces has showed also some barriers. Lack of trust is one of the most important. Survey led by the Directorate General Enterprise in European Commission points on the following trust barriers⁴:

- Uncertainties related to the protection of confidentiality of sensitive data (59.4%);
- Uncertainties related to the security of information and communication systems (57.8%);
- Lack of clear information on the terms and conditions of the contract (e.g. applicable law; jurisdiction, etc) (56.3%);
- Uncertainties related to the settlement of disputes (50%);
- Uncertainties related to on-line payments (48.4%);
- Lack of sufficient information on the different steps for the conclusion of the contract (42.2%);
- Lack of sufficient information on the identity of the companies (name, address, telephone number, VAT number, etc) (37.5%);
- Lack of sufficient information on the right of withdrawal from the contract (35.9%);
- Lack of sufficient information on product return and recovery of amounts paid (34.4%);
- Lack of sufficient information on the characteristics of the goods/services (31.3%);
- Lack of sufficient information on availability of products and delivery time (29.7%);
- Lack of sufficient information on payment methods (25%);
- Lack of sufficient information on certification of products/services (23.4%);
- Other (23.4%);
- Lack of sufficient information on the prices of goods/services including additional charges (e.g. taxes) (20.3%);
- Lack of sufficient information on insurance of goods/services (18.8%);
- Lack of sufficient information on the costs of delivery goods/services (15.6%);
- Lack of sufficient information on the language of the transaction (14.1%).

The majority of the responses to the survey were from companies (48.4%) and from associations (40.6%). Only a small percentage was from Chambers of Commerce (10.9%). Most of the respondents were from the following Member States: Germany

⁴ *Open consultation on "Trust barriers for B2B e-marketplaces"* European Commission, DG Enterprise, Unit D.4 E-Business, ICT industries and services, Brussels 2002

(23.4%), Belgium (17.2%), France (14.1%), Italy (14.1%), Spain (12.5%), United Kingdom (10.9%) and The Netherlands (9.4%).

4. CONCLUSION

The advance made in the information technology over last years has been tremendous and many transaction systems have emerged as a result, in which the B2B marketplaces stand prominent and attracts a great deal of attention across industrial sectors. If today's bricks and mortar companies are to survive, they must reinvent themselves to integrate the Internet into everything they do and connect with one or more B2B exchanges. The first marks of the change could be noticed - the incredible increase of purchasing value made using B2B in last few years, in computing, motor vehicles and petrochemicals industries, mainly.

Trust is an important issue for B2B e-marketplaces. The most important trust issues for participation in B2B e-marketplaces are the following: security, confidentiality, transparency, in particular of the terms and conditions of the contract and the transaction procedure, alternative dispute resolution. According to e-marketplace operators, a lot of the information related to those issues, is being made available on their web sites, with the exception of online auctions where the information seems to be rather limited. This different perception of the situation may suggest a "trust gap", either resulting from a lack of awareness or from different views about the effectiveness of the measures taken in addressing trust issues in B2B e-marketplaces.

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THE ROLE OF ACCOUNTING INFORMATION WRITING AND PROJECT IMPLEMENTATION

**MIHAELA LESCONI FRUMUȘANU, ADELA BREUER,
DOREL JURCHESCU ***

ABSTRACT: *In this paper we try to clarify the term “project accounts, making an analysis of literature and legislation, that the documents underlying accessing structural funds (applicant's guides, toady of implementation). This scientific approach is structured in four chapters, the first two being a review of the literature, because the last part of the paper to present particular aspects of project accounting, emphasizing the role of accounting (accounting information) in writing and implementation of projects funded grant.*

KEY WORDS: *Accounting, project, structural funds, legislation, implementation procedures.*

JEL CLASSIFICATION: *M41.*

1. INTRODUCTION

The term *accounting* comes from the French term “comptabilité”, and is defined in the Explanatory Dictionary of Romanian language as a set of complex registration operations based on specific rules and regulations, the movement of funds and materials in an institution, accounting or science dealing with these operations theory. Throughout history, accounting has been defined according to the specific stage in this field of knowledge and to the development and evolution of the economic, social and cultural background.

The economic theory defines accounting as a knowledge tool of economic realities in the form values (utilities) and their sources of origin (resources). Defining accounting as a scientific field is a complex process which was made in close connection with economic development and social progress throughout its history;

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accounting evolved continuously, perfecting both its theoretical basis and research methods, ranging from simple to complex, from rudimentary the higher forms, establishing a clear terminology, its study subject and the economical and social usefulness.

Bernard Colasse defines the term “accounting” using the following statement “accounting [...] is not an immutable technique, but an information system which has been constantly adapted to the informational needs of businesses and their environment” (Colasse, 1989). The same author mentions “Accounting is the oldest of all sciences of management. It is the very history of accounting: accounting books were intended to keep after a number of events with economic consequences ...” (Colasse, 1989)”.

According to the Accounting Law no. 82/1991, accounting is an activity specialized in measuring, evaluating, knowing, managing and controlling of assets, liabilities and equity, as well as the results obtained from the work of individuals and businesses. It must provide chronological and systematic recording, processing, publication and maintenance of information on the financial position, financial performance and cash flows, both for their domestic needs and in dealing with present and potential investors, financial and commercial creditors, customers, public institutions and other users. Viewed in terms of information it uses and provides, accounting is seen as “a quantitative technique of collecting, processing and analysing the information on flows of a company's economic activity” (Group of authors of the Economy and Economical Policies Department of the Economical Studies Academy from Bucharest, 1999).

2. THE CONCEPT OF “PROJECT ACCOUNTING” IN LITERATURE

In literature, there are various terms which are found with reference to accounting: accounting, financial accounting, managerial accounting, accrual accounting, cash accounting, managerial accounting, project accounting, accounting through projects.

Financial Accounting (general) is considered as the “external front” of a company and management accounting (internal, managerial, operational, analytical) is considered to be the “internal front” of a company.

Financial accounting (in Anglo-Saxon terminology) provides chronological and systematic recording, processing, publication and preservation of information on the financial position, financial performance and cash flows for both the internal relations as well as external ones; it is highly formalized, governed by laws and binding for all economic entities (Accounting Law no.82/1991).

Financial accounting, also called general, is the one which obtains information on heritage management, which are essential for the decision-makers of an economic entity, and on financial performance needed by external users (exogenous), including the state.

Michel Capron defines analytical accounting as “an essential management tool which provides information and helps in decision making. Unlike the general accounts, it does not respond to external social demands, it is not subject to codification

conventions common to all societies, and its results are not meant to be published”. (Capron, 1994).

Management accounting, found in literature (the works of different authors) as management, internal, analytical and operational accounting, refers to that type of accounting which tends to decompose as analytically as possible the activity of economic entities, and which must serve managers at different organizational levels, for their information needs.

Management accounting provides a detailed picture of each and every activity (hence its name – analytical accounting (Budugan, et al., 2007), focussing mainly on recording information on collecting and distributing expenditures by purpose and activities, phases of production, cost centres, production costs, purchasing, processing data in all fields (OMFP nr. 1826/2003 for approving specifications concerning some measures for organising and controlling management accounting); it is mandatory but it must be adapted to the specific activity.

In Anglo-Saxon literature, managerial accounting (management accounting) is defined as the process of recording, processing, analysis, interpretation and transmission of internal financial information used by managers for budgeting, evaluating and controlling a company’s activity and for correct estimation of resources.

In French literature, management accounting deals with cost control, determining the evaluation basis of certain balance sheet items, and the calculation of production cost to be compared to the sales price in order to determine the efficiency of the activity. On the other hand, it also helps to forecast costs’ deviations in order to determine actual costs (Călin, et al., 2008).

Accrual is defined as the accounting basis according to which accounting elements are recognized as they appear, regardless of the time of receipt/payment of cash or other forms of compensation.

The Romanian Explanatory Dictionary defines the notion of “project” from three different perspectives – economically, technically and as a plan, but in terms of management of European funds, the term must be defined as all the actions and activities organized with the intention to achieve certain objectives.

The notion of “project” is defined in *Manual de auditoria de gestion* as being “an indivisible operation, submitted to a calendar and a budget, and prepared under the responsibility of an agency”.

According to Mariana Mocanu and Carmen Schuster (2001), the project entails a temporary activities aimed at creating a new product or service and the project objectives aim strictly at the project’s specialty in order to reach costs, financing and deadline aspects. The project is defined as a non-repetitive process which produces a new, unique and well-defined quantity within specialized organizations (Opran, 2001).

Project accounting should not be limited to the recording of economic and financial operations (to be completed at this time according to Minister of Public Finance Order no. 2169/2009 for changing the rules of accounting procedures for organizing and conducting public institutions, published in the Official Gazette .513 27 July 2009 for Public Institutions and Minister of Public Finance Order no. 3055/2009 for the approval of accounting regulations in accordance with European directives) to ensure accuracy and

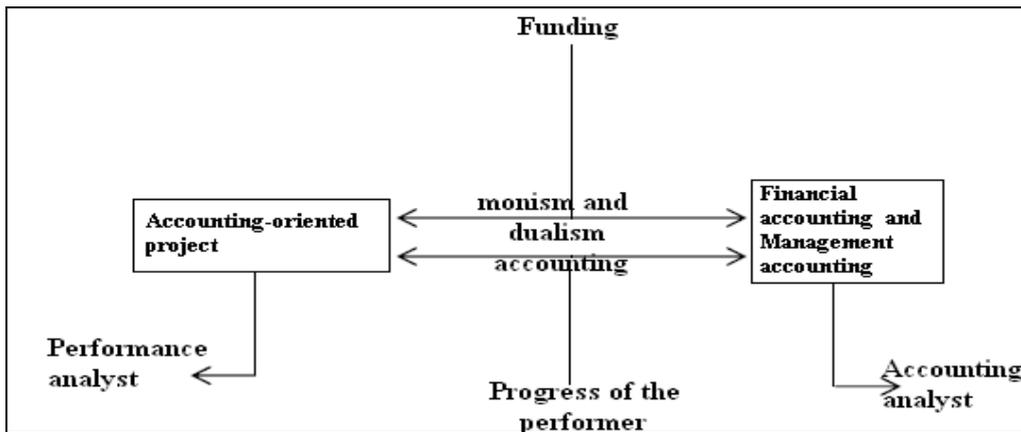
completeness, as it represents the sum of procedures for financial and monetary transactions that take place within an economic entity with respect to a project.

Project accounting is defined in the Internal Procedures Manual for implementing POS DRU as an activity designed to monitor the management and development of assets and liabilities, as well as the results obtained. The accounting activity for European projects must be conducted according to the Community and national provisions, so it will submit to the general principles of accounting and its functions, out of which the most important is, in this context, providing documents and information. Project accounting is found in literature under the name of *project-oriented accounting*, being defined as the way of organizing and maintaining accounting records of the project, which enables the project's performer to aggregate data in accordance with auditing requirements of the donor (Ivan, et al., 2003).

The problems which arise in connection with projects accounting are related to its purpose or the choice between the two forms of accounting, financial accounting or management accounting. In connection with the first aspect, that of project accounting purpose, this represents, besides proper accounting, efficient management of funds, i.e. compliance with contractual provisions under which the financing was obtained financing (financing contract, applicant's guide, beneficiary's manual).

Regarding the second issue, framing it in one of the two forms of accounting, we share the opinions of other authors, namely that it can be organized as follows:

- within the *financial accounting* of the entity developing the project together with other activities, either by using general analytical accounts of the project, either through dedicated project accounts which separate the incomes and expenditures from other project activities (monism sheet);
- under the form of *project managing accounting* as required by the theory, regulations and accounting practice for products which require cost calculation and analyzing revenues and expenses per production unit, if the project implies such a production capacity (Ivan, et al., 2003).



Source: Ivan I., Dobre E., Pocatilu P., *Contabilitatea orientată proiect, pentru conformitate*, 2003

Figure 1. The ratio of general accounting and accounting-oriented project

Project-oriented accounting must clearly outline the amounts received, how they have been used and especially how they have complied with the initial structure of the budget approved and the final destinations, as reflected by the general accounts and /or dedicated to financial accounting and by specific tools of management accounting.

From this statement, we can say that for a project financed by structural funds, only financial accounting is used for the grant account used to credit the bank account on the basis of the account statements and to debit the bank account based on expenditures documents, through accounts of analytical / project oriented expenditures. In this particular situation, the profit and loss account does not reflect the company's project management, which is reflected only by the turnover and balance of special funds through analytical statement of account (accounting monism).

In terms of project accounting as management accounting, we consider that we can fit in this category the sum of activities for budgeting the project, respecting the efficiency, economical and effectiveness principles, as well as the eligible and ineligible expenditure boundaries of the project.

2. ORGANISING THE PROJECTS' ACCOUNTING

Each beneficiary of structural funds will organize the project accounts double entry, as part of or adjacent to its own accounting; it can be held in either classic or electronic system, but preferably electronically.

Each beneficiary must draw up a register and a clear carrying out of the project's implementation activities, in compliance with the procedures set out in professional practice, using different analytical accounts for the project, compiling a separate trial balance.

The basic premises of the European project accounts are, on the one hand, the fact that accounting transactions must demonstrate complete transparency in terms of recording financial operations, provide the necessary information concerning the amounts received from the donor, and, on the other hand, provide information to control authorities as established by national law.

The accounting principles (Mateş, et al., 2005) applicable to the accounts of such projects are: going concern, consistency, prudence and independence, separate evaluation of assets and liabilities, inviolable, and not least netting over form principle. According to some authors, one of the qualities of accounting is creativity, so it uses techniques that aim to (Megan & Cotlet, 2008):

- *Increase or decrease spending.* Accounting rules leave some leeway to quantify costs pertaining to a year. For example, for certain assets, they only indicate the minimum and maximum number of years to be amortized. A longer or shorter amortisation period directly affects the outcome. Similarly, one can analyze the adjustments for depreciation and possible activation of certain expenses.
- *Increase or decrease revenue.* In some cases, it can speed up or slow down the recognition of revenue by applying the precautionary principle or the principle of linking expenditures to revenues.
- *Increase or decrease assets.* The existence of flexibility in terms of calculating amortisation and adjustments for depreciation creates the possibility to increase or

decrease the net asset value in the financial statements. Stocks can be assessed by different methods and, consequently, their value can be different, affecting the profit and loss account.

- *Increase or decrease the owners' funds.* The change in revenue and expenditures affects the size of the result, and consequently, the size of reserves. Thus, the value of owners' funds is modified and, as a consequence, the rates calculated.
- *Increase or decrease debt.* In some countries, accounting rules allow the possibility of regularization of certain debts, such as those related to retirement, over a period of time. As a result, a company interested in increasing its income will proceed to a maximum permitted distribution of its debt.
- *Reclassification of assets and liabilities.* Sometimes there may be doubts regarding the classification of an item in one category or another. It is, for example, the case of securities, which, according to the company's intention, should be included in current assets or non-current assets. The main tasks of the European project accountant are (Nicolae, 2010):
 - the obligation to comply with accounting legislation in force in respect of the project;
 - ensure consistency between declared expenditure, accounting records and documents relating to claims for reimbursement;
 - will allow representatives of intermediary organisations and / or the Management Authority to undertake missions to check the accounting, providing all documents related to the project;
 - keeps the accounting of the analytical accounts for each type of contract (services, works) and financial resources;
 - shall keep a strict record of pre-financing amounts, of its use and reimbursement;
 - will keep separate records of eligible expenses and other expenses, afferent to the project;
 - registers separately the claim titles afferent to the project's financial investment, as well as the delay increases and related accessories;
 - must notify the Management Authority and / or Intermediary Organisations about the claim titles related to the project no later than 5 working days after their establishment as a result of the inspection missions of other competent authorities;
 - must ensure that the documents accounted are identifiable, verifiable and be backed by the original documents.

For projects financed by structural funds, the performance of forecasts based on erroneous financial statements may result in failure to achieve the indicators presented in the application to attract funding sources. Under these circumstances the project is jeopardized which may entail a number of side effects such as (Megan & Cotlet, 2008):

- impossibility to achieve the investment objectives by the management team;
- compulsory repayment of funds received by that date;

- impossibility to access future EU funds. During project implementation, the role of accounting may be evidenced by the activities which include:
 - activities done in order to obtain financing;
 - highlighting the necessary operations for the completion of the project, such as: public procurement, implementation arrangements, related facilities and site preparation machinery, facilities and equipment to be used later in the project, hiring and training personnel, disseminating project results, project evaluation and auditing and accounting expertise of the project;
 - operational control of costs;
 - calculation of economic and financial indicators;
 - tracking and informing over the completion of the financing contract clauses;
 - closing the project (Deju, 2005).

4. CONCLUSIONS

In conclusion, project accounting is based on a new vision that is based on obtaining funding and focuses on the project's completion, using the possibilities offered simultaneously by the financial accounting and management accounting.

Another conclusion drawn from this research is the important role of the accountant, who, in addition to his specific tasks, also performs specific activities for projects' implementation; it is therefore recommended that the economic entities that have been implementing several grant projects to organize a special department to implement them, both technically (technical reports, documents supporting the activities) but also in financial terms (drawing up documents such as graphic forecast application for reimbursement, the expenditure requests for reimbursement and pre-financing, financial report and accounts for the project).

The broad role of accounting, also emphasized by other authors (Megan O., chops B., 2008) is highlighted by the importance of accounting information in developing and writing the grant application form, which, in the case of private entities, implies to make a business plan, a feasibility study and a cost-benefit analysis. Being able to achieve all these elements of the project, representing annexes to the application form, means resorting to information provided by financial and accounting statements of the economical entity.

Given the issues presented in this paper and the results of studies on the difficulties encountered by beneficiaries in the implementation of projects financed from structural funds, we believe that all these can be a strong argument for the majority of economic entities in Romania to achieve a more accurate accounting, so that financial statements may provide real and accurate accounting information on the entity's activity and performances. The account of a project is both mandatory and required by law and contractual provisions. The benefits of proper accounting records would be, on the one hand, a direct advantage for the beneficiary of the grant, and also other users of accounting information (management, financial institutions, investors, associations, etc.) will receive reliable information aimed to sustain their future decisions.

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**ASPECTS REGARDING THE EVOLUTION OF
ROMANIA'S PUBLIC DEBT IN THE CONTEXT OF ITS
INTEGRATION WITHIN THE E.U.
AND OF WORLDWIDE FINANCIAL CRISIS**

**MARIANA MAN,
ROXANA MARIA MARIN ***

ABSTRACT: *Governmental public debt is determined by the State's financial needs that display a permanent character. The State's financial needs are covered by cashed incomes coming from taxes and other contributions. The State's incomes and the opportunity of obtaining them are almost never enough large in order to cover all the expenditures of a period (as a rule, one year). Such a lack of resources determines the turning up of certain budget deficits whose covering is done owing to internal or external loans. All the sums loaned and not refunded at a certain moment determines the appearance of the public debt of a country.*

Public debt consists in the total sums borrowed by the central public authorities, by the administrative and territory units, and contracted or guaranteed by the other public entities, from natural or juridical persons on the internal market or from abroad and not refunded at a certain moment. Governmental public debt represents the State's total financial obligations at a certain moment coming from refunding financings directly contracted or guaranteed by the Government on financial markets.

During a period when most of the countries have to face the challenges determined by the lack of sustaining internal and external public debt, we consider that the problems generated by administrating public debt mainly focus upon the impact of the present financial crisis upon the level of the public debt and upon the manner of administrating it.

KEY WORDS: *public debt; governmental public debt; local public debt; internal gross product; refunding financings; governmental guarantees; country's debt degree.*

JEL CLASSIFICATION: *E60, G32.*

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1. INTRODUCTION

A country can consume more than it produces only in case it has access to a certain amount of external financing that allows imports higher than exports. In other words, internal absorption (including: population's consumption, governmental consumption, and the investments of non-governmental field) can be higher than the Gross Internal Product of the country only in case imports are higher than exports; such a commercial lack of balance should be financed through a proper level of external resources. One can obtain such resources through contracting and using external loans and/or foreign investments (direct and/or portfolio ones). Under such circumstances, it is essential that the external contracted and used loans should target the development and modernization of the economy and of the public services' infrastructure (and not consumption); accordingly, they determine the potential necessary in order to carry out a durable economic growth, the increase of national production in order to meet the country's consumption and investments needs; they also determine imports' decrease and exports' increase that provide the resources that allow the periodical refunding of public debt's service.

One should avoid directing the strategy of contracting public funds only towards external sources; such a fact is explicitly demonstrated by the experience of those countries that had to face serious problems connected with the administration of external public debt. The larger the funds attracted on an international level the higher dependence of the country in debt on the crediting countries. Although owing to the external loans the State rapidly collects important funds without immediate financial efforts, one should not ignore the degree of debt of the future generations that will have to pay both the due installments of the loans and the afferent interests. Through attracting funds on an internal level the country's financial dependence on foreign countries diminishes as the administration of internal public debt represents a matter of internal policy and there are no external constraints.

2. The evolution and composition of public debt

An adequate administration of public debt implies the carrying out of an optimum structure of public debt's instruments by the managers of public debt, namely founding out a balance between external funds and internal funds. *Romania's public debt during the period 2000 – 2008* is displayed by Table no. 1.

One can notice that during the period 2000-2003 the absolute value of governmental public debt witnessed an accelerated yearly growth. This accelerated yearly growth was interrupted during the period 2004-2006; afterwards, between 2007 and 2008 a higher rate of the yearly growth was registered. The analysis of the data displayed by the table above emphasizes the fact that although the State's public debt permanently grew, its share within the Gross Internal Product (GIP) decreased from 31.4% in 2000 to 21.8% in 2008 due to the fact that the GIP had a higher growth rate. The ratio between the State's public debt and GIP, one of the converging criteria settled by the "Protocol regarding the procedure that is to be implemented in case of

excessive deficits" (annex of the Maastricht Treaty) shows that the debt degree was and still is much below the 60% margin.

Table 1. Evolution of Romania's public debt

- Million lei -

Years	Governmental public debt	Local public debt*	Total public debt	Gross internal product (GIP)	Share of public debt within GIP %
2000	25 231.9	3.3	25 235.2	80 377.3	31.4
2001	33 465.6	41.4	33 507.0	116 768.7	28.7
2002	43 632.7	73.6	43 706.3	151 475.1	28.9
2003	51 137.0	226.7	51 363.7	197 600.0	26.0
2004	55 147.3	404.9	55 552.1	246 400.0	22.5
2005	56 381.9	2 628.8	59 010.8	288 995.0	20.4
2006	59 868.4	3 472.3	63 340.7	344 651.0	18.4
2007	76 149.7	6 174.5	82 324.2	412 762.0	19.9
2008	100 514.3	9 237.7	109 752.0	503 958.7	21.8

*The data regarding local public debt are available only beginning with 2000.

Source: The Ministry of Public Finances

The composition of Romania's public debt is displayed by Table no. 2.

Table 2. Composition of Romania's public debt

No.	Public debt	Million lei equivalent	Million euro equivalent*
1.	Total governmental public debt, out of which:	100 514.3	25 216.83
1.1	- Directly contracted by the State	91 904.9	23.056,92
1.2	- Guaranteed by the State	8 609.4	2 159.90
2.	Total local public debt, out of which:	9 237.7	2 317.54
2.1	- Directly contracted by the authorities of local public administration	8 529.8	2 139.94
2.2	- Guaranteed by the authorities of the local public administration	707.9	177.60
3.	Total public debt (1+2)	109 752.0	27 534.37
4.	Gross internal product (GIP)	503 958.7	-
5.	Share of public debt within GIP	21.8%	-

*According to the BNR course on 31.12.2008: 3.9860 lei/euro.

Source: The Ministry of Public Finances

According to the data displayed by Table no. 2, Romania's public debt registered on December 31st, 2008 represented 109 752 million lei (namely, 27 534.37 million euro), out of which *governmental public debt* registering 100 514.3 million lei (namely, 25 216.8 million euro) represents 91.6% of the total public debt, and *local public debt* registering 9 237.7 million lei (namely, 2 317.5 million euro) represents only 8.4% of the total public debt. At the same time, the analysis of the data displayed

by Table no. 2 shows that the balance of local public debt at the end of 2008 represented 9 237.7 million lei (namely, 2 317.5 million euro) and includes the balance of the local public debt directly contracted by the authorities of the local public administration representing 8 529.8 million lei (namely, 2 139.9 million euro) and the balance of the guaranteed local public debt representing 707.9 million lei (namely, 177.6 million euro).

3. THE BALANCE OF DIRECT GOVERNMENTAL PUBLIC DEBT

As regards the *balance of direct governmental public debt* at the end of 2008, it registered a growth of 24 763.9 million lei as compared with the balance at the beginning of 2008. According to the type of the instrument used, the structure of direct governmental public debt is displayed by Table no. 3.

Table 3. Structure of direct governmental debt

	Type of instrument of public debt	Balance on 01.01.2008 - Mil. lei-	Balance on 31.12.2008 - Mil. lei-	Growth(+) Decrease(-) Balance in 2008
	Total direct governmental loans, out of which:	67 141.0	91 904.9	+24 763.9
A*	Treasury certificates	2 514.4	8 106.9	+ 5 592.5
B*	State obligations	6 885.4	9 505.6	+ 2 620.2
C*	Financial leasing	268.6	206.3	-62.3
D*	Instruments of cash management	0	1 825.0	+ 1 825
E*	Other re-paying financings, out of which:	57 472.7	72 261.1	+14 788.4
	1. Loans from the general State's treasury account for temporarily financing the deficit of State budget	29 407.8	39 594.7	+10 186.9
	2. Loans approved by special laws	764.6	0	-764.6
	3. Loans operated through the State's central treasury	11 302.5	13 619.3	+2.316.8
	4. Other refunding financings	15 997.8	19 047.1	+3 049.3

*Represents the sections of the general account of public debt.

Source: The Ministry of Public Finances

The analysis of the data displayed by Table no. 3 shows the following:

- *Treasury certificates* representing 8 106.9 million lei (2 033.8 million euro) have a share of 8.8% within the governmental public debt directly contracted by the State and represent treasury certificates issued by the inter-banking field as well as treasury certificates for population sold owing to the network of the State treasury and changed in certificates of term deposits;
- *State obligations* in lei and foreign currency registering 9 505.6 million lei (namely 2 384.8 million euro) represent 10.4% of the governmental public debt directly contracted by the State;

- *Contracts of financial leasing* registering 206.3 million lei (namely 51.7 million euro) represent 0.2% of the governmental public debt directly contracted by the State;
- *Instruments of cash management* (liquidities management) registering 1 825.0 million lei (namely 457.9 million euro) represent 2.0% of the governmental public debt directly contracted by the State;
- *Other non-refundable financings* registering 72 261.1 million lei (namely 18 128.7 million euro) represent 78.8% of the governmental public debt directly contracted by the State, out of which:
 1. *Loans from the general account of the State's treasury for temporarily financing the deficit of the State budget and refunding public debt* registering 39 594.7 million lei (namely 9 933.4 million euro) represent 43.1% of the governmental public debt directly contracted by the State;
 2. *Loans approved according to special laws* registering 0.0 million lei (namely 0.0 million euro) represent 0.0% of the governmental public debt directly contracted by the State;
 3. *Loans operated through the State's central treasury* registering 13 619.3 million lei (namely 3 416.8 million euro) represent 14.8% of the governmental public debt directly contracted by the State. Such loans include the loans contracted from BIRD, BERD, BEI, the European Union, Japan's International Bank, JP Morgan, CSFB, Deutsche Bank, ING Barings, Citigroup and UBS Warburg;
 4. *Other refundable financings* registering 19 047.1 million lei (namely 4 778.5 million euro) represent 29.7% of the governmental public debt directly contracted by the State. Such loans include the loans contracted from BIRD, BERD, BEI, BDCE, Japan's International Bank, FIDA, Eximbank Korea, the government of the U.S.A., KFW Germany, Societe Generale, Raiffeisen Zentralbank Osterreich, Calyon Bank, Dexia Kommunal Kredit Bank and Fortis Bank as well as the loan contracted by the Ministry of Public Finances and the Romanian Commercial Bank with a view of financing SN Nuclearelectrica S.A. in order to finish Unit 2 CNE Cernavoda investment works; the loan's balance represented 285.6 million lei on December 31st, 2008. The governmental loans directly contracted by the State during 2008 were meant to finance the budget deficit and re-finance public debt as well as to finance the following projects: the integrated control of nutrients pollution; co-financing of environment projects according to the National Reference Strategic Framework, transport, economic and energetic efficiency; reconstruction forest roads affected by floods; priority works in the field of water administration and municipal infrastructure.

In 2008 the *service of direct governmental public debt* represented 12 957.8 million lei, out of which the refunding of capital installments represented 9781.6 million lei, and the payments of the interests and commissions afferent to the loans regarding direct governmental public debt represented 3 176 million lei, as follows:

- Capital installments refunding representing 9 781.6 million lei;

- Payments of interests and commissions representing 3 176 million lei.

In 2008, the Ministry of Public Finance paid 23.4 million lei representing the lei equivalent of the service afferent to the public debt for the following loans contracted by the State and sub-loaned to the beneficiaries: the loan for critical imports and technical support, the loan for financing the “Gross Market”, the loan for financing the project of industrial development, the loan for financing the project regarding the preservation of thermal energy, the loan for road rehabilitation, the loan for the second stage of railway rehabilitation. It is to be mentioned that the sums retrieved from beneficiaries for such payments represented 6.7 million lei.

4. THE BALANCE OF GUARANTEED GOVERNMENTAL PUBLIC DEBT

The balance of guaranteed governmental public debt at the end of 2008 represented 8 609.4 million lei and was 399.0 million lei smaller than the balance registered at the beginning of 2008. The structure of guaranteed governmental public debt is displayed by Table no. 4.

Table 4. Structure of guaranteed governmental public debt

- million lei -

	Explanations	Equivalent balance on 01.01.2008	Equivalent balance on 31.12.2008
I.	Governmental guaranties given according to special laws	1 387.47	1 558.72
II.	Other governmental guaranties, total, out of which:	7 621.14	7 050.67
A.	Guaranties given for refundable financings contracted by economic operators	7 308.86	6 706.68
B.	Guaranties given for refundable financings contracted by the authorities of the local public administration	312.28	343.99
	TOTAL guaranteed governmental public debt	9 008.61	8 609.39

Source: The Ministry of Public Finance

The analysis of the data displayed by Table no.4 shows the following:

- *Governmental guaranties given according to special laws* register, at the end of 2008, a balance of 1 558.7 million lei (namely 391.0 million euro). Governmental guaranties given according to special laws exclusively come from the banking field and represent damages of the litigations before Courts and extra-balance sheets engagements guaranteed in favor of the Romanian Commercial Bank S.A.;
- *Other governmental guaranties* register at the end of 2008 a 7 050 million lei balance (namely 1 768.9 million euro), including:
 - *Guaranties given in order to finance refundable financings contracted by economic operators* representing 6 706.68 million lei (namely 1 682 million euro);

- *Guaranties given for refundable financings contracted by the authorities of the local public administration* representing 343.99 million lei (namely 86.3 million euro) in order to finance the investments works of SAPARD Program (Measure 2.1) and to finance projects.

One should also emphasize the fact that in 2008 no State guaranties were emitted. Nevertheless, during that year, there were cases when the beneficiaries of external loans did not pay their external payment obligations; consequently, the Ministry of Public Finances, as a guarantor, made external payments of 498.4 million lei representing the obligations assumed through the guarantee letters emitted in favor of those beneficiaries. In 2008, 69.7 million lei were retrieved representing governmental guaranties given to beneficiaries, out of which 61.0 million lei from the Ministry of Public Finances, and 8.7 million lei from the Authority for the Capitalization of the State's Assets (AVAS).

5. CONCLUSIONS

The present economic crisis has determined a rapid growth of the public debt at a global level. At present there is a world-wide liquidity crisis of covering the short term financing needs. Although the United States of America and the countries of Western Europe visibly diminished the effects of the crisis, as a result of the State intervening, the specialists consider that the climax of the economic crisis and of extreme poverty is to be attained in 2010. In case of the countries in course of development, the scenarios of the experts of the United Nations Conference for Trade and Development foresee dramatic decreases of economic growth in 2010, poor countries being more exposed to the action of external factors. In a period when most of the countries have to face the challenges determined by the lack of sustaining internal and external public debt, we consider that the problems generated by the administration of public debt mainly focus upon the impact of the present financial crisis on the level of public debt and on the manner of administrating it. Accordingly, we consider that the managers of public debt should pay a special attention to the following aspects:

- The excessive growth of the debt level and the effects upon world economies;
- The risks of a high level of public debt;
- The economic crises determined by the high level of public debt;
- The use of public debt for goals different from those it has been contracted for;
- The part and the responsibilities of the managers of public debt, taking into account their limitations;
- Transparency in administrating public debt;
- The part played by public auditors;
- The strategies used by the national policies of administrating public debt.

With each new financial crisis, the management of public debt should develop new mechanisms able to target the following purposes:

- The reconfiguration of the instruments of public debts;
- The monitoring of the external debt of the private field;

- The integration of the strategies regarding public debt at a macro-economic level;
- The integration of the management techniques able to anticipate the inherent risks that derives from the process of public debt management.

As regards the governmental public debt obligations, let's notice that the Government (through the Ministry of Public Finances) can contract internal and external refundable financings for the following purposes: financing the deficit of the State's budget, re-financing and refunding in advance governmental public debt; permanently maintaining a proper balance (established by the Ministry of Public Finances) of the general account of the State's treasury; financing investments projects meant to develop the priority fields of economy.

As regards the financing of the investments projects meant to develop the priority fields of economy, it can be achieved through contracting supplemental refundable funds from international financial organisms. Although Romania has been allocated community funds, the need of contracting these refundable financings is determined by: resuming crediting in Romania (owing to supplementing liquidities on internal financial markets); Romania's being prepared to enter the euro zone; directing public expenditures towards investments; encouraging private investments; revitalizing certain fields of the national economy (buildings, machines industry).

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THE MINING PROJECTS - AN APPROACH IN TERMS OF PARTICULARITIES OF USE THE FACTOR OF PRODUCTION “CAPITAL”

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ABSTRACT: *Regarding the other development projects within an economy, the mining projects (objectified in underground exploitation, day-light exploitation and preparing enterprises) presents specific characters, such as: a great volume of the capital investment; important loss by stopping the invested capital; long period of recouping the invested capital; small rates of profit (or even absent); increased intensity of using the capital factor of production; high value of specific investment. A simple review of these elements determines their contact to the “capital” factor of production. Under these circumstances the given work tries to catch the particular aspects of using the “capital” factor of production in the mining branch.*

KEY WORDS: *factor of production; capital; mining industry; mining project; rate of profit; investment; assets; financing.*

JEL CLASSIFICATION: *D24.*

1. THE SYSTEM OF FACTORS OF PRODUCTION WITHIN THE MINING BRANCH OF INDUSTRY

Basically the fundamental purpose of developing any economic activity is to satisfy the human needs as fully as possible. Subordinate to this aim are, wholly, all the activities in the mining branch.

From the point of view of the specifics, probably no other branch of activity outruns the mining branch of industry. Its own aspects of technological nature (induced

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by the process specifics through which an “agglomerate” of useful mineral substances - deposited in the crust of the earth - is identified, researched and possibly “put into use”), overlapping the specific way of use and/or turned to profit the mining “products” more or less “finished”, determines specificities of an economical nature even larger.

The issue approached imposes a concept demarcation line between two fundamental terms: “factors of production” respectively “resources”. These terms designate two categories of distinct entities within the real economy, even if the terms themselves are used more often having the same meaning. Mainly, the term of “resources” expresses the state of availability of some goods (corporeal and/or not corporeal), without associate them a specific employment field (as for example production or consumption). By their simple existence, related to the production processes, the resources show the feature of a productive potential. In certain conditions, through decisions and other appropriate actions, the resourced are activated by attracting them into a concrete utilization, receiving a certain destination and thus becoming factors of production. As consequence, it can be affirmed that “the factors of production represent those resources brought by user agents in active state, adequate for their use in the productive processes” (Dobrotă, 1995).

In the evolution of economic thinking several debates regarding the number and structure of production factors are recorded. The classical economic school considered the main factors of production as work, land and capital. So, William Petty, the forerunner of the English classic economy said: “work is the father and land is the mother of national wealth” (Angelescu, 2000). Later, the Frenchman Jean Baptiste Say, father of the famous trinity formula, supported the idea that the factors of production are represented by the initial tangible resources “work, land and capital” (Angelescu, 2000), what means those resources which can be managed as stock and flows. Subsequently, as developments in society and especially in the industrial processes took place, technologies, technical progress, information, scientific research, entrepreneur's ability, managing capacity etc. begun to be considered factors of production, under the generic name of production neo-factors.

In the mining branch the production factors system can be outlined by relating to four basic coordinates: work, capital, mineral deposit, production new-factors (technology, information, entrepreneurship).

2. THE STRUCTURE OF CAPITAL INVESTED IN MINING PROJECTS

Within the mining projects a classification of capital expenses can be performed according to several criteria. One of the most used is represented by the nature or destination of the invested amounts, and thus we can distinguish the following (Duchene, 2003):

- general investments;
- investments in surface installation and common precincts;
- investments specific to the exploitation unit (underground or surface exploitation);
- investment specific to the ore preparation plant.

Added to the above mentioned investments are, within the classical “orthodox” concept of some authors, the expenses previously made on deposit researches and

gathering a sufficient amount of information to allow a correct substantiation of the decision regarding commencement of deposit development workings. On this aspect we reserve the right to put forward an objection: any transfer of property rights over a mining field will be preceded by the new proprietor own expertise which almost surely would not accept the investment character of the research expenses done by the former proprietor. From here, an important conclusion for the initial action: the form of continued exploitation of an useful mineral substances deposit rise a specific assessment problem regarding the capital expenses required by transformation of an accumulation of useful mineral substances into economic resource.

For analyzing purposes, the capital expenses can be regrouped in different ways. Such grouping shows the causes, the factors to influence the capital expenses level (Duchene, 2003), which is:

- general infrastructure: communication, access and transportation ways, miners' camp or mining city; added to these sometimes the previous stripping required by quarry exploitation and equipment and works required in order to access the ore deposit (these are capital expenses influenced mainly by the geographic location and the geological structure of the deposit);
- mining equipment, the main influence factor being the nature itself of the useful mineral substance as well as the exploitation methods applied;
- preparation plant (houses and equipment), where the main factors of influence is the technological flux of preparation and its capacity;
- other capital expenses, main factors of influence are the degree of industrialization of the area where the project is in development.

3. TECHNOLOGIES AND INFORMATION - DERIVATIVES OF THE PRODUCTION FACTOR "CAPITAL"

In the mining branch, each technology is characterized by a very well defined identity considering the shape of those conditions that make its application necessary and/or possible, in a precisely specified production process. Choosing the technologies represents one of the most important decision making processes that the management team can be confronted with in a mining enterprise; the mining project's efficiency greatly depends upon its correct solving. A remarkable part of the capital invested in the mining projects was and still remains destined for acquisition of high efficiency technologies.

The unprecedented development of the mining technologies that marked at least the last three decades of the past century allowed realization of some great mining projects, unimaginable before. As well, the technological development (located not only at a level of exploitation and preparation of useful mineral substances, but also at the level of their utilization) allowed exploitation of certain deposits with complicated geo-mining conditions, or with poor concentration of ore, and identification of new purposes for the mineral raw materials.

The turning into goods process of a deposit with mineral substances suppose, in a first stage, collecting, processing and an appropriate interpreting of a multitude of information, so as, as a main, the aspects regarding quality and quantity of reserves, its

deposit conditions in the earth crust to be emphasized. In fact, the stages of a mining project are considered in materialized decisions, founded on the basis of documentation that contain relevant information regarding knowledge on that deposit up to that moment.

4. A SPECIFICITY OF THE CAPITAL INVESTED IN THE MINING PROJECTS: THE ASSETS WITHOUT A TRANSFER VALUE

In order to reach the objective of a operational mine, with a certain long-wall face length, where the production of useful mineral substance is mined, a long process has to be covered, process that usually had begun long time before by prospecting and exploring an identified deposit, was continued with the surface buildings and mine workings both at surface and underground, to reach to a first capacity of exploitation, and finally, with the preparation workings, up to delimitation of face zones and beginning of exploitation from these zones. In the same time with the construction, opening and preparation works, equipping with machinery and specific equipment for workings or operating in faces or for assembling specific installations. It also takes place endowing with machinery, tools and installations for auxiliary and service activities.

All this while resources are consumed, capital invested and some costs are already supported by the one that finances the exploitation unit's putting into service.

The mining unit once realized, has a patrimony resulted from the previous decisions and actions, that show an important specificity: the highest weight factor of this patrimony is detained by those assets without a transfer value (mine workings, special constructions and specific installations). In any decision from a point of view of assessment, these assets show a particular characteristic: they have a value not through the costs supported, but by the results to reach after reserves exploitation. This means, for example, that a shaft that costed 50.000 m.u. has the value equal to zero if the exploitation does not continue, if the reserve counted upon do no confirm or if it is exhausted and through amortization nothing could get recovered.

The shaft and many other workings, mine constructions and installations, unlike an universal lathe in the mine workshop, do not show recovery value or availability through re-selling, but only a usability value by the future profit fluxes, in case of a profitable activity or possibly by savings on expenses, in case of an activity that recovers its current costs of exploitation and accomplishes something extra too compared to these, by selling the mining products.

5. ASPECTS SPECIFIC TO FINANCING OF MINING PROJECTS

Related to the economy in the past, financing mining projects isn't worth approaching. The state was the sole proprietor of mineral resources and land, and in the same time, the only financing source of mining projects. In the conditions of the new economy in Romania, even if the property structure over mineral resources did not change, the state being still their only proprietor, financing mining projects gained new

dimensions, concessions and partnership being more and more frequently brought into attention.

An essential requirement for a successful mine enterprise or project is ensuring the needed capital in order to develop and bring into production a certain mining perimeter. Almost everywhere in the world now, the time passed when a mining perimeter was able to ensure, right from the start, its self-financing (a rich deposit even at surface). A feature of the present stage is the fact that for a good period of time, years, the capital must be advanced, without it being able to produce in order to recover it and attain profit.

The economic practice had proven that in order to have a successful mining project, four factors are essential: *mineral* (raw mineral material basis, the reserves of useful mineral substances), *market*, *money* (needed for financing, the capital needed), *management*.

Among these factors, the importance of the third M - capital funds - has increased, the money necessary to convert an exploration or a research in a useful mineral deposit. Mining is no longer the field of the small entrepreneur. It was, sometimes in the past, but the time when a sole man with money hired a prospector to explore and find deposits, is long gone now. Later, so-called groups of prospectors or unions of prospectors appeared, led by an intrepid engineer with a considerable practice and large knowledge in the field, with a good knowing of his team. On certain geographical areas and sorts of minerals, this formula didn't give satisfaction and financing of first risky actions, prospecting, research, to be undertaken by the state. Even the countries in the third world don't afford anymore concessions of a "come and search" type.

In this context, the problems imposed to an owner of a valuable mining perimeter who also disposes of the capital needed to be invested, can be synthesized as follows:

- justification of investment for exploring and development necessity (reserve quantification, opening);
- justification for the size (capacity) of the future mining unit as degree of economization, exploitation time, integration level (up to which stage of ore processing the future mining unit will go).

A proprietor of a valuable mining perimeter, who doesn't dispose of the capital needed in order to fulfill the project, has even more problems, as follows:

- the two issues above mentioned, necessity and degree of economization;
- presenting the results of the geological researches in such a manner so as to convince a hypothetical investor that the mining unit will bring, through operation, an attractive profit (aspect that can be fulfilled by providing authentic information, full and well prepared documentation, intelligent analysis, correctness).

From the point of view of mining unit's financing, three main stages can be distinguished in the process of transforming a newly discovered deposit into a fully operational mining unit, as follows:

- the overall prospecting and exploration, phase when the geological conditions and whether the mineral deposit is promising are determined. The capital needed to invest is relatively small, but the risks are major (the whole capital is at risk);
- quantification and probation of reserves, stage involving drillings and/or exploration and opening workings, in order to establish the quantities and contents required for a profitable exploitation. The invested amounts are rising, the risk is a bit diminished but still high. The objective is to reach to an amount of reserve deposited in good geological conditions and of high quality features, contents, so as to justify investment in a primary exploitation unit: mine or quarry. In the Romanian practice this stage is known as detailed exploration and this was always financed only by the state budget, on basis of detailed exploration projects finalized with homologation documentation for the reserves. This is the main base that supports the project of a future mining unit (reserve assured). The reserve, from a quality point of view, must justify the capital funds necessary as a minimum for a capacity version that can ensure results, recurrence, acceptable subvention;
- development and construction, involving, usually both mining units (constructions, underground workings, installations, roads, workshops) and preparation plants and even metallurgical refining plants, as needed according to the decisions of integration.

From a point of view of the mining project, it is obvious that following the three stages takes place when it's aimed for a continuing financing, from one stage to another, which means a decreased risk for the newly invested capital. The main issue for a continued financing, from a point of view of the mining project, is the risk. From an investor's point of view, as the risk grows, the cost for financing will also increase and the part of the social capital in the future mining unit demanded by the investor will increase too.

Within a market economy conditions, the financing problems must be dealt with in the context of the relations between the two participants: the owner (who tries to "sell" the deposit) and the investor (the company or group of companies that assumes the risk of ensuring the needed capital for project's development).

The perimeter's value recognized to the owner generates a specific evaluation. The valued recognized to the owner represents his share in the social capital of the future mining unit, that will be carried out in the third stage and will be followed by exploitation phase. In the two previous stages, mine constructions and plant, the risk level is obviously high and financing gets the shape of the risk capital. This part of the social capital implies, basically, a weight or a percentage that the investor recognizes for the proprietor. Thus, in conditions when the Romanian mining will proceed to concessions or parteneriate, an assessment of the value recognized to the owner must take place, as basis of the weight factor assigned to him within the social capital of the future mining unit with mixed capital.

In case if mining unit's exploration and development is already successfully developing, sometimes it is possible that part of the investment funds needed for installations and equipment to be financed by mortgaging debentures or a combination of these and the ordinary ones, with a possibility of converting these debentures in shares, on well-defined time and price conditions. Such a financing way can be applied

in case of already dimensioned units, that handle exploitation processes, with a good management, proved by previous activities - and these happen in case of already consolidated mining companies. When the financing need occurs, regardless if the project is in a prospecting, exploration or construction stage, it becomes necessary that in assessment to have a reasonable reduction, in exact terms, of the estimate profits, by assessment of risk factors.

The risk is determined by internal factors, project-own, and external factors. The internal factors are the ones deriving or concerning directly the project, as entity, and its rank, its place, in the present mineral resources' economy and in the foreseeable future. A responsibility that cannot be avoided by the owner regards the information concerning the mining perimeter, that must be presented in a well-specified material, a shape that proves competence, in form of a report. Such a specialty report regarding mining property must emphasize confirmable aspects, omitted aspects, to distinguish between exact parameters and the approximate ones, to determine the degree of uncertainty for the approximate factors. Based on these data the potential profit can be estimated or determined.

The external factors are the ones acting outside the proprietor's control, outside the perimeter but because of this they are no less important for the project. These factors refer in the first row, to the capital market, thus to request and offer for the risk capital. Regarding this, the action of the following factors must be considered:

- main economic tendencies (conditioned by the political climate);
- monetary and financial conditions, as, generally, the credit amount and its availability;
- interests rates;
- competition with other types of projects "searching" for a risk capital, as in the petroleum branch, chemical industry and others.

Obviously, a successful financing of a mining project is most probably to be accomplished when the external and internal circumstances will be favorable, and the foreseeable difficulties and costs will be diminished as consequence of a favorable action of both categories of circumstances.

In financing the mining investment, the owner must ensure a motivation for the investor and to show initiative, and his chances of success will grow not only by an attentive preparation of the information regarding internal factors, but also by a competent assessing, weighing of those external factors that will enter the final assessment when determining the final results.

6. CONCLUSIONS

In a synthetic form, the main conclusions that can be drawn are the following:

- by the concept of "resources" as general meaning, is expressed the availability status of certain goods (corporeal and/or not corporeal), without univocal associating them a sealed use;
- "the resources" are transformed into "factors of production" by attracting them into a certain concrete utilization (only the "resources" brought into an active state become "factors of production");

- recurrence to the invested capital represents the main criterion in taking the decision regarding the projects with long term capital, and ignoring it can lead to onerous decisions that can generate major unbalances at a branch level or even at a national economy level (the way of the mining branch development before 1989 renders evident the lack of importance given to this criterion in the past);
- in the mining projects a classification of the capital expenses can be carried out according to several criteria, the most used ones being the nature of investment and the factors determining it;
- the capital invested in the mining projects shows a distinct specificity: it became almost entirely materialized, in assets without a transfer value (mine workings, special constructions and specific installations);
- in any decision taking, from a point of view of assessment, the specialized mine assets show a specific feature: they have value not through the costs supported, but by the results to come to consequently to exploitation of the useful mineral substances;
- reported to the economy in the past, when the state was the sole investor in the mining branch, the mining projects economy isn't worth being studied;
- the economical practice showed that in order to have a successful mining project four factors are needed: the base of raw mineral material, the market for selling the mining products, the capital needed for investment, management;
- from a point of view of investment in mining projects, three major stages can be distinguished in the process through which a discovered deposit partially researched, is brought into a state of an operational mining unit: overall prospecting and exploration, reserve quantification and probation, development and construction of facilities;
- transition from one stage to another suppose decisions, always in different conditions from the point of view of the available information, but with financing needs (the capital required) always increasing.

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PROMOTION OF EMPLOYMENT AMONG YOUTH – REMARKS FOR NEXT INITIATIVES

**VLADIMIR MODRAK, JANUSZ GRABARA,
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ABSTRACT: *In the paper authors presets experience of Czestochowa University of Technology within collaboration with Czestochowa Business Incubator (CBI). In 2010, 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 describes CBI’s other initiatives undertaken to increase number of new business set up by young people, especially.*

KEY WORDS: *youth employment; Czestochowa Business Incubator; new business.*

JEL CLASSIFICATION: *J10; J21.*

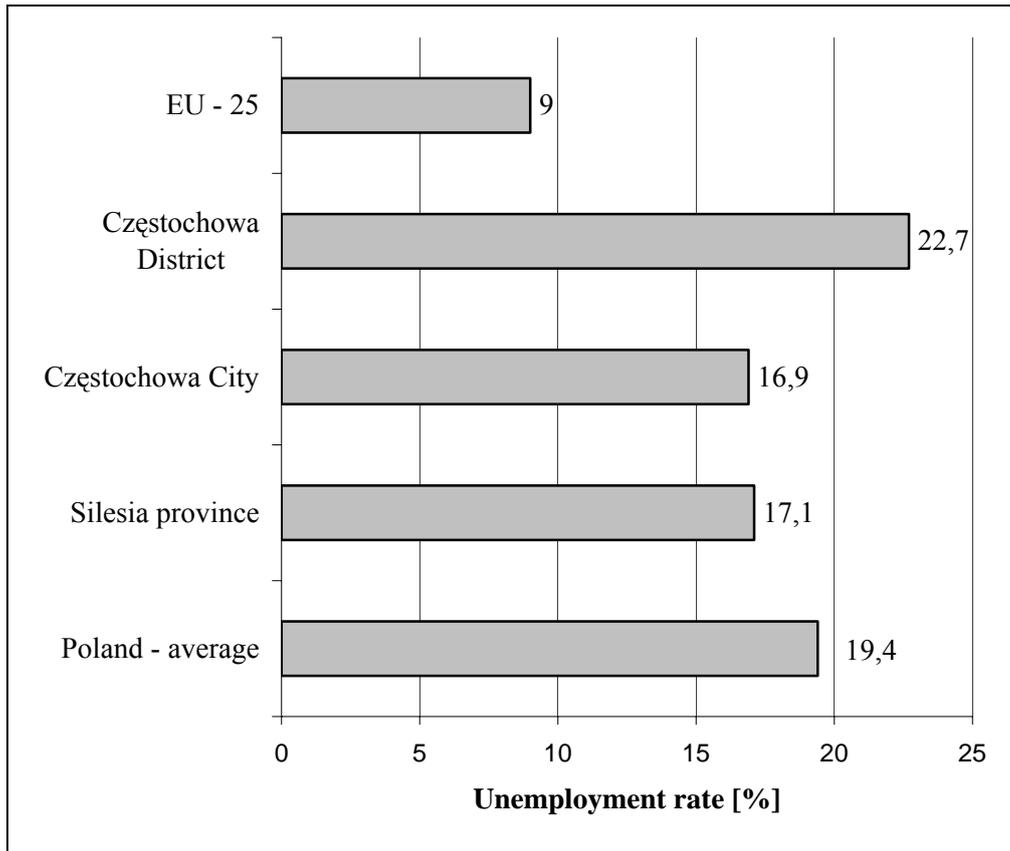
1. INTRODUCTION

Unemployment is one of the most important problem 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 then average total unemployment rate (9% - Eurostat, 2005) 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.

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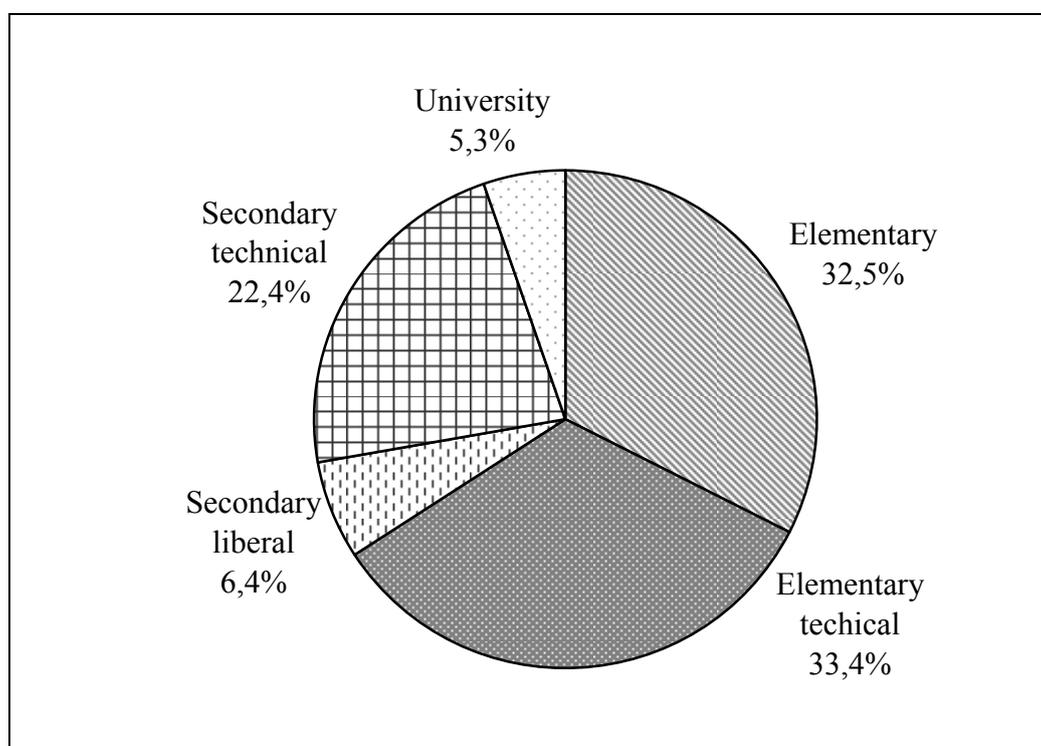
In Częstochowa City and the district, there are 16.9 and 22.7 unemployment rate, respectively. Częstochowa City unemployment rate is lower than average unemployment rates in Silesia province and in Poland. However Częstochowa district unemployment rate is higher than average unemployment rates in Silesia province and in Poland.



Source: Authors' elaboration based on <http://www.wup-katowice.pl>

Figure 1. Unemployment rate - 2009

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).

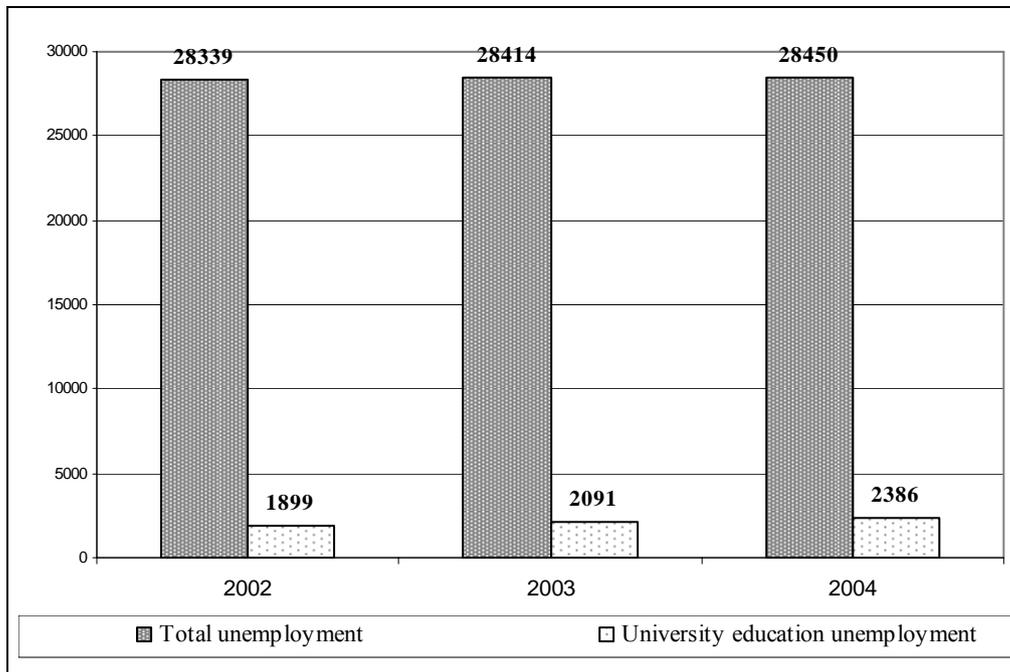


Source: Authors' elaboration based on <http://www.wup-katowice.pl>

Figure 2. Juxtaposition of unemployment in Silesia-province according to education level

In Częstochowa City and the district, there were 28450 total unemployed in January 2010. 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).

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.



Source: Authors' elaboration based on <http://www.wup-katowice.pl>

Figure 3. Czestochowa city and district unemployment, total and university education

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 has participated to some programs (Pachura, 2002) to help graduates in job searching. In 2010, chosen staff of Czestochowa UT has 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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DECISIONS IN NEGOTIATIONS USING EXPERT SYSTEMS AND MATHEMATICAL METHODS

**CORNELIA MUNTEAN, ILEANA HAUER,
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ABSTRACT: *The goal of this paper is at the very instant to highlight the role and the importance of mathematical multi-attribute methods, implemented in expert systems, in the preparing of international negotiation processes. We used Exsys Corvid as an expert system generator to implement a prototype of an expert system with three mathematical methods: the method of simple additive weight, the diameter method and the TOPSIS method. The applying of these methods in the exposed case study permitted the preparation and deployment of the negotiation in such a manner that the goals expected by the negotiator should be fulfilled.*

KEY WORDS: *business decision making; negotiation preparing process; expert systems; mathematical methods; simple additive weight method; diameter method; TOPSIS method.*

JEL CLASSIFICATION: *C02; M19.*

1. INTRODUCTION

Some negotiations have far too high stakes to be lost. That's the reason why it is so important to choose and apply the most effective strategy, which should warrant the winning of the negotiation. In this respect one can invoke mathematical models for obtaining a better vision upon the negotiation process and also for identifying the most efficient variant to overcome a deadlock through anticipation of the partner's movements (Vasiliu, 2003).

A basic tool of mathematical models is the game theory (Neamtu & Opris, 2008), which could be very useful in identifying settlements of negotiations due to the

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fact that it allows designing a model of analyzing the situations where the decisions of a negotiator could affect the benefits of the other/s.

But there are also situations when the negotiators must select from a multitude of variants, make a hierarchy and choose the optimal one. In these situations the most suitable mathematical tools are multi-criteria methods.

The purpose of this paper is just to relieve the usefulness and importance of multicriterial methods. This is highlighted by a case study on a Romanian company by programming a prototype of an expert system used for the preparation stage of an international business negotiation process. While applying three different mathematical methods, the results were nearly the same, so the decision-maker could select the most profitable offer among many in the pre-negotiation stage, in order to organize the negotiation processes accordingly.

2. MATHEMATICAL MULTI-CRITERIA METHODS USED IN PREPARING THE NEGOTIATION PROCESS

2.1. Multi-criteria decisions

Multi-criteria decision problems are those which arise when the selection of an alternative or of an action plan go through, given that the decider must consider withal several goals. These goals are frequently of different nature and could be in contradiction with each other.

A decision is the compendium of some activities with open eyes of selecting the direction of an action and engagement in that, which usually involves the allocation of some resources. This decision appears following some information and knowledge and belongs to a person or to a group of people who has the necessary authority and who answer for the efficient using of the resources in some given situations. The most important characteristic of a decision is the possibility of choosing between alternatives.

Most situations in real life presume the existence of some multi-criteria decisions. The decision itself consists in a selection, "a good choice" from a number of available solutions. Every solution is an alternative. In context of multi-criteria decisions, the selection goes through the evaluation of each possible variant. The criterions will be compulsory quantifiable, even if comes through only by a nominal scale (of type yes/no), and their result must be calculated for each alternative, individually. The results of these criterions are the minimal necessary information for comparing de available variants and, accordingly, they facilitate the selection of one of these, of the most suitable one.

The complexity of problems which require to make a decision taking into account several criterions which are to be accomplished, derives from the fact that, whether the state of certainty or the state of uncertainty is involved, the results of a decisional variant must include more sometimes incomparable attributes, and to measure these for comparison is difficult. Practically it is impossible to achieve the maximum levels desired separately, for each of the criterions, at the same time.

The decisions must be the result of a thinking process, preceded by an information and a thoroughgoing analysis of all the problem presumptions, of the influence elements, considering the concrete conditions in which each enterprise conducts its activities.

For choosing the best decision there must exist the following elements:

- an economic objective or a well established goal which could be quantified;
- a great amount of information which should reflect as well as possible the economical phenomena and processes that actually occur, with influences on adopting a decision;
- a well done investigation and data processing machine, to allow the achievement of a reasonable selection process.

Commonly, the results of a criterion in the case of a decision process appears in a table (called decisional matrix or decisional table), delimited by several columns and lines. The lines of a table represent the alternatives and the columns the criterions. A value that resides at the intersection of a line and a column in a table represents the result of a criterion – a calculated or evaluated characteristic of an alternative regarding a criterion. The decisional matrix is the central structure for MCDM (Multiple criteria decision making), because it contains the necessary data for comparing the alternatives of the decision.

The process of decision-making is defined by following elements (adapted from Gheorghiuță, 2001): the decision-maker, the assemblage of decision alternatives, the assemblage of decision criterions, the assemblage of goals.

The decision-maker is the person who must select the most advantageous variant from a lot of possible ones, variant called the *optimum choice*.

The assemblage of decision alternatives, V, is the assemblage of action possibilities at a given moment.

The assemblage of decision criterions, C, is the assemblage of parameters which defines the process and in respect of which we have in view the comparison of alternatives.

The decision criterions are characterized by a number of levels according to the different alternatives and/or status of impartial conditions.

Decision models with an assemblage of criterions, called also multi-criteria decision models, could be multi-attribute decision models, which are presented below, or multi-objective decision models, which are subject of linear programming.

2.2. Mathematical multi-attribute decision models

Multi-attribute decision models subsist in the determination of the optimum variant from a finite variant assemblage $V = \{V_1, V_2, \dots, V_m\}$, variants that are compared one with another in respect with numerical or non-numerical criterions belonging to a finite assemblage $C = \{C_1, C_2, \dots, C_n\}$. Each criterion has a minimum or maximum goal. For some multi-attribute decision problems, in which the matrix of consequences contains heterogeneous data, numerical or non-numerical, the homogenization of these

data is done by the normalization procedure [6], which transforms the matrix of consequences in a matrix $R=(r_{ij})_{i=1,m; j=1,n}$ with elements in the interval $[0,1]$:

$$r_{ij} = \begin{cases} \frac{a_{ij}}{\max_{1 \leq i \leq m} a_{ij}}, & \text{for max criterions} \\ \frac{\min_{1 \leq i \leq m} a_{ij}}{a_{ij}}, & \text{for min criterions} \end{cases} \quad (1)$$

In almost all multi-attribute decision problems there is information regarding the importance of each criterion. This is generally expressed by the vector $P=\{p_1, p_2, \dots, p_n\}$ and indicates the level of importance given by the decision-maker to each criterion.

Every multi-attribute decision problem could be expressed by a matrix A , called the matrix of consequences, with elements a_{ij} indicating the evaluation (consequence) of variant $i, i=1, 2, \dots, m$ (V_i), by criterion $j, j=1, 2, \dots, n$ (C_j). The data could be stored in **table 1**, where $P=\{p_1, p_2, \dots, p_n\}$ indicates the level of importance given by the decision-maker to each criterion.

Table 1. The matrix of consequences

$V_i \backslash C_i$	C_1	...	C_n
V_1	a_{11}	...	a_{1n}
...
V_m	a_{m1}	...	a_{mn}
P	p_1	...	p_n

Source: *Andrasiu, et. al., 1986*

Multi-attribute decision problems could be classified into three categories: direct methods, indirect methods and methods which use a certain distance for the construction of hierarchies (Neamtu, 2008)

In our case study we will use two direct methods (the method of simple additive weight and the diameter method) and a method which uses the distance (TOPSIS), which are presented below.

2.3. The method of simple additive weight

The method consists in defining the function $f : V \rightarrow R$, given by:

$$f(V_i) = \frac{\sum_{j=1}^n p_j r_{ij}}{\sum_{j=1}^n p_j}, i = \overline{1, m} \quad (2)$$

The optimum variant will be that for which $f(V_i)$ takes the maximum value. The method uses the normalized matrix.

2.4. The diameter method

The diameter method has the advantage that in the hierarchy of variants it takes into consideration the homogeneity or heterogeneity of the data in respect to the different criteria. A variant will be homogeneous if it takes close values for all criteria and will be heterogeneous if it takes very big values for some criteria and very small values for others, with the presumption that all criteria are alike (minimum or maximum).

We can build the matrix:

$$L = \begin{pmatrix} & C_1 & C_2 & \dots & C_n \\ 1 & L_{11} & L_{12} & \dots & L_{1n} \\ \dots & \dots & \dots & \dots & \dots \\ m & L_{m1} & L_{m2} & \dots & L_{mn} \end{pmatrix} \quad (3)$$

in which the column $j, j=1, n$ contains the variants corresponding to the ordering of the elements of the assemblage $\{a_{1j}, a_{2j}, \dots, a_{mj}\}$ in ascending (descending) order if the criterion C_j is a maximum (minimum).

If $a_{i1j}, a_{i2j}, \dots, a_{imj}, i=1, m, j=1, n$ is the ordering of the assemblage $\{a_{1j}, a_{2j}, \dots, a_{mj}\}, j=1, n$, then $L_{1j}=V_{i1}, L_{2j}=V_{i2}, \dots, L_{mj}=V_{im}$.

For $i=1..m$ and $j=1..n$ are defined the following functions:

- The estimate function:

$$A: V \rightarrow R, A(V_i) = \sum_{j=1}^n [m - loc(V_i, C_j)] p_j / \sum_{j=1}^n p_j \quad (4)$$

- The diameter function:

$$d: V \rightarrow N \quad d(V_i) = \max_j [loc(V_i, C_j)] - \min_j [loc(V_i, C_j)] \quad (5)$$

where

$$loc: V \times C \rightarrow \{1, 2, \dots, m\} \quad loc(V_i, C_j) = k, \quad k = \overline{1, m} \Leftrightarrow V_i = L_{kj} \quad (6)$$

- The aggregation function:

$$Aggr: V \rightarrow R, \quad Aggr(V_i) = \frac{A(V_i) + m - d(V_i)}{2} \quad (7)$$

The hierarchy of variants is given by the descending values of the aggregation function (Aggr).

2.5. The TOPSIS method

The TOPSIS method (Technique for Order Preference by Similarity to Ideal Solution) is based on the idea that the optimum variant must have the minimum distance to the ideal solution. The steps of the TOPSIS method are:

- Step 1. We build the normalized matrix $R=(r_{ij})$, $i=1,\dots,m$, $j=1,\dots,n$;
- Step 2. We build the weighted normalized matrix $V=(v_{ij})$, $i=1,\dots,m$, $j=1,\dots,n$, where

$$v_{ij} = \frac{p_j r_{ij}}{\sum_{j=1}^n p_j} \quad (8)$$

Step 3. We calculate the ideal solution A and the ideal negative solution B, defined as:

$$A = (a_1, a_2, \dots, a_n), B = (b_1, b_2, \dots, b_n)$$

where:

$$a_j = \begin{cases} \max_{1 \leq i \leq m} v_{ij}, & \text{if the criterion } C_j \text{ is max} \\ \min_{1 \leq i \leq m} v_{ij}, & \text{if the criterion } C_j \text{ is min} \end{cases} \quad (9)$$

$$b_j = \begin{cases} \max_{1 \leq i \leq m} v_{ij}, & \text{if the criterion } C_j \text{ is min} \\ \min_{1 \leq i \leq m} v_{ij}, & \text{if the criterion } C_j \text{ is max} \end{cases} \quad (10)$$

Step 4. We calculate the distance between the solutions:

$$S_i = \sqrt{\sum_{j=1}^n (v_{ij} - a_j)^2}, \quad i = 1, 2, \dots, m; \quad (11)$$

$$T_i = \sqrt{\sum_{j=1}^n (v_{ij} - b_j)^2}, \quad i = 1, 2, \dots, m; \quad (12)$$

Step 5. We calculate the relative nearness from the ideal solution:

$$C_i = \frac{T_i}{S_i + T_i} \quad (13)$$

Step 6. We make a classification on the assemblage V according to the descending values of C_i obtained in step 5.

3. CASE STUDY

The case study in this paper wants to mark out the role of mathematical methods implemented in an expert system for the stage of preparation in an international negotiation process. An Expert System (Andone I., Mockler R., 2001) is a knowledge-based computer program containing expert domain knowledge about objects, events, situations and courses of action, which emulates the process of human experts in the particular domain. For long term use, a knowledge base stores rules, facts and other knowledge structures, much as a database stores data. When the ES is used, an inference engine processes the knowledge structures, bringing problem specific information into the system, and makes recommendations to the user based on the information and knowledge structures available.

Exsys Corvid (www.exsys.com) provides an object-oriented structure that makes it easy to build expert systems using methods and properties of variables, while not requiring the developer to change the way they think and describe their decision-making steps and logic (Muntean, Butuza, Dobrican 2002). The result is a very flexible and powerful development environment that can easily be learned. We used Corvid for implementing our application.

We considered the Romanian textile company IASITEX S.A. and used the three multi-attribute methods presented in paragraph 2 (the method of simple additive weight, the diameter method, the TOPSIS method) for selecting, in the stage of pre-negotiation, of the best offer and for organizing the negotiation processes thereafter. After an initial stage of commercial tender, Iasitex S.A. will have to decide between two offers of two foreign companies, taking into account six selection criterions:

- C_1 : the account of the good that has to be purchased (million Euro);
- C_2 : requested advance money (%);
- C_3 : time period allowed for the payments (years);
- C_4 : payment staggering (month);
- C_5 : guarantee period (years);
- C_6 : offer validity (month).

The following two offers of two foreign companies will be approached further as potential variants of the Romanian company Iasitex S.A:

- the offer of VAKONA GmbH, from Germany – variant 1 (V_1);
- the offer of Hashima Co., Ltd., from Japan – variant 2 (V_2)

In following table are presented the offers of the two companies according to the criteria invoked by Iasitex S.A.

Table 2. The characteristics of the variants according to the criteria

	C_1 Mil.Euro	C_2 %	C_3 years	C_4 month	C_5 years	C_6 month
V_1	10	10	3	12	2	1
V_2	8	15	2	6	3	2

The Romanian company Iasitex S.A. confers to each invoked criterion a specific rate of importance on a scale from 0 to 1: For C_1 :0.3; for C_2 : 0.2; for C_3 : 0.1; for C_4 : 0.1; for C_5 :0.2; for C_6 : 0.1.

For doing all calculations more quickly, we used the expert system generator Corvid (Muntean & Muntean 2010, pp.199-205), and put all entrance data into two input files, the first one used as a metablock, containing the characteristics of each variant in respect to each criterion (figure 1), and the other as a simple data file, containing the importance rates of the six criteria (figure 2).

	A	B	C	D	E	F	G
1	V	C1	C2	C3	C4	C5	C6
2	V1	10	10	3	12	2	1
3	V2	8	15	2	6	3	2

Figure 1. The content of the input text file, used further as a metablock

	A	B	C	D	E	F
1	P1	P2	P3	P4	P5	P6
2	0.3	0.2	0.1	0.1	0.2	0.1

Figure 2. The content of the simple input file, containing the importance rates

Further we will apply, using Corvid variables, the three mathematical methods described in paragraph 2 (the method of simple additive weight, the diameter method and the TOPSIS method) for deriving the best variant between the two remaining offers for the Romanian company. Finally we will compare the results obtained with each of the three methods. Considering that the matrix in figure 1 contains heterogeneous data, there will be necessary a normalization procedure and we will obtain a normalized matrix $R=(r_{ij})$ with $i=\overline{1,2}$ $j=\overline{1,6}$.

For the Romanian company every criterion must be optimized, and this occurs by minimization for C_1, C_2 , and by maximization for C_3, C_4, C_5, C_6 . For the maximum and minimum criteria we used relation (1) and calculated de elements of the normalized matrix R. The obtained normalized matrix is:

$$R = \begin{pmatrix} C_1 & C_2 & C_3 & C_4 & C_5 & C_6 \\ 0.8 & 1 & 1 & 1 & 0.67 & 0.5 \\ 1 & 0.67 & 0.67 & 0.5 & 1 & 1 \end{pmatrix} \quad (14)$$

4. RESULTS, DISCUSSIONS AND CONCLUSIONS

Applying the first method, the *simple additive weight method*, we obtain following values for the functions $f(V_i)$ using relation (2): $f(V_1) = 0,82$ and $f(V_2) = 0,85$. According to this method, the order of the variants is: $V_2 \rightarrow V_1$. (figure 3).

Next we apply the *diameter method*. We calculate with Corvid variables the aggregation functions $Aggr(V_i)$, with $i=\overline{1,3}$ using (7). We obtain: $Aggr(V_1) = 0,7$ and

$\text{Aggr}(V_2) = 0,8$. So, applying this method the variants order is the same: $V_2 \rightarrow V_1$. (figure 4)

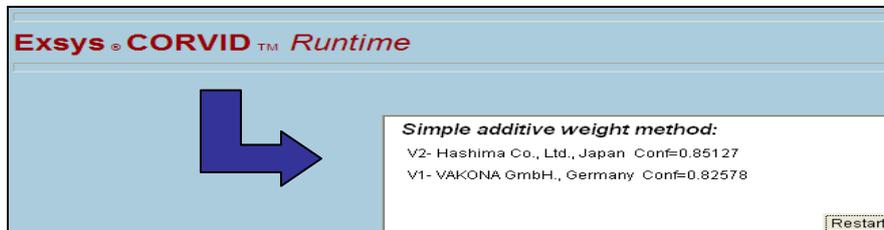


Figure 3. Results calculated by the Expert System with the simple additive weight method



Figure 4. Results calculated by the Expert System with the diameter method

Finally, we apply the *TOPSIS method*. After calculating the relative nearness from the ideal solution C_i , with $i=1,3$ using relation (13), we obtain:

$$\rightarrow C_1 = 0,44$$

$$\rightarrow C_2 = 0,56$$

We make a classification on the assemblage V according to the descending values of C_i , and we obtain following order of variants: $V_2 \rightarrow V_1$ (fig.5), the same as with the other two methods.



Figure 5. Results calculated by the Expert System with the TOPSIS method

As a conclusion, this paper presented a short overview of three mathematical multi-criteria methods that were implemented in an expert system for deciding in a negotiation problem. The expert system used in a quick and easy way the input data as text files and calculated, using confidence variables, the functions that indicate the proposed order of variants, accordingly to each of the three different methods.

In negotiation, as well as in most other circumstances, people must make a decision from among a lot of possible decisions, in order to achieve a certain goal. It is perfectly normal for human reasoning to analyse and to compare the possibilities, in order to adopt that decision which permits the best fulfilment of the desired goal. Although we frequently use the term "optimal decision", in most situations this "optimality" is a very complex concept which can't be defined but by mean of a mathematical model. Mathematical models appeared and were used in the process of decision making in business, particularly in negotiation, quite from the necessity to sustain the logical reasoning in negotiation and to manage a great number of factors simultaneously. Furthermore, applying these mathematical models permits the approach of some new qualitative problems, so that it's not surprising at all the fact that in negotiation there are used more and more mathematical tools, methods and techniques.

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THE IMPACT OF MICRO FINANCE INSTITUTIONS ON THE SOCIO-ECONOMIC LIVES OF PEOPLE IN ZIMBABWE

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ABSTRACT: *This paper reports on the findings of an exploratory research whose main purpose was to investigate the impact of micro finance institutions on the socio economic lives of Zimbabweans. The study sought to establish whether micro finance empowers the poor and reduces poverty. The study was conducted through the use of eighty questionnaires randomly distributed to clients of five micro finance institutions. The study revealed that there is a positive relationship between microcredit and the socio economic lives of people. It was found out that the activities of microfinance institutions resulted in increased social interaction and socio economic sustainability.*

KEY WORDS: *Micro finance; empowerment; socio economic; sustainable development.*

JEL CLASSIFICATION: *A14; G21; O16; O43.*

1. INTRODUCTION

Micro finance industry is one of the fast growing set of financial driven initiatives aimed at alleviating poverty, aid economic growth and support future growth through financial inclusion. The introduction of the multi currency regime in Zimbabwe has seen the economy improve and notably the financial sector has witnessed significant growth. The economic recovery has also facilitated the increasing growth of micro finance institutions whose main mandate is to reduce poverty through the provision of micro credit to the less privileged people in the society. A growing

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number of micro finance institutions are attempting to build the human capital entrepreneurs in order to improve the livelihood of their clients and help further their mission of poverty reduction. Increased household income, access to health care and education and better living conditions are just a few ways in which micro finance and complimentary services is impacting the poor and under served population around the world (<http://www.globalpartnership.org>).

Millenium Development Goals are centred on the reduction of extreme poverty, promoting gender equality and empower women and the development and implementation of strategies for decent and productive work for the youth. It is hoped that micro finance institutions will assist in the achievement of these goals as they are a viable tool used in the eradication of poverty thus improving social and economic welfare of the people. The concept has become a top agenda item at the international fora and thus the United Nations has enlisted micro finance as one of the surest ways of meeting its millennium development goals if it is carefully implemented through sustainable institutions (Mawadza, 2005). It can be argued that the services provided by MFIs should promote livelihood by creating wealth or assets, increasing food security, reducing risk and variance in income and realize a reduction in rural to urban migration. Fisher *et al* (2002). In light of the above this paper seeks to establish whether the increase in the number of micro finance institutions has had an impact on the socio economic lives of people in Zimbabwe.

2. LITERATURE REVIEW

2.1. Micro finance defined

Various definitions of micro finance have been given which give an insight to their aim, scale and nature of financial services provided by MFIs and those which describe the characteristics of the users of these financial services. Micro finance is defined as a range of financial services that seek to meet the needs of poor people both protecting them from fluctuating income and other shocks and helping promote their income and livelihoods (Rogaly, 1999). It has also been defined as the provision of financial services dealing with very small deposits and loans (Johnson & Rogaly, 1999). Adams and Graham (1984) define micro finance as the provision of financial services to low income clients who traditionally lack access to banking and related services. Micro finance involves the provision of financial services that aim to improve and protect the livelihoods of active economic agents who have limited access or are denied access to normal financial services as provided by banks and other formal financial sector institutions because of the small nature of their operations, geographical location, limited sources and volumes of their income base.

2.2. The role of Micro finance Institutions

Micro finance is a movement whose objective is a world in which as many poor and near poor households as possible have permanent access to an appropriate range of high quality financial services (Adams & Graham, 1984). Traditionally banks

have not provided financial services such as loans to clients with little or no cash income mainly because costs incurred in processing loans are too high. In addition poor people have few assets that can be secured by a bank as collateral. One may argue that they have land but most of them do not have title to it so that they can pledge it as collateral. This leaves banks with no recourse against defaulting borrowers. Because of the difficulties when poor people borrow, they often rely on relatives or local money lenders whose interest rates are high and are accused of usury. It is therefore the role of micro finance institutions to ensure that the poor also have access to finance for productive purposes. Thus the role of micro finance institutions can be summarized as follows:

- ✓ Improve financial security
- ✓ Facilitate growth of enterprises
- ✓ Allow storage of excess liquidity for future use
- ✓ Improve the livelihoods of low income earners and those of their dependants
- ✓ Help people of low income reduce risk, improve management, realise high return on investments.
- ✓ Social change through empowering women and changing gender relations in the community and households (Robinson, 2001)

MFI's can help poor people to work their way out of poverty by delivering financial services through appropriate mechanisms (Fisher, et al., 2002). He argues that micro credit is necessary but not sufficient for micro enterprise development and promotion. They state that the success of micro enterprises depends on the whole range of resources for example natural resources, human, and financial.

Wooler (2004) states that financial intervention has an impact on social relations partly through their economic effects. In many instances implementers of credit schemes have claimed that their work will lead to progressive social change, for example empowering women and changing gender relations in the households and in the community. Robinson (2001) state that financial services are not the panacea for poverty alleviation but other strategies are needed for the very poor who need food and employment before they can make use of financial services.

Formal financial institutions are regulated and supervised, offer a wide range of financial services and control a branch network and can extend across the country and internationally. However they have proved reluctant to adopt social missions and due to their high cost of operation often cannot deliver services to poor or remote populations (Karlan & Valdivia 2009).

2.3. Social Intermediation

Fisher et al. (2002) describes social intermediation as the means to enable delivery of a technical solution. Ledgerwood (1999) regards social intermediation as a way of building the human capital required for sustainable financial intermediation with the poor. Social intermediation helps in poverty reduction because it develops the economy, empower individuals, building democratic peoples' organizations and changing wider systems within the society.

This is supported by Johnson and Rogaly (1997) who state that in order to design services which are relevant and useful to the poor people, NGOs should understand local economic and social structures and also macro level trends. This means that social intermediation help those who structure and deliver services to understand better the services needed and that can be of benefit.

2.4. Challenges faced by MFIs

Structural challenges. Robinson (2001) claims that subsidized rural credit programmes often do not reach the poor. The credit subsidies become transformed into political pay offs for rural elites and the programmes typically have high defaults and high losses. It is also within Robinson's view that programmes provide loan products which are not appropriate for the needs of the poor.

Sharif et al. (2001) warns against this and recommends that a proper market research and intelligence review be carried out to avoid intervention that will displace and contradict available financial services. They also point out that the informal finance poses a threat to formal structures because of their innovativeness and adaptability.

Karlan and Valvidia (2009) argues that in the developing countries and particularly in the rural areas many activities that would be classified in the developed world as financial are not monetized. Poor people have very little money but circumstances often arise in their lives in which they need money or things that money can buy. Thus micro finance will be considered as a tool for correcting such problems.

Policy and regulatory challenges. Policy and regulatory environment also poses problem to MFIs. White (2006) noted that although there is general consensus on the need for favourable policy environment, there is no current consensus on how to create this environment. They suggest that the framework should be flexible enough to permit unregulated MFIs to evolve.

It is argued that while much progress has been made in developing a viable, commercial microfinance sector, several issues remain which need to be addressed before the industry will be able to satisfy massive worldwide demand. Challenges include:

- ✓ Inappropriate donor subsidies
- ✓ Poor regulation and supervision of deposit taking MFIs
- ✓ Few MFIs that meet the needs for savings or insurance
- ✓ Limited management capacity in MFIs

2.5. Measures to reduce

MFIs make use of social collateral to reduce lending risk. According to Johnson and Rogaly (1997) Grameen Bank in Bangladesh pioneered peer group monitoring. The peer group monitoring is characterized by people selecting themselves into groups that are characterized by similar economic background. The group is ultimately responsible for repayment if the individual defaults.

In Indonesia government sponsored banks have used character reference and locally recruited lending agents. Johnson and Rogaly (1997) assert that both methods can be seen as attempts to lower screening costs by using local insider information about credit worthiness of the borrowers.

Micro loans are given for a variety of purposes but frequently for micro enterprise development. Because of the industry's focus on the poor, MFIs often use non-traditional methodologies such as group lending or other forms of collateral not employed by the formal financial sector (Microfinance Information exchange, 2010).

2.6. Criticisms of micro finance

Researchers suggest that research on the effectiveness of micro finance as a tool for economic development remains mixed in part owing to the difficulty in monitoring and measuring its impact. It is also criticised on the grounds that micro finance is delivered in the absence of other micro finance services such as savings, remittances and insurances which are also critical measures of the well being of society.

Dean Karlan of Yale University studied the impact of micro finance. The results of his study suggest that many of the benefits from microcredit are in fact loaned to people with existing businesses and not to those seeking to establish new ones. He also discovered that the increase in income that went up in business was true only for men and not for women.

3. RESEARCH METHODOLOGY

An exploratory research design was considered the most appropriate in view of the nature of the problem being investigated. A structured questionnaire was used as a data collection instrument. The questionnaire consisted of two sections to be completed by all respondents.

Section A captured data on the role played by MFIs in empowering people socially and economically and also the products and nature of service delivery on offer. Section B captured data on challenges faced by MFIs and the measures and techniques that can be implemented to mitigate the challenges.

Eighty questionnaires were distributed to randomly selected customers of five microfinance institutions. Due to commercial confidentiality and sensitivity of information the questionnaire was designed in a manner that did not require the respondents to reveal their names nor branches. Interviews were also conducted with top management of the selected MFIs.

4. DATA PRESENTATION AND DISCUSSION

4.1. Efficiency of lending approaches

The data collected on the efficiency of the two main forms of lending approaches used by micro finance institutions to empower people is shown below:

Table 1. The efficiency of lending approaches

Approach	Poverty lending			Financial systems		
	Good	Fair	Poor	Good	Fair	Poor
Response	40	20	20	30	40	10
Frequency	50	25	25	37.5	50	12.5

As depicted in table 1 above 50% of the respondents indicated that the poverty lending approach was good, whilst 25% indicated that it was fair and the rest felt that it was poor. As for the financial systems approach 50% of the respondents indicated it was fair whilst 37.5 % indicated that it was good. Although the lending approach ensures that financial services reach the targeted clients, it is often unsustainable because it is highly subsidized and may not be driven by business motives, but based purely on humanitarian grounds.

4.2. The role of micro finance institutions

The research also sought to establish the role of MFIs. The results from the questionnaires are shown below:

Table 2. The role of MFIs

Description MFIs often try to:	Agree (%)	Not Sure (%)	Disagree (%)
Increase social interaction and linkages	70	15	15
Negotiate on behalf of poor people	20	40	40
Empower the poor and the marginalized	55	15	30
Use resources to develop the community	20	60	20
Integrate activities with those of welfare and humanitarian centered NGOs	65	25	20
Create organizations owned by people who cater for poor people's needs	85	8	7

The data collected was focused on determining whether the operations of Micro Finance Institutions bring about socio economic sustainability. The table above shows that most of the respondents agreed that MFIs have a role to play in the socioeconomic lives of people notably through creating organizations owned by people who cater for people's needs (85%). People centered institutions are the basis for a thriving democracy and play critical role in empowering the poor. Sustainable development is sometimes brought through integration of activities of MFIs with those of NGOs centred on welfare and humanitarian.

Responses obtained from the questionnaires indicated that increase in social interaction and linkages (70%) was also a significant role played by MFIs while 65% indicated that integrating activities with those of welfare and humanitarian centered NGOs was major. Sustainability is brought about through cooperation and positive competition.

4.3. Challenges faced by MFIs

Data was collected from the respondents concerning the challenges currently faced by MFIs and the results are shown below:

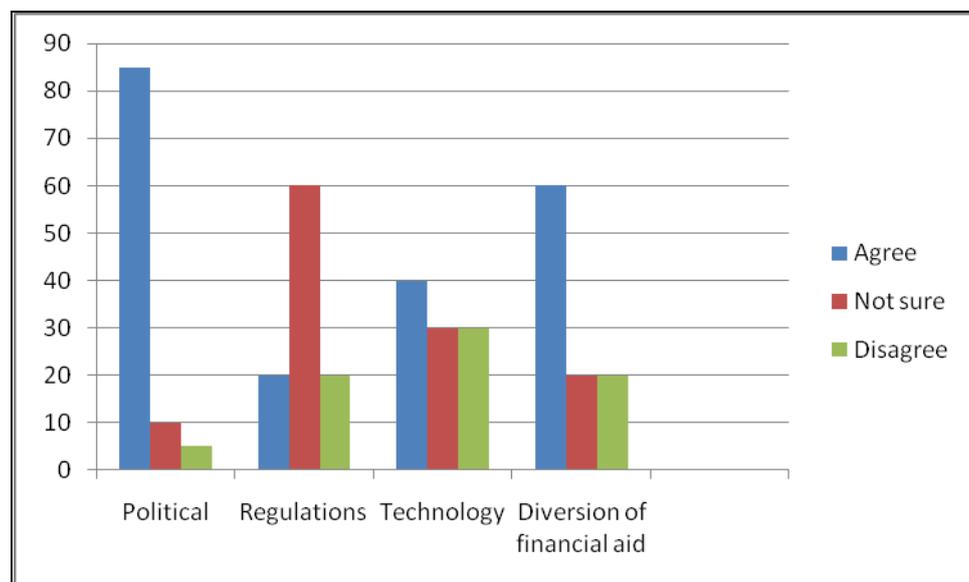


Figure 1. Challenges faced by MFIs

Of the respondents, 85% indicated that political unrest and security problems were the major challenge they faced. Most respondents (60%) were not sure whether the regulatory environment was too tough to present a challenge to MFIs. 60% of respondents cited that financial aid meant for communities was being diverted to other uses. Most respondents felt that financial aid brought to them through micro finance institutions which work with humanitarian centred NGOs is sometimes regarded as a package for political campaigns.

In order to identify techniques that can be employed to reduce the negative impacts of micro finance institutions questionnaires were sent out and responses are shown below:

Table 4. Techniques to mitigate challenges faced

Technique	Good (%)	Fair (%)	Poor (%)
Entrepreneurial training	80	10	10
Partnership of government, donors and financial service providers	60	30	10
Eradication of politically affiliated NGOs	70	10	20
Financial deregulation	40	20	40

It was found out that 80% of the respondents indicated that entrepreneurial training was successful as a measure of mitigating problems faced by MFIs. 70% of the respondents were of the opinion that the eradication of politically affiliated NGOs was successful in addressing the challenges faced by MFIs. Partnership of government, donors and the central bank with the service providers was considered a successful technique. 40% of the respondents sited financial deregulation as a measure to reduce the challenges faced by MFIs.

4.4. Products and services delivered by MFIs

Respondents were requested to indicate the services and products they receive from MFIs. The products and services delivered by MFIs are an essential tool used in poverty alleviation among the poor rural communities. The table below shows their responses:

Table 5. Products and Service delivery by MFIs

Service description MFIs help people to:	Agree (%)	Not Sure (%)	Disagree (%)
Access loans and become productive	55	15	30
Create market linkages	60	30	10
Cooperate for the good of the economy	30	45	25
Fight poverty and improve living standards	80	5	15

A majority of the respondents (80%) indicated that the main service offered by MFIs is the fighting of poverty and improving the living standards of the people. 60% of the respondents indicated that the role of MFIs was to create market linkages whilst 55% were of the opinion that MFIs were in existence so as to enable people to access loans for productive purposes.

4.5. Socio- economic dimensions

In evaluating the impact of MFIs a number of measures were used to indicate the economic and social well being of individuals in the community. Respondents were requested to indicate whether they had benefited from MFIs and the results obtained are shown in the table below:

Table 6. Socio economic impact

Dimension	Agree (%)	Not sure (%)	Disagree (%)
Improved social well being	80	10	10
Food availability	70	13	17
Access to education	60	20	20
Improved housing	60	10	30
Improved health	50	25	25

From the results obtained 80% agreed that funding they had received from MFIs had improved their social well being as they were now able to obtain decent food (70%), have access to education (60%) were living in better houses (60%) and were able to send the sick to the hospital (50%). Education and health services were now accessible to many people in society.

5. CONCLUSION

This research concluded that MFIs bring sustainability through various ways with each technique having an impact on the socio economic well being of people. MFIs create organizations which are owned by people who cater for people's needs. However the operations of MFIs are being interrupted by political unrest and insecurity. It was also discovered that financial aid meant for communities was not reaching the targeted beneficiaries as it was being diverted to other uses. A majority of the respondents hold the view that financial challenges emanate from political factors as a result of failing to create good international relations resulting in sanctions being imposed on a nation.

Problems faced by MFIs could be mitigated through the use of techniques such as entrepreneurial training which equips the public with adequate business knowledge. There was also need for unity of purpose among donors, governments the central bank and service providers to reduce the problems faced by MFIs.

The major services provided by MFIs as confirmed by the respondents were revealed to be the fighting of poverty to improve living standards of people. MFIs are regarded as an essential tool that help people access loans and become productive. These MFIs assist micro entrepreneurs to fund their project especially those who cannot access loans from traditional banks and thus beneficiaries indicated that MFIs have a positive impact on the socio economic lives of people.

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SPECIFIC ASPECTS OF THE TECHNICAL RESERVES OF INSURANCE ACCOUNTING

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ABSTRACT: *The formation, increase, release and reduction of technical reserves are accounting transactions that are only found in insurance companies. Technical reserves are established for each line of insurance as special funds so that the stability and solvency of insurance companies are not affected.*

KEY WORDS: *insurance companies; technical reserves; premium; loss reserve; technical reserves accounting*

JEL CLASSIFICATION : *G22, M41.*

1. INTRODUCTION

Insurance companies operate by providing, brokering, negotiation, conclusion of contracts of insurance and reinsurance, premium collection, liquidation of damages, regression and recovery activities, as well as equity investment or fructification.

Insurance is a reduction factor of economic uncertainty and a means of resuming the temporarily interrupted activity. When a person is insured, it is aware of a certain risk and tries to protect himself from negative consequences. The risk does not disappear, but its effects move from the insured to the insurer. Thus the future for the insured acquires a certain certainty, a stabilization of the financial risk, insurance premium becomes a production cost or an expense in the family budget.

The biggest insurance companies' revenues are derived from the sale of insurance policies. In most cases, premiums are collected at the beginning of the insurance, that is anticipated, in the amount and terms established in the insurance policy, and based on these the insurance company promises to pay compensations if the insured risk occurs. Because insurance premiums are collected in advance with the

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promise of payment of compensation, the company establishes a premium reserve if it has to repay part of the premiums.

2. DEFINITION OF TECHNICAL RESERVES

General insurance companies must constitute technical reserves relating to past and future liabilities arising from insurance contracts written in the reference year.

Insurance companies which are engaged in the life insurance business are required by law¹ to establish and maintain technical reserves, referred to as mathematical reserves for the life insurance fund.

Technical reserves must have at any time an amount sufficient to enable the company to move forward, to the extent of what is reasonably foreseeable, the commitments arising from insurance contracts².

“Specific for insurance companies is the establishment of technical reserves, namely: the premium reserve, life insurance technical reserves (mathematical reserve, reserve for bonuses and rebates on life insurance, other technical reserves), reserve for insurance damage done separately for general and life insurances, the reserve for bonuses and rebates on general insurance, the equalization reserve and other reserves relating to general insurance.” (Cistelecan Rodica, et al., 2006)

“Technical reserves are estimates of future payments for risks produced in the past (for general insurance) or for those that will occur in the future (for life insurance) and the value of technical reserves should allow the insurer, at any time, to honor its commitments arising from the insurance contracts.” (Nagy Cristina Mihaela, Trif Viorel, 2010, pp 604)

According to law 32/2000³ insurance companies engaged in the **general insurance business** are required to establish and maintain the following **technical reserves**: the premium reserve, loss reserve, unreported loss reserves, catastrophe reserves, the reserve for unexpired risks, the equalization reserve.

Reserves are established during the conduct of business at a level at least equal to the total compensation of the previous financial year.

The value of technical reserves should allow the insurer, at any time, to honor its commitments arising from insurance contracts.

3. SPECIFIC ASPECTS OF THE TECHNICAL RESERVES ACCOUNTING

The formation of these reserves is different from the constitution of reserves from commercial companies, being made based on costs, having a role in predicting the future insurance claims.

¹ Law 32/2000 updated in January 2011, art. 21, paragraph (3)

² Rule no.5/2001 on calculation and record of minimum technical reserves for general insurance, issued by the Insurance Supervisory Commission, reprinted.

³ Law 32/2000 updated in January 2011, art. 21, paragraph (1)

This form shows up just from the random nature of the insurance contract where the collection of the insurance premiums will not generate automatically an obligation to pay a compensation or indemnity to each insured, the insurance company's obligations occur randomly for certain unidentifiable contracts during the agreement.

Technical reserves are shown separately in accounting, according to each type of reserve formed according to the given destination, having created positions in the chart of accounts. The general principle of these reserves is that they are formed since the insurance contract is made and maintained throughout the period of validity, therefore, reserves related to contracts of life insurance are higher than those related to general insurance contracts as life insurance are concluded for much larger periods.

Accounting ensures records of technical reserves formed by insurance companies under the law and it uses accounts from class 3 Technical Reserves Accounts which include the following groups of accounts:

- 31 "Technical reserves of life insurance and general insurance premium reserve"
- 32 "Reserves for claims on life insurance and general insurance"
- 33 "Technical reserves for general insurance"
- 39 "Technical reserves related to contracts ceded in reinsurance".

"The amounts transferred to technical reserves are obligations of the insurer and are deducted from its income in calculating profits.

The technical reserves established and maintained in the currency are registered in accounting in lei, at the rate in force at the time of operations.

Technical reserves are inventoried and assessed at the end of each period. The methods of assessing technical reserves adopted by the company (temporis prorata, statistical, etc.) must be the same throughout the year and from year to year." (Negru Titel, 2007, pp 116)

"In case of cancellation or termination of an insurance contract, the insurer will perform the accounting transactions required to issue such contracts related to technical reserves." (Bunica-Petrescu Elena, 2003)

The company estimates a rate of claims to be paid corresponding to its portfolio of insurance and subsequently creates reserves for claims and pays compensation to policyholders from these reserves which are reduced by the amount paid. The main liabilities of insurance companies are subject to premium and loss reserve.

Premium reserves (Bogdan Decebal Manole, 2005) are reserve funds created for each form of insurance, in order to supply the insurance fund with the difference between the net written premiums and net paid premiums.

The premium reserves are highlighted using the accounts 315 "Premium reserve on general insurance" and 615 "Expenditure on the premium reserve". The accounting operations on the creation and use of premium reserves for direct general premiums are:

a) forming the premium reserve:

6151 “Expenses related to premium reserve on direct general insurance” = **3151** “Premium reserve on general insurance” with the amount formed

b) reducing the premium reserve:

3151 “Premium reserve on general insurance” = **6151** “Expenses related to premium reserve on direct general insurance” the amount by which the reserve reduced

The *premium reserve* for life insurance - is calculated by summing the shares in gross written premiums for unexpired periods of insurance contracts.

The premium reserves for life insurance are highlighted using the accounts 318 “Premium reserve for life insurance” and 618 “Expenses related to premium reserve for life insurance”, and accounting operations for the creation and use of premium reserves related to life insurance are:

a) forming the premium reserve for life insurance:

6181 “Expenses related to premium reserve for direct life insurance” = **3181** “Premium reserve for direct life insurance” with the amount formed

b) reducing the premium reserve for life insurance:

3181 “Premium reserve for direct life insurance” = **6181** “Expenses related to premium reserve for direct life insurance” the amount by which the reserve reduced

The **loss reserve** (Galiceanu Mihaela, Galiceanu Ioan, 2007, pp 256) is established for reported claims in process of liquidation and is calculated for each insurance contract that the insured was notified of the event, starting from the expenditure expected to be incurred in the future to resolve these claims. The loss reserve that must be formed will be obtained by summing up the calculated values for each insurance contract.

The loss reserve - is formed and is registered in accounting separately for approved loss and unapproved loss distinctly for general insurance and for life insurance.

On life insurance, the value of loss reserves for claims is equal to the amount due to customers, plus the costs of damage. The value of these reserves includes both approved loss reserve and reserve for unreported loss.

The loss reserve for general insurance are highlighted in accounting using the accounts 627 “Expenses related to loss reserve on general insurance” and Account 327 “Loss reserve for general insurance” with the related analytics.

The accounting operations on the creation and use of loss reserves approved and unapproved for general insurance are:

a) forming the approved loss reserve:

62711 “Expenses related to the approved loss reserve on direct general insurance”	=	32711 “Loss reserve approved for direct general insurance”	with the amount formed
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b) reducing the approved loss reserve:

32711 “Loss reserve approved for direct general insurance”	=	62711 “Expenses related to the approved loss reserve on direct general insurance”	the amount by which the reserve reduced
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c) forming the unapproved loss reserve:

62721 “Expenses related to the unapproved loss reserve on direct general insurance”	=	32721 “Loss reserve unapproved for direct general insurance”	with the amount formed
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d) reducing the unapproved loss reserve:

32721 “Loss reserve unapproved for direct general insurance”	=	62721 “Expenses related to the unapproved loss reserve on direct general insurance”	the amount by which the reserve reduced
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The loss reserve for life insurance are highlighted in accounting using the accounts 626 “Expenses related to loss reserve on life insurance” and Account 326 “Loss reserve for life insurance” with the related analytics, and the accounting operations on the creation and use of loss reserves approved and unapproved for life insurance are:

a) forming the loss reserve for approved life insurance

62611 “Expenses related to the approved loss reserve on direct life insurance”	=	32611 “Loss reserve approved for direct life insurance”	with the amount formed
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b) reducing the loss reserve for approved life insurance

32611 “Loss reserve approved for direct life insurance”	=	62611 “Expenses related to the approved loss reserve on direct life insurance”	the amount by which the reserve reduced
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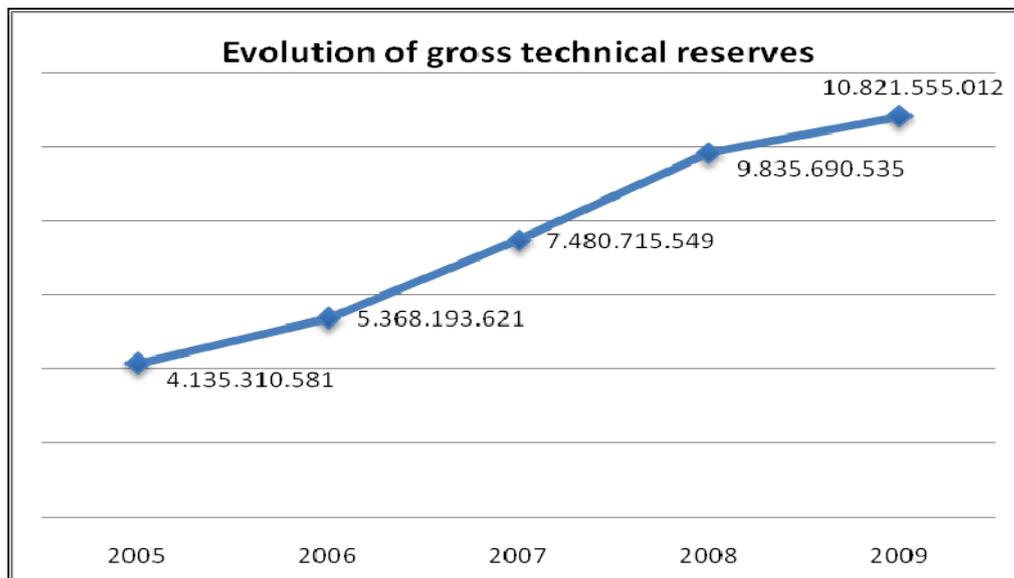
c) forming the loss reserve for unapproved life insurance

62621 “Expenses related to the unapproved loss reserve on direct life insurance” = **32621** “Loss reserve unapproved for direct life insurance” with the amount formed

d) reducing the loss reserve for unapproved life insurance

32621 “Loss reserve unapproved for direct life insurance” = **62621** “Expenses related to the unapproved loss reserve on direct life insurance” the amount by which the reserve reduced

According to the legal regulations, for the risks assumed through the insurance contracts, the insurers should form technical reserves.



Source: Data processed according to CSA reports from 2005-2009

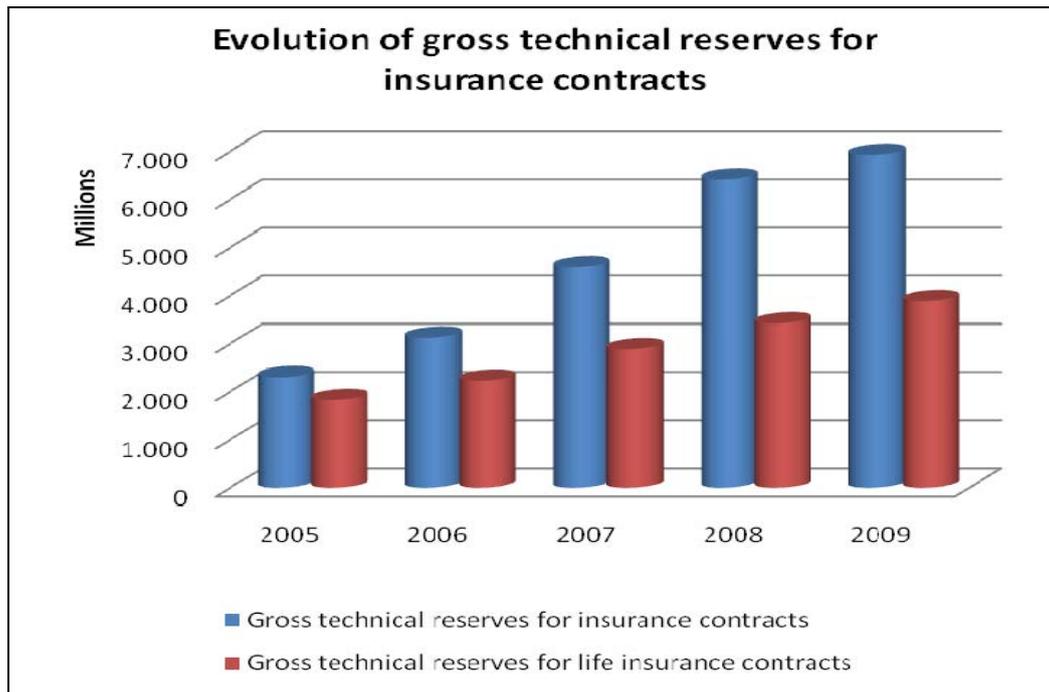
Figure 1. Evolution of gross technical reserves

From Figure 1 we notice that the evolution of gross technical reserves relating to insurance contracts increased continuously both for general insurance contracts and those of life, so the total gross technical reserves increased from 4.135.310.581 lei in 2005 to 10.821.555.012 lei in 2009, so in the past five years the growth was over 260%.

For contracts concluded by insurers which are engaged in the general insurance activity, the total gross technical reserves formed was 2.305.645.336 lei in 2005 and has increased annually, reaching in 2009 an amount of 6.931.624.256 lei, the increase compared to 2005 is approximately 300%.

For contracts concluded by insurers which are engaged in the life insurance activity, the total gross technical reserves formed was 1.829.665.245 lei in 2005 and 3.889.930.756 lei in 2009, the increase is over 210%.

The most important role in an insurance company in calculating insurance premiums is played by the actuary and its tasks are to determine the insurance premium, establish the mathematical reserves, the redemption value for the capitalization products, development of new products etc.



Source: Data processed according to CSA reports from 2005-2009

Figure 2. Evolution of gross technical reserves for insurance contracts

4. CONCLUSIONS

Formation of the increase, and decrease the release technical reserves are accounting transactions that are found only in insurance companies.

Technical reserves are formed since the insurance contract is made and maintained throughout the period of validity, therefore, reserves related to contracts of life insurance are higher than those related to general insurance contracts as life insurance are concluded for much larger periods.

The strict regulation of insurance activity, their control and surveillance, imposing strict conditions for the establishment of technical reserves allow placement on the insurance market only of companies capable of sustaining the insurance market by viable monetary means.

ACKNOWLEDGEMENT

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YOUNGSTERS - DISADVANTAGED GROUP ON THE LABOUR MARKET - ALTERNATIVE EMPLOYMENT

DORINA NIȚĂ, ALINA FLEȘER *

ABSTRACT: *Young people are confronted not only with a high risk of not finding a job, but also with a higher risk of becoming unemployed, as compared with other occupational groups on the labour market as well as with other issues related employment, professional training inconsistent with the labour market requirements, indecent wages, unattractive job opportunities, international mass labour migration. These are the reasons why young people are considered a vulnerable social group on the labour market that requires additional measures for social protection.*

KEY WORDS: *young people; disadvantaged group; labour market; employment; unemployment.*

JEL CLASSIFICATION: *I24; J15; J21; J71.*

1. INTRODUCTION

Young people are the "factors" directly affected by the process of globalization. Globalization can promote economic growth and job creation, but, as demonstrated by the world economic crisis, it can also generate challenges specific to vulnerable workers, such as young people. Even if the economic crisis represents a factor that hindered the access of young Europeans to the labour market, many specialists believe that the main heads of the vulnerability of young people on the labour market is the lack of skills and/or professional training, and the lack of experience in searching for a job or the skills acquired during education unadapted to labour market requirements.

The paper strives to surprise some of the causes, specific issues and how to manage the problems of youth on the labour market at European Union level and Romanian level, as a State member of this community, so that the statements should be

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supported by statistical data. For example, why are the figures on the unemployment rate among the population up to 25 years important? The ability to create new jobs is reflected best in the employment of young people. Youngsters are the cheapest labour force on the market, which is why any newly created position should be occupied mainly by them. Unfortunately statistics show something else.

Despite the difficulties, young people represent a resource for the present and the future of any country. Therefore, countries should qualify any kind of support given to young people as an investment because communities that cannot treat youngsters as a resource reduce considerably their chances to compete within the global economy.

2. SHORT SUMMARY OF THE SITUATION OF YOUNG PEOPLE ON THE LABOUR MARKET IN THE EUROPEAN UNION

The realities on the labour market show that an impairment of employment indicators brings about further deterioration of the situation of youngsters on the labour market, i.e. a decrease of the share of employed youngsters from the total of people employed, disturbing percentages of unemployment among youngsters, etc. The number of young people (as defined by the International Labour Organization, a young person is someone aged between 15 and 24 years old) who are looking for a job has increased from 4 to 5.5 million since the financial crisis, the unemployment among young people currently reaching almost 21% at EU level (<http://ec.europa.eu>).

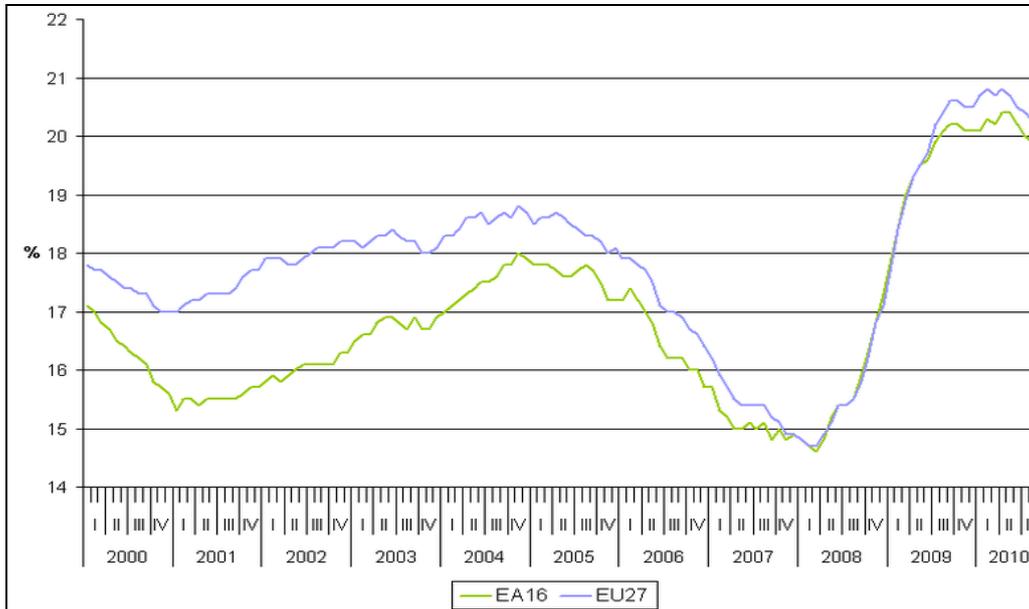


Figure 1. Trends in unemployment rates among young population

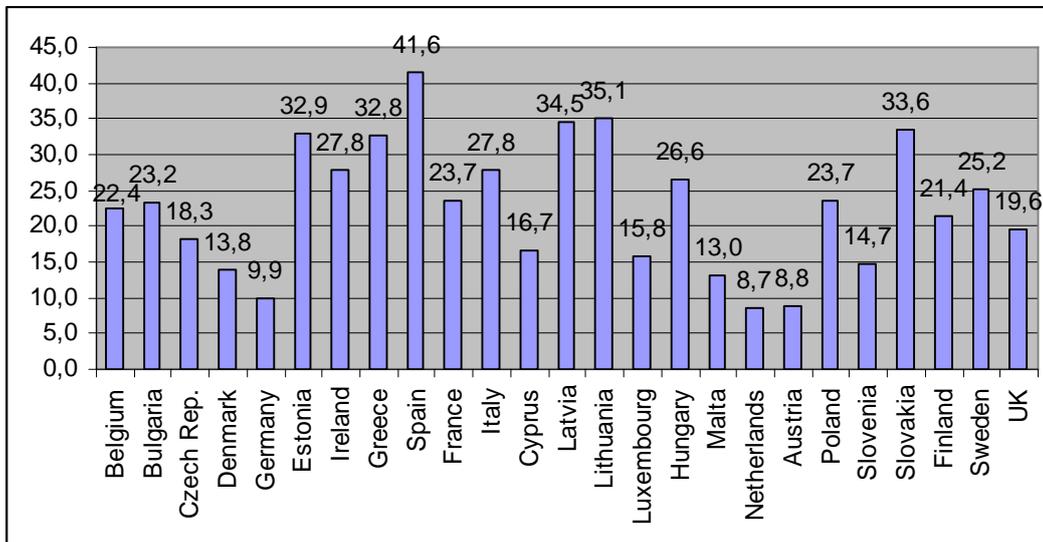


Figure 2. The unemployment rate among young people up to 25 years

According to an analysis of the development of the indicator that reveals the situation of unemployed persons under the age of 25 on the labour market within the EU one can observe that:

- the global crisis has seriously affected the unemployment rate among young people, which increased by almost 5 % in 2009 (from 15.7 % in 2008 to 20% in 2009), and it continued to grow in 2010 by 0.9% as compared to the previous year;
- along with the crisis, the increase in unemployment rates among young people occurred at the level of all European Union countries;
- the lowest rate of unemployment among the young population were recorded in Austria and Denmark, while the greatest values were registered in the Republic of Poland, the Slovak Republic and Bulgaria;
- in relation to the European average, Romania recorded higher values, except for the year 2009 when the pace of increase was below the European average (in Romania unemployment among young people increased from 18.6% in 2008 to 20,8% in 2009 as compared to the growth from 15.7% to 20% at the EU level).

The dimension of unemployment rates for young people at European Union level is due to certain specific aspects, such as:

- the average period of time for searching for a job increased significantly over the past few years, thus discouraging young people in their search for a job;
- the discrepancies between the chances of hiring an educated young man and one without studies are also increasing, so that not only the time needed to search for a job for a young specialist is shorter as compared to a young man without education, but also the unemployment rate registers a considerable difference;
- the European Union is the region where unemployment is most closely related to the education of youngsters, and the chances of employment decrease in proportion to the fewer years of study. The highest values of unemployment among young

people can be observed in the case of high-school and vocational schools graduates;

- information services, counselling and guidance often fail to reach disadvantaged young people living in the periphery, who cannot be found and supported on the labour market at all times only through the information system.

Romania's problem is that we are the only community in the country where unemployment among young people is three times higher than the average for all categories of age. Therefore, in 2010, while the average rate of unemployment among young people in all 27 Member States is 20.9%, in Romania it reaches 22.1% (according to the 2010 report of the European Commission on labour force in Europe), taking into consideration that the unemployment rate of the total working population is 7.3% in Romania, two percentage points below the EU average which is 9.7% (according to data supplied by Eurostat).

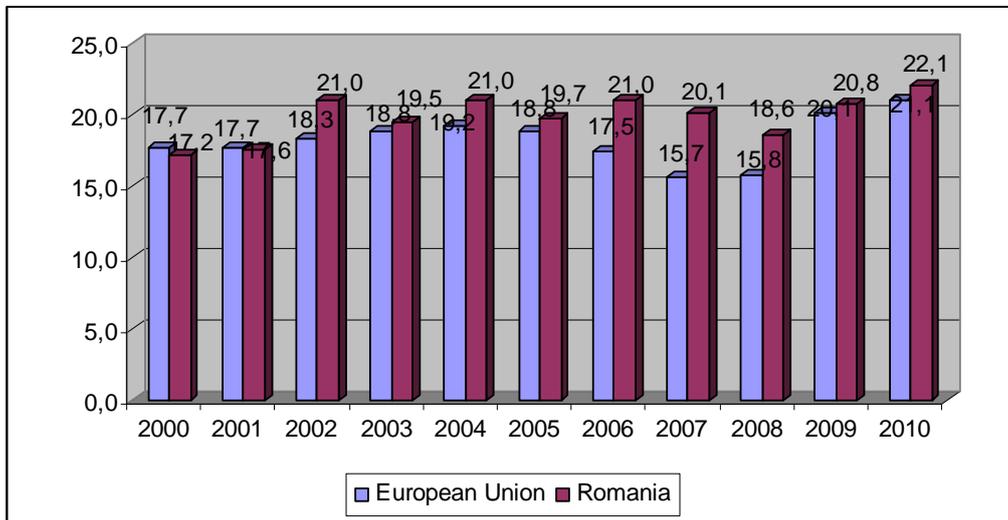


Figure 3. Average unemployment rate among young people (persons aged up to 25 years old)

Worldwide, at the end of 2009, the number of young unemployed persons was estimated around 81 million persons, greater by 7.8 million than in 2007, when the international economic crisis caught fire. If over the course of ten years before the economic crisis (1997-2007) the number of young unemployed persons had been increasing by 192.000 annually, during the next two years (2007-2009), the economic crisis dismissed from work about 40 times more young people than in the 10 years until the crisis (http://nataliabejan.treivoci.ro/wp-content/uploads/2011/02/Raport_CNSIEM_2010.pdf).

Records of high rates of unemployment in the European Union, resulted in not only a deterioration in the purchasing power of young people, but also in the need to find their own solutions to their problems, noting in this regard the fact that more young people were willing to continue their studies after a certain period of rest, being

discouraged by the unsuccessful job hunt however encouraged to obtain a degree that would probably increase their employment opportunities. This segment of young people together with those who not have interrupted their studies after graduating from high-school, are of particular interest to authorities because, on the one hand, if they didn't continue their studies they would join the unemployed people and on the other hand, higher education would guarantee highly qualified labour force, hence the opportunities to find a job are more numerous.

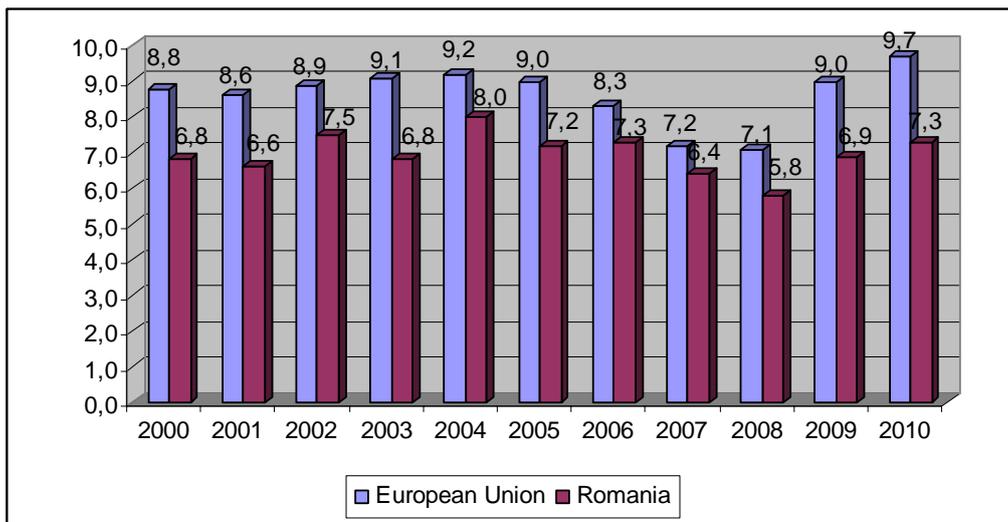
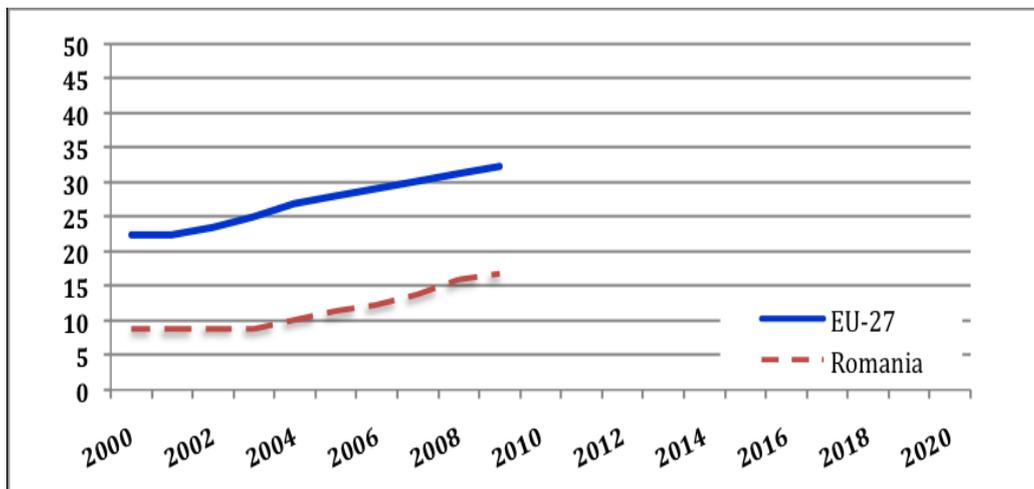


Figure 4. The unemployment rate



Note: indicator calculated as a percentage of persons with higher education from the total population aged between 30 and 34 years

Figure 5. The rate of graduates from higher education

If one analyses the situation in Romania, it is noted that the percentage of graduates of higher education has grown steadily since 2004. The same increasing trend has been registered at European level as well, our country retaining a significant distance from the EU average (EU-27, 32.3%; RO-16.8%). In spite of the upward trend, it is unlikely for Romania to reach target of 40% higher education graduates in 2020.

Until they reach the phase when they are considered to have a proper education, young people realize that the period of time necessary to find a job tends to increase, and thus they are often discouraged; the lack of attractive choices along with the need to provide for themselves and the financial resources required by educational systems, make youngsters accept temporary, low-quality and poorly paid jobs.

3. EUROPEAN UNION CONCERNS REGARDING THE MANAGEMENT OF SPECIFIC PROBLEMS OF THE INSERTION OF YOUNG PEOPLE ON THE LABOUR MARKET

Awareness of the importance of youngsters on the labour market and on the development of national economies characterizes the Union's concerns. Based on the specific characteristics of youth insertion on the labour market:

- the direct relationship between education and employment (the higher the education level, the lower the risk of unemployment); however a diploma no longer constitutes today an insurance against unemployment;
- the trend of "brain drain", particularly in the case of new Member States;
- uncertainty in the workplace, low wages and overtime represents an obstacle in finding a balance between work and personal/family life;
- the inefficiency of guidance and counselling services regarding career and the education system adapted to the requirements of the labour market, do not solve the problem of young people;
- insufficient exploitation of entrepreneurship among young people; etc.

There must be noted that at the EU level there exists a package of measures for Member States aiming mainly (COM(2009) 200 final):

- to ensure that the employment of young people remains a priority;
- to promote job opportunities and training for young people across national borders;
- to ensure that EU funds made available for encouraging the employment of young people, in particular the social European fund, are used effectively;
- to develop career guidance services and counselling;
- to lift the barriers to enable free movement of workers throughout the EU;
- to promote quality internships within education and training programmes and/or employment programmes;
- to improve childcare facilities, so as to contribute to the reconciliation of work with the private lives of young adults.

Obviously, the existence of such measures is more than welcome, but not sufficient. In order to be really successful it is necessary that the EU effort be doubled by that of Member States which, in turn, should consider the implementation of policies at national level. Furthermore, interbranch cooperation with local and regional

actors should be encouraged; it plays a key role for the implementation of policies for the youth.

Part of the problems young people have, is for them to solve, through a proactive attitude, through continuous information (with regard to the rights, obligations, opportunities, responsibilities, legislation), awareness of the role of the institutions; this should lead to a significant improvement of the situation facing them on the labour market.

The solutions for the needs of young people regarding their inclusion on the labour market are the responsibility of the authorities, from central/local level, and also depend on individual action and involvement.

4. CONCLUSIONS

If we consider the initiatives related to the young people, either national or local, their presence cannot go by unnoticed; if we consider, however, the statistics on the situation of youth on the labour market, yet we cannot speak of effective policies or measures to support young people in an attempt to harmonize professional life, family life and personal life, so as to enable them to start a family and at the same time to participate fully in education and training activities as they desire.

Unfortunately, young people face a series of problems related to the integration onto the labour market, to harmoniously interweaving family life and professional life, to acquiring skills and competences through educational programmes so as to increase the chances to find a job according to expectations, to the lack of financial resources that enable the implementation of creativity and entrepreneurship.

The multiple challenges and opportunities facing young people today lead to their periodic evaluation and their rank in order of priority thus offering such a guarantee of a flexible approach, reflecting the needs of new generations.

Rules, strategies, policies and measures concerning youngsters aim, regardless of the level (national State or community space), the creation of a greater number of opportunities for young people in education and employment, encouraging the active contribution of young people in the construction of Europe, encouraging the spirit of initiative and enterprise, creativity and improving the quality of life of young people in Europe with the help of specific tools, also through better integration of issues regarding the youth in related policy areas, as well as through cross-coordination.

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INTERNAL CONTROLS IN ENSURING GOOD CORPORATE GOVERNANCE IN FINANCIAL INSTITUTIONS

**KOSMAS NJANIKE, MARGARET MUTENGEZANWA,
FUNGAI B. GOMBARUME***

ABSTRACT: *This paper assessed factors that influence the internal controls in ensuring good corporate governance in financial institutions in developing economies with special reference to Zimbabwe. The research paper assessed how lack of internal controls affected good corporate governance and aimed to bring out elements of good corporate governance. It emerged that failure to effectively implement internal controls contributed significantly to poor corporate governance. The study discovered that internal control system overrides and the issue of “fact cat” directors also contributed to poor corporate governance. The study recommended that there is need for the board of directors to guarantee an organizational structure that clearly defines management responsibilities, authority and reporting relationships. There is also need to ensure that delegated responsibilities are effectively carried out to ensure compliance with internal controls of the financial institution concerned.*

KEY WORDS: *internal controls; corporate governance; ethical behaviour.*

JEL CLASSIFICATION: *G21, G28; G30; G38.*

1. INTRODUCTION

The year period December 31 2003 to December 31 2004 witnessed the collapse of a number of financial institutions in Zimbabwe. This period witnessed a 27.5% decline in the number of registered financial institutions from forty (40) to twenty nine (29). The impact of effective internal controls can thus not be overemphasized in ensuring good corporate governance practice and consequently

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survival of financial institutions. The main cause of this crisis has been blamed on ineffective internal controls that would be used in measuring the compliance levels of managers in the day to day running of the financial institutions by the board. When one speaks of management it is essentially speaking of internal controls. Laxity of implementing effective internal controls, greedy and in some instances poor or lack of board supervision emerged as contributors to poor corporate governance in many financial institutions.

The study is set to clarify how ineffective internal controls contribute to lack of good corporate governance. The research defines internal controls and corporate governance structures and shows how the relationship can contribute towards improved operational procedures. Cartwright (1999) asserted that effective internal control is a tool that enhances good access to capital and ensures sustainability. Cartwright argued that effective internal controls also provide a moral compass that guides leaders and staff when faced with ethical dilemmas making it the foundation and building block upon which good corporate governance is built and sustained. He indicates that effective internal controls demand an oversight by senior management and board members, and this oversight should be accompanied by unquestionable commitment to the programme by the two leadership groups, with their behaviour being exemplary providing the 'tone at the top'. This is so because ethical behaviour of firm's leaders has a strong impact on the ethical behaviour of its employees.

2. RESEARCH QUESTIONS

The paper thus strives to give answers to the following questions:

- How has internal control systems been effective in the Zimbabwean banking sector?
- How can efficient internal controls be implemented to promote corporate governance?

3. METHODOLOGY

A qualitative research design was used to assess internal controls in ensuring good corporate governance in financial institutions. Data was gathered through document review, questionnaires and structured interviews to clarify hanging issues in interviews. Targeted respondents included Chief Executive Officers (CEOs), managers from different levels from 8 commercial banks and 2 building societies. A total of ten (10) questionnaires and nine (9) interviews were used. The questionnaire had twelve (12) questions designed for the company secretaries, managers and CEOs from those banks so that they would not have any difficulty in responding to the questions. The questionnaire was divided into three (3) parts that is; part A which had two (2) questions constituting the respondent profile; part B with two (2) questions that formed the administrative section where the research was obtaining information about the financial institution and; finally part C formed the main body from which the crucial data for the research was obtained. Document review was also used to obtain much data as possible for a comprehensive, detailed and informed analysis of the study. The research is a study designed to explore the problems bedevilling the effectiveness of

internal controls in financial institutions and their consequence on the good corporate governance of these institutions.

4. LITERATURE REVIEW

According to Harvey and Brown (1998), the major components of internal controls are control environment, accounting system and control procedures. Smircich (1983) subscribes to the same sentiments by highlighting that the tone at the top has implications on the direction taken by employees. Furthermore, Jansen (1998) pointed out that historically internal controls, has focused conforming employees' actions to the desires of management.

An internal control system available to a firm according to Grieves (1998) consists of: management oversight and the control culture; risk recognition and assessment; control of activities and segregation of duties; information and communication and monitoring activities and correcting deficiencies.

Control environment reflects the overall attitude, awareness and actions of the board of directors, management and stockholders. The accounting system consists of the methods, records and report on entity's transactions to provide complete, accurate and timely financial information. Finally the control procedures are essentially specific procedures put in place by management to provide assurance that the company's objectives will be met. They usually come in the form of authorizations, segregation of duties, design and use of adequate documentation and records, adequate safeguards or access to assets and independent checks on performance.

The control environment reflects the overall attitude, awareness and actions of the BOD, management and stockholders. Borerwe (2004) consented to Deal and Kennedy (1982)'s views and defined corporate governance from the banking industry as a manner in which boards of directors govern the business affairs of individual institutions and senior management, affecting how the banks:

- run the day to day operations of the business;
- align corporate activities and behaviours with the expectation that banks will operate in safe and sound manner, compliance with laws and regulations; and
- set corporate objectives (including generating economic returns to shareholders and protect the depositor's interests).

Robbins (1992) defines internal control systems as the whole system of controls, financial and otherwise, established by management in order to carry out the business of the enterprise in an orderly and efficient manner, ensure adherence to management, safeguard the assets and secure as far as possible the completeness and accuracy of the records. According to Khan (1994), internal controls are designed to protect an institution from loss or misuse of its assets. They also ensure that all transactions are properly authorized and thus guarantee or foster good corporate governance.

Corporate governance has been defined as a manner in which the business of an enterprise is directed and controlled, how the corporate objectives are set and how corporate activities and expectations of the stakeholders are aligned (Coyle, 2003).

Corporate governance involves the combination of the body of directors, management and controls that guide the firm.

Borerwe (2004) reiterated that corporate governance is concerned with holding goals. The aim is to align as near as possible the interest of individuals, corporate and society this can be ensured by having effective internal control system. Magaisa (2004) supported this view when he says that effective internal control is an attempt to encourage employees, managers, board members to think about and make decisions through the doctrine of shared values.

According to the King Report (2002) the corporate discipline, transparency, independency of board members and committees, fairness, accountability and social responsibility are the essential pillars of good corporate governance. For a corporate to achieve good corporate governance it must adopt a clear stance on the following: Strategy, Stewardship, Corporate culture, Corporate reporting, IT systems and Board operations. Pheysey (1993) added another dimension to the above definition by defining corporate governance as the way business is conducted in accordance with the shareholders desire which generally is to make as much money as possible.

According to the Reserve Bank of Zimbabwe (RBZ) a corporate governance guideline protect the integrity of the sector and cultivates confidence within investors and deposited, conditions that result in free circulation of funds thus making it easy for banks to undertake their day to day operations without difficulties. This entails economic development as a result of free circulation of money within the economy. Magaisa (2004) substantiated the RBZ governor's statement by indicating that poorly governed financial institutions are a liability to the economy and are a functional equivalent of circulatory problem in human beings.

Harvey and Brown (1998) are of the view that the exclusive focus of corporate governance should maximize shareholder wealth to the extent that wealth maximization conflicts with the interests of other stake holder's interests. Those interests should be ignored unless management is legally required to take interests into account. Coyle (2003) added that the main corporate governance problem is rooted in the Blake and Mouton (1985) paradigm of separation of shareholders ownership and management's control in institutions. This resulted in the emergence of the agency problem, which is the need of ensuring that management is always acting in the best interest of the shareholders rather than theirs (Davis and Militelo, 1994).

Buchanan (1975) views the firm as a system of stakeholders operating within a larger system of a host of society that provide necessary legal and market infrastructure for the firm's activities. Khan (1994) supported this view by stating that the goal of directors and management should be maximizing total wealth creation by the firm.

RBZ (2004) recommended that boards of commercial banks and building societies must have at least five directors. The major reason for this recommendation was that large boards are for corporate performance because they have a range of expertise to help make quality decisions and makes it difficult for powerful CEOs to dominate.

Blake and Mouton (1985) indicated that monitoring by boards could deal with at least some problems of corporate governance. Johnson (1992) proposed that board of directors could solve agency problems if the company under performs in a health

industry because under this situation boards would find it easier to evaluate performance of the management. Weibach (1998) tested hypothesis advanced by Fama (1980) and discovered that outside directors behave differently from inside directors and behave differently from inside directors and boards dominated by outside directors performed better than firms with boards dominated by insider directors to remove the chief executive officer.

RBZ (2004) critique the concept of multiple appointments, the reason being directors who hold such appointments are ineffective in discharging their function to monitor managers. Magaisa (2004) concurred with this view and highlighted that members who sit on multiple boards do not have enough time to think of ways of improving the institutions in which they lead and it is very difficult for one to have the level of commitment that is necessary for effective governance to all companies it on board. King Report (2002) recommended high frequency of board meetings per annum. This suggests that meeting frequency is critical dimension of an effective board. French and Bell (1999) found that board meeting time is an important resource in improving the effectiveness of the board and most widely shared problem directors face is lack of time to carry out their duties.

Green (1997) suggested that the board and senior management of financial institutions are responsible for promoting high ethical and integrity standards and for establishing a culture within the organization that emphasis and demonstrated to all levels of personnel the importance of internal controls. Khan (1994) suggests that an effective internal control system requires that there are reliable information systems in place that cover all significant activities of that bank. The systems must be secured, monitored independently and support adequate contingency arrangements Deal and Kennedy (1982) argued that effective internal control systems requires effective communication.

6. RESULTS

Responses were obtained from nine interviews and ten (10) questionnaires distributed to different banking institutions. Majority of respondents (92%) agreed that effective internal controls are an essential ingredient of good corporate governance. The remaining (8%) was of a different opinion saying corporate governance does not have any relationship with effective internal controls since some banks can outsource the services of control department.

The argument the respondents in the affirmative gave was that when the firm adopts sound and effective internal controls it avoids the risks of poor board oversight and issue of directors who sit on the board just to selfishly enrich themselves.

From the study, it also emerged that 80% of the banks have internal control departments, which typically includes internal audit, compliance officer, internal control unit, transaction authorization and verification. The other ones did not have such a department and relied on subcontracting services. In seven of the financial institutions investigated the function of the control unit were identified as verifying compliance with regulators, ensuring competences and accuracy of financial

statements, implementing risk management policies, reviewing related party transaction and mitigation conflict of interest and separation of duties.

The research suggests that an internal control or internal audit department is an essential component which ensures good corporate governance. Therefore the audit committee is necessary to ensure that the banks assets are protected and that good corporate issues are respected.

On the importance of the key elements of good corporate governance the findings were that all respondents suggested transparency, principle of responsibility, fairness and discipline. However, the principle of social responsibility had 85% and that of independence was mentioned by 77% of the respondents. This conclusion alludes to the assertion that good corporate governance is a function of several factors or elements.

Asked on whether the banks had internal controls which aid in mitigating challenges associated with poor corporate governance all the respondents gave answers which can be classified broadly under the headlines of general and application control. Respondents indicated that general controls included staff loans policy, vacation policy, segregation of duties, lending control and physical control. It emerged that application controls are associated with computer packages. The findings indicate that a greater proportion of banks have come to realize the importance of internal control in banks so as to ensure good corporate governance in all operations of banks.

On answering the question on how Board of Directors BOD ensures that systems of internal control continue to operate effectively and efficiently in banks the following responses were obtained:

- ❖ Risk management reviews are made
- ❖ The board sets targets in place
- ❖ The audit committee has powers to summon members to give evidence
- ❖ Directors have access to the internal and external auditors
- ❖ The board updates and reports from executives in meetings

Respondents revealed that the cause of corporate failures in Zimbabwe was due to one or more of the following factors:

- ❖ Overriding internal controls
- ❖ Fraud
- ❖ Disregard of prudential laws and regulations
- ❖ Overtrading
- ❖ Failure to have substantive risk management team
- ❖ Poor risk management practices

The results also revealed that lack of adequate safeguards and checks, insufficient segregation of duties/responsibilities and internal control deficiencies lead to poor corporate governance. Respondents also identified excessive pressure on management by senior management, few independent non executive directors and intertwined board settings as weaknesses that occur in banks in Zimbabwe. The weaknesses centre on the ineffectiveness of the boards in ensuring adequate controls to ensure good corporate governance. Results from respondents points out that futile internal controls systems are the major cause of corporate failures in the Zimbabwean banking system.

On the necessary components of an effective internal control system, 69% of the respondents identified the control environment, control activities, information communication, risk assessment and monitoring as the necessary components of an effective internal control system. Respondents indicated that control environment was the heart of effective control. An analysis of the responses revealed that control activities should include approvals, verifications, reconciliations, and reviews of operating performance, security of assets and segregation of duties.

All the respondents concurred on the definition of internal controls by Minnesota State Auditor (2007) which defined internal controls as policies and procedures designed to protect an institution from loss or misuse of its assets and also to ensure that all transactions are properly authorized and thus guarantee or foster good corporate governance. In addition to the aforesaid the respondents also indicated that:

- ❖ Poor capacity utilization
- ❖ Liquidity Crunch
- ❖ Poor capacity utilization
- ❖ Lack of resources both human and capital
- ❖ Poor data management
- ❖ Disintegration of systems across departments
- ❖ Stringent regulatory requirements could affect effectiveness of their internal control systems and hence corporate governance in the future

Finally majority of the respondents indicated that although there were internal control systems in most banks their effectiveness was affected by poor supervision from the body of directors and the reasons for poor supervision by the body of directors ranged from multiple sitting on boards to what the respondents termed “fat cats” who set a the board for enriching themselves at he expense of monitoring performance of subordinates. This they resulted in poor corporate governance and subsequently poor performance of a bank indicating the positive correlation between effective internal controls and good corporate governance.

7. DISCUSSION

According to the base committee on banking supervision, focus is increasingly on the importance of internal controls to ensure good corporate governance. This heightened interest in internal controls has in part a result of significant losses incurred by several banking organizations. An analysis of the problems related to these losses indicated there could probably have been avoided had the banks maintained effective internal control systems (Financial Stability Board, 1998).

Although most banks have effective internal controls, mediocrity of boards caused by selection on the basis of “olds boy club” rather than merit has seen these boards fail for supervise chief executive officers effectively. That is why RBZ turned down the proposal to appoint Mr D Simba as an executive director at its licensing stage due to his glaring lack of pre-requisite academic and professional qualifications as well as his questionable integrity.

Other factors such as lack of accountability due to there no being separation of ownership and control such as where an executive director is the majority shareholder.

This was the case before the collapse of the Barbican Bank when Dr Mtuli Ncube was the major share holder and chief executive officer. The chief executive officer dominated in the board meetings which resulted in the body of directors being a rubber stamping board.

In the United Kingdom in 1991, the Bank of Credit and Commerce International (BCCI) collapsed due to fraud by top executives costing depositors and investors large sums of money amounting to 6 billion pounds nearly half the banks assets. In the 1970s in the US, during a period which more than 400 firms engaged in corrupt activities a commission called Tread Way or Committee of Sponsoring Organizations of the Tread Way Commission (COSO) was formed to deal specifically with financial reporting fraud. The first report was published in 1985.

Magaisa (2004) suggests that larger boards are less effective and easier for a chief executive officer to control because as boards become too large, it becomes difficult to coordinate and process problems. This was the case with the body of directors of Trust Bank who said they were unaware of the scenario were a significant amount of the banks loans were non performing and were granted without formal agreement facilities. In his research Pheysey (1993) found a negative correlation between board and profitability of a firm.

Despite RBZ (2004) critique on multiple appointments Cook, who retired as chairman and chief executive officer of Deloitte and Touché in 1999 and sits on boards of five American companies, commented that there is considerable value being on multiple boards and the experience across boards can be of real value to governance (Cook, 2002).

As with all other areas of financial institutions activities, body of directors has a critical role to play in overseeing internal control functions of the bank. The Basel Committee on Banking Supervision (1999) stipulates that the board should develop effective internal controls and adopt the necessary policies and procedures for conducting such. The internal should be approved and be reviewed periodically by the board.

In other instances top management wilfully violated internal controls as they tried to be creative and innovative in order to enhance shareholder interests of profit maximizing and in their desire to please the body of directors and be rewarded for good performance. In other occasions managers will not agree with internal controls and view them as stringent measures aimed to frustrating their endeavors.

In some case of banks such as Trust Bank of Zimbabwe, it was noted that though there were adequate internal control measures these were however principality reactive and non-proactive as these measures did not raise alarm to the board to take corrective action before the damage had been severe. Also in most instances, decoctions from such policies and procedures were not independently investigated and addressed by relevant parties. In the case of Barbican Bank the body of directors tried to “sweep the mess under the carpet” pretending that everything was well until the RBZ surveillance time exposed the precarious situation in which the bank was operating under before it went on into liquidation. According to the Reserve Bank of Zimbabwe majority of financial institutions have internal controls and if these internal controls were religiously adhered to good corporate governance would be the order of

the day in these financial institutions. However a number of factors discussed below have been militating against the soundly implementation of effective internal controls.

Borerwe (2004) saw economic confusion in the last decade in Zimbabwe, insatiable appetite for riches, corruption and double standards by senior management who preach good corporate governance during the day and do not walk their talk by awarding themselves hefty packages which when it comes to the attention of workers would see management as insensitive and thus they will work towards evading internal controls so that they themselves will get rich.

There should be board oversight responsible for ensuring the following in financial institutions:

- Ensuring that senior management has not only developed but they have also implemented a properly structured internal control system.
- Periodic discussion with senior management concerning the effectiveness of the internal control system is held.
- Ensuring timely reviews of evaluations of internal controls are performed by internal and external auditors.
- Periodic checks to ensure that management has promptly acted on recommendations and concerns expressed by auditors and regulatory authorities on internal control weakness.

For the internal controls to be effective they do not only need to be precise and well presented for everyone to know, but there also needs to be appointed compliance officers whose mandate is to oversee compliance issues. They should be equipped with necessary skills and expertise, the level of which should be commensurate with the complexity of the institutions activities. Cook (2002) suggested that the board and senior management of Banks are responsible for promoting high ethical and integrity standards and for establishing a culture within that organization that emphasizes and demonstrates to all levels of personnel the importance of internal controls. All personnel at a bank need to understand their role in the internal controls systems and be fully engaged in the system.

8. CONCLUSION

The results obtained from the research clearly support the assertion that the effectiveness internal control systems contributed to a greater extent to good corporate governance in financial institutions in Zimbabwe. Therefore effective internal controls contribute to better performance by financial institutions. The success of the system depends on positive internal control culture. Banks should have in place a comprehensive internal control management process to identify, measure, monitor and control internal control system effectiveness and compliance. There is also need for financial institutions to cultivate a culture of ethically doing business from the top management which should see this culture cascading down to the most junior worker or employee in the organization so as to promote adherence to internal controls of the organization which are essentially management tools on measuring compliance to an organizations way of doing business in a competitive environment.

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SOCIAL-ECONOMIC ASPECTS REGARDING THE ACTIVITY OF THE PERSONNEL ENGAGED IN THE RAILWAY TRANSPORTATION

ION PÂRVULESCU, ROXANA PLEȘA *

ABSTRACT: *The paper presents a synthesis of an analysis made with the personnel of the railway employees in Craiova and Timiș areas, regarding the opinions on various aspects involved in this field. The opinion viewed aspects such as: motivation of the career options for railway activity; advantages and disadvantages of the activities in this field; social security provided; working conditions; assessment of activity from the point of view of its complexity.*

KEY WORDS: *motivation; satisfaction; social security; human relations.*

JEL CLASSIFICATION: *A14; Z10.*

The research was made in the year 2011 and a batch of 542 employees was investigated in the railway system in Craiova and Timiș areas.

As far as the structure by sex is concerned, most of the employers are male (84%), as a consequence of the fact that the workforce in railway is mostly male.

Age wise, employees older than 30 are more than three quarters of those inquired, with a balance between those belonging to the 31-40 and older than 40 years old category. Those younger than 25 years old are only 6.5%, the explanation being that in the last years redundancy programs were applied, with no new employments.

Job experience being an age dependent variable, it is only natural to be dominated by the 11-20 and more than 20 years category, those with 10 years including, with an approximately one third share.

Education is rather high, with only 10% having less than middle school, and those with university education being more than one fifth, the majority being with middle schools.

The opening questions of the inquiry viewed the main issues worrying the employees in the railway system at present, the answers being given in Figure No. 8,

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showing that 40% feel insecure for their jobs, for their financial situation, which is obviously connected to the job insecurity, for the uncertainty regarding the evolution of the railway system, which indirectly is also related to the first aspect.

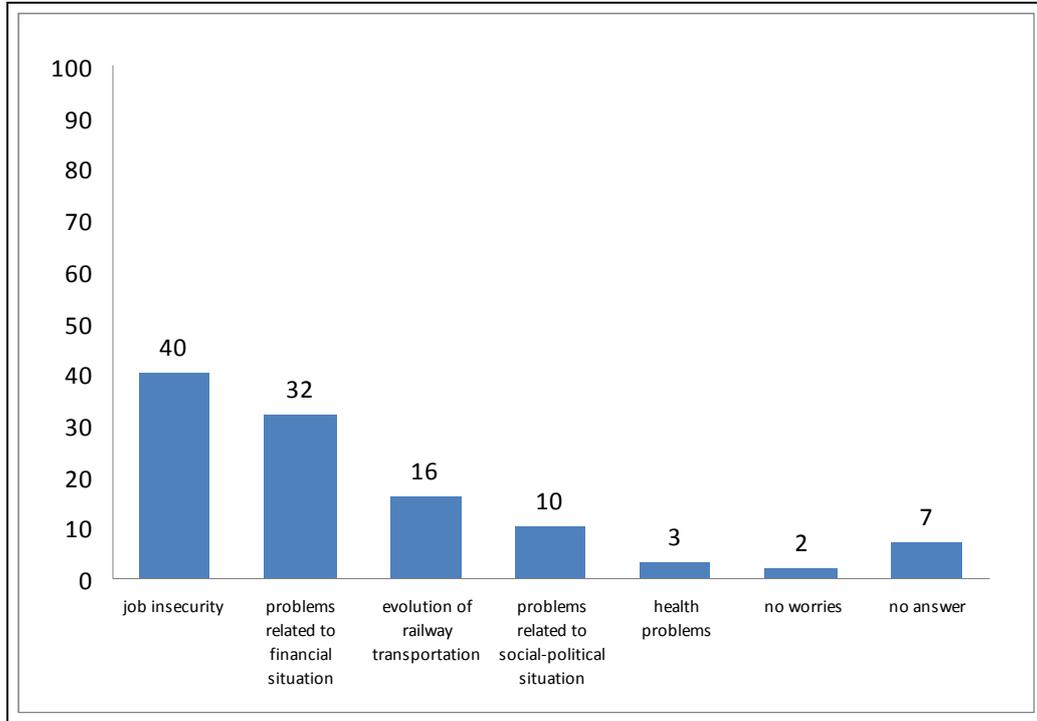


Figure 1. Problems of concern (%)

The motivation shows the “inner and/or outer forces leading to the outbreak, direction and persistence of the behaviour”. These motivations that directed the inquired subjects are given in Figure 2.

The answers to the question regarding the motive of the career choice show that the hopes they had when they were employed were greatly annihilated. Whether for more than a half of those inquired (56%) the motive of employment was job security, when the investigation was carried out, their pessimism regarding this aspect was 40%.

The second place in the hierarchy of career choice is the work schedule, with which most of the subjects are satisfied. One third of the employees had in view the income and the prestige of the profession.

Most of the employees (70%), irrespective of their occupation, see their activity as being one with great responsibility, more than a half as being complex, and more than one fifth as being an activity providing a possibility of professional development (Figure 3).

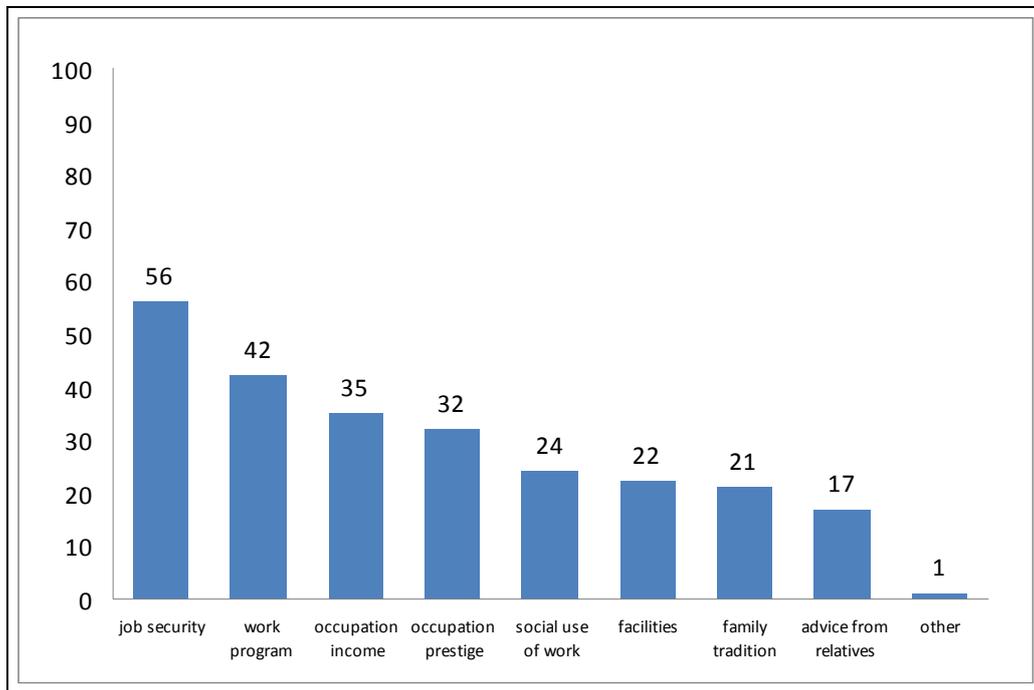


Figure 2. Motive of career choice (%)

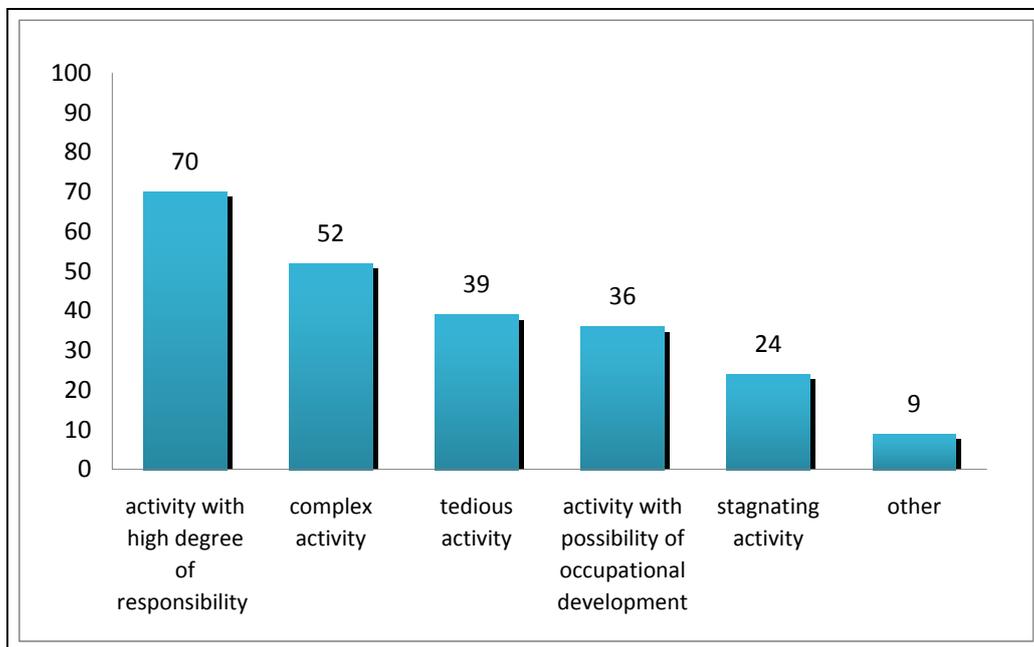


Figure 3. Appreciation for on the job activity characteristics (%)

Activity is seen monotonous by 39.0% of the inquired subjects (one should mention that the subjects had the possibility to choose three variants). The satisfaction for the activity of those working in the railway system (Figure 4) is high, half of those inquired seeing it “largely” and “totally”, only 13% being discontented with what they do.

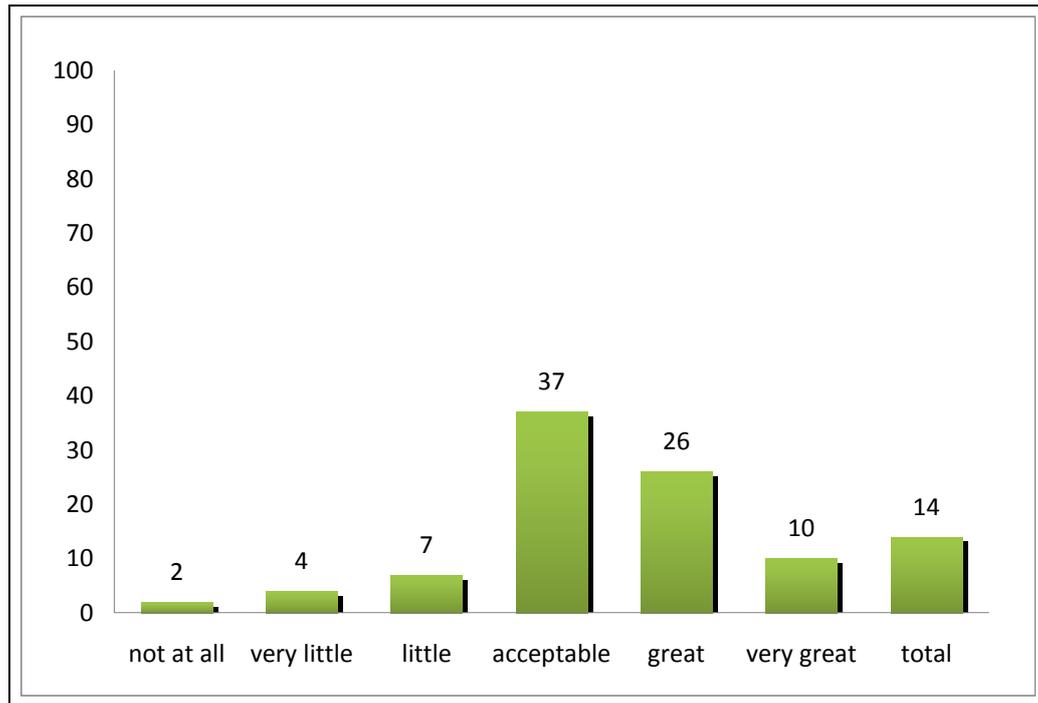


Figure 4. Satisfaction with their activity (%)

Satisfaction is a “positive affective state, of content, shown when a success is obtained, or as a result of fulfilment of a need, of reaching one’s goals, as well as in the increase of one’s action performance and quality”.

As far as occupational safety is concerned, there is a relative equilibrium among those who are sure that they would not have problems and those who anticipate losing their jobs (Figure 5).

Whether in their career choice 56% of those inquired had in view job security, 40% are worried at present for their future in the railway system, where redundancy programs are expected to be implemented.

One of the main motives for their career choice was the income, but at present almost half of those investigated are discontent, only one quarter saying that their expectations were fulfilled (Figure 6).

The psycho-social climate points out the state of spirit of a social group.

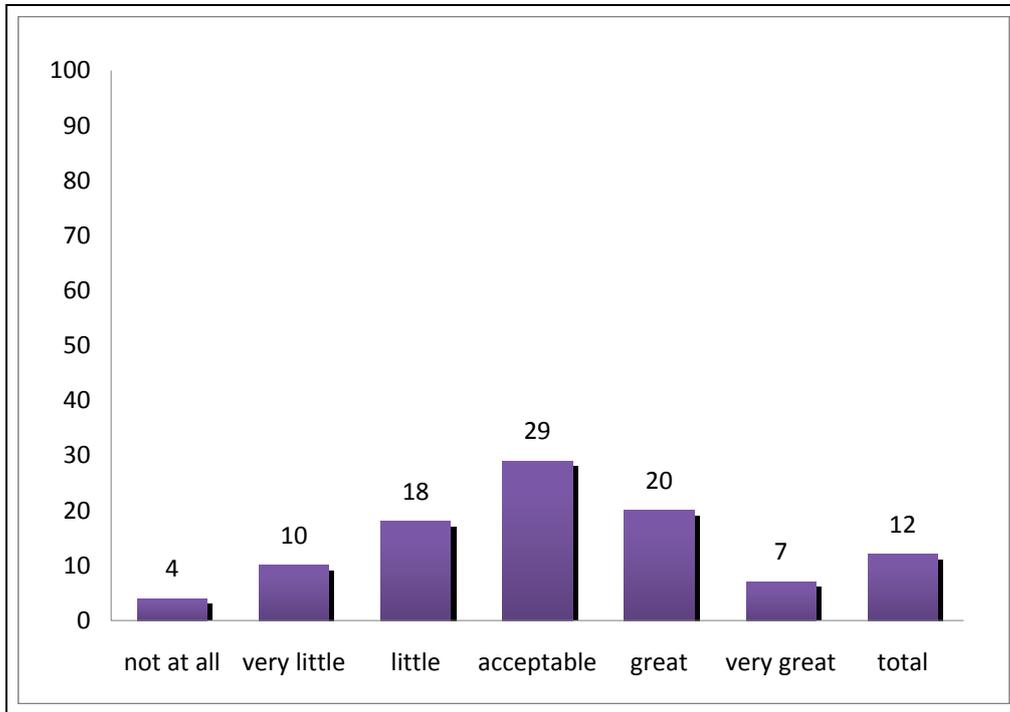


Figure 5. Satisfaction with job security (%)

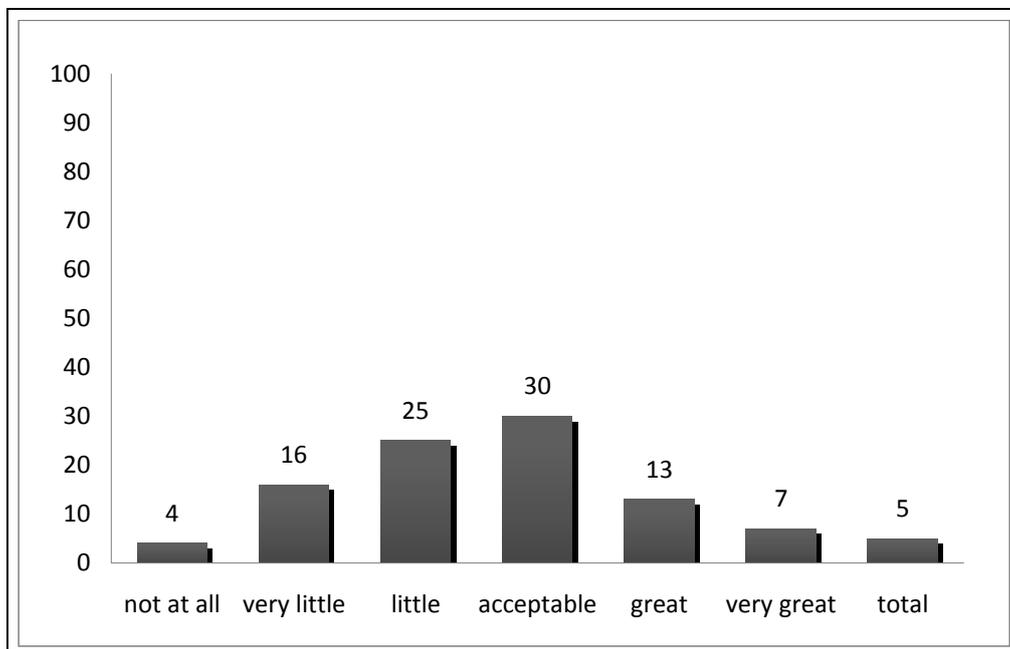


Figure 6. Satisfaction with their income (%)

A positive psycho-social climate at the workplace is an important factor in stress relief in activity, and for the railway employees is quite good, as it is seen in Figure 7 and 8, where only 12% are discontent of the relationship with their superiors, and an insignificant percentage is seen in relation with their co-workers.

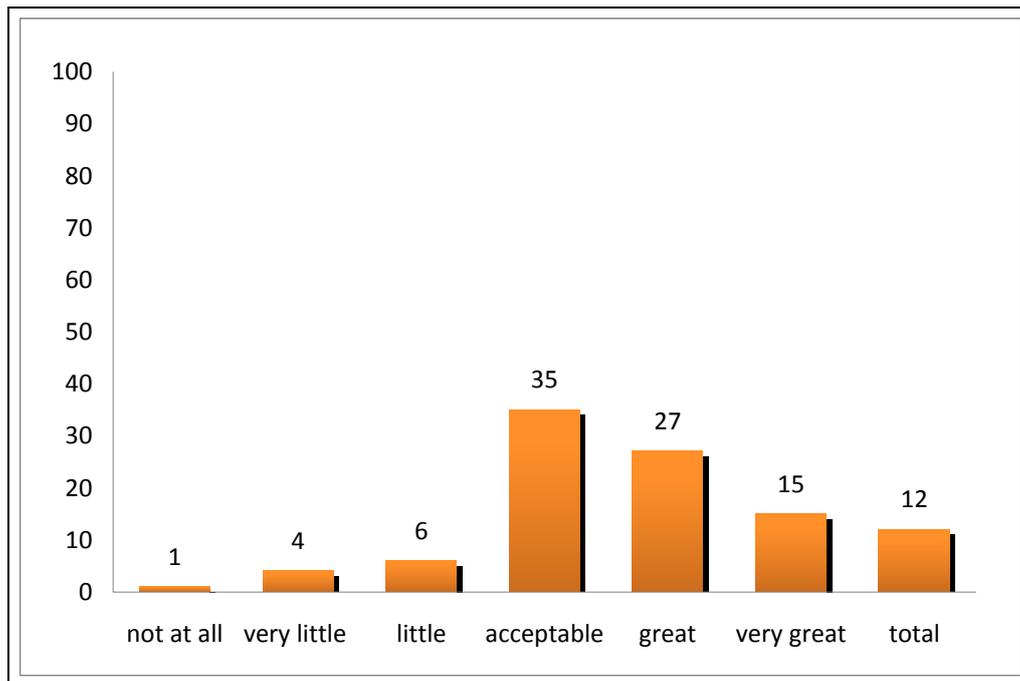


Figure 7. Satisfaction with relationships with their superiors (%)

One might say that there is a sense of life for those activating in the railway system, and within their professional activity, the „sense of life is manifest in the form of profession ...”.

The expectations before employment regarding work program are exceeded by the satisfaction noticed at present, almost all the employees being more or less content with this aspect (Figure 9). The percentage of the discontent is not significant, the cause being the limited free time.

The applied apparatus and technology requires modernization, only 29% considering it satisfactory.

The gap between railway services in Romania and the EU is very high, almost two third of the employees sustaining that harmonization is limited, measures being required in this sense.

Health and safety insurance in the railway service is precarious, only one quarter of the respondents considering it adequate. Safety in railway transportation on the other hand is seen inadequate.

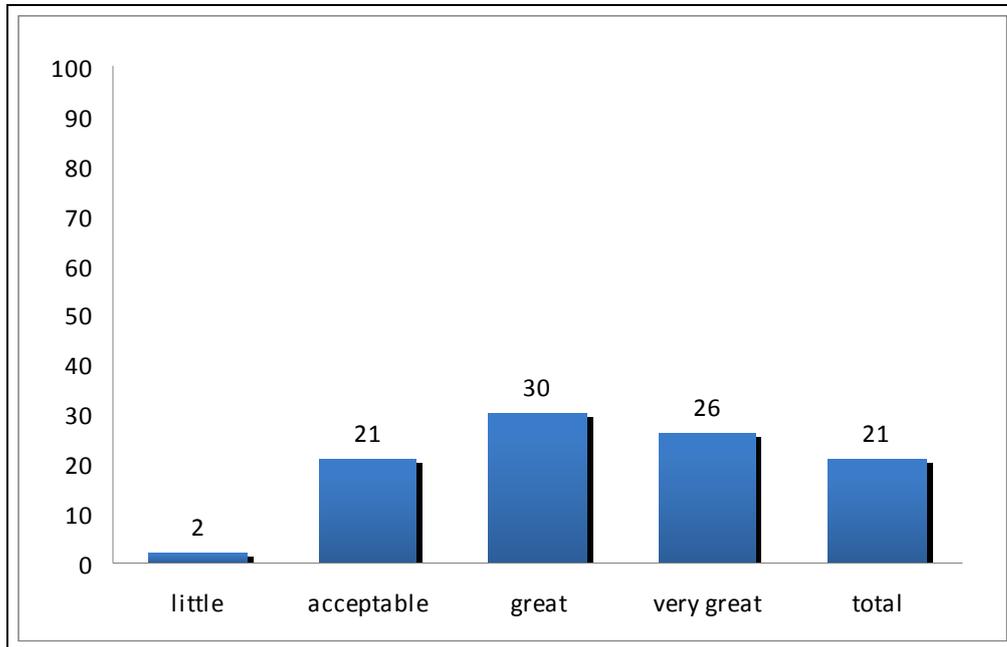


Figure 8. Satisfaction with the relationships with their coworkers(%)

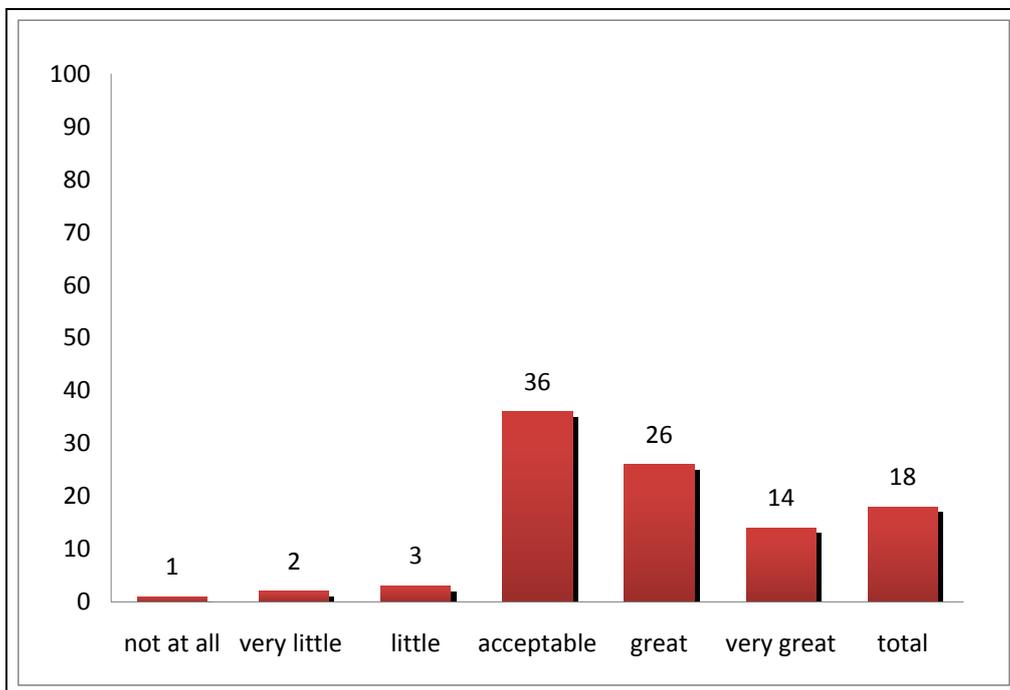


Figure 9. Satisfaction with work program (%)

Flexible activity is seen positively by a little over one fifth, the share of those at the opposite pole being more than one third.

Although we consider that the legislation in the railway system is adequate, only one third of those inquired see it differently, more than one fifth appreciating it as being inadequate.

As far as access to occupational training is concerned, there is a balance between the content and the discontent by this opportunity, approximately one third being on these positions in each case.

Although in general the employees consider that they have access to continuous occupational training, only one quarter of those attended in the last three years a refreshing class, even if they totally agree that such classes are necessary in all fields, either in the country or abroad. Such classes should be mandatory and not left at the employees' preference.

Attending training classes in another EU country obviously requires the knowledge of a foreign language, this being appreciated by more than half of the employees.

Even if a rather low share of the respondents (11%) are dissatisfied with the content of their activity, the dissatisfaction with their working conditions is felt in a higher degree, that is 40% of the respondents.

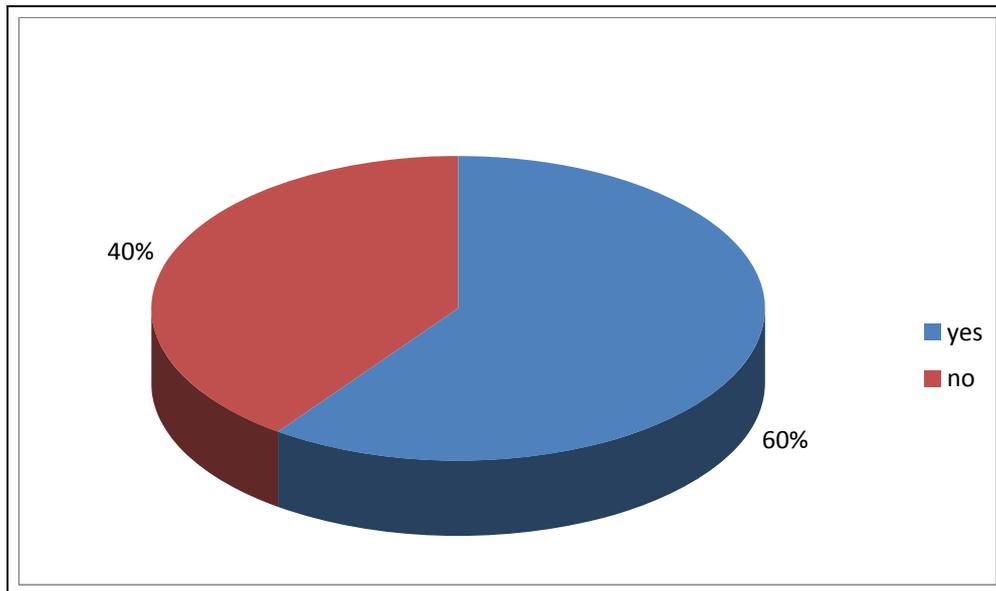


Figure 10. Satisfaction with workplace conditions(%)

Work does not affect family life, the 9% who think otherwise claim the longer work program.

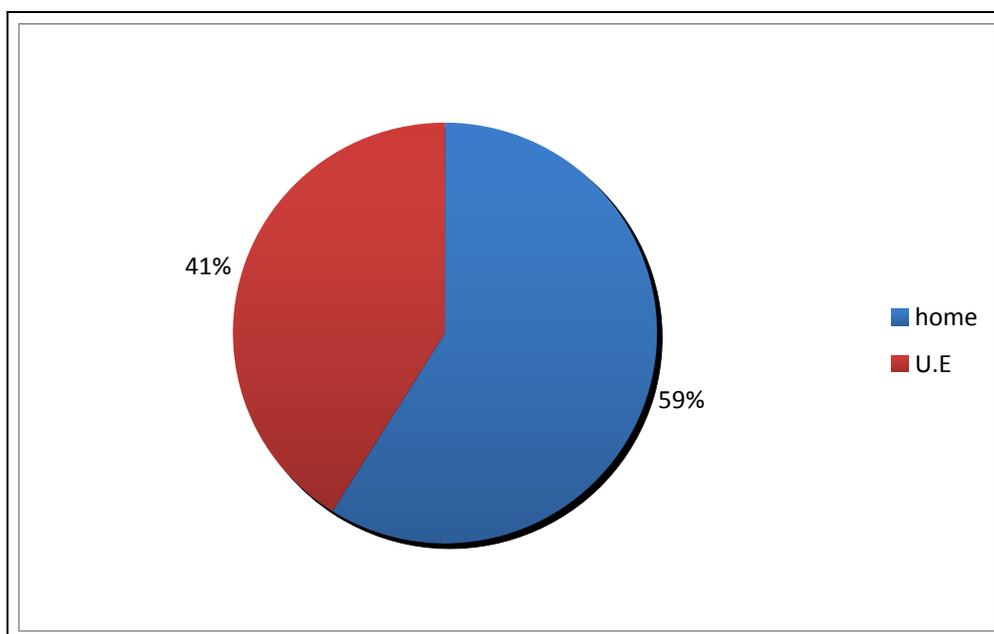


Figure 11. Necessity of refreshment training for railway employees (%)

The conclusions drawn from this investigation are the following:

- The main motive in career choice was job security;
- Job insecurity and therefore scarce income is an anxiety among the railway employees;
- The activity is considered with a high degree of responsibility and complex;
- As a consequence of the previous characteristic, the employees feel a high degree of satisfaction with their activity;
- Their income is less than that expected, compared to the importance of their activity;
- Psycho-social climate at workplace is positive, generating satisfaction;
- The existing apparatus and technology requires modernization;
- The gap between Romanian railway services and those in the EU requires their harmonization, so that they would be at the level of those in the EU;
- Work organization flexibility is poor;
- Safety and health insurance of the employees is precarious, therefore working conditions should be improved;
- A stringent requirement is neglected, that is continuous occupational training by refreshment courses.

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HUMAN CAPITAL AND HIGHER EDUCATION IN ROMANIA IN THE LAST YEARS

ADINA POPOVICI (BĂRBULESCU) *

ABSTRACT: *The paper underlines and analyses the role of human capital, as well as some issues related to higher education and research in Romania, both in figures and from a humanistic perspective of regarding them as fundamental investments in the future of nations, preservers of the supreme values of the humanity.*

KEY WORDS: *human capital; economic growth; higher education; research; market economy; knowledge-based society.*

JEL CLASSIFICATION: *I21, I23, I25, J60.*

1. THE ROLE OF HUMAN CAPITAL

The importance of education and health for the economic growth and development is due to the returns from investments in the two variables. These are two forms of human capital, the improvement of which should enhance worker's productivity. Several studies show that better health, special early in life, is associated with higher educational attainment. Conti et al. (2010) argue that more educated individuals, in turn, have better health later in life and better market prospects. According to the authors, education has an important causal effect in explaining differences in many adult outcomes and health behaviours (Conti, Heckman and Urzua: 2010). (Carlei, et al., 2011, pp. 174)

An improvement of living conditions of an individual, and therefore an increase in the level of health, has effects both at a microeconomic level, thereby improving his welfare and that of the communities in which he lives, and also at a macroeconomic level, allowing a further development of a country. The micro-level evidences are those that support the contribution of health on economic outcomes, like as wages and earnings, amount of hours worked, labour force participation and so on, analyzing for example the link between nutrition and productivity. Fogel (1997), in his

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analysis on distribution of the height and weight and on food supply and calorie intake across the population in Great Britain and France, estimates that improvements in health and nutrition contribute to about one-third of income growth in Great Britain between 1790 and 1980. (Carlei, et al., 2011, pp. 174-175)

The macro evidences concern the effect of population health on economic growth. However, the effects are different and they depend on the initial level of income. For example, Bhargava et al. (2001) believe that a better health is more important for wages, economic indicator of workers' productivity, in low-income countries than in high income ones. Indeed, in low and middle income countries a 1% increase in survival rate in adulthood is positively associated with the increase of 0.05% in the rate of economic growth, while above a certain income the adult survival rate has a negligible effect and in some cases a negative growth rate. Also Weil (2007) suggests that the positive effect of health on GDP is stronger among poor countries. (Carlei, et al., 2011, p.175)

Economic growth during the transition period had a particular pattern in CEEC. Capital has provided a certain positive contribution to growth, while labour had a small or even negative contribution (IMF, 2006). In this respect, CEEC stand out among other emerging countries, where labour input has typically contributed substantially to growth. Most of the growth during the transition period was actually accounted by the increase in total factor productivity (TFP). Even though the classical source of TFP growth is technical progress and innovation, growth during transition was mostly explained by efficiency improvements in the use of capital and labour (Havrylyshyn, 2001). (Jude & Pop Silaghi, 2011, p.72)

Starting in the late nineties, CEEC experienced a return to the classical factors determining growth, with an increase importance for innovation and technical progress. Once the transition period completed, the growth process in CEEC should be sustained by factors like capital intensity, innovation, human capital and competition (OECD, 2003). (Jude & Pop Silaghi, 2011, p.72)

Adam Smith – in his famous work “The Wealth of Nations” - observes that human capital is not just a form of capital, but also the most important of these; it represents the acquired or useful capacities of the members of the society, capacities which are in both the property of an individual, and in the welfare of the society he belongs to. *„The perfected skill of a worker may be considered as a tool which improves labour and which, even if it is costly, requires a certain expense, yet returns this expense as a revenue for him and the community he belongs to”* (Smith in Ciobanu, 2003, p.15).

Practically, *the human capital* is composed of *the educational capital*, represented by the skills acquired by individuals during and outside the education process, and *the biological capital*, represented by the individuals' physical skills, the most often synthesized by their health state. Human capital has developed itself as a concept in economy, where it is mainly regarded as “estimation of a person's ability to produce income by labour” (Cismas & Popovici, 2009, p.57).

Education in a knowledge society will have a strong social goal. The new educational system must be an open one, conceived to assure equal chances of education for all the members of the society. The capable ones must have free

access to studies, so that their social growth is allowed, irrespective of the origin, revenues and prior education. In a knowledge society, it is necessary that all educated persons systematically return to school; it is particularly the case of those with higher education. The continuous formation will become “an industry”, which might register a strong progress in the future. The educational title, the studies diploma will facilitate the access to the best work places and to the most promising professional carriers, only if it is given based on competence criteria, of capability and talent, and not on the criterion of welfare, being, in such case, a symbol of the social class.

Practically, this last key – requirement imposes that “the product” of education be an educated, efficient and cultivated person, irrespective of her social condition.

An important motivation of individuals to invest in education is based on the idea according to which accumulated knowledge and competencies tend to lead to a growth in productivity and, implicitly, of the potential earnings. Another important reason for accumulating a high level of education is getting a higher stability on the labour market, which implicitly reduces the risk of unemployment. Educated workers have a higher rate of participation on the labour market, and the length of their active life is generally higher than in the case of the persons with a lower level of education (Popovici, 2011, p.477).

2. SOME FIGURES RELATED TO HIGHER EDUCATION IN ROMANIA IN THE LAST YEARS

Professional insertion of young people has lately become, both in Romania and in the European Union, a difficult process, which requires an increasing period of time from the moment of finalizing the last form of education, until the moment of finding a work place.

Today, it exist in the world about a billion young people with the age ranging between 15 and 24 years old, 85% of them living in developing countries. The participation rate on the labour market among young people has decreased at a world level from 59.3% to 54.4% during 2004-2010, mainly because of the prolonging of studies among young people. In the European Union currently live about 62 million young people, which represent 12.7% of the total population.

According to the data supplied by the National Institute of Statistics, there is a decreasing trend with regard to the evolution of young population until 2025. This evolution may be explained by the decrease in the birth rate, the increase of the period and level of education, the social mobility, women’s emancipation. Regarding young people’s unemployment rate in Romania, it was of 22.1% in 2010, a little higher than the average unemployment rate in the European Union (Table 1, Source: Eurostat, 2011).

Table 1. Unemployment Rate among Young People less than 25 Years Old (in %)

Country \ Year	2005	2006	2007	2008	2009	2010
UE 27	18.7	17.4	15.6	15.7	20	20.9
Belgium	21.5	20.5	18.8	18	21.9	22.4
Bulgaria	22.3	19.5	15.1	12.7	16.2	23.2
The Czech Republic	19.2	17.5	10.7	9.9	16.6	18.3
Denmark	8.6	7.7	7.9	7.6	11.2	13.8
Germany	15.5	13.8	11.9	10.6	11.2	9.9
Estonia	15.9	12	10	12	27.5	32.9
Ireland	8.6	8.6	8.9	13.3	24.4	27.8
Greece	26	25.2	22.9	22.1	25.8	32.9
Spain	19.7	17.9	18.2	24.6	37.8	41.6
France	21.1	22.1	19.6	19.1	23.5	23.3
Italy	24	21.6	20.3	21.3	25.4	27.8
Cyprus	13	10.5	10.1	8.8	14	17.8
Latvia	13.6	12.2	10.7	13.1	33.6	34.5
Lithuania	15.7	9.8	8.2	13.4	29.2	35.1
Luxembourg	14.3	15.8	15.6	17.3	16.5	16.1
Hungary	19.4	19.1	18	19.9	26.5	26.6
Malta	16.2	16.5	13.8	11.8	14.4	12.9
Holland	9.4	7.5	7	6.3	7.7	8.7
Austria	10.3	9.1	8.7	8	10	8.8
Poland	36.9	29.8	21.7	17.3	20.6	23.7
Portugal	16.1	16.3	16.6	16.4	20	22.4
Romania	20.2	21.4	20.1	18.6	20.8	22.1
Slovenia	15.9	13.9	10.1	10.4	13.6	14.7
Slovakia	30.1	26.6	20.3	19	27.3	33.6
Finland	20.1	18.7	16.5	16.5	21.5	21.4
Sweden	22.6	21.5	19.2	20.2	25	25.2
Great Britain	12.8	14	14.3	15	19.1	19.6

Source: Eurostat, 2011

This situation can be explained, on one hand, by the inexistence of a correspondence between the educational (too much theoretical) level and the requirements of the labour market, and, on the other hand, by the companies' desire to employ qualified labour force. The lower unemployment rate among young people with higher education, in comparison with other categories, as well as the fact that the smaller the necessary period for finding a work place, the higher the educational level is, brings an increasing importance to the diploma at the beginning of the career.

Spain registered in 2010 the highest unemployment rate, with a percentage of 41.6%, and Holland the lowest one.

Employment rate among young people (15-24 years old) is much lower than that of the total population, because many young people are still included in the educational system and don't have a work place. On the other hand, the decrease in young people employment can also be determined by their migration abroad, the decrease in the birth rate and the black economy.

The number of a state faculty graduates increased from 80,000 in 2004 to 140,000 in 2007, but decreased in 2008 (Table 2, Source: The Statistical Annuary of Romania, 2005-2010). The biggest increase was registered in 2007, when the number of graduates increased by 50,000 persons compared with 2006. In 2008, the number of a state faculty graduates decreased at both the state faculties, and the private ones, but in a higher proportion in the first compared to the latter ones (Popovici, 2011, pp. 476-478).

Table 2. The Evolution of the Graduates Number (persons)

University year	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009
Faculties graduates					
Private faculties graduates	25736	26336	33839	88028	91803
State faculties graduates	82739	85908	91660	144857	123023

Source: The Statistical Annuary of Romania, 2005-2010

3. HIGHER EDUCATION AND RESEARCH ISSUES IN ROMANIA

Romania signed the Bologna Declaration (2000), which aimed to form until 2010 a unique European space in the higher education and research field. Despite these assumed engagements - and partly because of such reforms - we could still notice a continuous process of degradation of the Romanian higher education.

Therefore new (foreign) focus replaced our old European thinking, built on long term thinking, on investment, including the investment in intellect: the Anglo-Saxon way of thinking is focussed on goals (targets), mostly on short run goals. Such a (re)orientation on short term can lead, at least in our case, to the loss of causality. Moreover, it could lead to a narrow, purely economic or hedonistic, rationality of Anglo-Saxon type. And we should not generalize the performance of the Anglo-Saxon thinking (and teaching) system: *we are not less valuable* and, then, we should keep our

analytical (causal) style, quite because this one is appropriate to us and we own it. We should not change it with a foreign one, which is inappropriate for us: it is exactly the reverse of our own thinking system.

Education and formation are *fundamental investment* for the future of nations. This feature was forgotten in Romania, by too many reforming transformations, despite the absence of a coherent, agreed by all the forces of the country, strategy – we do not have a coherent strategy (Jivan, et al., 2010, p. 220).

Usually, in the functional market economies, the best people are the best paid. Having bigger financial power than the public institutions, based on the funds collected from the tax payers, and providing good wages, private teaching institutions gain the best teachers and have the most performing teaching tools. Image and fame of teaching institutions is consistent with this same hierarchy – in the favour of the private ones.

In Romania, wages differences between private and state teaching institutions were not so big after 1989: they could not counteract the image; and this is plainly in the favour of those having tradition – the state ones. After 1989, private teaching institutes are too seldom big businesses. Most of them are organized at a university level, addressing to clients having already their own incomes – and less to those sustained by their parents. Those clients, businessmen themselves, thinking practically, materialistically, like in business, if they pay, they want to buy something “concrete” (material): such individuals (honest buyers on the market) cannot imagine to give money for watching some theoretical considerations of some “philosophers” university professors; but they want to get a diploma, by their money: they do not think philosophically or at elevate intellectual principles level (that is what they are interested in, not knowledge itself). This is our market: market works with priority to any supposed principles or imposed regulations: everything is sold and everything can be bought (Jivan, et al., 2010, pp.222-223).

The university research tends to diminish its level: grants are given for services and activities at the usual level of the industrial manufacturing enterprises; but the high level research is not appreciated enough anymore: the recent market system and the system of gaining grants are not rewarding enough such projects, but rather some not that profound (the short run most directly applicative ones are preferred). *The highest level* ones remain unpaid and, as a result, their number is diminishing and the best specialists are *diminishing* their *qualification levels* or they are *living Romania*, trying to valorise themselves elsewhere.

After 1990, the former very performing educational Romanian system became a problem, because of the diminishing standards and loosing position in international classifications. Its performance was not keeping with our doubtful economy; therefore market mechanisms won and they strongly entered in the Romanian educational system, diminishing its quality. It looks like, in the poorest countries, the economy is not ‘suitable’ for education and instruction.

These are some *long run* effects of the propensity to the most free (deregulated) market laws in the profound destruction (perverting, degrading, abasing, in the Aristotelian value meaning) *of the human being* (in the most human features this kind of being can have); just like the effects concerning the *planet destructions*, it is

another price paid for some short run private enrichments (the papacy declared conscientious polluting to be a sin, blameable): but they appeared just after some hundreds of years ... The economic and social returns of the high level human quality and of high moral behaviour (of principle, regulated behaviour) are diminishing: the returns of ethical and intellectual efforts in the market system are usually not as big as the returns of the money capital are (Talpos & Jivan & Popovici, 2010, pp.274-275).

4. CONCLUSIONS

I have showed the very important role that human capital and its education play, both in general, and in the case of the Central and Eastern European countries, Romania being among them.

I have also tried to portray certain of the most important higher education and research-related issues during the last years in Romania, in the context of the market economy.

We need the market economy, but not only to the interest of business and profit, but one based on knowledge. In the case of education, the limitation to the market level would be even more harmful, because, as sender of the supreme values, education in general, and education in Romania, in particular, has not only the duty to contribute to the economic growth and social development of a country, but to continue to create values and bring further these supreme values.

ACKNOWLEDGEMENT

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THE ROLE OF THE INTERNAL AUDIT IN THE TOURISM UNIT'S RISK MANAGEMENT PROCESS

BOGDAN RĂVAȘ *

ABSTRACT: *Management plans, organizes, and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved. Management periodically reviews its objectives and goals and modifies its processes to accommodate changes in internal and external conditions. Management also establishes and maintains an tourism unit culture, including an ethical climate that fosters control.*

Control is any action taken by management to enhance the likelihood that established objectives and goals will be achieved. Controls may be preventive (to determine undesirable events from occurring), detective (to detect and correct undesirable events which have occurred), or directive (to cause or encourage a desirable event to occur). The concept of a system of control is the integrated collection of control components and activities that are used by an tourism unit to achieve its objectives and goals.

KEY WORDS: *audit; tourism; management; evaluation; control.*

JEL CLASSIFICATION: *M42, M48.*

The scope of internal auditing work in a tourism unit should encompass a systematic, disciplined approach to evaluating and improving the adequacy and effectiveness, of risk management, control, and governance processes and the quality of performance in carrying out assigned responsibilities. The purpose of evaluating the adequacy of the tourism unit's existing risk management, control, and governance processes is to provide reasonable assurance that these processes are functioning as intended and will enable the tourism unit's objectives and goals to be met, and to provide recommendations for improving the tourism unit's operations, in terms of both efficient and effective performance. Senior management and the board might also provide general direction as to the scope of work and the activities to be audited.

Internal auditors should consider some suggestions when evaluating the nature of the internal audit tourism activity's work. These suggestions are not intended to represent all the considerations that may be necessary during such an evaluation, but simply a recommended set of items that should be addressed.

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Adequacy of risk management, control, and governance processes is present if management has planned and designed them in a manner which provides reasonable assurance that the tourism unit's objectives and goals will be achieved efficiently and economically. Efficient performance accomplishes objectives and goals in an accurate, timely, and economical fashion. Economical performance accomplishes objectives and goals with minimal use of resources commensurate with the risk exposure. Reasonable assurance is provided if the most cost-effective measures are taken in the design and implementation stages to reduce risks and restrict expected deviations to a tolerable level. Thus, the design process begins with the establishment of objectives and goals. This is followed by connecting or interrelating concepts, parts, activities, and people in such a manner as to operate together to achieve the established objectives and goals.

Effectiveness of risk management, control, and governance processes is present if management directs processes in such a manner as to provide reasonable assurance that the tourism unit's objectives and goals will be achieved. In addition to accomplishing the objectives and planned activities, management directs by authorizing activities and transactions, monitoring resulting performance, and verifying that the tourism unit's processes are operating as designed.

Broadly, management is responsible for the sustainability of the whole tourism unit and accountability for the tourism unit's actions, conduct, and performance to the owners, other stakeholders, regulators, and general public. Specifically, the primary objectives of the overall management process are to achieve:

- *relevant, reliable, and credible financial and operating information.*
- *effective and efficient use of the tourism unit's resources.*
- *safeguarding of the tourism unit's assets.*
- *compliance with laws, regulations, ethical and business norms, and contracts.*
- *identification of risk exposures and use of effective strategies to control them.*
- *established objectives and goals for operations or programs.*

Management plans should organize and direct the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved. Management periodically reviews its objectives and goals and modifies its processes to accommodate changes in internal and external conditions. Management also establishes and maintains a tourism unit culture, including an ethical climate that fosters control.

Control is any action taken by management to enhance the likelihood that established objectives and goals will be achieved. Controls may be preventive (to determine undesirable events from occurring), detective (to detect and correct undesirable events which have occurred), or directive (to cause or encourage a desirable event to occur). The concept of a system of control is the integrated collection of control components and activities that are used by a tourism unit to achieve its objectives and goals.

Internal auditors evaluate the whole management process of planning, organizing, and directing to determine whether reasonable assurance exists that objectives and goals will be achieved. Internal auditors should be alert to actual or potential changes in internal or external conditions that affect the ability to provide

assurance from a forward-look: nq perspective. In those cases, internal auditors should address the risk that performance may deteriorate.

These internal auditing evaluations, in the aggregate, provide information to appraise the overall management process. All business systems, processes, operations, functions, and activities within the tourism unit are subject to the internal auditors' evaluations. The comprehensive scope of work of internal auditing should provide reasonable assurance that management's:

- *risk management system is effective.*
- *system of internal control is effective and efficient.*
- *governance process is effective by establishing and preserving values, setting goals, monitoring activities and performance, and defining the measures of accountability.*

Internal auditors should consider the following suggestions when evaluating a tourism unit's governance activities related to information security. This advice is not intended to represent all the procedures necessary for a comprehensive assurance or consulting engagement related to information security, but simply a recommended core set of high level auditor responsibilities to complement related board and management responsibilities.

Internal auditors should determine that management and the board; audit committee, or other governing body have a clear understanding that information security is a management responsibility. This responsibility includes all critical information of the tourism unit regardless of media in which the information is stored.

The chief audit executive should determine that the internal audit activity possesses, has access to, competent auditing resources to evaluate information security and associated risk exposures. This includes both internal and external risk exposures, including exposures relating to the tourism unit's relationships with outside entities.

Internal auditors should determine that the board, audit committee, or other governing body, has sought assurance from management that information security breaches and conditions that might represent a threat to the tourism unit will promptly be made known to those performing the internal auditing activity.

Internal auditors should assess the effectiveness of preventive, detective, and mitigative measures against past attacks, as deemed appropriate, and future attempts or incidents deemed likely to occur. Internal auditors should confirm that the board, audit committee, or other governing body has been appropriately informed of threats, incidents, vulnerabilities exploited, and corrective measures.

Internal auditors should periodically assess the tourism unit's information security practices and recommend, as appropriate, enhancements to, or implementation of, new controls and safeguards. Following an assessment, an assurance report should be provided to the board, audit committee, or other appropriate governing body. Such assessments can either be conducted as separate stand-alone engagements or as multiple engagements integrated into other audits or engagements conducted as part of the approved audit plan.

The definition of internal auditing calls for "...a disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes." Internal auditors have a key role to play in a tourism unit's risk

management process in order to practice internal auditing in accordance with the Standards. This advisory seeks to provide internal auditors with guidance for determining their role in an tourism unit's risk management process and for complying with the Standards.

Risk management is a key responsibility of management. To achieve its business objectives, management should ensure that sound risk management processes are in place and functioning. Boards and audit committees have an oversight role to determine that appropriate risk management processes are in place and that these processes are adequate and effective. Internal auditors should assist both management and the audit committee by examining, evaluating, reporting, and recommending improvements on the adequacy and effectiveness of management's risk processes. Management and the board are responsible for their tourism unit's risk management and control processes. However, internal auditors acting in a consulting role can assist the tourism unit in identifying, evaluating, and implementing risk management methodologies and controls to address those risks.

Developing assessments and reports on the tourism unit's risk management processes is normally a high audit priority. Evaluating management's risk processes is different than the requirement that auditors use risk analysis to plan audits. However, information from a comprehensive risk management process, including the identification of management and board concerns, can assist the internal auditor in planning audit activities.

The chief audit executive should obtain an understanding of management's and the board's expectations of the internal audit activity in the tourism unit's risk management process. This understanding should be codified in the charters of the internal audit activity and audit committee.

Responsibilities and activities should be coordinated among all groups and individuals with a role in the tourism unit's risk management process. These responsibilities and activities should be appropriately documented in the tourism unit's strategic plans, board policies, management directives, operating procedures, and other governance type instruments. Examples of some of the activities and responsibilities that should be documented include:

- *setting strategic direction may reside with the board or a committee;*
- *ownership of risks may be assigned at the senior management level;*
- *acceptance of residual risk may reside at the executive management level;*
- *identifying, assessing, mitigating, and monitoring activities on a continuous basis may be assigned at the operating level; and*
- *periodic assessment and assurance to others should reside with the internal audit activity.*

Internal auditors are expected to identify and evaluate significant risk exposures in the normal course of their duties. The internal audit activity's role in the risk management process of an tourism unit can change over time and may be found at some point along a continuum that ranges from:

- *no role, to*
- *auditing the risk management process as part of the internal audit plan, to*

- *active, continuous support and involvement in the risk management process such as participation on oversight committees, monitoring activities, and status reporting, to*
- *managing and coordinating the risk management process.*

Ultimately, it is the role of executive management and the audit committee to determine the role of internal audit in the risk management process. Management's view on internal audit's role is likely to be determined by factors such as the culture of the tourism unit, ability of the internal auditing staff, and local conditions and customs of the country.

The definition of internal auditing calls for "...a disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes." Internal auditors have a key role to play in a tourism unit's risk management process in order to practice internal auditing in accordance with the Standards. However, some tourism units may not have an established risk management process. This advisory seeks to provide internal auditors with guidance for determining their role in a tourism unit without an established risk management process.

Risk management is a key responsibility of management. To achieve its business objectives, management should ensure that sound risk management processes are in place and functioning. Boards and audit committees have an oversight role to determine that appropriate risk management processes are in place and that these processes are adequate and effective. Internal auditors should assist both management and the audit committee by examining, evaluating, reporting, and recommending improvements on the adequacy and effectiveness of management's risk processes. Management and the board are responsible for their tourism unit's risk management and control processes. However, internal auditors acting in a consulting role can assist the tourism unit in identifying, evaluating, and implementing risk management methodologies and controls to address those risks.

Developing assessments and reports on the tourism unit's risk management processes is normally a high audit priority. Evaluating management's risk processes is different than the requirement that auditors use risk analysis to plan audits. However, information from a comprehensive risk management process, including the identification of management and board concerns, can assist the internal auditor in planning audit activities.

The chief audit executive should obtain an understanding of management's and the board's expectations of the internal audit activity in the tourism unit's risk management process. This understanding should be codified in the charters of the internal audit activity and audit committee.

If a tourism unit has not established a risk management process, the internal auditor should bring this to management's attention along with suggestions for establishing such a process. The internal auditor should seek direction from management and the board as to the audit activity's role in the risk management process. The charters for the audit activity and audit committee should document the role of each in the risk management process.

If requested, internal auditors can play a proactive role in assisting with the initial establishment of a risk management process for the tourism unit. A more

proactive role supplements traditional assurance activities with a consultative approach to improving fundamental processes. If such assistance exceeds normal assurance and consulting activities conducted by internal auditors, independence could be impaired. In these situations, internal auditors should comply with the disclosure requirements of the Standards.

A proactive role in developing and managing a risk management process is not the same as an "ownership of risks" role. In order to avoid an "ownership of risk" role, internal auditors should seek confirmation from management as to its responsibility for identification, mitigation, monitoring, and "ownership" of risks. In summary, internal auditors can facilitate or enable risk management processes, but they should not "own" or be responsible for the management of the risks identified

Internal auditors may be charged with the responsibility for providing assurance to management and the audit committee on the adequacy of the tourism unit's risk management processes. This responsibility would require the auditor to formulate an opinion on whether the tourism unit's risk management process is sufficient to protect the assets, reputation and ongoing operations of the tourism unit.

These suggestions could provide guidance on the major risk management objectives that the auditor should consider in formulating an opinion on the adequacy of the tourism unit's risk management process. This practice advisory covers only the assessment and reporting of the effectiveness of the tourism unit's risk management process. Other Practice Advisories will address controls and consulting issues in greater depth. This advisory recognizes that an tourism unit's risk management process is an important business process that can and should be evaluated in a manner similar to other strategically important processes.

Developing assessments and reports on the tourism unit's risk management processes is normally a high audit priority. Evaluating management's risk processes is different than the requirement that auditors use risk analysis to plan audits. However, information from a comprehensive risk management process, including the identification of management and board concerns, can assist the internal auditor in planning audit activities.

Each tourism unit may choose a particular methodology to implement its risk management process. The internal auditor should determine the methodology is understood by key groups or individuals involved in corporate governance, including the board and audit committee. Internal auditors must satisfy themselves that the tourism unit's risk management processes address five key objectives to formulate an opinion on the overall adequacy of the risk management processes. The five key objectives of a risk management process are:

- *risks arising from business strategies and activities are identified and prioritized.*
- *management and the board have determined the level of risks acceptable to the tourism unit, including the acceptance of risks designed to accomplish the tourism unit's strategic plans.*
- *risk mitigation activities are designed and implemented to reduce, or otherwise manage, risk at levels that were determined to be acceptable to management and the board.*

- *ongoing monitoring activities are conducted to periodically reassess risk and the effectiveness of controls to manage risk.*
- *the board and management receive periodic reports of the results of the risk management processes. The corporate governance processes of the tourism unit should provide periodic communication of risks, risk strategies, and controls to stakeholders.*

Internal auditors should recognize that there could be significant variations in the techniques used by various tourism units for their risk management practices. Risk management processes should be designed for the nature of an tourism unit's activities. Depending on the size and complexity of the tourism unit's business activities, risk management processes can be:

- *formal or informal*
- *quantitative or subjective*
- *embedded in the business units or centralized at a corporate level.*

The specific process used by an tourism unit must fit that tourism unit's culture, management style, and business objectives. For example, the use of derivatives or other sophisticated capital markets products by the tourism unit would require the use of quantitative risk management tools. Smaller, less complex tourism units may use an informal risk committee to discuss the tourism unit's risk profile and to initiate periodic actions. The auditor should determine that the methodology chosen is both comprehensive and appropriate for the nature of the tourism unit's activities.

Internal auditors should obtain sufficient evidence to satisfy themselves that the five key objectives of the risk management processes are being met in order to form an opinion on the adequacy of risk management processes. In gathering such evidence, the internal auditor should consider the following types of audit procedures:

- *research and review reference materials and background information on risk management methodologies as a basis to assess whether or not the process used by the tourism unit is appropriate and represents best practices for the industry.*
- *research and review current developments, trends, industry information related to the business conducted by the tourism unit, and other appropriate sources of information to determine risks and exposures that may affect the tourism unit and related control procedures used to address, monitor, and reassess those risks.*
- *review corporate policies, board, and audit committee minutes to determine the tourism unit's business strategies, risk management philosophy and methodology, appetite for risk, and acceptance of risks.*
- *review previous risk evaluation reports by management, internal auditors, external auditors, and any other sources that may have issued such reports.*
- *conduct interviews with line and executive management to determine business unit objectives, related risks, and management's risk mitigation and control monitoring activities.*
- *assimilate information to independently evaluate the effectiveness of risk mitigation, monitoring, and communication of risks and associated control activities.*

- *assess the appropriateness of reporting lines for risk monitoring activities.*
- *review the adequacy and timeliness of reporting on risk management results.*
- *Review the completeness of management's risk analysis, actions taken to remedy issues raised by risk management processes, and suggest improvements.*
- *determine the effectiveness of management's self-assessment processes through observations, direct tests of control and monitoring procedures, testing the accuracy of information used in monitoring activities, and other appropriate techniques.*
- *review risk related issues that may indicate weakness in risk management practices and, as appropriate, discuss with management, the audit committee, and the board of directors. If the auditor believes that management has accepted a level of risk that is inconsistent with the tourism unit's risk management strategy and policies, or that is deemed unacceptable to the tourism unit, the auditor should refer to and any related advices for additional direction.*

Risk management is a key responsibility of management. To achieve its business objectives, management should ensure that sound risk management processes are in place and functioning. Boards and audit committees have an oversight role to determine that appropriate risk management processes are in place and that these processes are adequate and effective. Internal auditors should assist both management and the audit committee by examining, evaluating, reporting, and recommending improvements on the adequacy and effectiveness of management's risk processes. Management and the board are responsible for their tourism unit's risk management and control processes. However, internal auditors acting in a consulting role can assist the tourism unit in identifying, evaluating, and implementing risk management methodologies and controls to address those risks.

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THE UTILITY OF THE BARTER AGREEMENT IN INTERNATIONAL COMMERCIAL TRADE

OANA RĂVAȘ *

ABSTRACT: *This paper tries to explain how barter, as an economic institution, can help deal with the problem of contract enforcement across national borders in international trade and within borders in transition economies.*

KEY WORDS: *countertrade; barter; agreement; contract; offset; transaction; negotiation; sales; import; export.*

JEL CLASSIFICATION: *K12, K33.*

Contracts are essential for many economic activities. Any economic relationship that involves some quid pro quo needs to be supported by some contractual arrangement to make sure that the parties involved abide to their obligations. But contracts are worth only as much as their enforcement can be relied upon.

Difficulties in contract enforcement are important impediment to international transactions in the world economy and to domestic transactions in transition economies. In international trade, national sovereignty interferes with contract enforcement because national borders demarcate national jurisdictions.

Such demarcations segment markets and impose severe transaction costs on exchanges across national jurisdictions. The hazards involved in international transactions are often disregarded, but they make headlines each time a sovereign debtor threatens to stop servicing its debt, as it happened in the international debt crisis in the 1980s or in the Russian Financial crisis in 1998.

In transition countries, poorly developed legal and financial institutions make contract enforcement unreliable and impose severe transaction costs on any economic activity. These costs become prohibitively large in times of historic change and revolution.

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Unstable business partner relationships and rapidly changing social norms limit the extent to which economic exchanges can be sustained by reputation, by repeated interaction or by embedding them in social networks.

This paper tries to explain how barter as an economic institution can help deal with the problem of contract enforcement across national borders in international trade and within borders in transition economies.

Barter trade has received much attention lately. But it is not a new phenomenon. In the 1980s, in the aftermath of the international debt crisis, barter became prevalent in international trade with developing countries and Eastern Europe. Since the 1990s, with the domestic debt crisis in transition economies, barter has continued to be a dominant phenomenon in domestic trade in these countries. What explains the appearance of barter in international trade in the 1980s and in domestic trade in transition countries in the 1990s? What makes barter, or countertrade, as it is more generally called, preferable to conventional forms of trade?

In particular, the term "barter" is used with different meanings, sometimes as a term that refers to countertrade transactions in general, sometimes in a more specific sense. "Countertrade" is used as the general term to denote transactions in which a party from an industrialized country supplies goods, services, or technology to a second party in an Eastern European or developing country, and in which, in return, the first party purchases from the second party an agreed amount of goods, services, or technology.

A distinctive feature of countertrade is the existence of a link between the two transactions, the import and the subsequent export. Countertrade transactions take a variety of forms. The three forms are "barter," "counter purchase," and "buyback."

Barter in the strict sense of the word refers to an import that is paid entirely or partly with an export from the latter country without using foreign exchange. Counter purchase refers to a transaction in which the import is paid with foreign exchange but the industrialized country commits to buy export goods from the Eastern European or developing country in return. Buyback is a transaction in which the first party supplies a production facility and the parties agree that the supplier of the facility will buy goods produced with that production facility. All three forms of countertrade are frequently observed in international trade.

The actual countertrade can take many different forms. The first form is barter. This form of countertrade has received a lot of press; however, it is the least practiced. Barter is a simultaneous two-way trade. In other words, I'll give two glass beads for your one shell. This is one of the oldest forms of countertrade...the least practiced, but the most written about.

The second type is offsets. They pertain mostly to military and commercial aircraft sales. The name comes from the fact that part of the cost of the product is offset by purchasing products in the country where the goods are being sold.

Offsets are divided into two parts. First, direct offsets: like McDonnell Douglas sold MD 82 mid-size passenger aircraft to China. The contract included provisions for the Chinese to manufacture aircraft components such as doors to be used for landing gears, passengers, and cargo.

The second form of offsets is indirect offset. These are goods that are not used in the products sold to that country. A good example: the price of DC-9s sold to Yugoslavia was indirectly offset by the purchases of Elan skis.

The third type of countertrade is clearing accounts. This form normally occurs between Eastern European countries and the LDC's (less developed countries). The LDC ships products to one East European nation, creating an accounts payable entry on that country's trade books (country A owes US\$ for this product).

One country can then satisfy the entry with either its own products or it can be satisfied by another country that comes along and buys first's country's debt. For example, we may sell product to Brazil and receive payment from one of Brazil's trading partners. Sometimes it is part cash and part products from that country.

The fourth type of countertrade is compensation--also known as cooperation or buy-back. In an effort to promote an understandable lexicon, it's preferable to call it compensation. This is where a company agrees to build a plant or to sell technology into a country. The company then gets compensated for technology or capital with exported products produced by that plant.

The last type of countertrade is counter purchase. Counter purchase is an agreement between two business units to buy from each other in carrying amounts over varying periods of time. This transaction creates hard currency that is then used in turn to purchase products.

Forecasting the size of countertrade is very difficult because countertrade information is not collected and recorded in any one place.

There have been many estimates put forth by the U.S. government, the United Nations and various independent studies. The general consensus is that countertrade is somewhere between 10% and 20% of all world trade.

A recent study at the Centre for Advanced Purchasing Studies found that in the companies that answered the survey, countertrade rose 74% as a portion of sales agreements. (The survey covered a four year period ending in 1989.)

In other words, in 1985, 5% of the sales contracts involved countertrade; and by 1989, 9% of the sales contracts involved countertrade. In terms of total dollar volume, countertrade grew 30% from \$13.6 billion in 1985 to \$17.7 billion in 1989. This study also had some other very interesting findings:

- A majority of companies participate in countertrade due to a requirement of a foreign government or customer. Countertrade therefore is not being utilized as an aggressive marketing tool.
- Those companies that have utilized countertrade have found it to be an effective way of expanding sales and improving efficiency in operations.
- Companies can avoid the pitfalls of countertrade by involving countertrade experts and their purchasing departments early in the negotiation.
- The purchasers surveyed reported 71% more advantages than disadvantages, indicating that their experiences with this form of trade practices have been largely positive. From another point of view, Elderkin & Norquist, in their book "Creative Countertrade," say that companies countertrade in order to:

1. Expand or maintain foreign markets by using online tools, such as forex or another foreign exchange program
2. Increase sales
3. Sidestep liquidity problems
4. Repatriate blocked funds
5. Clean up bad debt situations
6. Build customer relationships
7. Keep from losing markets to competitors
8. Gain foreign contracts for future sales
9. Find lower-cost purchasing sources

There are six main types of countertrade

1. Offset
2. Counterpurchase
3. Tolling
4. Barter
5. Buyback
6. Switch Trading

1. Offset. Offset has traditionally been used by governments around the world when they have made major purchases of military goods but is becoming increasingly common in other sectors. There are two distinct types:

- direct offset: "the supplier agrees to incorporate materials, components or sub-assemblies which are procured from the importing country. In some large contracts, successful bidders may be required to establish local production. Direct offset has been particularly common for trade in defence systems and aircraft."

- indirect offset: "the purchaser requires suppliers to enter into long term industrial (and other) co-operation and investment but these are unconnected to the supply contract and may be either defence related or in the civil sector."

The overall objective of offset either, direct or indirect, in the defence sector generally to promote import substitution and to minimise the balance of payments deficit for military purchases by developing an indigenous industrial defence capability.

2. Counterpurchase. A foreign supplier undertakes to purchase goods and services from the purchasing country as a condition of securing the order. Counterpurchase is generally imposed for two reasons: first, to stimulate exports and second, to alleviate the balance of payment deficit resulting from imported goods.

3. Tolling. Manufacturers, in regions such as the Former Soviet Union, may sometimes be unable to service customers because they lack the foreign exchange to buy raw materials. In a tolling deal, a supplier himself provides the raw material (steel ingots, say) and hires capacity of the factory to turn it into finished goods (e.g. steel tubes). These are then bought by a final customer who pays the supplier in cash - throughout the process the supplier retains ownership of the material as it is processed by the factory." - this is similar to Contract Manufacturing where the Contractor provides much of the materials.

4. Barter. Barter is one of the most common methods of Countertrade. "In a barter deal, goods are exchanged for goods - the principal export is paid for with goods (or services) from the importing market. A single contract covers both flows and in the simpler case, no cash is involved. In practice, however, the supply of the principal export is often released only when the sale of the bartered goods has generated sufficient cash."

This means if one country sells mining equipment to another country in return for cigars - they will probably hold some of the mining equipment back until they have made some good profit from the cigars.

5. Buyback. Here, suppliers of capital plant or equipment agree to be paid by the future output of the investment concerned. For example exporters of equipment for a chemical plant may be repaid with part of the resulting output from the factory. This practice is most common with exports of process plant, mining equipment and similar orders. Buyback arrangements tend to be much longer term and for larger amounts than counterpurchase or barter deals.

6. Switch Trading. Imbalances in long term bilateral trading agreements sometimes lead to the accumulation of uncleared credit surpluses in one or other country, For example, Brazil at one time had a large credit surplus with Poland. These surpluses can sometimes be tapped by third countries so that, for example UK exports to Brazil could be financed from the sale of Polish goods to the UK or elsewhere. Such transactions are known as 'switch' or 'swap' deals because they typically involve switching the documentation (and destination) of goods on the high seas.

The Growth of Countertrade. The growth of countertrade is fuelled by several factors. First, in addition to looking at the advantages for the company that countertrades, one must also look at what advantages a country gets from countertrade. These are:

- Additional hard currency generation.
- Marketing expertise that they may not otherwise have. This point is brought out in a recent Wall Street Journal article which describes how McDonnell Douglas had helped to bring a foreign-based snack food product to Spain.
- Technology advances that the country would not otherwise have.

The global demand for international credit is the second growth factor. The need for credit is increasing at a time when banks are less willing or able to finance these transactions. This forces many purchasers and exporters to turn to countertrade to finance the business transaction.

However, international banks are short of capital to meet standards set by the bank for International Settlement in Basel, Switzerland. By 1993, international banks were required to have a minimum capital to risk asset of 8%. Europe's 12 largest banks already have met this 8% target, versus only three of the Japanese top 12 banks, and 11 of the U.S.'s 12 largest banks.

The next growth factor is that the demand for consumer goods has increased with the opening of Eastern Europe and the government changes in Latin America. The demand for consumer goods far outstrips many countries' ability to generate hard currency to pay for these goods.

And last, convertibility will not diminish the growth of countertrade since convertibility does not necessarily mean availability of the hard currencies. Country advantages, bank credit crunch, growing demand for consumer goods, and convertibility will push the demand for countertrade to new heights.

All of these things--country advantages, bank credit crunch, growing demand for consumer goods and convertibility--will push the demand for countertrade to new heights.

Countertrade policy is defined here as the company's attitude toward countertrade. While countertrade strategy is defined as the approach the company takes to countertrade planning and transactions. There are two basic types of countertrade policies: company advantage and mutual advantage.

Under a company advantage policy, countertrade/offset is used primarily for the company's benefit (to make a sale, to maintain market share, etc.), with the needs of the buyer country being met at the minimum possible levels. Most companies follow this policy.

The effectiveness of the company advantage policy varies. At best, it results in a satisfactory arrangement for both seller and buyer. At worst, it can be a disaster; companies may try to get out of their obligations once the sales contract is signed--on the theory that it will be easier to pay the penalty than carry out the offset--and then get into a lot of trouble with the buyer country.

In contrast, companies with a mutual advantage policy give the needs of the buyer country equal weight with their own. Under this policy, the company is concerned with the goals of the buyer country (i.e., modernization, industrialization, balancing trade, increasing living standards, etc.), and how the countertrade transaction will help achieve these goals. These companies are willing to meet the challenge of achieving mutual benefit through countertrade, and in most cases their efforts are successful.

The choice of a countertrade policy may be an early and deliberate decision on the part of the company president. More often, however, the policy evolves slowly, growing out of the company's experiences in trading with different companies. If the company trades with "good" countries--those in which the state trading officials are well-intentioned, straight forward, and efficient in carrying out their side of the deal--it will probably develop a mutual advantage policy.

There are also some cases in which the company begins to follow a mutual advantage policy in a particular country because of a foreign-born executive's loyalty to that country, and then expands the policy to include trade with other countries.

Companies which have countertraded with "problem" countries usually hate countertrade; depending on how difficult their experiences are, they will either approach countertrade with extreme caution or wish it would disappear.

If the company has encountered corrupt foreign officials, slow delivery or non-delivery of counter purchase products, poor quality products, sudden changes in product availability, demands for the moon (secret product formulas, proprietary technology, etc.) or other aggravations, it can hardly be blamed for following a company advantage policy.

On the other hand, some companies whose countertrade transactions run relatively smoothly still resent having to countertrade. This resentment may be due to something concrete, such as lowered profits, or to something intangible, such as a belief in the pure forms of free trade and fair competition. Sometimes the company is simply new to countertrade, and wants to move cautiously until it builds up expertise.

Countertrade policies may change over time, due to many factors. These include changes in corporate leadership, the weight of accumulated countertrade experiences, profit levels, and the overall international trade and financial environment. Coca-Cola Co. operates under a mutual advantage policy through Coca-Cola Trading Co. In most countries, Coca-Cola goes much further than simply selling syrup and taking back local products; the company transfers food and beverage technology and assists in developing foreign marketing programs.

Most of these programs are designed to help the countries penetrate the American market. For example Coca-Cola assisted Yugoslavia and Romania in the production of wine for the American market, advising them on American taste in wines and appropriate package designs, as well as making agreements with American wine distributors.

In Turkey, Coca-Cola set up a joint venture to produce tomato paste for the American market and other markets, providing management and technology for the plant. Coca-Cola generally tries to set up a partnership with customer countries.

Avon, Colt Industries, and Grumman International are examples of companies following a company advantage policy. Avon uses countertrade to release blocked funds; they build plants in various countries and export part of the production in order to generate hard currency.

Avon products made in developing countries are exported to other developing countries, rather than to industrial countries. (Unlike most products, 80% of the cost of cosmetics is promotion; thus there is no cost advantage in making cosmetics in low-wage countries for export to industrial markets. Avon does not accept counter purchase products.

Colt's defence divisions do a small amount of countertrade in order to compete with foreign defence firms. They usually limit their countertrade obligations to sourcing or counter purchase; they do not buy back or export products related to the original sale. Counter purchases are liquidated through trading companies.

In some countries, the countertrade regulations may specify such things as additionality (exports above the usual level), specific markets for exports, or prohibition of the use of third-party traders. These points must also be negotiated, if the company feels unable to carry out the proposed obligations under specific restrictions.

The contracts are signed when the negotiations are completed: one for the sale and one for the countertrade. In sales implementation, the company should adhere to the promised delivery schedules. In the implementation of the countertrade/offset obligation -- which may include counter purchase, buyback, technology transfer, joint ventures or sourcing--the company should make periodic progress reports to the buyer country. Throughout the countertrade implementation period, the company should make periodic cost-benefits evaluations.

An authorized agency of the buyer country will issue a certification when the countertrade obligations have been fulfilled. At this point, the company should do a cost-benefit analysis. The analysis should be used as guide for improving future countertrade transactions.

"Countertrade is inherently an ad hoc activity - practice varies according to local regulations and requirements, the nature of the goods to be exported and the current priorities of the parties involved. Also, the terms used to describe the main modes of trading vary, often interchangeably causing confusion. " - which is a fancy way of saying -countertrade can be a lot of things depending on who is involved

Elderkin and Norquist, in their book *"Creative Countertrade,"* say that companies countertrade in order to:

- Expand or maintain foreign markets
- Increase sales
- Sidestep liquidity problems
- Repatriate blocked funds
- Clean up bad debt situations
- Build customer relationships
- Keep from losing markets to competitors
- Gain foreign contracts for future sales
- Find lower-cost purchasing sources

Four main reasons why countertrade is used:

- Money - some people cannot pay in the currency you want

"to enable trade to take place in markets which are unable to pay for imports.

This can occur as a result of a non-convertible currency, a lack of commercial credit or a shortage of foreign exchange"

- The Political Environment - local jobs and industry

"to protect or stimulate the output of domestic industries (including agriculture and mineral extraction) and to help find new export markets"

- The Political Environment - rules and regulations to protect the host country

"as a reflection of political and economic policies which seek to plan and balance overseas trade"

- "to gain a competitive advantage over competing suppliers."¹

Countertrade Examples. Finally, a few examples of countertrade. The first is the well known Pepsi/USSR trade whereby Pepsi-Cola delivers syrup that is paid for with Stolichnaya Vodka. Pepsi has the marketing rights of all Stolichnaya Vodka in the U.S.

Recently Pepsi has made another innovative step by taking 17 submarines, a cruiser, a frigate, and a destroyer in payment for Pepsi products. In turn, this rag tag fleet of 20 naval vessels will be sold for scrap steel, thereby paying for Pepsi products being moved to the Soviet Union.

In another instance, Fisher Controls International, a subsidiary of Monsanto, counter purchased ball bearings and chair frames to be sold in Western Europe in a countertrade opportunity for control valves sold to Romania.

¹ By: C.G. Alex and Barbara Bowers

This countertrade purchase activity set Fisher apart from its competitors, and enabled it to be awarded the contract. In another case, Monsanto is helping one of its customers in Argentina gain increased exports goods of finished goods. The exported goods contain Monsanto products, which results in increased sales.

When countertrade is used in a proactive manner, it becomes a total quality activity of "meeting your customers needs." We all know this results in increased sales and profits.²

After 1989, domestic barter in Russia exploded after macroeconomic stabilization in 1994 from 5 percent of GDP to 60 percent in 1998. In Ukraine the share of barter in industrial sales is estimated to have been 51 percent in 1997.² The survey of 200 firms by the Russian Economic Barometer (1999) since 1992, in turn, suggests that noncash payments rose steadily from 8 percent in 1992 to 54 percent in mid-1998. Since the financial crisis in August 1998, barter and the use of other money surrogates have started to decline, accounting for 43 percent of sales of industrial firms in February 1999.

The importance of barter varies across transition economies. In twenty transition economies and shows that Croatia exhibits the highest share of barter of 33 percent in 1999. Russia and Ukraine show a barter share of about 24 percent and Central European countries like Hungary, Poland, and the Czech Republic have barter shares between 0.8 and 4.7 percent. It is also interesting to see that some of these countries experienced an increase in the importance of barter over time, like Croatia, and Ukraine, while barter declined in Uzbekistan, Kazakhstan, and Moldova.

In Uzbekistan, the fall of barter was particularly pronounced. In international trade a similar boost of countertrade was experienced in the 1980s, when the international debt crisis led to a dramatic decline in private lending to developing and Eastern European countries. Even though debtors hesitated to invoke total repudiation, commercial banks were reluctant to provide new loans, sceptical that they would ever be repaid in full. As highly indebted countries found it increasingly difficult to finance their imports, unconventional forms of trade and trade financing experienced resurgence, including countertrade.

Bussard (1987) reports that the number of countries engaged in countertrade rose from 27 in 1979 to 88 in 1984. Likewise the number of countertrade transactions that was reported by a group of survey respondents increased on average by 50 percent between 1980 and 1981, by 64 percent between 1981 and 1982, and by 117 percent between 1982 and 1983.⁵ Hammond (1990) observes that precedents of this striking comovement of debt and countertrade can be found in the late nineteenth century and in the depression of the 1930s.

In both environments, contract enforcement is problematic, and hence conventional contracts cannot be relied on as the main mechanism to sustain economic exchange. In international trade, the enforcement of contracts is in the hand of national authorities. If, for whatever reason, these authorities fail to perform this function, trade partners have no higher instance to which they can turn to enforce the law due to the lack of supranational authorities. Similarly, in transition economies, relying on

² *BarterNews* issue #17, 1988

contracts is problematic as long as state authorities have not established a functioning legal system, and hence contract enforcement through state authorities cannot be counted on.

If contract enforcement through state authorities cannot be relied on, trade partners have to seek other means of protecting their interests in business transactions. One possible substitute for formal contracts would be relying on reputation as an enforcement mechanism.

Trade partners voluntarily stick to the terms of the contract if the risk of losing their reputation and of not being able to do business in the future is a sufficiently large punishment for misconduct. However, the extent to which reputation can help as an enforcement mechanism is limited. In the context of international trade, Bulow and Rogoff (1989a) have shown that reputation may fail to induce sovereign countries to repay their debt. And even if this reputation mechanism sustains some international trade, firms may look for means to overcome the limits set of this mechanism. In transition economies the problem is even more conspicuous, since in times of historic change the future is uncertain and business partners may not know whether they or their partners will be in business in the future for a variety of reasons.

Thus, in both environments, trade partners may look for alternative means to enforce contracts and to sustain their economic activities. If contract enforcement is weak, problems may arise on both ends of a business transaction: the seller may fail to deliver the good, and the buyer may fail to pay for the goods. If buyers have no cash to pay, and thus face liquidity constraints at the time of delivery, the business transaction can take place only if the seller can trust the buyer to pay in due course. On the other hand, the buyer is willing to engage in a business transaction only if she can trust the seller to deliver the right goods.

Both problems are prevalent in trade and transition. In each environment, enforcing the payment of goods can pose serious problems. In the aftermath of the debt crisis in the 1980s, highly indebted countries were liquidity constrained and could not finance necessary imports. Given their level of indebtedness, debt repayment could not be relied on. The debtor country could create more liquidity by not repaying its debt rather than receive a new loan. Similarly firms in the former Soviet Union are highly indebted, vis-a-vis each other, vis-a-vis the state and vis-a-vis their workers. The phenomenon of inter-firm tax and wage arrears exploded in the 1990s, making it more likely that these firms would repudiate on their payments.

As a conclusion, it is important to underline the important role of the barter agreement over traditional credit arrangements. The main difference between a promise of future money and a promise of future goods is that goods have superior credit enforcement properties as compared to money.

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RESTRUCTURING AND REFORM IN THE JIU VALLEY

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ABSTRACT: *The article provides an analysis of the restructuring and reform process in the Jiu Valley mining in the context of national reforms.*

KEY WORDS: *economic and social restructuring; technological restructuring of production; organizational and managerial restructuring; personnel restructuring; restructuring and/or ceasing of production; reform in mining; employment of work force.*

JEL CLASSIFICATION: *A14*

1. ASPECTS OF THE NATIONAL MINING REFORM

The mining industry has a strong impact on the economic life, being itself subject to pressure from other economic branches, which is the reason why mining is currently going through significant qualitative and quantitative changes.

Taking into account that, in Romania, mining conditions are difficult and production costs are fairly high, both in surface and in underground units, the Romanian state supports mining production by allocations from the budget destined for investments and subventions. Starting with 1990 and the transition to the market economy, the restructuring of the mining industry was developed in the following directions (Fodor, Baican, 2001):

- 1) **The technological restructuring of production**, with such effects as: the decrease of underground production and the increase of opencast (quarry) production; the increase of the supplies of energy pit coal and the decrease of the amount of pit coal processed for coke; the increase of mining and processing activities for copper and precious metals deposits and the beginning of modernizing activities in the major lignite quarries;

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- 2) **The organizational and managerial restructuring**, which resulted in the divergence of complementary activities from the mining units and their subsequent organization as distinct economic units;
- 3) **The personnel restructuring** in mining units, especially its massive reductions by: divergent activities organized in distinct businesses; retirements with work time reduction and lay offs with compensatory wages. „By December 1999, approximately 90,000 miners, out of a total number of 175,000, had left the mining industry. About 70,000 accepted the compensatory wages for their lay off, whereas other 20,000 left by retirement or because their job related activities were excluded from the mining system”;
- 4) **The decreasing or ceasing of the production activity** in the mines with shrinking deposits, extremely hard geological conditions, and very high production costs.

On grounds of the **Law of mines (no. 61/1998)**, the shutting down process was initiated and developed for the mines production units with shrinking deposits, hard geological conditions and high production costs. The anticipated effects of restructuring in mining on the present are the following: the increasing production volume of energy coal, copper in concentrates, precious metals and salt; the limited underground mining of superior coal destined for coke production; higher work productivity; decrease of production costs so that activities should become productive in comparison with the imported mining products.

For the future, the strategy of economic restructuring in mining has in view a complete ceasing of subventions starting with 2012. The economic restructuring of the countries in transition to the market economy is accompanied by major changes on the work market (structural, occupational, or regarding the work statute), which display characteristics generated by the economic structure, the economic performance and potential, the degree of training and the possibilities of work force improvement.

The current transition of the Romanian economy also includes the organization of a suitable work force market, which is a highly complex and difficult process, as the latter is the most imperfect of all markets, requiring appropriate measures of political economy in order to ensure its normal operation.

Work force employment represents in any society, the developed countries included, an essential condition to ensure the macroeconomic balance, as well as social and political stability. It is a complex, dynamic process, of major interest for all economic agents and social partners, as well as for the present and future of society, with various implications, such as: economic, psycho – social, educational – cultural, and political.

The higher degree of work force employment and the diminishing of unemployment are currently essential objectives of economic policy in all countries, their achievement being possible by establishing a balance between supply and demand on the work force market.

2. REFORM IN THE JIU VALLEY MINING

In the collective national perception, the Jiu Valley is associated with coal mining. Displaying the largest underground pit coal deposit in Romania, the area

gained economic importance approximately 165 years ago. Throughout the years, and especially in the past five decades, the importance of the Jiu Valley pit coal mining and processing for the national economy imposed a continuous increase of production, which, by 1988, was of over 10 million tons. This led to a rapid development of the area, but also to an economy of monoproduction type. In 1997, because of the very high price of the ton of coal, mining began to be considered the „black hole” of national economy. Therefore, this is the year when the restructuring of mining started in the Jiu Valley, with an economic and social impact difficult to anticipate at the time. The personnel employed in the field of mining were continuously reduced, the most dramatic decrease being in 1997-1999 (Strategy for Durable Development of the Jiu Valley Microregion, p. 39).

The radical reform in the Romanian economy, mainly in such cost – ineffective sectors as mining, was massively based on personnel reduction. In the Jiu Valley, this started with Ordinance no. 22/1997, whose effect was the laying off of almost half of the employees. According to the data provided by the National Pit Coal Company 19,796 persons, representing 43.9% of the total number of employees in the Jiu Valley, were laid off in 1997 (the year of dramatic personnel reduction). This percentage considerably exceeds the initial expectations of the Government, which had had in view a reduction of 15% of the total number of employees. On January 1, 1998, the company had 23,240 employees, representing 51.4% of the number recorded a year before. In 2006, the number of employees in CNH was approximately 4 times smaller than in 1997. Reductions continued throughout the years, the most recent being the one in 2010, when, on grounds of Special Ordinance no. 116/21.12.2006, modified and completed, approximately 1,600 employees in mining were laid off. On grounds of the same ordinance, other 600 employees are to leave the system starting with August 2011¹. Most of the reduced personnel are represented by men, which is natural, given the specific of mining, and by persons with elementary and secondary studies, which supports the high percentage of the workers who left the system.

Therefore, after several years of restructuring, the number of employees at C.N.H. Petroșani decreased from 45,142 in 1997, before the great lay off, to 11,795 in 2006, respectively to 8,745 in 2011 (table 1).

Table 1. The evolution of the number of employees at the National Pit Coal Company Petroșani

Year	1997	1998	1999	2000	2002	2004	2005	2006	2011
C.N.H employees	45.141	23.240	20.735	18.348	17.706	14.219	12.995	11.795	8.745

Sources: Ministry of Economy and Commerce, General Department of Mineral Resources; C.N.H.: <http://www.cnh.ro/descrierecomunicate.aspx?id=95>

The National Pit Coal Company Petroșani has gone through very rough periods during the past years, and it started the year 2011 in an extremely difficult economic

¹ Reorganization and restructuring program for the National Pit Coal Company – S.A. for 2011

and financial context, without subvention, due to the annulment of the European regulation regarding the state support of the pit coal production. The new regulations of the European Council regarding coal mining activities, valid since January 1, 2011, stipulates that the mining units in the states that are members of the European Union can benefit from the state support only in order to shut down non – competitive mines. Under these circumstances, the continuation of C.N.H. activities involves drastic cost reductions, such as, for instance, the first decision in the history of the Jiu Valley mining to suspend the granting of facilities for pensioners for a limited period (1–31 January 2011). The financial effort for the facilities granted to a number of over 10,400 de pensioners, with a number of 8,745 employees, was of 8.6 million lei/year (C.N.H., Press statement, 05.01.2011)².

3. THE SOCIAL POLICY IN THE JIU VALLEY IN THE CONTEXT OF THE RESTRUCTURING OF THE MINING SECTOR

Starting from the fact that „work is the strongest link between the individual and society” (S. Freud), unemployment means not only income losses, but also the loss of self confidence, the erosion of the connection with the community and the feeling of being excluded from normal life, which can be a genuine threat to democracy (Codin, 1990, p. 146). Under these circumstances, the essential objective of social policies in Romania is to guarantee a job and decent living, either by the individual’s direct work or by means social protection and assistance services.

It is necessary to ensure an environment meant to facilitate studying and work and to turn work into the main source of living, so that the ones who work should enjoy part of their work results directly, „feeling it is worth working and their work can ensure their living” (Stegăroiu, 1993, p. 14).

Social protection represents the body of policies, measures, institutions, and structures that ensures a certain level of wealth and social security for the whole population, and especially for certain social groups or persons unable to achieve minimal, normal life conditions through their own effort. By juridical regulations, social protection applies national and regional programs in order to provide material and financial support, as well as social services destined to deprived persons. There are two types of support meant to ensure the social protection of deprived persons (Cojocaru, 2003, p. 620): *the system of social insurance* (the funds resulting from the systematic contributions of the active population, which return to the contributors when they are in need, in accordance with each individual contribution, under the form of pensions, unemployment support, ill health support, etc.); *the system of social assistance* (support system financed from the state budget, local budgets, and volunteer contributions of physical and juridical persons).

Social assistance represents the body of institutions, programs and measures, as well as professional activities meant to protect persons, groups or communities facing social problems or temporary crisis. By specialized services and activities, social assistance helps groups and persons in need to overcome difficult moments that

² <http://www.cnh.ro/descrierecomunicate.aspx?id=95>

can occur over a certain period and supports, by creating favorable social and cultural conditions, the recovery of the social and cultural integration capacity of deprived categories (Cojocaru, 2003).

In order to reveal the opinion of the Jiu Valley inhabitants about unemployment, social protection and social assistance in the region, we have extracted a number of conclusions from an ample field research conducted in the towns of the Jiu Valley, where we have used the direct inquiry based on the interview applied to a number of 288 subjects.

The **unemployed** represent a special segment of the active population in Romania and, implicitly, in the Jiu Valley, which requires the intervention of social assistance services. In the context of the transition to the market economy, with the profound restructuring pertaining to it, unemployment represents „a genuine psychological and cultural shock for the people who were used to having a job easily found and even more easily kept” (Zamfir, Vlăsceanu, 1993).

Table 2. Number of the unemployed in the Jiu Valley on localities³

January 2011	
VULCAN	896
LUPENI	1002
PETROSANI	2026
ANINOASA	95
PETRILA	294
URICANI	242
TOTAL	4,555

Source: The County Agency for Work Force Employment, Hunedoara - Statistics

Table 3. Structure of unemployment in the Jiu Valley on environments and form of remuneration

JANUARY 2011					
LOCAL AGENCY /BRANCH	TOTAL	Urban environment	Rural environment	Remunerated unemployed	Non – remunerated unemployed
3 PETROSANI	2026	1984	42	1506	520
4 LUPENI	1002	1002	0	625	377
5 VULCAN	896	896	0	553	343
12 PETRILA	294	294	0	61	233
13 ANINOASA	95	95	0	72	23
14 URICANI	242	242	0	173	69
TOTAL	4,555	4,513	42	2,990	1,565

Source: The County Agency for Work Force Employment, Hunedoara - Statistics

³ <http://www.ajofmhd.ro/>

A society that shows no compassion for its most helpless members fails to remain in the perimeter of normality specific to all the contemporary societies in the Western space. On the other hand, exaggerate attention paid to social assistance, in less justified cases, can induce to the assisted the unproductive idea according to which one can live on the verge of subsistence. However, this is not the idea we meant to approach, but the openness of the Jiu Valley inhabitants towards social protection and social assistance activities supposing that the ones who rightfully benefit from them are the following members of the society: children, the elderly, the ill, the physically impaired, etc.

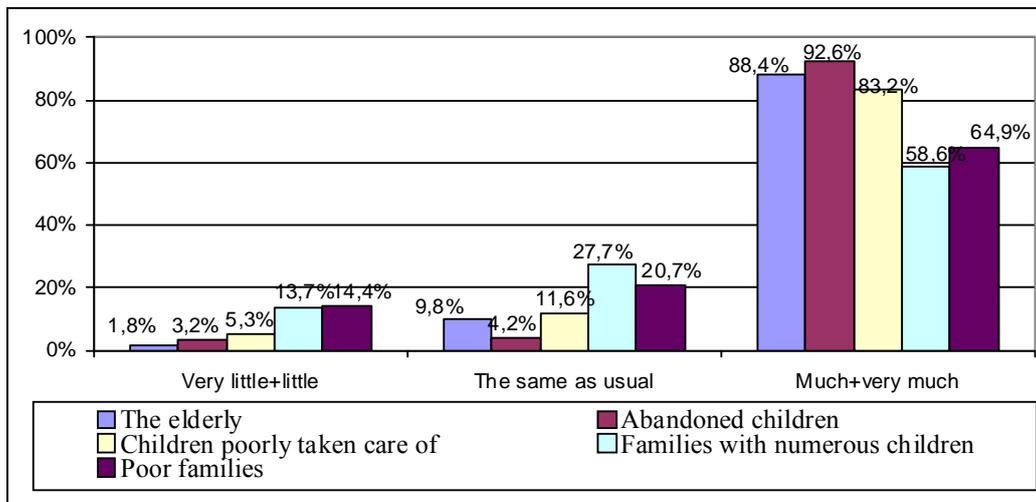


Figure 1. Support that should be provided to deprived categories (1)

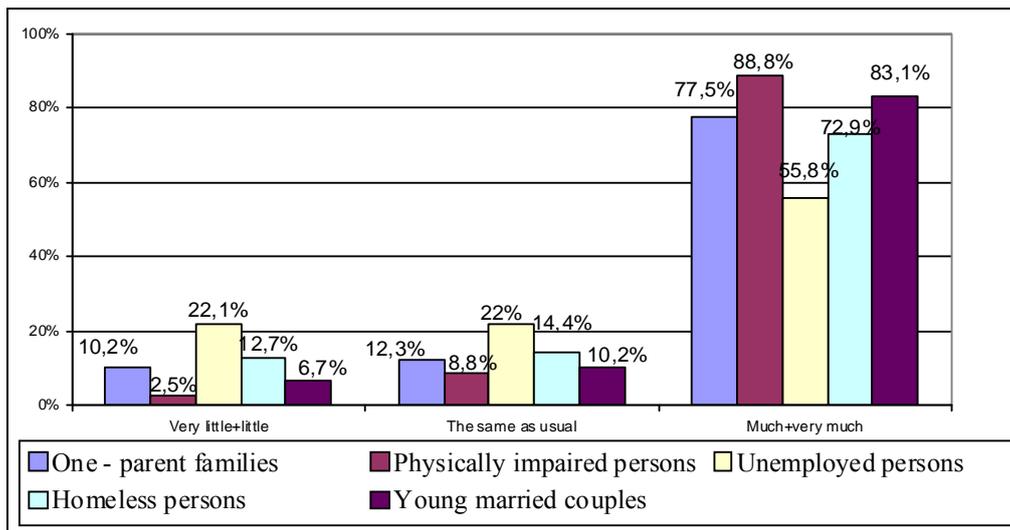


Figure 2. Support that should be provided to deprived categories (2)

We cannot say that unselfishness and the idea according to which those in need should be helped by the state are entirely absent in the Jiu Valley. However, we cannot help remarking that, in the hierarchy of the categories that should benefit from this support, the best situated are abandoned children (92.6%) and the physically impaired (88.8%), whereas at the opposite pole are situated the unemployed, as society has learned, throughout the years, that most of the persons benefitting from social support do not deserve it.

Strictly speaking about the Jiu Valley area, we are going to find out how accurate the average citizen perceives the need of financial support for certain institutions and services. We have chosen to do this because, what ultimately counts does not lie exclusively in the statistics and documents of a certain institution, but in the image it projects outwards. For instance, a school can have exceptional results with its pupils but, if the aspects regarding communication and symbolism are flawed, its objective effort is reduced to a minimum or even cancelled.

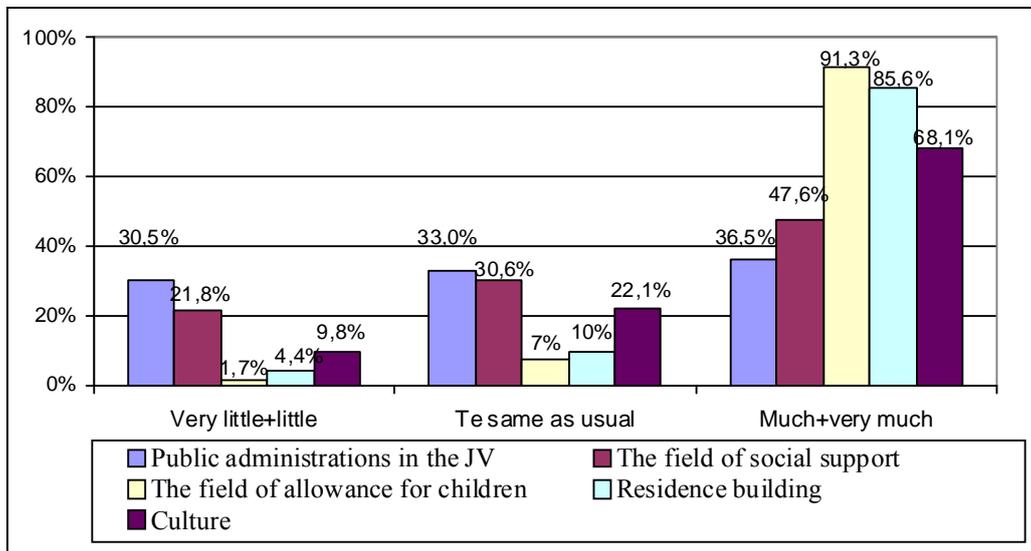


Figure 3. Institutions that should benefit from financial support (1)

The ranking shown in figures 3 and 4, according to importance, is the following: health (91.6%); allowance for children (91.3%); residence building (85.6%); education (79.3%); mining (72%); culture (68.1%); social support (47.6%); sports (46.7%); public administration in the Jiu Valley (36.5%); public order (33.3%).

The restructuring of the Romanian social and economic system, in accordance with the requirements of the market economy, has triggered dramatic changes on the work force market, among which the occurrence of unemployment as a mass phenomenon. Under these circumstances, one of the essential objectives of the social and economic policies in Romania is to guarantee a job and decent living, either by the direct work of the respective person, or ensured by social protection and assistance

(which have an important role in the relieving of the unemployment effects on deprived population).

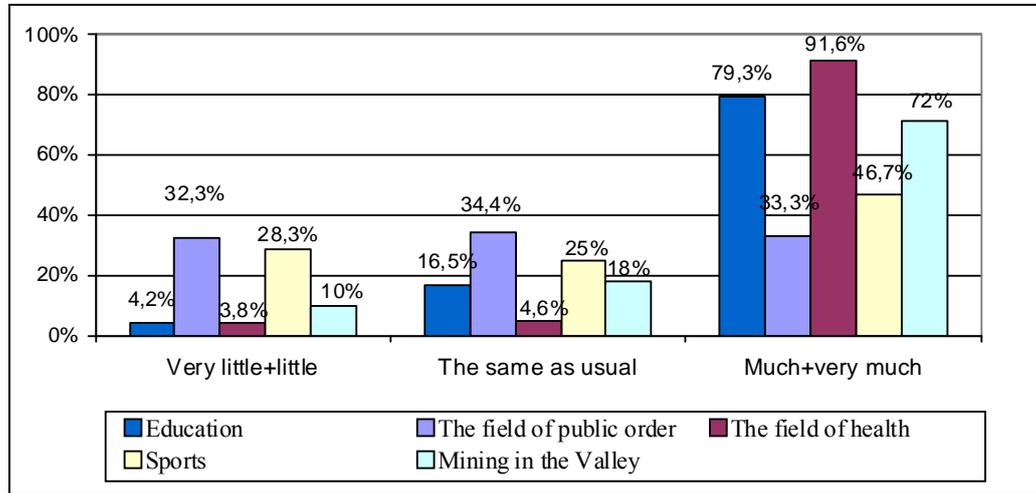


Figure 4. Institutions that should benefit from financial support (2)

Currently, the Romanian work market displays:

- financial services* – which include the providing of financial support (unemployment support, professional integration support, support allowance, social support), credits granted in advantageous conditions to small and mid – sized economic units (IMM) or subventions granted to companies that employ graduates;
- work mediation services* – which include work mediation activities, career and business counseling services;
- information services* – regarding the jobs supply and demand;
- training services* – which include professional training activities in specialized institutions (schools, colleges, universities, qualification/re-qualification centers, etc.).

From the perspective of social assistance activities, we shall focus on the category of **material support** (Paşa, 2004):

I. Social support – stipulates that families and single persons are entitled to a minimum guaranteed income under the form of social assistance. The minimum guaranteed income is ensured by monthly social support, validated on grounds of the social solidarity principle.

The level of the minimum guaranteed income is indexed by Government decision, in accordance with the evolution of prices. The amount of social support is established as the difference between the levels mentioned above and the monthly total income of the family or the single person.

The granting of social support in Romania opens up the perspective of the transition to a more concrete, efficient, authentic and modern social assistance in accordance with the legislation of the countries with experience in the field. The

situation **in the Jiu Valley** is special, in the sense that, as a result of the successive layoffs in the mining industry, a great number of individuals lost their jobs and, failing to find work, they were forced to apply for financial support from the state, under the form of minimum guaranteed income.

II. Emergency support – represents a form of support for families and persons in extremely difficult situations, as a result of natural disasters, fires, accidents, or other situations stipulated by the law.

Emergency and financial support was also provided in the **Jiu Valley**. For instance, in 2002, emergency support was provided in accordance with art. 28, alin. (1) in Law no. 416/2001, for families or single persons who were victims of the collective work accident at E.M. Petrila in 16.07.2002, as well as to the victims of fires and natural disasters.

Currently, for instance, the mayor of Petrosani can grant emergency support to single persons or families with monthly incomes of up to 600 lei/family member, to persons who need medical assistance or surgery proven by medical papers, for long term medical treatments or for the purchase of medical device necessary for the recovery of organic or functional deficiencies. Similarly, persons released from prison can apply for financial support within two months from the release date, and funeral expenses are partly covered for deceased persons with no income and family.

According to official data, the number of persons who live in Petroșani and apply for support to the local Social assistance public service increases on a monthly basis. According to the latest information provided by the local authorities, almost 250 families benefit from social support, whereas others were granted emergency support, the expenses from the budget thus rising to approximately 1.1 million lei per semester⁴.

III. Support for domestic heating during winter – according to Emergency Ordinance no. 5 of February 20, 2003, modified and completed by Government Emergency Ordinance no. 81/2003, families and single persons with low income who use central heating benefit from monthly support, the granted sums varying in accordance with the number of family members and the average monthly income per family member.

In order to help the poor, local authorities in Petroșani pay from the local budget for 3 cubic meters/person/month to the cold/hot water supply service, 80% of the amount of drinkable water to the waste water sewage service, and 70% kwk/family/month electric power (loc.cit).

IV. Microcredits – law no. 366/2001 for the validation of the Government Emergency Ordinance no. 118/1999 regarding the setting up and the use of the National Solidarity Fund stipulated that part of the sums in this fund should be directed to microcredits for individuals who develop lucrative independent activities. The microcredit represents a loan reimbursable at interest, for which individuals can apply, with a value of up to 10,000 Euros, calculated in lei at the exchange rate communicated by the National Bank of Romania one day prior to the release of the sums, with a reimbursement period of up to 36 months, with or without a grace period.

⁴ Crisis situations for which emergency support is granted, *Gazeta Văii Jiului*, February 20, 2011.

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SOVEREIGN RISK ASSESSMENT UNDER ECONOMIC CRISIS CONDITIONS

**GABRIELA CORINA SLUSARIUC, ILIE RĂSCOLEAN,
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ABSTRACT: *Due to the amplification of globalization phenomenon, the risks to which international activities are exposed have become much more diversified and complex. A special status among international risks is the country risk. A foreign investor will never invest in some country without performing and analysing an evaluation report of that country. So, we can conclude that these reports are like a visiting card of assessed countries. Therefore, within this context of global economy evolution it is imperative to know the sovereign risk of every state.*

KEY WORDS: *sovereign risk; economic crisis; economic factors; political factors; development; globalization.*

JEL CLASSIFICATION: *G01; G24.*

Due to the amplification of globalization phenomenon, the risks to which international activities are exposed have become much more diversified and complex. A special status among international risks is the country risk. In a wider meaning, the country risk express the probability of financial losses in international affairs, losses generated by macroeconomic, social and political events in the assessed country (Costică & Lăzărescu, 2004)

The aim of risk evaluation is pointing out the difficulties that can emerge in respect of paying by analysed country the obligations that come from external debt and also from other obligations. The result of country risk evaluation is the main indicator that decides if that country is favourable to business implementation.

As a rule, a foreign investor will never invest in some country without performing and analysing an evaluation report of that country. So, these reports are like

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a visiting card of assessed countries. Therefore, within this context of global economy evolution it is imperative to know the sovereign risk of every state.

IMF has warned that the risks upon global economy have risen. The situation is due to crisis continuation in Greece, difficult negotiations upon American deficit and the need to attenuate the explosive growth of Asia. However, IMF estimates a constant growth of global economy of 4.3% in 2011 and 4.5% in 2012.

Rating agencies - Standard & Poor's, Moody's and Fitch analyses the degree of risk and gives to countries and companies a mark that reflects the capacity to pay their debts. Triple A was the maximum rating given by S&P, and United States had this rating permanently since 1941.

S&P agency announced that the economic measures taken by the American officials are short of satisfactory and downgraded US rating. It's for the first time in history when US rating falls from the highest level AAA, from 1917, now being AA+. S&P also added a negative perspective, which means that in the next two years the rating can go down again.

In Europe, Italy joins Spain, Ireland, Portugal, Cyprus and Greece on the list of countries in Euro zone that received a low rating from international agencies.

In Europe the country with the lowest rating is Greece, who was downgraded by S&P and Moody's because the risk of default was 50-50. Ecuador halted payments twice, in 1999 and 2008 and Argentina had its default in 2001.

According to Standard&Poor's, the countries with the lowest rating in the world are listed below.

Table 1. Countries with the lowest rating in the world

Countries	Rating
1. Greece	CCC
2. Jamaica	(B-)
3. Ecuador	(B-)
4. Pakistan	(B-)
5. Grenada	(B-)
6. Fiji	(B-)
7. Belarus	(B)
8. Argentina	(B)
9. Belize	(B)
10. Ghana	(B)

Source: Standard&Poor's Agency

In this context we realised a risk comparison between Romania and another European state, respectively Bulgaria, using a Romanian method, respectively EximBank method.

In Romania, EximBank is involved since 1992 in promotion of Romanian business environment, supporting with its financial tools the proposed and deployed projects by local companies. Besides the feature of commercial bank of EximBank a new characteristic of Export Credit Agency is added and is intended for supporting Romanian exporters. Therefore, the tops

elaborated by Import Export Bank of Romania take account of country risk associated to commercial activities and are customized for the situation of Romanian exporter.

BEIR (EximBank) assesses country risk on short term based on two classes of factors: economical and political factors. The weight of these categories of factors in final score is identical and is 50%.

EximBank method is a combination of quantity and quality analyses similar rather to techniques used by specialized international firms than banking institutions. And it's natural, because the aim of the analysis is rather to give information to the clients concerning country risk than optimizing banking portfolio. So, besides given tops, BEIR offers extra products, their function being to help Romanian exporters to take correct decisions.

Here are taken account of:

- country files that contain various information concerning political, economical and financial situation of the state;
- twice a year there is edited a Country Risk Assessment that is a synthesis of political and economical information of assessed countries;
- regional analyses;
- studies on specific subject realised at the demand of its clients.

Quantification and country risk evaluation for Romania using analytic model of EximBank for 2010 year.

In the following, we will realize a country risk assessment for Romania for 2010.

- I. The score of economic factors is given by the formula:

$$SE = \sum_{i=1}^9 PFE_i = 42 \text{ points}$$

1. The development level of the country calculated with the ratio GDP/capita = 7542 UDS so $PFE_1=8$ points.

2. The annual GDP growth was 1.3% in 2010 therefore $PFE_2=0$ points.

3. The position of balance of payments is given by the ratio between balance of payments and the GDP, so:

$$\frac{SBP}{PIB} \times 100 = \frac{-5,864(\text{bilEUR})}{122(\text{bilEUR})} \times 100 = -4,8\% \implies PFE_3 = 4 \text{ points}$$

4. Inflation rate was 7.96% so $PFE_4=4$ points.

5. Export dependency is calculated as a ratio between collections from the main exported product and total value of exports (12%). In this case $PFE_5 = 9$ points

6. The level of import coverage by exports, G_{co} , is calculated as a ratio between goods and services export and goods and services import:

$$Gco = \frac{Exports}{imports} \times 100 = \frac{37,251(bilEUR)}{43,115(bilEUR)} \times 100 = 86,4\% \implies PFE_6 = 2 \text{ points}$$

7. The situation of reserves in months of imports is calculated as a ratio between currency reserves and imports of every month of the year. This is according to NBR 8.6 months resulting $PFE_7 = 12$ points.

8. The value of the ratio between short term debt and total external debt is:

$$\frac{STD}{TD} \times 100 = \frac{18,746(bilEUR)}{90,765(bilEUR)} \times 100 = 20,7\% \implies PFE_8 = 3 \text{ points}$$

9. The situation of external payments is given by the rate of external debt service:

$$Spex = RSDex = \frac{SDex}{Ex} \times 100 = \frac{37,822(bilEUR)}{43,604(bilEUR)} \times 100 = 86,74\% \implies PFE_9 = 0 \text{ points}$$

II. The score of political factors is given by the relation:

$$SP = \sum_{j=1}^6 PFPj = 50 \text{ point}$$

1. Actual state of government: $\implies PFP1 = 5$ points

The actual government is one of the most unpopular and untrusted governments since 1990, due to drastic economic measures, being sustained by a fragile majority formed with undemocratic methods, by headhunting members of parliament of other parties, and setting up a new political formation which even though did not participate at the election, participates to governmental act.

2. Economical policy of the government $\implies PFP2 = 1$ point.

Economical policy of the government is practically non-existent, its foundations being inefficient cuts of expenses and tax growth. Despite huge loans Romania accessed, important investments for economic recovery are still insufficient.

3. Internal tensions: $\implies PFP3 = 9$ points

Social tension: even if there are tensions among the population, massive protest don't really exist. $\implies 1$ point;

Ethnic, racial, cultural and religious tension: 2 points;

Political tension: 0 points.

4. International position $\implies PFP4 = 5$ points

International position of Romania was characterised by a worsening relation with other states, especially France, Romania being in a diplomatic isolation.

5. Debt restructuring $\implies PFP5 = 15$ points

6. Experience of bilateral relations $\implies PFP6 = 15$ points

Finally applying the formula for the total score:

$$SF = \frac{SE \times SP}{100} = \frac{42 \times 50}{100} = 21 \text{ points}$$

Quantification and country risk evaluation for Bulgaria using analytic model of EximBank for 2010.

In the following, we to realize a country risk assessment for Bulgaria.

I. The score of economic factors is given by the formula:

$$SE = \sum_{i=1}^9 PFE_i = 52 \text{ points}$$

1. The development level of the country calculated with the ratio GDP/capita = 6334 UDS so $PFE_1=8$ points.

2. The annual GDP growth was 1.3% in 2010 therefore $PFE_2=0$ points.

3. The position of balance of payments is given by the ratio between balance of payments and the GDP, so:

$$\frac{SBP}{PIB} \times 100 = \frac{-0,356(\text{bilEUR})}{36(\text{bilEUR})} \times 100 \approx -0,01\% \implies PFE_3 = 8 \text{ points}$$

4. Inflation rate was 4.5% so $PFE_4= 5$ points.

5. Export dependency is calculated as a ratio between collections from the main exported product and total value of exports (12%). In this case $PFE_5 = 9$ points

6. The level of import coverage by exports, G_{co} , is calculated as a ratio between goods and services export and goods and services import:

$$G_{co} = \frac{\text{Exports}}{\text{imports}} \times 100 = \frac{15,588(\text{bilEUR})}{18(\text{bilEUR})} \times 100 = 86,6\% \implies PFE_6 = 2 \text{ point}$$

7. The situation of reserves in months of imports is calculated as a ratio between currency reserves and imports of every month of the year. This is according to NBR 4.9 months resulting $PFE_7 = 9$ points.

8. The value of the ratio between short term debt and total external debt is:

$$\frac{STD}{TD} \times 100 = \frac{11,505(\text{bilEUR})}{36,68(\text{bilEUR})} \times 100 \approx 31,3\% \implies PFE_8 = 0 \text{ point}$$

9. The situation of external payments is given by the rate of external debt service:

$$Spex = RSDex = \frac{SDex}{Ex} \times 100 = \frac{7,082(\text{bilEUR})}{15,588(\text{bilEUR})} \times 100 \approx 45,4\% \implies PFE_9 = 7 \text{ points}$$

II. The score of political factors is given by the relation:

$$SP = \sum_{j=1}^6 PFP_j = 64 \text{ points}$$

1. Actual state of government: \implies PFP1 = 5 points

The centre-right party that won the elections in July 2009 continued to govern by itself without a parliamentary majority, based on the help of another centre-right party and other right formations. Despite significant efforts of the authorities, decisive improvements are still to be seen in reformation of law system, the fight against corruption and community funds management.

2. Economical policy of the government \implies PFP2 = 7 points.

Economical policy of the government has a reasonable coherence, the set of anti-crisis measures established after negotiations with social environment having positive results.

3. Internal tensions: \implies PFP3 = 12 points

There were given 2 points for each category.

4. International position \implies PFP4 = 10 points

Generally, the international relations of Bulgaria are good.

5. Debt restructuring \implies PFP5 = 15 points

6. Experience of bilateral relations \implies PFP6 = 15 points

Finally applying the formula for the total score:

$$SF = \frac{SE \times SP}{100} = \frac{52 \times 64}{100} \approx 33 \text{ points}$$

In table 2 are presented the scores of economic and political factors for Romania and Bulgaria calculated with EximBank method.

With a final score of 21 points, Romania would be situated in 2010 in risk class C (18-26 points). This corresponds to a situation where foreseeable major payment difficulties are, and in case this would happen, there would be big losses with severe influences upon economy and social-political environment.

With 33 points, Bulgaria would have been situated in risk class BC (26-35 points) in 2010. This corresponds to a situation where foreseeable moderate payment difficulties are, and in case this would happen, there would be significant losses.

Comparing these three states by GDP per capita at nominal values, according to studies made by IMF in 2010 for the entire world, these states would be in this order: Romania – position 70 (with 7542 \$/inhabitant) and Bulgaria on 74th place (with 6334\$/inhabitant).

At the first inspection it seemed that Romania has an advantage over Bulgaria. But this indicator does not take into consideration the level of the prices in these countries. So a thorough comparison is the one based on GDP per capita as purchasing power parity because this takes account of prices in these countries. According to this comparison the standings would be like this: Bulgaria on 65th place (12851 Intl. \$) and Romania on 69th place (11860 Intl. \$). While Romania kept their position, Bulgaria's position in this case is improved overtaking Romania.

Table 2. Quantification and risk evaluation for Romania and Bulgaria

Indicators	Romania	Bulgaria
The score for economic factors	42 points	52 points
The level of development of the country	8 points	8 points
Annual GDP growth	0 points	2 points
Balance of payments situation	4 points	8 points
Inflation rate	4 points	5 points
Export dependency	9 points	9 points
Coverage degree of imports by exports	2 points	2 points
Import reserve situation in months	12 points	9 points
Proportion between short term debt and total external debt	3 points	0 points
External payments situation	0 points	7 points
Political factors score	50 points	64 points
Actual state of government	5 points	5 points
Government economic policy	1 points	7 points
Internal tenseness	9 points	12 points
International position	5 points	10 points
Debt restructuring	15 points	15 points
Bilateral relations experience	15 points	15 points
Final score	21 points	33 points

Out of the three countries, Romania is the only one that recorded a negative economic growth of -1.3%, Bulgaria recording a real growth of 0.2%. Also in this position of balance of payments, Romania is the last out of the two countries, the balance of payments representing -4.8% of GDP, followed by Bulgaria with approximately -0.01%, of GDP. Romania and Bulgaria records a degree of import coverage by exports very similar, of 86.4% for Romania and 86.6% for Bulgaria, both have a low export dependency. According to inflation rate, over the year 2010 Romania recorded an inflation rate of 7.96% and by Bulgaria with 4.5%.

With regard to external debt for Romania and Bulgaria, the biggest external debt is the one of Romania, being situated at approximately 90 billion euro, while Bulgaria's external debt is 37 billion euro, which means a more than half debt than Romania. Within the external debt, in 2010, the short term debt for Romania had a weight of 20.7%, and 31.3% for Bulgaria. However, in 2010, the service of debt was approximately 38 billion euro in Romania's case and 7 billion euro for Bulgaria, which related to exports along the year, represents 86.74% respectively 45.4%.

Taking into account all these economic indicators that are used within quantification of country risk, result that Bulgaria, a country that a few year ago was under Romania in most of the economical statistics, managed to draw ahead of Romania, due to the measures taken by Bulgarian government but also because of some uninspired measures taken by Romanian government, measures that resulted in relocation of many companies from Romania to Bulgaria.

Fitch agency upgraded the rating of Romania for long term foreign currency credits with one level from BB+ to BBB-, bringing us back in the category of

recommended for investments countries. For long term credits in lei, the ranking upgraded from BBB- to BBB, while debt ceiling improved from BBB to BBB+. The short term credit rating was revised to upgrade from B to F3. Fitch decreased country rating in 2008 together with Standard & Poor's, reaching even to junk – not recommended for investments, during the recession.

The result of the study realised with EximBank method of rating country risk for Romania and Bulgaria is coordinated with rating given by Standard&Poor's Agency for the two states, which has rated Bulgaria better. Analysing the Sovereign Rating List made by Standard&Poor's Agency for Romania and Bulgaria, we notice that Local Currency Rate, Foreign Currency Rate, T &C Assessment Bulgaria has higher rates compared to Romania. This fact, especially in the context of global crisis, leads to a reduction of foreign investments in Romania. At the end of 2010, the foreign investments in Romania had a value of 52,585 billion euro.

Table 3. Sovereign Rating List for Romania and Bulgaria

Sovereign Rating List	Romania	Bulgaria
Local Currency Rate	BB+	BBB
Foreign Currency Rate	BB+	BBB
T &C Assessment	BBB+	A

Source: Standard&Poor's Agency

This fact, especially in the context of global crisis, leads to a reduction of foreign investments in Romania. At the end of 2010, the foreign investments in Romania had a value of 52,585 billion euro. Taking into account these aspects, can be predicted that out of these two countries in Eastern Europe, Bulgaria will have a better evolution, which is not at all ecstatic for Romania.

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THE EVOLUTION OF MARKETING METHODS IN A TOURISM ASSOCIATION FROM ROMANIA

MARIA STOIAN *

ABSTRACT: *The aim of this article is to present how to apply marketing methods, older and newer ones, to the action plan of a tourism association. I chose for this study the National Association of Rural, Ecological and Cultural Tourism from Romania (ANTREC), since I had available a series of chronological information on which I was capable to adapt the idea that I wanted to highlight. The conclusions that I reached from this analysis are closely related to the idea that, like other industries, the type of marketing practiced in a tourism association must adapt continually, to be innovative and to highlight by his unique style and his results. For the preparation work I used only the database of ANTREC Romania.*

KEY WORDS: *marketing, marketing methods, rural tourism, promotion*

JET CLASSIFICATION: *M31*

1. THE ROLE AND OBJECTIVES OF ASSOCIATIONS IN TOURISM

1.1. The appearance of associations in tourism field

Tourism associations arose from the necessity to streamline some complex processes that a manager / owner of a hotel / guesthouse / restaurant / travel agency, etc. could not achieve individually, both economically and because of the time factor that it involves. The concept of association was seen with some skepticism at first because no one knew what it entails, what obligations will have the members, what benefits will be and if they can get used or not with that kind of activity. Starting from the idea that "where are many, the power increasing", the concept of association was able to highlight some of the actors in tourism, especially of those who already collaborated or had heard of similar organizations in other countries or even from Romania, but in other areas.

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Attracting members became a reality with the confidence of people, which was realized by actions meant to help them and by concrete results that appeared within a relatively short time. In addition, the registration in a non-governmental organization of this kind doesn't involve risks and does not require any investment, it was necessary only to pay an annual subscription, not expensive at all, and after that the direct involvement in various projects organized by the association.

1.2. The objectives of tourism associations

The attributions of tourist organizations, which were established based on these premises, were: maintaining a permanent link between tourism service providers and authorities; the large promotion made at national and international level using multiple channels; facilitating the preparation of documents required for the well functioning of accommodation and catering establishments; ease the process of preparing profitability analysis on a particular sector and for statistical purpose; close collaboration with other organizations in related fields; mediation if problems appear during their activity; provide advice and answers about starting a new business; offering support in creating new tourist programs and their implementation; support sustainable development of tourist destinations in various ways; attracting funds from investments or from the state for building the necessary infrastructure for tourism, upgrading or restoring some of the objectives of heritage; certified training for people who want to work in tourism in order to provide services that achieve quality standards; facilitating exchanges of experience with domestic and foreign entities.

All objectives listed and many others that can be drawn from them are designed to improve the living standards of country population and provide long term benefits in as many sectors of activity.

2. THE PRESENTATION OF ANTREC ROMANIA

2.1. The establishment of association

More than 18 years ago, when a handful of visionary thought to bring together everything that means tourism in villages area, this activity does not really exist, at least not as we know it today. About tourism is said to be one of the oldest occupations of mankind, and the form referred to is that of receiving guests in people's homes. Then, starting from here, were established the first inns and resting places, strategically positioned along roads and areas highly traveled or on those where were made regular pilgrimages.

However, the transition from housing a lost traveler at late hours and give him something to eat, to put the house in disposal of anyone who is willing to pay for this service and, in addition, the involvement of some foreigners in daily activities, was a large step for Romanian villagers. Looked with skepticism at first, the movement of rural tourism and agro-tourism began to take shape when the first guesthouse appeared – the guesthouse "Santa Maria" from Bran-Moieciu.

After 1990, it was clear that Romanian tourism needed a change, something new. People could move freely and wanted to get out more often and visit; for this, the most easily to reach were still the holidays inside the country.

Another factor leading to the focused attention on rural areas was the long period in which the population has been directed to large cities and centers, even if their function was touristic. At that time, everybody wanted an alternative to escape from the crowds, nature trips, taking children born in towns in the rural villages of which their grandparents came from and return to traditions known only by the stories heard from the elders.

2.2. A few about ANTREC's history



Figure 1.
ANTREC logo

In 1994 the association was founded after a series of meetings and discussions with representatives of several counties.

Already having the example in Bran and being understood the need for collaboration on several levels in order to develop the new concept, was made the passing to more elaborate meetings with people to persuade them to let go their preconceived ideas and open their doors to receive guests. At the same time, started fierce discussions with the authorities to request help in establishing criteria for approval of future pensions. Promotion campaigns were sustained and provided the needed notoriety for a new wave like this.

At the end of 1995, after less than two years of existence, ANTREC already had 15 branches in counties all over the country (Brasov, Sibiu, Covasna, Alba, Harghita, Bihor, Neamt, Suceava, Gorj, Arges, Buzau, etc.) and an impressive number of members - more than 2000. One year later, in 1996, the association already reached the number of 25 county branches and over 2,500 members. This year was marked by the beginning of the Phare Programme for rural tourism in Romania, which gave a greater impetus to the development of organization.

Year 1997 marked reaching 28 branches and exceeded the number of 3000 members throughout the country. Today, ANTREC has 32 branches and more than 3,500 members, pensions and craftsmen.

2.3. ANTREC's objectives – according to the Statute

Association fosters and promotes rural tourism, environmental and cultural in Romania and abroad, for which purpose works to develop:

- the knowledge and popularization of tourism resources in rural areas of the country;
- editing and dissemination of publications and papers, brochures, maps, information and advertising materials on the development of different tourist areas of the country;
- organization and participation in conferences, debates, scientific sessions, symposiums, colloquia, etc., in the association or in other organizations in the country and abroad;

- establishing and promoting the exchange of data, information, publications, experts, other forms of cooperation with similar bodies in other countries, participation in international events in rural, ecological and cultural tourism;
- providing specialized assistance and representation of its members;
- organizing exhibitions of handicrafts and food products of peasant farmers and their recovery;
- organizing ecological actions for touristic areas and actions of knowledge of specific cultural traditions;
- dispatching at central and territorial level in order to ensure a good travel benefits and services required by this;
- organizing exchanges of experience between households in different parts of the country as well as those from other countries;
- organization and development of adult training courses for tourism (CAEN code 8042) - initiation, qualification, specialization, training, management training and other forms of education for tourism industry;
- coordinating the implementation of external technical assistance programs for developing rural, ecological and cultural tourism;
- promotion of ethics and deontology in rural tourism areas;
- organizing benefits and travel services on consignment or commission in family farms, guesthouses, campsites and other similar structures of accommodation;
- organization with the legal provisions in force, the closing exchange and travel insurance.

3. MARKETING – MAIN TASK FOR ANTREC ROMANIA

3.1. How important is the promotion process

I mentioned on each occasion that this type of associations have a crucial role in the marketing they made for its members. But why is this particularly idea repeated over and over again? The answer is self-evident when we look back and see the facts: because of its importance, obviously.

A peasant house turned into a house for visitors and, later, into a real guesthouse, cannot be totally included in the touristic circuit without people knowing what the services offered by it are. Going back in time, during 1994-2000, will see that this aspect was quite difficult to achieve, most of all because then were just a few kind of mass media promotion, unlike today. How could a villager from Apuseni Mountains, let's say, to make his own campaign of advertising? By what means, and using what funds?

3.2. The graphic of marketing methods applied by ANTREC over the years

One of the main goals ANTREC Romania, established even before the actual birth of the association, was to make a sustained promotional campaign for its members. Drawing up a table of how was the association evolution in terms of its members and referring to the types of marketing used should look like this:

Table 1. Applied strategies

1994	<ul style="list-style-type: none"> ❖ finding members is done by face to face discussions with groups or individual owners; ❖ are made leaflets to present the association in all the country; ❖ starts the first promotion steps; ❖ a unique marketing method: invitation to the festival of gastronomy and traditional customs - "International Festival of stuffed cabbage," at Praid, Harghita (frequency will be annual, from now on);
1995	<ul style="list-style-type: none"> ❖ media campaign of the association in the country continues; ❖ leaflets are created for each county where ANTREC is present; ❖ it starts the collaborations and working more with craftsmen from all over the country in order to achieve a further promotion for holidays in guesthouses; ❖ the promotion aspect is brought in tourism fairs and exhibitions; ❖ occurs EUROGITES membership (The European Federation of Rural Tourism) - promoting ANTREC members abroad, the first appearance of Romanian guesthouses in the EUROGITES catalog;
1996	<ul style="list-style-type: none"> ❖ starts Phare Programme - funds allocated for promotion in rural tourism: <ul style="list-style-type: none"> ⇒ is planned the conceive of ANTREC logo design; ⇒ is starting work for association's web site and reservation network; ❖ guesthouses from ANTREC network appear in the Catalogue edited by EUROGITES for the second consecutive year; ❖ took place massive participation of all tourism manifestations in the country - were shared a lot of promotional materials and were initiate discussions with tourists;
1997	<ul style="list-style-type: none"> ❖ ANTREC edit the first catalog - "National Catalogue of tourist Guesthouses and Farmhouses in Romania" - Phare funds; ❖ is put on the market and distributed to guests first CD with complete information on holidays in the countryside; ❖ the first participation of ANTREC in the Harvest Festival - World Trade Center, Bucharest; ❖ diversifying range of advertising; ❖ guesthouses begin to customize their leaflets and draw up offers, all under the aegis of ANTREC Romania; ❖ occurs ANTREC guesthouses third consecutive appearance in the catalog published by EUROGITES ANTREC;
1998	<ul style="list-style-type: none"> ❖ is printed the second catalog ANTREC, this time from association's personal funds; ❖ new promotional events are added to the touristic circuit of rural tourism - festivals, old customs, handicraft fairs; ❖ the association is involved in organizing and sustaining more and more diverse events - culinary, craft, the harvest, cultural, ecological, religious, etc.;
1999	<ul style="list-style-type: none"> ❖ are printed new marketing materials; ❖ at fairs, ANTREC booths are most appreciated and surprise by their uniqueness; ❖ banners and posters is done, separately, for each subsidiary; ❖ the relation with the Ministry of Tourism become closer, ANTREC being invited to participate in fairs abroad; ❖ the emergence of tourist programs like an innovation for Romanian tourism - "Wine Road", "On the footstep of Brancusi", "The Road of Stephen the Great", "Journey to the Land of Cheese", "At Craftsmen's Home ", etc.;
2000	<ul style="list-style-type: none"> ❖ was launched the official website of ANTREC - www.antrec.ro - in Romanian and

	<p>English version;</p> <ul style="list-style-type: none"> ❖ the link to the site of ANTREC is posted on the site of EUROGÎTES; ❖ is published the third edition of the ANTREC Catalogue, with a greater number of guesthouses; ❖ are printed leaflets and promotional materials in several international languages - English, French, German;
2001	<ul style="list-style-type: none"> ❖ are signed partnerships deals with other tourism associations in the country and abroad, but also with the associations of craftsmen; ❖ starts to focus, increasingly, on the promotion made by the Internet - emails, posts on various portals, banners and links on partner sites; ❖ are sustained the collaborations with local and regional authorities, especially to support events;
2002	<ul style="list-style-type: none"> ❖ is published the fourth edition of the National Catalog of Guesthouses and Farmhouses from Romania; ❖ as a particular method of marketing is created the Special Program "Holidays in the countryside", which will have two annually editions, giving everyone the opportunity to spend several days in a rural guesthouse;
2003	<ul style="list-style-type: none"> ❖ for the first time, the ANTREC Catalog is printed in his English version, with a circulation of 2000 copies; ❖ the website reconstruction, in a more current and more attractive style for tourists;
2004	<ul style="list-style-type: none"> ❖ ANTREC founds the magazine "Holidays in the countryside", a monthly newsletter and a good way of promotion; ❖ annually, will be a list with the event initiate by ANTREC and with the one that it is a partner or a participant; they reached an impressive figure of events; ❖ ANTREC members are required to travel at fairs in Germany, France and other countries;
2005	<ul style="list-style-type: none"> ❖ is the beginning of sponsorship, for various major events; many of them are promoted in the media through TV spots or radio ads; ❖ is made the French version for the ANTREC website and new guesthouses are added;
2006	<ul style="list-style-type: none"> ❖ ANTREC organize their own fairs in Easter, Christmas, Saint Mary and other religious celebrations, inviting members - guesthouses with gastronomical products and touristic offers and tourist offers, eco products manufacturers, artisans with unique products that make live demonstrations, folklore groups, etc;
2007	<ul style="list-style-type: none"> ❖ creating and implementing new programs in the main rural tourism theme, but also in those with tourism potential least exploited - "Room with hay - antis tress therapy", "Wallachia Sauna", "The Wedding of Sibiel", "Road cellars", etc.;
2008	<ul style="list-style-type: none"> ❖ ANTREC subsidiaries offer a number of new events which are in the attention of media, promoted both at home and abroad: "The longest Plescoi sausage ", "The biggest salad," "The greatest bulz", etc.;
2009	<ul style="list-style-type: none"> ❖ there is increasing importance of social networks and ANTREC adopt this new way of marketing and customize it for their needs; ❖ the Association create accounts on Twitter, Facebook, LinkedIn; ❖ in social networking are posted all kind of attractive events and so, the global crisis is easily passed away;
2010	<ul style="list-style-type: none"> ❖ is projected the appearance of a new marketing method, especially for crisis period, aiming to increase the occupancy rate in low season and during the week: sites of special offers, with vouchers; ❖ ANTREC subsidiaries make their own accounts on social networks, on Facebook,

	<p>Twitter;</p> <ul style="list-style-type: none"> ❖ the Association is involved in several European funded projects that support the personnel qualification in tourism area, but that is also a good way of marketing; ❖ conclusion of agreements with ANAT (National Association of Travel Agencies) and OPTBR (Organization of Spa Tourism in Romania) to minimize the effects of the global economic crisis through touristic programs initiate together;
2011	<ul style="list-style-type: none"> ❖ the website adjustment, including now versions in four languages: Romanian, English, French and Hungarian; ❖ the support of all marketing methods initiated over the last 18 years of continuous activity.



Figure 2. Arges Gourmet Festival

As you can see, marketing methods adopted by the association developed in the same way as the evolution of society, economy, environment and others. We can say, without being wrong, that one of the reasons why the organization has survived over time that is just get over the threshold of rigidity, constantly trying to attract a large number of tourists in rural areas, all this being achieved by adopting the latest techniques in promotion area. The support received from authorities and from members was also a consequence of the continuous inputs of marketing, so that it was obvious that this is the right path.

3.3. The necessity to keep up with new marketing methods

Running for so many years in its current form, the association had to continually adapt to the needs of tourists, only doing that it managed to advise her members what to do to achieve optimum quality standards in their activities.

Provided such a fluidity and assured a pass so slow and yet immediate marketing from traditional methods to new, depended very much on people who were in charge. Presidents of subsidiaries and active members have proved so sound knowledge in the field, but also passion performing this activity during the years.

To lose a moment, an opportunity has always been a problem for any field, and for an association as ANTREC Romania, since most are pursuing a voluntary activity, step back would be very easy to do. But in this case we could have said that wasn't a step back, but a hesitation to step forward.



Figure 3. Chalet Ancuta at Praid Festival

3.4. Results of all the work

Because of the persuasion with which he sought the whole process of marketing over the years, ANTREC Romania managed, from beginning until nowadays, to keep their leading status in the tourism field, being able to boast that its membership was constantly growing. Another achievement is the take in, as rural tourism branches, of related activities such as crafts and cuisine.

The intersection between the rural, ecological and cultural tourism was realized by itself, in time, by combining several components of each category in the events organized or supported and promoted through tourism programs.

Here are some of the consequences of the entire marketing process: 1. an important contribution to the current status of Romanian tourism; 2. an international reputation and respect for the organization; 3. attracting funds for rural areas and especially for rural tourism and agrotourism; 4. Romanian customs and traditions are now well known almost all over the world, as well as the festivals and events.

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THE RACE TO THE BOTTOM AND ITS IMPACT ON THE PROVISION OF PUBLIC SERVICES IN ROMANIA

**ADINA TRANDAFIR, PETRE BREZEANU,
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ABSTRACT: *The literature is addressed by tax competition to attract capital and the measures taken in this regard. These measures aim, in most cases, reducing tax rates. Most authors, especially the classics, believes that this reduction creates an underprovision of goods and services and addresses the problem in terms of their level. Very few scholars have revealed that this race to the bottom lead to a different structure in delivering public services. Thus, from the idea of Keen-Marchand (1997), this paper addresses this issue, using as basic data in the Romanian economy, through a regression model. The analysis results show that the race to reduce the tax burden, in which Romania joined in the impact of tax competition, leads to an underprovision welfare services aimed directly at a taxpayer and those aimed at infrastructure overprovision.*

KEY WORDS: *tax competition; tax rates; public services.*

JEL CLASSIFICATION: *H20; H71.*

1. INTRODUCTION

The literature on tax competition since Oates (Oates, 1972) and other classic works, such as those of Zodrow and Mieszkowski (Zodrow & Mieszkowski, 1986, pp.356–370) and Wilson (Wilson, 1986, pp.296-315), focused largely on the effects of capital mobility public expenditure. While some authors have shown that tax competition can increase efficiency, most of the literature has tended to argue that tax and spending levels will be inefficiently low due to fiscal externalities mobile tax bases (Wilson, 1999, pp.269-304).

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In addition, tax competition may affect the composition (structure) of public goods provided. However, the issue of public expenditure structure was initially neglected. Keen and Marchand (Keen & Marchand, 1997, pp.33-53) addressed this issue and showed that, in the presence of mobile capital, tax competition tends to lead to an over-supply of resources and infrastructure to subfurnizare resources in those areas that directly affect consumer welfare such as social services.

The classic work on fiscal federalism, it is certainly a loss of wealth resulting from tax competition. Therefore, coordination both in terms of tax rates and in terms of public expenditure is a strong argument in the presence of competition for mobile factors. However, decentralization, especially in the first half of the '90s, was actively promoted as a necessary policy choice for many transition economies in Central and Eastern Europe and characterized as a means of getting rid of excessive centralization and politicization of economic life. While international political debate turned to the institutional requirements for successful decentralization, the debate on the potential benefits of decentralization is far from complete.

Romania is one of those countries to promote decentralization to depoliticize economic life in its transition to a market economy. This article analyzes the structure of public services provided in Romania under the impact of tax competition, the race to the bottom affecting all economies under globalization impact. Model analysis is based on the Keen-Marchand model, providing different public services in the presence of tax competition and uses empirical data from the consolidated budget of Romania during 1995-2010.

2. PROVIDING PUBLIC SERVICES IN ROMANIA AMID TAX COMPETITION

Starting from the idea of Keen-Marchand (Keen & Marchand, 1997, pp.33-53) by providing different public services in the presence of tax competition, we further examined this issue for Romania during 1995-2010, showing the impact of such competition on our country. In the analysis we used the following variables:

- Realized tax revenues (their share in GDP), as an independent variable. By this we caught the effect of tax rate reduction (the so-called "race-to-the-bottom", in which Romania joined in the current tax competition and globalization);
- Different categories of expenditure incurred (share in GDP), as dependent variables. By that, we surprised the public services provided and their structure in the presence of the race to the bottom in conditions of globalization.

In the analysis we used a linear regression model, as follows:

$$y = f(x) \quad (1)$$

where:

$$f(x) = \alpha + \beta x \quad (2)$$

where:

y - dependent variable, represented in this case, the share of public expenditure in GDP has made various, such as: general public services (denoted GSP), defence and national security policy (noted AOSN), education (denoted INV), health (denoted Ch_S),

culture (denoted Ch_C) Insurance (denoted Ch_Asig), public services and development (marked DP) and economic actions (denoted AEC);

x - the dependent variable, represented by the share of tax revenues achieved in GDP (denoted AC);

α, β - parameters of the regression equation.

For estimation we used the method of least squares, which requires the election of c_1 and c_2 as estimators of α and β 's such that:

$$W(c_1, c_2) = \sum (y_i - c_1 - c_2 x_i)^2 \tag{3}$$

to be minimal.

Statistical description of the variables analyzed for the period 1995-2010 is shown below:

Table 1. Statistical description of variables

Sample: 1995 2010									
	VF	SPG	AOSN	INV	Ch_S	Ch_C	Ch_Asig	DP	AEC
Mean	9.33324	1.564	2.5007	1.12	0.4433	0.274	2.007	0.3276	2.425
Median	10.8643	0.947	2.9998	0.97	0.4745	0.3002	1.593	0.3644	2.677
Maximum	15.8748	6.532	3.8867	2.8	0.5854	0.471	4.276	0.7852	4.328
Minimum	1.61662	0	0.3219	0.27	0.1714	0.02	0.113	0.0244	0.446
Std. Dev.	3.81216	1.803	1.1402	0.65	0.1058	0.1347	1.384	0.2008	1.286
Skewness	-0.65274	1.638	-0.719	1.01	-1.382	-0.4525	0.327	0.3189	-0.21
Kurtosis	2.88115	4.8	2.2786	3.77	4.2341	2.1438	1.817	2.9452	1.596
Jarque-Bera	1.14561	9.317	1.7261	3.09	6.1122	1.0348	1.218	0.2731	1.432
Robability	0.56394	0.009	0.4219	0.21	0.0471	0.5961	0.544	0.8723	0.489
Sum	149.332	25.03	40.011	18	7.0927	4.3839	32.11	5.2424	38.79
Sum Sq. Dev.	217.988	48.77	19.501	6.38	0.1679	0.2721	28.72	0.605	24.82

Source: Own calculations using Eviews program and empirical data Statistical Yearbook of Romania (www.insse.ro)

Estimating parameters by the method mentioned above were obtained the following regression functions between the variables analyzed:

1. Tax revenues and expenditures for general public services

$$GSP = 0.051 + 0.162 * VF$$

This result shows that the change to a percentage of revenues in GDP, expenditure on general public services will change in the same direction as 0.162%.

2. Tax revenues and expenditures for defense and national security policy

$$AOSN = -0.032 + 0.271 * VF$$

Regression equation allows us to make the following comments:

- Changing to a percentage of tax revenue to GDP will lead to changes in income in the same direction on defense and national security with 0.271%

3. *Tax revenues and expenditures on education*

$$INV = -0.005 + 0.121 * VF$$

According to the regression equation between the two variables is a positive linear relationship: the change to a percentage of tax revenue to GDP, public spending on education will change in the same direction as 0.121%.

4. *Tax revenues and expenditures for health*

$$Ch_S = 0.259 + 0.019 * VF$$

The regression equation between the two variables is a positive linear relationship: the change to a percentage of tax revenue to GDP, public spending on education will change in the same direction as the 0.019 %.

5. *Tax revenues and expenditures for culture*

$$Ch_C = -0.005 + 0.030 * VF$$

Estimated parameters of the equation shows that the change to a percentage of revenues in GDP, expenditure on culture will change in the same direction by 0.03%.

6. *Income tax and social security charges*

$$Ch_Asig = 0.097 + 0.205 * VF$$

Analyzing regression equation of income tax and social security charges to say that the change to a percentage of revenues in GDP, expenditure on social security will change in the same direction to 0.205%.

7. *Tax revenues and public spending and development services*

$$SDP = 0.016 + 0.033 * VF$$

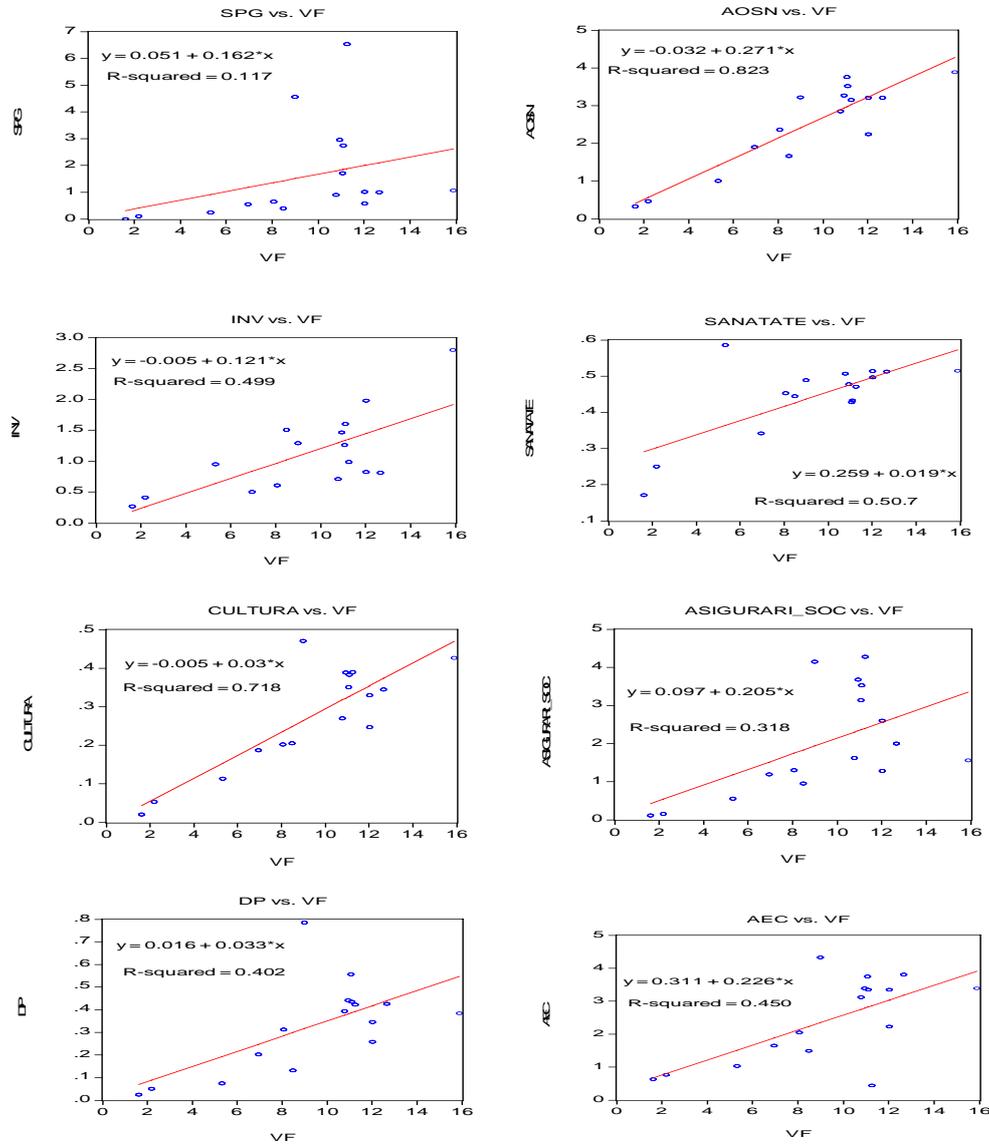
Estimated parameters of the equation shows that the change to a percentage of revenues in GDP, expenditure on public services and development will change in the same direction to 0.033%.

8. *Tax revenues and expenditures for economic action*

$$AEC = 0.311 + 0.226 * VF$$

This result shows that the change to a percentage of revenues in GDP, expenditure on economic activities will change in the same direction as 0.226%.

Graphically, the regression equations between different categories of expenditure and fiscal revenue can be represented in figure 1.



Source: Own calculations using Eviews program and empirical data from Statistical Yearbook of Romania (www.insse.ro)

Figure 1. Regression equations between different categories of public expenditure and tax revenue

The coefficient of determination for regressions of the above means that:

- 11.7% of the variance in overall spending on public services is explained by changes in tax revenue;
- 82.3% of the variance in national defence and security spending is explained by changes in tax revenue ;

- 49.9% of the variation in education spending is explained by changes in tax revenue;
- 50.7% of the variation in health spending is explained by changes in tax revenue;
- 71.8% of the variation in expenditure for culture is explained by the variation in tax revenue;
- 31.8% of the variance in social security expenditure is explained by changes in tax revenue;
- 40.2% of the variation in services and public development expenditure is explained by changes in tax revenue;
- 45% of the variation in expenditures for economic action is explained by changes in tax revenue.

3. CONCLUSIONS

Given the results of the above analysis we can conclude that in Romania, in the race to the bottom amid the global fiscal competition, taxpayer welfare services are aimed directly subcontractor (expenditures on education increased by 0.121% as a percentage of GDP 1% increase in fiscal revenues, health expenditures by 0.019% and culture by 0.03%, provided that these changes are explained in more than 50% percent of the variation in tax revenue), while other areas are services aimed at suprafurnizate (such as economic actions spending rising by 0.226% at a 1% increase in fiscal revenues or expenditures for national defence and security increased by 0.271%).

Providing public services in Romania can be explained in terms of policy instruments used by various parties that have ruled the country during the period under review, such as social insurance are explained only at a rate of 31.8% of fiscal policy changes or the general public services, whose variation is explained only 11.7% of the variation rate of income tax.

For more relevant results in this respect, it requires a more detailed analysis, taking into account the degree of involvement of the political factor in economic life.

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TYPES OF DECISIONS BASED ON MULTI-CRITERIA ANALYSIS APPLICABLE TO EXTRACTIVE INDUSTRY. THEORETICAL APPROACHES

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ABSTRACT: *In order to ensure the competitiveness, the innovation and the jobs in the industrial sector it is crucial to solve the problems concerning the secure, reliable and constant access to raw materials. In a world characterized by an able legislation, the resources' efficiency on the global economy might motivate the industrial competitiveness and reach the environment objectives of every country. Access and sustainable management of raw materials, requires the adoption/optimization of some decisions based on multicriteria analysis of situations considered. Due to the diversity and complexity of decision problems that are going to solve by the managers in the extraction, preparation, storage and transportation unit of extractive industry, the paper presents a systematization of them according to certain criteria or elements.*

KEY WORDS: *extractive industry; decisions; multi-criteria analysis.*

JEL CLASSIFICATION: *L16, L71, M11, M12, M51.*

1. THE TYPOLOGY OF DECISIONS IN THE MINING INDUSTRY

Any company or organization can be defined as a system with three major components: inputs, processes and output processing. They permanently transform the material, financial, informational and human resources, which are combined according to the interests and priorities of the company and are found in shape of multiple forms output. But what moves this system are the *management decisions*.

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The decision may be defined as a rational process of choosing a solution, a line of action from various possibilities, in order to reach a particular result (Fundătură, 1992).

Decision may be regarded as a specific human rational choosing process; it is found in all management functions, is the final act in setting the objective or objectives undertaken by manager and is an act of drawing, combination and allocation of various resources in the production process. However, the integration of economic unity in the environment depends on the quality of decisions.

Herbert Simon, Nobel laureate in Economics, shows that "decision-making and management can be considered one and the same. Therefore, decisions are the essence of both marketing management and human resources management".

Activity across business units operating under the influence of events of diverse nature and frequency are not all decision problems, some cases required to be solved in a certain way.

For an event to become a "decision problem" must fulfill the basic condition "to be able to obtain the same result in several ways, with different characteristics."

The emergence of decision problems in the economic units in general and the mining industry in particular is generated by at least two situations:

- where disturbances have created an imbalance between operational and functional subsystem with negative implications on the objectives and functioning of the system is required to restore default settings (for example, blocking one of the pistons from the coal extraction combine and creating impossible situation in front of their submission of coal);
- where there is balance between the two subsystems on the proposed objectives, but the manager wants to achieve superior performance.

The diversity and complexity of decision problems to be solved by managers from mining units of extraction, preparation, storage and transport require systematization according to certain criteria or elements.

According to economic theory (the acceptance of Igor Anseff) decisions are grouped into three broad categories: operational decisions (current), tactical decisions and strategic decisions. An approach from two angles is necessary in the analysis of the decision of any company and therefore a unit of the mining industry:

- *the economic unit in itself is a system* with components and specific relationship of interdependence between them;
- *the company in turn is a part* of the general economic system in which there is mutual conditioning relations with other firms.

Therefore, specific decisions at the level of mining companies should be analyzed both internally and externally.

Regarding the *decisions inside the firm*, they can be classified into:

- *the production decision* or the technical decision, which circumscribe, in fact, an entire decision-making system with the components:
 - decision on *the structure* of minerals extracted (to be achieved over a certain period of time);
 - decision on *the amount* that will be extracted from each type of mineral resource;

- decision on *the quality* of the chemical breakdown of minerals extracted and the total volume of extraction in different quality categories.
- *the decision inputs* has the components:
 - the decisions related to *material inputs*:
 - a *quantitative and qualitative* determination of the level of each machine/equipment in hand, that the company must supply with on a certain period. This decision is directly subject to the production decision;
 - an interval setting to be supplied with the necessary materials.
 - the decisions on company staff:
 - determining *the number of employees* of the company on various professional categories, age, experience, qualifications and training;
 - the decision on *the wage policy* of the company, including payroll issues and forms of rewarding the amount and quality of work performed by the staff, risk factors that the employees are subjected to in the production process;
 - the decision on socio-professional and inter-human relations: health insurance and health care, safety, psycho-sociological climate in company departments, programs and professional education, protection of employees' family members.
- *the business decision* circumscribe the price fixing for company products, activity that includes both aspects from within the company (cost of raw materials, materials and technologies used, depreciation, labour productivity and wages) and aspects concerning the market for these products (type of market, mechanisms to regulate demand/supply ratio, the quality of products on the market).
- *the financial decision* can be in turn decomposed into the following segments:
 - the decision on *funding sources* for the company's business activity for different periods (short, medium and long);
 - *the investment decision*, the decision on the use of the financial funds for investment;
 - the relative decision to *the time of use* for the company's funds, that is the distribution for present and future consumption.

Since the firm does not act alone in the general economic system, it must always take decisions that guides its work in relation to and in harmony both with their own objectives and the mode of action (behaviour) of other similar companies or those with whom it enters into collaborative relationships (suppliers, customers, banks).

Essentially, these decisions are:

- the decision on *consumers segment* which the company's products address to, namely the identification of its customers (traditional, new and potential);
- the decision on *the bank* through which it ensures the financial flows, as well as on the funding policy by borrowing on capital markets;
- *the insurance decision* of the building, equipment, personnel, patents and patent for operation and processing;
- the establishment of *suppliers* for machinery and raw materials needed in the processing activity and of partners for joint projects;

- the decision on *relations with other firms* in the market: cooperation or mergers with other companies, conquering new market segments, entering new markets, setting up new branches in different parts of the country and abroad.

All the decisions of the company in solving problems naturally bear the mark for the time horizon considered, i.e. the time dimension of the effects of decisions. From this point of view, any unit in the mining industry can take the following categories of decisions:

- *short-term decisions* that can be production decisions, decisions regarding the provision of material resources, or components of decision on staff;
- *medium-term decisions*: which fall within the financial decision, the distribution of dividends, bank borrowing, investment decision for retrofitting;
- *long-term decisions* include: firm profiling; decision on the ownership and organization of the company; change of possession stakes; the decision on expansion or growth in specific markets or new markets; the decision on the location of branches in areas considered strategic; the decision to merge with other companies or to participate in the formation of cartels.

Because the underground or surface mining sites and the oil or natural gas exploitations are complex socio-economic units, *strategic decisions* are required in order to conduct their work efficiently. These are at the interface between the system/company and its business environment and consist of managing this interface/relationship, because different levels of company are becoming increasingly unstable and changing. Strategic decisions are for long term company management.

Choosing a strategy is always a single decision. These decisions concerning the future are always taken based on internal and external information, quantitative and qualitative, regarding the outcome or an assumed and uncertain future.

In the strategic decision-making processes of the mining unit, managers have to solve three fundamental problems:

- to define the activities of the unit or reorientation of its activities;
- to set up a technical system to make operational the problem entrepreneurial, i.e. the selection of a production technology and a system of products and services distribution, communication and control for this technology to function well;
- an administrative one, that defines the structures needed and the processes that allow the proper functioning of the unit, including in terms of future development opportunities.

Modelling strategic decision processes is to identify the items to be taken into account in decision-making processes within firms and to present the sequence of steps to be taken by the successful application of these models. Although, in general, the variables involved are the same, the authors' private view individualizes them. Among the most recognized models can be mentioned: The Serge Oreal model, Alain Descremaux model, model of Joseph Carles, Gerard Konig model, model Ovidiu Nicolescu, etc.

In his book "75 of the Best Decisions Ever and 21 of the Worst" Stuart Crainer presents in a new way the problem of decision-making and in particular the decision-making strategic processes. The author claims that: "Really important decisions just happen. They occur as a result of spontaneous phones, crazy ideas born of desperation, a visionary plan within company midst. Even the greatest experts on strategy are too willing to recognize that any strategy can be fatally brushed away by reality's hazards."

Referring to strategic management, Crainer underlines one of the great shortcomings of theories that define it, namely the huge volume of data and information to be processed and taken into account to substantiate a strategy.

Another aspect of decision theory points out that an efficient process of decision-making involves a series of logical steps. Known as "rational decision making model" or "synoptic model", it involves several stages: identifying the problem; clarifying it; prioritizing goals; generating and evaluating options; comparing the results expected for each operation with the goals set; selecting the option that best fits the goals.

Therefore, in extractive industry, strategic decisions, which can be both decisions marketing and decisions on human resources, aim for the long-term organizational development. They include investment decisions, information management, supply management, planning and organization of production and in fact a large part of all decisions ever.

Following the implementation of the mining sector strategy, the subsequent effects are mainly expected:

- operation of the mining sector in Romania on the principle of free market in condition with efficiency, safety for local communities, protection of the natural environment and sustainable recovery;
- control of subsidies in the coal mining activities, under Regulation (EC) 1407/2002 of the European Commission;
- privatization of the coal pits in the organizational form of companies or companies with integrated power plant;
- providing enough coal for the domestic energy sector to achieve a 36% in Romania's energy balance;
- supplying enough nuclear fuel from domestic production for units 1 and 2 of the Cernavoda Nuclear Power Plant to ensure the achievement of 15% in Romania's energy balance;
- ensuring the priority of providing fuel for heating plants;
- carrying out mining operations for solid mineral exploitation in environmental conditions, in accordance with the law;
- sustainable use of natural resources by integrating environmental protection and nature conservation in sectorial policies. This integration is particularly important in areas such as land use, rural development, sustainable use of water resources, waste management and environmental safety, as well as regional development and planning of human settlements;
- closing activity on unprofitable mines, in accordance with programs developed by each company/mining company;

- promoting a coherent process of closing the mines, in terms of informing and attracting local communities in the process;
- establishing a monitoring system able to report the environmental impacts that occur and to detect and report on time the dangers that can appear, in a form able to pass an effective program of planning and response in emergency situations;
- ensuring social protection for almost 32,200 people, representing redundant employees from 2004 to 2008, and those who are to be made available in 2009-2012;
- promoting a transparent process of closing the mines, in terms of informing and attracting local communities in the process;
- creation of about 56,000 medium-term jobs, including 23,000 limited-term (2-3 years), representing specific occupations in infrastructure works;
- developing an attractive business environment for domestic and foreign investors;
- developing a private sector in mining areas, capable to absorb the available local labour force;
- establishment of an attractive environment for expansion of tourism activities, where the area is suitable;
- adapting education systems to the new demands of businesses and activities that are to be developed in the region;
- ensuring active social assistance to the most disadvantaged groups represented by children without means of subsistence, low-income elderly persons, aged persons with unattractive professions for the new activities in development, and people with disabilities.

In the mining units, *tactical decisions* are frequently adopted which relates to a period of one year. This group of decisions is meant to translate into practice the strategy adopted by the economic unit, integrated into the annual, quarterly or monthly plan.

The present decisions are another category of decisions that resolve everyday problems that arise in specific activity of the economic unity. These are to be found in a greater frequency with the decision-makers at the bottom of the hierarchy. Their frequency decreases towards the top of the hierarchical pyramid, being replaced by the tactical and strategic decisions.

Depending on the nature of the problems to be solved, decisions can be grouped into the following categories:

- *economic decisions* include issues regarding the use of unit resources, such as labour utilization and ensuring increased productivity, streamline costs and the costs of production, income level etc.;
- *technical decisions* concerning measures on the introduction of modern production technologies, retooling and modernization of equipment etc.;

- *organizational decisions* include: the organization of labour, the distribution for means of work in the organizational subdivisions etc.;
- *social decisions* include: labour recruitment and other aspects of workers motivation and training at the economic unit.

According to the specific activities covered, there can be: operational, design and foresight decisions.

Operational decisions are about specific activities in order to achieve programmed objectives, have a high frequency, refer to a period less than one year and are taken at lower hierarchical levels of the unit.

Design decisions and foresight decisions include the management of the economic unit's development such as: profiling and specialization, introduction of new production technologies, the development of mechanical tools, etc..

Depending on the frequency of adoption there are: *single decisions* and *repetitive decisions*.

Single decisions include activities that occur accidentally. Their elaboration and adoption raise a number of difficulties for the planners related to the information support, experience gained in such situations, assessing the consequences etc. This decision is adopted more frequently in the mining industry than in other sectors due to its specific environment (unexpected infiltration of water or hydrocarbons in a salt mine, crossing isolated lithologic formations when advancing in the frontage of the coal/ores mines, increased temperature in ore mines, etc.).

Repetitive decisions concern the problems with almost cyclical frequency. With a rhythmic frequency, this requires a certain repetition of phenomena, either on the same plane and at the same time or on a higher plane or at a time larger. However, by adopting these decisions some experience can be gained, since information is usually more complete, raising fewer problems when evaluating the consequences. Nevertheless, policymakers should consider with great competence the variations and consequences of putting them into practice.

Decisions can also be grouped depending on the number of people participating in their development. Therefore, there can be:

- *individual decisions* derive from the group ones and provide increased efficiency of management activities;
- *group (collective) decisions* are taken by bodies in existing management units.

They are the result of opinions of the group's components, are complex and usually determine a series of individual decisions which are designed to materialize in practice.

Decisions can be grouped after *the degree of information on the occurrence of certain events* into: decisions under certainty, under risk and under uncertainty. These types of decisions are some of the forms commonly adopted in underground or surface mining units, in preparation stations or storage areas.

Any decision has elements of certainty and uncertainty given the specific activity in the mining industry. The problems are different from case to case, depending on the degree of uncertainty likely to happen.

Universes or contexts, in which the decisions are placed, can be grouped into four categories based on classification of the forms of uncertainty:

- safe universes in which case it is assumed that each action alternative corresponds to a single result, which is perfectly known by decision maker;
- random universes, in which the consequences of decisions taken into account are estimated to depend on a series of random events;
- undetermined universes, when the uncertainty is generated by the fact that the effects of intended actions depend on events over which there is no information;
- antagonistic universes specific to market economy with a high level of competition.

Smooth and consistent conduct of activities and exchange processes implies the existence of administration and management activities that are coordinated by marketing management. The decision, as an essential element of marketing management, is considered the most important tool of expression.

"Marketing is a distinct and unique business operation. A firm is different from all other human organizations in that it promotes and sells a product or a service," says Peter Drucker (Crainer, 2002).

In general, it is estimated that achieving proper management of all marketing functions, depends largely on the quality of decisions, the merits of their substantiation. Appropriate decisions by which to achieve the scientific management of marketing activity, is the result of a complex process and involves overcoming certain difficulties. Many of these decisions have a unique character, in that decision makers don't have any "historical" data, which to use in fundament with the help of the statistical methods.

Moreover marketing phenomena and processes are extremely complex, therefore solutions are more difficult than in other areas of decision-making belonging to the enterprise. The complexity of these decisions is amplified by the fact that this type of decisions, exercising an important influence on the achievement of organizational objectives, are often made under uncertainty of the results.

The decisions in the marketing of extractive product can be grouped after the nature of followed objectives into:

- *strategic* which have the character of framework decisions and are aiming at screening the way for reaching the set marketing basic objectives and the line of action that the company has settled it to follow it towards them;
- *operational tactic*, which have the character of derived decisions and target the concrete means the company will act through to accomplish the marketing objectives subordinated to the fundamental objectives.

Decisions are distinguished depending on the methodology for developing and adopting into: recurrent decisions (which are taken with a certain frequency, after a well-defined routine for their implementation) and non-recurrent decisions (they have a character of novelty, unique and are carried out in a specific way in each situation).

The systematization of decisions according to certain criteria has of particular importance because, according to their nature, there are established: the volume and the structure of information; the methods of data analyzing and developing the decisional alternatives; the system of indicators and parameters for assessing the consequences etc.

Establishing the systematization criteria and classifying the decisions in certain groups is a complex problem caused by the multiple effects it produces when putting it into practice. For example, a decision to purchase and to operate a machine more powerful than the existing ones in a mining unit can be placed in the "technical decision" group, but by operating that machine there can be economic effects obtained materialized in physical production growth, product quality, reducing specific consumption, labour productivity growth, etc., influencing the expression indicators of the economic efficiency of the products obtained.

There can also be social effects when exploiting the machine in question, especially if it is obtained through a complex technology involving worker retraining or if has some ergonomic qualities, simplifying maintenance and repair may lead to the need to resize unit staff.

Therefore, one can say that the vast majority of decisions in an economic mining unit have a triple dimensionality: technical, economic and social.

A brilliant decision in terms of human resources management was that of 1956, when General Electric founded a centre for training managers at Crotonville, New York. General Electric Leadership thus decided to invest in people. This investment was huge in view of the costs it required the establishment of a school of managers and the costs to effectively conduct the training. However, it was necessary as training people was absolutely necessary for the survival of the company in the future.

The technique and the modern technology, their constant improvement within each company, produce significant changes in the nature and the scope of the work. Applying science and technology is indisputably linked today more than ever to better use of labour resources. Professional training and its improvement are today the essential conditions of modern production. The continuous professional training must be a constant concern of all companies and employees. It allows maintaining a high standard of professional competence, acquiring new skills which lead to a higher appreciation of the work submitted by each person and of course increasing the reward obtained. The improvement in professional training has a beneficial effect on both the company and the individual.

All these innovative decisions have led to a new vision on the employee: the machine completes the employee by increasing the effects of his skills and therefore he is considered a unique resource it has to be developed. Thus, the tasks should be grouped requiring multiple skills to achieve. Job design should take into account both people's needs and technical requirements.

The decisions that take into account the human resource are very important for the performance of the organization. When taking decisions on the human resource, the employees' needs of all kinds should be considered, because only through proper motivation can increase the performance. You also need to consider workforce training

as an important step towards improving quality and productivity. A good manager should, through a process of decision-making, succeed in driving people to do whatever is necessary to achieve the goals of the organization.

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A REVIEW OF FINANCIAL REGULATIONS TO AVOID THE NATIONALISATION OF LOSSES IN THE BANKING SYSTEM

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SORIN VĂTAVU***

ABSTRACT: *This article investigates the regulations which should be applied in the financial system in order to minimize the losses. The subject is based on the banking policy of “privatisation of profits and nationalisation of losses” and it is debated mainly from trade articles point of view. Even when taxpayers do not agree, governments choose either to bailout influential banks or to cover their losses with a deposit insurance. Banks would take advantage of any opportunity to increase earnings, even in the insolvency stage, and thus certain regulations and limitations must be provided to minimize the moral hazard occurred. The most important problem that deepens financial regressions relates to the losses spillover effect on the worldwide economy, and although a perfect global banking model cannot be implemented, the paper suggests regulations which improve the financial systems.*

KEY WORDS: *profit privatization; losses nationalization; financial crisis; liberalization; recapitalization; financial regulations.*

JEL CLASIFICATION: *G18.*

1. INTRODUCTION

The current banking crisis is very similar to past crises, as it started when the lending process was too superficial and did not provide any coverage. The significant difference is that the problem began in one of the most secure markets and it spread quickly all over the world. Nowadays, the worldwide question is whether the banks should be saved or not. The economic system stimulated banks through an unsuitable policy based on the privatisation of profits and nationalisation of losses.

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The aim of this paper is to find regulations to avoid future nationalisation of losses during crises. Such regulations and limitations depend on bank deficiencies and include factors such as capital, risk, liberalisation or transparency.

2. BANK PERFORMANCE AND PROFIT SHARING

Entrepreneurs performance represents the driving factor behind investment banking, and they share the profits, but not the losses. Bankers save bonuses while losses accumulate, inducing a financial crisis for whom nobody can be held responsible. Unfortunately, the claim back resolution is not a recovery solution (Taleb, 2009).

Smith and Watts (1992) argued that incentive compensation is practiced more in organisations with continuous development, and that growth is expected in banking firms more than in non-financial companies. On one hand, compensation does not depend on firm performance in restricted and controlled systems. On the other hand, in unrestrained industries, compensation is overburdened, and it is kept secret through management discretion.

Hubbard and Palia (1995) summarized the payment structure dependent on the economic environment. Organisation should have a well established regulation system with remuneration based on performance. When a bank deals with low level of risk, pay figures are lower as well. However, when the environment has a high level of risk, remuneration is higher. Therefore, managers prefer to keep safe contracts and low sensitivity between performance and risk. The shareholders' interests need to support managerial bonuses, because when executive officers are not satisfied with their payments, the effectiveness may decrease. The equilibrium can be found when the shareholders maximize their wealth, while managers are fully protected from risky actions.

Remuneration system and shareholders' large amount of bonuses have been the main problems related to banks for a long time. During financial crisis, although banks registered increasing losses on their balance sheets, managers wanted to raise the bonus pools. For example, at the beginning of 2008, Morgan Stanley declared \$9.4 billions losses for the last quarter, but increased its bonuses with 18% for the reason that employees should not suffer from the subprime market mistakes. It was discovered that managers had shared bonuses incorrectly, and the previous years amount was higher than the limit. Unless the explanations were plausible, the firm had to return the supplementary money and reconsider the bonus pool. Therefore, the compensation practices may deepen the financial crisis (Rajan, 2008).

John Thain, the former chief executive of Merrill Lynch, described bonuses as a "reward talent" and a key element for market liberalisation, but not a way to enrich bankers while their bank fails (Taleb, 2009). Besides the basic role of achievements reward, bonuses are supplemental revenues for managerial positions, and this second use is rapidly expanding. Also used for motivation, bonuses are claimed to be a fundamental incentive system.

Liang (1989) studied profits and their connection with market concentration and risks. Empirical studies demonstrated a close link between risk and profits. Higher

profits involve higher risks and therefore a series of supplementary costs, like higher payments to compensate the risk taken by investors with risk aversion. A second important link between the level of concentration and profits was discovered through the fact that banks obtain higher profits in concentrated markets because the environment implies less risk. This idea is known as the “quiet-life” theory and it suggests that “firms in concentrated markets have low ratio of profit variability to expected profits” (Liang, 1989, pp.297). The relationship between risk and profits is usually a direct one, as risk averse entrepreneurs may choose loans with low rates, but the profit rate expected is lower as well. A negative risk-profit relation occurs when losses follow banking actions and managers need to liquidate capital in order to pay debts. In this case, a higher risk implies a decrease in the bank profits. When the transparency of information is high, Houston and James (1995) observed that shareholders might constrain managers to take risks to gain more, but the risk averse managers would act only if they are protected with high compensation.

Over time, bankers took advantage of the system deficiencies in order to increase their profits. Even if high risk was involved, banks bet for their earnings, and in the unfortunate situation of insolvency, they waited to be rescued by the state.

3. BANKING ACTIONS WHICH DETERIORATE THE FINANCIAL SYSTEM

The following section will refer to banking issues, which deteriorate the financial situation and increase the losses.

3.1. Insolvency stage

Since the beginning of the twentieth century, the United States have been confronting with constant bank failures due to the lack of diversification. The majority of banks were unit banks, established as one office only. Recently, the banks go down for much more complicated reasons. When loan portfolios are too concentrated, negative results in bank balances may appear, but central bank governors do not realise the problems in the incipient phase as banks are opaque. For this reason, in 1990s, the US crisis reached shortly \$150 billions from loans and savings and the losses were already too big when the authorities realized the situation.

In his paper, Lastra (2008) summarised the British law for bank insolvency. Over the last months of 2007, The Northern Rock Bank received help consisting of liquidity assistance, deposits guarantee and nationalisation. The support given was not enough to recover, and thus the authorities started the insolvency procedure based on the Special Resolution Regime (SRR). The objectives of SRR were “financial stability, minimization of costs in the light of public interest considerations [...] the protection of the confidence in the banking system” (Lastra, 2008, pp.169). An important thing to consider when a bank is legally insolvent is the contagion effect on other organisations. The losses will have an effect on shareholders and government, creditors or insurance companies, and this transforms insolvency into an issue of public interest.

3.2. Deposit insurance

Mayes (2005) described a black hole created when the process of bad lending leads to “largely valueless assets and a major contingent liability” (Mayes, 2005, pp.162). The author analysed the bank insolvency in transition countries and found out that some governments could not help troubled banks due to the lack of resources. This is the reason why banks tend to be small and choose not to diversify risk. It is important for banks to invest in a deposit insurance fund, which covers possible losses, otherwise, the insolvency process is the only situation considered. The security blanket of deposit insurance would increase depositors and creditors trust in bank and it would diminish the uncertainty and risk to be bailed out in case of bankruptcy. Usually, if individual banks deal with bankruptcy, the government would not try to help them. However, if many banks are endangered at the same time, public authorities have to support them. If some banks turn out to be indispensable, this high level of concentration may become a disadvantage of the banking system. This means that any changes in the policy of the bank will affect the rest of the system. This spillover effect is known as the “too big to fail” feature of banks.

Kaufman (2004) agreed on the importance of deposit insurance and analysed the activity of the Federal Deposit Insurance Corporation (FDIC) since 1980. The deposit insurance was defined as a government aid, which guarantees in general all the obligations of large and influential financial companies. When deposits and other debts are above the assets of a bank, the capital becomes negative and the bank is considered to fail. FDIC is a federal government agency and when the losses of a bank surpass its reserves and other supplemental revenues, additional help is required from government and taxpayers. The author understood that in case of insolvency the most important thing is to minimize losses because “it is the losses from bank failures more than the bank failures themselves that are most damaging to both most stakeholders of the failed banks and the FDIC” (Kaufman, 2004, pp.13). Walter (2005) stated in his work that FDIC first started insuring the deposit just before 1934 and it was created because the banking failure in the US was contagious. Before the FDIC existed, the depositors always checked their bank activity and in case of vulnerability signs, they withdrew their deposits. This way, the American government was always conscious of the banking activities. Once the FDIC started its activity, clients ceased to monitor their banks due to a feeling of protection. Unless they were insured, the most troubled and risky banks would have failed or had to pay higher interest rates to depositors.

The bank guarantee is very similar to deposit insurance, protecting the banks and their lenders from potential losses. During the 1990s crisis in Sweden, no bank reached the bankruptcy stage because the government decided to help all of them. It was considered that a large number of banks collapsing at the same time would greatly affect the system stability. Market players needed assurance for their activities; hence, to maintain confidence in the banking system, public authorities undertook a general bank guarantee. This way, the process of lending to banks is risk-free and taxpayers are the only ones to pay the price of guarantees. In the future, strict regulations must be applied, as the moral hazard is most probable to arise (Viotti, 2000).

3.3. Moral hazard

Newman (2004) considered that moral hazard represents the selection between risk sharing and incentives. Moral hazard raises both market players' fortune and their risk bearing. No matter what the necessary effort level is, operations governed by moral hazard imply more risk. Wealthy customers do not usually perform in these conditions if they consider that the risk exceeds the effort. Therefore, it is presumed that the moral hazard in case of risk aversion generates risk aversion for the wealthy players while the poorer become risk-takers. Banerji and Van Long (2007) disagreed with this idea and considered that in a market suspected of moral hazard, only intermediate individuals would take actions, whereas the wealthier and poorer would not take any risk in lending procedures.

When the deposit insurance is not efficient, the financial component of the system is jeopardized. The deposit insurance is designed to cover small depositors' potential losses and to limit the banks' risky behaviour. The price of deposit insurance has a big impact on banks' behaviour and consequently when banks are not charged for their hazardous actions, the government will be held responsible and forced to lavish them. Moral hazard is reluctant to solutions that include government bailout or other public resources' contribution. Sometimes the system disorders may be the cause of a political abuse, which happens when the state invests money from general budget to keep banks afloat and avoid their bankruptcy (Beck, 2003).

Hellmann, et al. (2000) analysed the moral hazard induced by the security blanket and argued that regardless of the deposit insurance forms, during financial crisis a bailout would be necessary. The authors explained how state bailout encourages banks to "gamble on resurrection", a possible action when depositors cease to monitor their bank activity. The gamble consists in creating a bank portfolio with risky assets in hope of increasing earnings; if the bet fails, customers and insurers will incur the losses. The solution for this problem is to find the Pareto-efficient equilibrium, which assumes an equal quantity of gambling and smart assets. The Pareto limit is not usually met because banks destabilise one another, creating the market-stealing effect. When banks want to raise the market share, they practice the same interest rates as their competitors, but they buy safe assets. On the other hand, if they want to raise their profits through gambling, banks should attract deposits hence practice a higher interest rate. To attract customers and overcome the competitors' market share, the first choice for banks is to raise the deposit rate. One of the causes of this fierce competition is the liberalisation of the banking system.

3.4. Liberalisation process

The process of liberalisation diminishes systems barriers, by opening the market for foreign banks or reducing the interest rates. Banks become more flexible when influenced by strong competition, and the market stealing effect grows, as a potential crisis deepens (Hellmann, et al., 2000). A cause-effect relationship between liberalisation and financial crises is proved by major losses consisting of non-performing loans and foreign debts. In the liberalisation process, banks with negative

net worth were allowed to get short-term loans and gamble for recovery. The government encouraged the international loans by keeping their costs at very low level and ensuring no consistent currency depreciation. The authorities permitted this loan process with no supplementary regulations or guarantees of risk management. The liberalisation process is essential for government, as it avoids entrepreneurs' monopole by building new institutions which connect the state with key businesses. Additionally, the international market failed on monitoring this short-term lending, and could not resist the market pressure, so it pressured small financial markets to open. Therefore, liberalisation is the result of political pressures from both domestic and foreign countries.

3.5. Political interests

Besides problems of political interest such as banks bailout and liberalisation, Sapienza (2009) stated in his work that state-owned banks usually practice lower interest rates than private banks because the political party associated with the bank has greater impact on the lending process. Sapienza conducted a research in Italy and found out that state-owned banks give rates with 44 basis points less than the private ones. The difference between interest rates has either social or political causes. The social view considers that these banks have lower costs, and they are more efficient. The political view considers that state-owned banks help firms which cannot take a loan because this is too expensive or difficult. The author considered that "both the social and political views would support the fact that state-owned banks apply higher discounts in southern Italy, which is poorer and characterized by widespread political patronage" (Sapienza, 2009, pp.380).

3.6. Information transparency

Information clarity in the financial system is compulsory, as a disciplined market permits its investors to access all the information related to organisations, and it offers investors the possibility of influencing the managerial actions. When a market is monitored it emits signals, which are captured by the managers, and this way it occurs the process of influencing: when signals are positive, the investors are satisfied with the market; otherwise, if managers are advised to make changes in their organisation, the signals are negative. Moreover, when authorities rule a laissez-faire policy in the financial system, banks are not monitored. Therefore, they will try to disguise "the amount of bad debt on their balance sheet by rolling over and rescheduling loans that are in default" (Corbett & Mitchell, 1999, pp.2). This asymmetric information is always discovered during financial crises, when banks gradually disclose their bad debts, aggravating the banking sector problems.

3.7. Recapitalisation

Chandrasekhar (2009) considered banks are the key element in the financial sector, as they represent the principal depositary institutions. In 1950 bank activity

covered more than 80% of the financial system. The first operations to be considered by a government in case of a financial system failure are “guaranteeing deposits, providing refinance against toxic assets and pumping in preference capital” (Chandrasekhar, 2009, pp.1). Toxic assets may incur losses which are so big that banks need to accept insolvency. These assets have low prices and banks are constrained to eliminate them in order to continue operating. Governments protect banks from the bad assets losses by injecting capital into them. This process, known as nationalisation or recapitalisation, “prevents the spread of fear and uncertainty among creditors or investors in the liabilities of banks, such as insurance and pension funds” (Chandrasekhar, 2009, pp.7). A way to infuse capital is by investing in senior preferred stocks and retrieve warrants. This way, the government has the right to buy common stocks at a price set in advance. A recapitalisation strategy should be accompanied by an insurance policy to control any losses from contaminated assets.

To increase banks assets, government may also allocate bonds, which compensate the liabilities of insolvent banks or represent new equity. Bonds can also be offered to the central bank, as a reward for helping commercial banks. Nevertheless, this second support reduces the commercial banks’ liabilities.

4. AN EXAMPLE OF GOVERNMENT HELP DURING THE ACTUAL FINANCIAL CRISIS

During this financial crisis, banks considered “too big to fail” asked for help, but the American government refused to stabilise all of them. International Monetary Fund declared in January the sum of \$2.2 trillions for toxic assets in the United States, an amount that rose with \$0.8 trillion in two months. The domino effect created after the collapse of a particular organisation depends not so much on the firm’s size, but on its role in the market on that specific time. Therefore, the government helped Fannie Mae and Freddie Mac because the bank supported 80% of the new mortgages and the process either continues or the housing market would be in even more difficulty. Their holders kept \$5.4 trillions in bonds, which needed to be reassured. Otherwise, Freddie and Fannie would have increased the mortgage interest rates or even reduce the mortgages loans. If government would not have get involved in Freddie and Fannie situation, lower estate prices would affect the fiscal position deepening the recession. By August 2009, the government promised to keep Fannie Mae and Freddie Mac solvent. At that time, Fannie stated its losses for the second quarter – \$14.8 billions – and asked for \$10.6 billions more. Freddie had \$64 billions of net losses since 2007 and used \$50 billions from the government aid (Scholtes, 2009). At the end of the same month, the shares of the two companies “burst into flames” because the US housing market stabilised and the short sellers bought shares to minimize their losses (Stacey & Scholtes, 2009). At the beginning of November, Fannie Mae declared \$19.8 billions loss, the ninth consecutive deficient quarter and said that even more is expected. The company said it needs another \$15 billions, but the Treasury did not agree because the effect on tax receipts would have been too big compared to Fannie results.

Lehman Brothers was the fourth largest investment bank in the United States but its “too big to fail” characteristic did not save it from the collapse. Its biggest loss

during crisis came from the property-related investments, which included sub-prime mortgages. Lehman tried to get help from the US government or to find a buyer, but investors and trading partners were leaving, although Lehman presented a last minute restructuring plan (Wearden, et al., 2008). Worldwide, the firm had 26,000 employees endangered to lose their job. Its shares fell dramatically in seven months, from \$66 in February to \$3.65 in September. The dollar lost power to both Euro and Yen and the systems needed to stabilise the markets hence the European Central Bank injected €30 billions and the Bank of England £5 billions. On September 15, Lehman was urged to fill the chapter of the Bankruptcy Code and create a plan to pay its creditors. In six months, Lehman lost \$6.7 billions, the assets were continually decreasing, and its debts were more than \$600 billions. The British Financial Services Authority refused “to import the cancer” even in the possibility of a buyer, like Barclays (Ferguson, 2009). Six months before Lehman collapsed, Bear Stearns faced similar facts, but the Treasury Department intervened. However, the US government saved Bear Stearns not because it was “too big to fail”, but too inter-connected for a sudden bankruptcy, and it had derivatives that worth \$9 trillion, while Lehman Brothers had a tenth of that exposure. The BBC business editor Robert Peston, considered the bankruptcy of Lehman the “Wall Street's most extraordinary 24 hours since the late 1920s”.

Compared to the solutions adopted by the United States, Britain's government tried to help the financial institutions as it considered that nationalisation is not a desirable way to work out. In the first quarter of 2009, statistics considered the UK as the first country in the world on bailing out banks (BBC, 2009).

At the beginning of 2009, the Royal Bank of Scotland stated the biggest loss in the UK's corporate history, beyond £28 billions. Although 70% of the bank was owned by taxpayers, the huge losses made government consider the nationalisation. For the recovery of RBS, the Treasury decided to apply an insurance strategy, which covers 90% of the losses in investments (Elliott, et al., 2009). In February 2009, RBS declared that shareholders would share £950 millions as bonuses for 2008, depending on the number of employees that need to be fired. However, the UK did not agree on the fact that losses may be rewarded by bonuses (Eaglesham, et al., 2009). Financial Times reported that the RBS board threatens to retire if the bonuses sum is changed, but the authorities were advised by the Treasury to ignore the threat: “the government will never be taken seriously again on financial policy if it caves in to this blackmail”. To repay the government help, RBS had to withdraw £250 billions of its assets in the next four years, sell the insurance business, and dispose of the core business valuing £50 billions (Goff, 2009).

Other British banks were endangered due to one of the biggest mistakes done during the recession, which was investing money in the property development when everybody else withdrew from it. This way HBOS, the biggest mortgage lender in the UK, lost £7 billions and faced a confidence crisis, eventually being bought by the Lloyd TSB for £12 billions (Financial Times, 2008).

5. REGULATIONS TO AVOID THE NATIONALISATION OF LOSSES

As explained above, banks losses are due to complex reasons, and authorities must adopt measures to minimize the system problems. The Banking Law Committee recommends surveillance focused on bank solidity, risk and transparency. In case of financial crisis, The Crisis Management Authority should be ready to act and provide efficient coordination between all institutions managing the crisis (Viotti, 2000).

Market discipline is vital to the national financial system, and it includes investors' possibility to monitor actions and influence managers. The Basel Committee on Banking Supervision (1999, pp.17) considered that "market discipline imposes strong incentives on banks to conduct their business in a safe, sound and efficient manner", and explained that a transparent bank gains more trust from market investors and more help in a secure investing. Market discipline offers information about banks performance, risk profile, risk management, and data which allows entrepreneurs to make well-founded risk-assessments.

The risk taken by banks differs. Commercial banks can easily go bankrupt because they weaken when a large number of depositors clear their accounts. The lost summed from investment banks are times bigger as the commercial banks losses. The effects of the systemic risk should be suppressed with "a brake on its carriers and require all products over a certain volume to be traded on an exchange rather than over the counter or, at a minimum, to create a mandatory central clearing house for them" (Butler &Patrick, 2009, pp.71). When banks figures are beyond banks capital requirements, regulations like restricting bonuses and payments should be applied, until proper ratios are achieved. Reestablishing secured ratios may be realized through raising capital or disposing the high risky assets. Regulators should encourage capital use, but with limitation for its use in investments, for example a percentage of profits. Furthermore, banks must discover risky assets and isolate them (Peter, 2009).

Financial liberalisation made national banks more dependent on international loans, as they became cheaper; hence, the system weaknesses were duplicated between banks, increasing their vulnerability. The liberalisation process ensures the market freedom whilst interest rates go up, raising the credit cost, and finally, causing an economic crash (Krohn, 2008). To avoid becoming "too big to fail", all banks should be monitored, and in case of fraud and corruption, they must be vanished as soon as possible. For a better control, authorities should send signals to bankers to make them conscious of the penalties given in case of improper banking behavior. Poor management may lead to wrong decisions such as allowing bank resources exploitation or taking excessive risks for quick profits. The growth rate in banks needs limitation, otherwise bankers will use gambling to get instant earnings. Another way to prevent bank gambling is to offer better choices to invest money in and lower intermediation costs (Hellmann, et al., 2000).

When deposit insurance is used for non-monitored banks, the risk is transferred to taxpayers. If a society is not ready to protect itself, in order to save insolvent banks another way than providing a security blanket should be used (Mayes, 2005). The market evaluation is more simple and effective when deposit insurance exists, as the

authorities quickly observe the troubled banks, but creating a deposit insurance helps even troubled banks increase their profits (Walter, 2005).

As seen from the US and the UK study, governments share different opinions on the consequences of the banks failure if these are considered indispensable for the system. The true part of “too big to fail” myth has been known since the 1930s crisis: when a big bank fails with no consideration to its clients, especially creditors, the breakdown may engage a crucial recession as an effect of panic and surprising market decrease. However, it is crucial to understand the role of that bank in the economy at that certain moment.

6. CONCLUSIONS

The big banks losses undermine the worldwide economy, but even if bank profits are not nationalised, letting the banking system crash is not a solution. Authorities are also responsible when governments fail to monitor banking activities, and losses are so big that they produce a financial crisis.

One of the most challenging things to fulfill is to keep the transparency of information, so that investors are aware of the organisations performance, and the regulators apply new rules and limitations in order to improve the banking activity. Banks take huge risks for profits increase, as their insolvency stage usually transforms into a nationalisation of losses. The moral hazard appears when banks play an important role in the system, they gamble for recovery, or governments set deposits insurance. Either way, banks should be constrained in terms of risk, otherwise the losses continue growing.

During financial crisis, governments used different ways to support banks, but it appears that however big the bailout would be, banks always need more help. Taxpayers usually complain about government help, as individuals do not get any benefits from bank activities. A perfect global banking model cannot be provided, but it is crucial for the economies to monitor their financial systems and provide related regulations in order to avoid future big losses.

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Index of Authors

A

Andrioni, F. (235)

B

Balan, M. (267)

Baron, M. (5)

Biriescu, S. (17)

Breuer, A. (121)

Brezeanu, P. (33, 261)

Butuza, A. (17, 151)

C

Carapancea, D. (267)

Căruntu, C. (43)

Celea, S. (33)

Cenar, I. (51)

Charikinya, A. (161)

Ciocodeică, V. (59)

Cotleț, D. (171)

Csiminga, D.C. (137)

D

Dima, I.C. (71)

Drašarová, M. (105)

Drigă, I. (77)

Dura, C. (77)

E

Edelhauser, E. (89)

F

Fleșer, A. (179)

G

Ghicajanu, M. (97)

Gombarume, F.B. (161, 187)

Grabara, J. (115, 145)

Guță, A.J. (245)

H

Hauer, I. (151)

Hes, T. (105)

J

Jurchescu, D. (121)

K

Kot, S. (115, 145)

L

Lăpăduși, M.L. (43)

Lesconi Frumușanu, M. (121)

M

Man, M. (129)

Mangu, C.D. (137)

Mangu, S.I. (137)

Marin, R.M. (129)

Mihăilescu, M. (115)

Modrak, V. (145)

Muntean, C. (151)

Mutengezanwa, M. (161, 187)

N

Nagy, C.M. (171)
Niță, D. (179)
Njanike, K. (161, 187)

P

Pachura, P. (71)
Pârvulescu, I. (197)
Pirtea, M. (277)
Pleșa, R. (197)
Popovici (Bărbulescu), A. (207)
Prodanciuc, R. (59)

R

Răscolean, I. (245)
Răvaș, B. (215)
Răvaș, O. (223)

S

Sandu, M. (71, 115)
Schmidt, M.C. (235)
Slusariuc, G.C. (245)
Srnc, K. (105)
Stanciu, A.P. (33, 261)
Stoian, M. (253)

T

Trandafir, A. (261)

V

Vasile, E. (267)
Vătavu, S. (277)
Vătavu, S. (277)
Vokorokosova, R. (71, 145)

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