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## **THE HOUSE OF SAVINGS AND LOAN OF EMPLOYEES FROM THE GOLD MINING COMPLEX OF BRAD OF “MICA” COMPANY (1931-1948)**

**MIRCEA BARON, OANA DOBRE-BARON \***

**ABSTRACT:** *In our study we're trying to present one of the many social projects that "Mica" Mining Company has achieved within the gold mining complex from Brad, located in the Apuseni Mountains of Transylvania. Under the motto "Be not only hardworking but also preservers because everyone can earn money, but few know how to save it" the company the managers of "Mica" Brad set up, in 1931-1932, the House of Savings and Loan for workers, and the House of Savings and Loan officials respectively, institutions that would operate until the closing of "Mica" Company in 1948. These Houses include all employees of the "Mica" Company from Brad and will circulate the funds from voluntary and compulsory deposits of their members, granting loans for the construction of houses and farms, for the establishment of agricultural holdings, for the purchase of land and agricultural equipment, for family needs etc.*

**KEY WORDS:** *Romania; the period between 1931 and 1948; "Mica" Company; the gold mining complex from Brad ("Mica" Brad); the House of Savings and Loan.*

**JEL CLASIFICATION:** *B10.*

"Mica" Mining Company will develop the mining complex for the extraction of precious metals from Apuseni Mountains - also known as "Mica" Brad, the follower of Cuxa Mining Association Ruda "12 Apostles"- through merging efficiently the productive and the social component, in order to create social-economic and cultural conditions absolutely necessary for effective use of labour power.

One could find here, both "the belief that labour efficiency is closely related to the conditions under which it is carried out"<sup>1</sup>, and thus the need to provide appropriate material and spiritual conditions through which labour force will be capable of

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<sup>1</sup> Societatea „Mica”, *Năzuințe și înfăptuiri sociale. 1920-1939*, Imprimeriile „Adeverul”, București, 1939, p. 16.

responding to tasks required by the operation of such an industrial complex as there is in Brad, and the social and cultural conditions of the legislative system and of State institutions that "Mica" Company was forced to obey by. These, as well as many other aspects, will compete in order to achieve the social and cultural work which "Mica" Company prides on, and which had positive effects both on the employees, and by extension, on the Apuseni Mountains gold field in generally and on Brad area in particular.

Documents from the archive<sup>2</sup> and also a book published in 1939, *the "Mica" Company, Ambitions and social achievements. 1920-1939*, reveal the social component of "Mica" Company, as a result of a programmatic direction. They focused on the development of: I. Work culture, by creating houses of savings and loan for workers and officials, the improvement of living and working conditions, of agricultural and domestic households; II. Culture of health through medical care and providing conditions for practicing sports and recreational activities; III. Culture of the mind through: building schools, setting up libraries, building cinemas, organizing cultural activities, etc.; IV. Culture of the soul, through the development of religious education and supporting the building of churches, the development of musical education, etc.

In this complex of concerns lies the intention of "Mica" Company leaders to set up a House of Savings and Loan, possibly with the belief that it will develop the spirit for savings, and it will also provide employees with resources that can be used for needs that are linked to the prosperity and security of their families.

The basic idea is that "the duration of mining is always limited. It is linked to a town or a region, as long as it does not run out of ore reserves in that region. That is why it is our concern is related not only to immediate benefits, but also to providing a cost-effective mine for a long term and to make this region be able to support itself without any help, when the mining activity will have closed down"<sup>3</sup>.

It is not less true that such an undertaking cannot be born, especially at the beginning, from much excitement among those to whom it was addressed, especially workers, and from the lack of adequate education, but also because employees from "Mica" Brad saw in this action, and especially in the monthly deposits to House fund, a form through which leaders have sought to have a proportion of the financial resources granted to them for purposes that would be more for the advantage of the Mining Company.

Under the motto "*Be not only hardworking but also preservers because everyone can earn money, but few know how to save it*"<sup>4</sup> the company the managers of "Mica" Brad will set up in Brad on September 1<sup>st</sup> 1931 the first economic associations of employees, *the House of Savings and Loan*.

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<sup>2</sup> See, for instance, *Memoir on Social Achievements Accomplished by "Mica" Company from Brad regarding its Employees Living*, în, Direcția Județeană Hunedoara a Arhivelor Naționale (Hunedoara County Department of the National Archives; hereinafter called DJANH), *Fond Societatea "Mica"*, dos. 2/1942, f. 253-257.

<sup>3</sup> Societatea „Mica”, *Darea de seamă a Consiliului de Administrație și raportul cenzorilor către Adunarea generală ordinară a acționarilor din 27 mai 1935. Exercițiul 1934*, Institutul de Arte Grafice și Legătorie Apollo, București, 1935, p. 20.

<sup>4</sup> DJANH, *Fond Societatea „Mica"*, dos. 15/1929, f. 47.

The main idea was that these Houses may be "the best instruments for using life conditions and their prime purpose is to get everyone think by himself about tomorrow and not expect everything from retirement or other provision. Deposits are a means of stimulating the economy, which forms the basis of the social structure. These houses carry out in silence, with care regarding the money entrusted with them and to the best of their ability, the most beautiful and most fruitful activity born from the spirit of solidarity and joint for helping people save the money earned through work. A good part of what the region of Brad is today is due, without a doubt, to these "Houses of Savings".<sup>5</sup>

Originally, what was set up on September 1<sup>st</sup>, 1931 was intended to be a House of savings and loan for employees of "Mica" Ruda 12 Apostles. It was designed primarily for the benefit of workers, so that they, in a time when "the salary has been maintained at the same level, despite the reduction in the cost of living, to make savings and to support each other when they need important amounts of money."<sup>6</sup>

Only that, there is a practice that you can encounter, by the way, in all major mining Companies, that of separation, sometimes of social-economic problems of the workers from those of officials: we have for example the pension system, where the Council of Transylvania and later on the Ministry of Labour and Social Protection, set up in March 1920, through the House of social security, will be in charge of workers' pensions and the pensions of officials will be insured for the entire period by the House of Pensions of Officials from "Mica" Brad<sup>7</sup>. It is true that "Mica" Company will contribute with amounts of money under the provisions of the law and the articles of Association of Retirement Funds, alongside workers and officials, to the funds needed to guarantee the pensions of all employees who enjoy this right.

Perhaps from such a point of view will start the idea of creating separate institutions that administer the savings of workers and officials and credit certain needs. Therefore, "as a complement to action undertaken among workers and in order to offer the officials of the mines of "Mica" Company the possibility to boost savings, on August 1<sup>st</sup> 1932 *the House of Savings and Loan for Officials*<sup>8</sup> will begin to operate alongside *the House of Savings and Loan for workers*. Two houses, which in fact satisfy the same purpose, will thus be created and they will function in parallel with this structure until the closing of "Mica" Company.

The rules of *the House of Savings and Loan for employees of "Mica" Company Ruda 12 Apostles*, was adopted by the Board of Directors of the society of the "Mica" Company in order to regulate the activity of the House created on September 1<sup>st</sup> 1931; we do not know if separate rules for the two Houses will have been adopted later on.

The provisions of this regulation are enlightening in understanding the role of this undertaking. Thus, "the purpose of the House is to encourage savings among the staff of the Company, to facilitate the deposits in order to increase savings and to allow

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<sup>5</sup> Societatea „Mica”, *Năzuințe și înfăptuiri sociale. 1920-1939*, p. 20.

<sup>6</sup> 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. 35.

<sup>7</sup> See, Mircea Baron, *Considerații privind activitatea Casei de Pensuni a Funcționarilor Societății „Mica” din complexul minier de la Brad*, Sargetia, XXXIV, 2006, p. 481-498.

<sup>8</sup> Societatea „Mica”, *Năzuințe și înfăptuiri sociale. 1920-1939*, p. 18.

its members to make loans if necessary" (article 1). The activity of the House was from the beginning the responsibility of the administration of "Mica" Brad, and thus it was managed by "Mica" Company – which elected the President – under the control of the General Directorate and the Board of Directors. Loans and placements would be made by a Council of workers and officials and three delegates of "Mica" Company. Each mine would choose one delegate for 200 employees and in case officials wanted to be part of this house, then they had to appoint three delegates in the Council. The loans for officials would be assisted by the Committee of Officials and the loans for workers by the Committee of Workers, both supported by delegates of the Company within the Council (article 2).

According to art. 3, the funds of the House were made of: *a*). deposits made by the Company from money provided to workers for this purpose. For example, in December 1938 the Board of Directors of "Mica" Company decided that workers who were employed starting with July 1<sup>st</sup> 1938 were to be granted an additional payment of 12 shifts calculated on the basis of the list of payment from November 1938; from this salary they actually paid 6 shifts, and the other six shifts would be considered mandatory deposits, in favour of the House of Savings and Loan of Workers<sup>9</sup>; *b*). mandatory deposits established by decisions taken by the General Directorate and approved by the Board of Directors of the Company; *c*). voluntary deposits; *d*). Reserve Fund; *e*). donations or dispositions.

According to art. 4, deposits made by the Company or any other mandatory deposit, could not be returned unless approved by the Council of the House, and only in the following cases: *a*. when the member of the House enters a marriage or settles it on the children; *b*. when buying a property; *c*. when retiring from service; *d*. in the event of death or illness in the family.

The funds of the House could be placed as follows: *a*. security or shares in the "Mica" Company up to 1/4 of the capital; the purchase could be made with prior approval from the General Directorate of "Mica" Company; *b*. loans granted to employees, in their capacity as members of the House or to consumer companies that would be set up by them (article 6).

Each Member of the House could engage in a loan: *a*. on the security of his own capital, free of any charges; *b*. on the security of one or more members of the House, but only up to the amount corresponding to his salary for three months (art. 7). Outstanding rates were to be withheld from those who have guaranteed the loan (article 8), and no one could guarantee more than twice at the same time, and not more than half of his capital, free of any charge (article 9).

Repayment of the borrowed sum can be made in no more than 12 monthly installments, the retention for the loan could not exceed 30% of the lender's salary and the interest on the loan had to be equal to rate of the National Bank of Romania plus 2% (article 7). The department of human resources from "Mica" Brad will create a list that will keep track of mandatory and optional deposits that will be retained by the House from the worker's salary and written down in the savings booklet of each depositor (article 11).

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<sup>9</sup> DJANH, *Fond Societatea „Mica”*, dos. 34/1934, f. 3; dos. 48/1938, f. 10.

On December 31<sup>st</sup> of each year the general balance of all operations of the House would be drawn up, it would be submitted for approval to the Board of Directors of the "Mica" Company (art. 13). The net benefit would be reduced by 50% which represents the Reserve Fund, and the rest would yield dividends to the members of the House (article 14). "Mica" Company would guarantee an annual interest rate of at least 5% in the case of mandatory deposits and 7% in the case of voluntary deposits; in general, the interest on mandatory deposits is 2 points smaller than the rate of the National Bank of Romania, and the interest on voluntary deposits is equal to the rate of the National Bank of Romania (article 15). In the event of liquidation, the Reserve Fund would be divided according to the capital of each member and this Fund would also cover the losses resulting from the decreasing annuities or insolvency of debtors (article 16).<sup>10</sup>

The first meeting of the Board of Directors of the House of Savings and Loan of the employees of "Mica" Company – "Ruda 12 Apostles" Brad would take place on February 1<sup>st</sup> 1932; during the meeting the Board of Directors was to be elected, "Mica" Company would have a representative and loans would be voted for<sup>11</sup>.

The beginning was not easy; a report drawn up at the end of June 1932 already showed the discontent of depositors. These complaints seem to be caused by the fact that "Mica" Brad did not transfer the 3% withheld from the workers' salary to House knowing that, anyway, the House's operations were carried out by officers of the Company. Perhaps, due to lack of money, which was retained by "Mica" Company, loan applications, some of them dating back 2-3 months, were not approved on time. The conclusion was that "this operating method of the House of Savings stirred up rumors among workers who are no longer enthusiastic about setting up a House of Savings"<sup>12</sup>.

We may say that, to a large extent, these Houses have fulfilled the role for which they were created, and their wealth was formed mainly of compulsory deposits. Thus, by decision of the Directing Committee workers had to pay 5% of the monthly salary for the whole operation period of the House, while officials initially paid 3% of the salary<sup>13</sup>, and then in 1941 they too had to pay 5% of the salary<sup>14</sup>. These deposits, as well as the tendency to make voluntary deposits which were consistent especially in the case of officials, would result in significant available funds managed by the House (table 1)<sup>15</sup>:

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<sup>10</sup> *Ibidem*, dos. 15/1929, f. 47.

<sup>11</sup> *Ibidem*, dos. 10/1926, f. 147.

<sup>12</sup> *Ibidem*, dos. 11/1931, f. 39-40.

<sup>13</sup> *Darea de seamă...Exercițiul 1933*, p. 35

<sup>14</sup> Societatea „Mica”, *Darea de seamă a Consiliului de Administrație și raportul cenzorilor către Adunarea generală ordinară a acționarilor din 30 iunie 1942. Exercițiul 1941*, Tiparul „Luceafărul”, București, 1942, p. 26

<sup>15</sup> Societatea „Mica”, *Năzuințe și înfăptuiri sociale. 1920-1939*, p. 17, 19; Societatea „Mica”, *Darea de seamă a Consiliului de Administrație și raportul cenzorilor către Adunarea generală ordinară a acționarilor din 25 mai 1940. Exercițiul 1939*, Imprimeriile „Adeverul”, București, 1940, p. 31; Societatea „Mica”, *Darea de seamă a Consiliului de Administrație și raportul cenzorilor către Adunarea generală ordinară a acționarilor din 30 iunie 1941. Exercițiul 1940*, Tiparul „Luceafărul”, București, 1941, p. 26; *Darea de seamă...Exercițiul 1941*, p. 26; Societatea „Mica”, *Darea de seamă a Consiliului de Administrație și raportul cenzorilor către Adunarea generală ordinară a acționarilor din 28 iunie 1944*.

Table 1. Deposits to House of Savings and Loan from Brad (1931-1946)

Year	The House of Workers			The House of Officials		
	Mandatory deposits	Voluntary deposits	Total (lei)	Mandatory deposits	Voluntary deposits	Total (lei)
1931	514.875	-	514.875	-	-	-
1932	1.922.307	21.000	1.943.307	140.210	504.843	645.053
1933	3.861.935	16.280	3.878.215	562.113	2.956.750	3.518.881
1934	6.264.146	51.822	6.315.968	1.010.851	7.932.551	8.943.402
1935	8.576.062	141.862	8.717.924	1.543.498	4.420.374	5.963.872
1936	11.416.535	205.793	11.622.328	1.938.558	10.874.108	12.812.666
1937	14.332.658	495.306	14.827.964	2.571.954	17.293.539	19.865.493
1938	18.514.322	755.855	19.270.177	3.191.886	16.463.599	19.655.485
1939	21.211.864	592.745	21.804.609	4.031.691	17.359.245	21.390.936
1940	24.530.848	673.552	25.204.400	4.777.190	16.198.242	20.975.432
1941	29.351.570	806.746	30.158.316	6.107.819	10.175.302	16.283.121
1942	36.477.931	770.192	37.248.123	7.840.329	8.785.856	16.626.185
1943	48.179.800	748.139	48.927.939	13.501.416	9.868.755	23.370.171
1944	75.142.601	1.124.603	76.267.204	18.161.936	9.209.817	27.371.753
1945	201.362.070	2.232.837	203.594.907	30.302.243	15.474.690	45.776.933
1946	737.088.771	5.016.258	742.105.029	70.626.153	26.896.656	97.522.809

Constant increase of the amounts that make up the wealth of the House of Savings and Loan depended on mandatory and voluntary deposits, as well as on the number of employees at "Mica" Brad. We find (table 2) that, except for the years 1945-1947, when the number of employees has increased significantly, due to the process of undertaking "Breaza-Zlatna Gold Mines" by "Mica" Company<sup>16</sup>, there is a steady growth, not spectacular, in the number of employees. On the other hand, the significant growth of deposits during 1945-1946 would be caused by the inflation spiral, which led to an uncontrolled growth of salaries.

After the incorporation of "Breaza-Zlatna Gold Mines", in early 1945 there will be set up the House of Savings and Loan of Workers from Zlatna, an institution that will function separately, filing at the end of the year its own balance sheet (table 3)<sup>17</sup>. It seems only natural that, along with the increase of the funds held by the two Houses, as well as with increasing confidence, the amounts available for borrowers should grow<sup>18</sup> (table 4).

*Exercițiul 1943*, Atelierele Grafice Socec&Co., București, 1944, p. 24-25; Societatea „Mica”, *Darea de seamă a Consiliului de Administrație și raportul cenzorilor către Adunarea generală ordinară a acționarilor din 22 septembrie 1945*. *Exercițiul 1944*, Atelierele Grafice Socec&Co., București, 1945, p. 26; Societatea „Mica”, *Darea de seamă a Consiliului de Administrație și Raportul cenzorilor către Adunarea generală ordinară din 24 mai 1947*. *Exercițiul 1945*, Institutul de Arte Grafice „Curierul Judiciar”, București, 1947, p. 21; DJANH, *Fond Societatea „Mica”*, dos. 11/1942, f. 38-39; dos. 226/1946, f. 43-44.

<sup>16</sup> DJANH, *Fond Societatea „Mica”*, dos. 8/1942, f. 48.

<sup>17</sup> *Darea de seamă...Exercițiul 1945*, p. 21, 39.

<sup>18</sup> Societatea „Mica”, *Năzuințe și înfăptuiri sociale. 1920-1939*, p. 17, 19; Societatea „Mica”, *Darea de seamă...Exercițiul 1939*, p. 31; 1940, p. 26; 1941, p. 26; 1943, p. 24-25; 1944, p. 26; 1945, p. 21; DJANH, *Fond Societatea „Mica”*, dos. 11/1942, f. 37; dos. 226/1946, f. 41; dos. 35/1947, f. 46.

**Table 2. Evolution of personnel at “Mica” Brad between 1931-1947<sup>19</sup>**

Year	Total	Out of which		Year	Total	Out of which	
		Technicians and workers	Administrative and cleaning personnel			Officials and daily workers	Workers
1931	2.422	2.366	56	1936	2.645	255	2.390
1932	2.385	2.289	96	1937	2.781	273	2.508
1933	2.507	2.392	115	1938	2.991	262	2.729
1934	2.631	2.527	104	1939	3.012		
1935	2.669	2.540	129	1940	3.230	333	2.897
				1941	3.197	303	2.894
				1942	2.859	287	2.572
				1943	2.951		
				1944	2.860	286	2.574
				1945	4.048	322	3.762
				1946	4.310	335	3.975
				1947	3.952	319	3.633

**Table 3. The Employees’ House of Savings and Loan - Zlatna Set up in 1945, it presents the following situation on December 31<sup>st</sup> 1945**

ASSETS		LIABILITIES	
Cash register, cash	133.249	Mandatory deposits of 5% of the salary	10.054.430
Debtors, loans	1.949.500	Unpaid estate tax	36.409
Available funds at „Mica” Company	8.101.897	Benefit on December 31 <sup>st</sup> 1945	93.409
<i>Total assets</i>	10.184.646	<i>Total liabilities</i>	10.184.646

What were these loans used for? Statistics of loans made by workers in the period 1932-1938 shows that 48% of the amounts borrowed were used for building houses and farms, for purchasing and renovating houses and agricultural holdings; 30% were intended for the purchase of land; 7% were used for the purchase of agricultural equipment; 7% covered debts for clothing and food; 8% for miscellaneous expenses: illness, funerals, education of children etc.<sup>20</sup>.

In the case of officials, 36% of the amounts borrowed were used to improve living conditions: organizing households, household needs, food, clothing, etc.; 23% were destined for the purchase of properties; the remaining amounts were intended as follows: 19% for health care and children; 15% for constructions; 7% for miscellaneous necessities<sup>21</sup>.

<sup>19</sup> DJANH, *Fond Societatea „Mica”*, dos. 24/1922, f. 4-47; dos. 25/1922, f. 4-49; 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.

<sup>20</sup> Societatea „Mica”, *Năzuințe și înfăptuiri sociale. 1920-1939*, p. 17-18.

<sup>21</sup> *Ibidem*, p. 19-20.

Table 4. Loans from the House of Savings and Loan - Brad

Year	The House of Workers (lei)	The House of Officials (lei)	Year	The House of Workers (lei)	The House of Officials (lei)
1932	289.076	42.376	1940	13.667.094	5.692.302
1933	2.494.338	1.672.433	1941	17.206.488	5.683.944
1934	3.758.648	649.155	1942	20.569.491	5.744.929
1935	7.108.143	1.486.741	1943	48.927.939	7.138.088
1936	9.510.976	4.843.959	1944	27.838.908	8.252.709
1937	11.280.159	2.585.876	1945	162.584.945	16.249.677
1938	13.401.374	2.817.700	1946	410.651.625	
1939	11.350.708	4.805.853	1947	1.378.301.000 old lei; 4.000.725 new lei	

Table 5. House of Savings and Loan of Workers from Brad, Balance sheet elements (1933-1945)

	1933	1934	1935	1936	1937	1938
<b>ASSETS</b>						
Available funds at „Mica” Brad	3.221.708	-	4.997.626	6.587.243	8.514.421	10.722.574
Available funds at the Officials’ House	63.779	-	-	26.681	46.409	97.459
Security: State Loan 41/2%	-	1.260.000	126.000	1.243.200	1.240.384	1.407.879
<b>LIABILITIES</b>						
Reserve Fund	106.793	106.793	461.320	461.320	858.533	1.438.533
Surplus	-	-	288.720	460.488	753.540	644.457
Bad debts reserve	-	-	-	345.000	456.502	60.502
Net benefit	159.201	188.371	288.720	-	-	-
	1939	1940	1941	1943	1944	1945
<b>ASSETS</b>						
Available funds at „Mica” Brad	12.398.130	14.111.483	15.784.813	3.127.369	54.435.794	162.584.945
Available funds at the Officials’ House	191.897	277.570	314.103	460.370	481.415	466.542
Security: State Loan 41/2%	1.407.879	1.407.879	1.593.979	1.577.179	1.741.179	1.741.179
<b>LIABILITIES</b>						
Reserve Fund	1.871.790	2.497.959	3.110.198	4.307.758	5.792.941	5.465.998
Surplus	735.169	777.449	912.198	1.224.273	643.513	1378.590
Bad debts reserve	709.502	829.502	979.502	1.620.155	1.620.155	3.420.155

In the annual balance sheets of the two Houses, which we find in the Reports of the Board of Directors of "Mica" Company for the Ordinary general meeting of shareholders, one may identify several conclusions.

We find, what we have said before, that most of the available amount of money of the Houses was kept by "Mica" Company, payments in cash could be made by the pay office within Brad Mines Management; we may note that relatively modest amounts of money of one House can be found in the balance of the other House, probably as a result of accounting operations.

It turns out that, for almost the entire analyzed period, there is a surplus, the result of rhythmic collection of funds, due to mandatory deposits and caution in lending money and the possibility to recover instalments on time.

In accordance with art.14 of the Regulation, this surplus will represent the Reserve fund, which represent 50% of the net benefit, but not more than 1/3 of the capital deployed and there will also be a fund for bad debts; the other half of the net benefit will be distributed as dividends to the members of the Houses; this will be added to the fund of mandatory deposits.

**Table 6. House of Savings and Loan of Officials from Brad, Balance sheet elements (1933-1945)**

	1933	1934	1935	1936	1937	1938	1939
<b>ASSET</b>							
Available funds at „Mica” Brad	-	-	3.114.308	9.506.075	16.475.285	15.654.677	15.059.683
Available funds at the Officials’ House	-	-	-	26.681	46.409	97.459	191.897
Security: State Loan 41/2%	-	2.100.000	2.100.000	2.049.600	2.091.536	2.150.875	2.150.875
<b>LIABILITIES</b>							
Reserve Fund	-	-	167.821	167.821	279.328	524.578	617.105
Surplus	-	-	-	77.846	318.250	92.527	86.440
Net benefit	34.381	133.440	77.846	143.661	-	-	-
Bad debts reserve	-	-	-	110.000	183.000	183.000	183.000

	1940	1941	1943	1944	1945
<b>ASSETS</b>					
Available funds at „Mica” Brad	13.815.110	8.471.458	15.233.201	18.334.666	26.792.264
Available funds at the Officials’ House	277.570	314.103	460.370	481.415	466.542
Security: State Loan 41/2%	2.150.875	2.190.250	2.139.850	2.157.850	2.157.850
<b>LIABILITIES</b>					
Reserve Fund	703.545	828.028	1.022.352	1.213.955	1.572.580
Surplus	124.483	142.358	295.353	454.875	343.343
Bad debts reserve	183.000	270.000	550.000	550.000	1.000.000

"Mica" Company, as all the major industrial and financial Companies in Romania, will respond to the requirement of the State to subscribe to Romanian State Loan by 41/2%. "Mica" Company subscribed 15.126.000 lei, out of which the Officials’ House of Savings and Loan placed 2,500,000 lei, while the Workers’ House of Savings and Loan offered 1,500,000 lei<sup>22</sup>; these amounts can be found among the assets of the Houses for the entire period.

We do not know if these two institutions were dissolved before or at the same time as the nationalization of “Mica” Company on June 11<sup>th</sup>, 1948. We can ascertain that in 1947 substantial loans were granted to employees, but in a note sent on November 24<sup>th</sup> 1947, by Brad Mines Management to the General Management of

<sup>22</sup> Darea de seamă...Exercițiul 1934, p. 24.

"Mica" Company from Bucharest, it is required to communicate "the way the situation of the House of Savings and Loan (of workers and officials) can be resolved after stabilization, both in terms of mandatory and voluntary deposits and in terms of loans granted to employees. Every day current workers and those who intend to leave request clearing of their rights from the House of Savings"<sup>23</sup>.

Beyond this point, it should be noted that this social project, as so many others implemented by "Mica" Company in the Apuseni Mountains gold field during the years of its existence, has had a positive impact upon those to whom it was addressed, and beyond the inevitable shortcomings, it ensured some family needs of employees from "Mica" Brad.

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<sup>23</sup> DJANH, *Fond Societatea „Mica”*, dos. 44/1947, f. 67.

## **THE EVOLUTION AND THE FUTURE ROLE OF THE BRANCH IN DISTRIBUTION OF THE BANKING PRODUCTS AND SERVICES**

**CĂTĂLIN NICOLAE BULGĂREA \***

**ABSTRACT:** *Debate about the role of the branch office in the retail banking business is nothing new. The discussion of branch existence has been going on since the appearance of the internet, mobile phone. Despite the development of new distribution channels and falling number of customers, the branch is by no means dead! In fact, surveys and studies have consistently shown that it remains the customers' preferred channel: they still value face-to-face discussions with their bank officer. Currently the branches contribute to about 85% of sales. The branch needs to evolve so that it provides customers with a powerful and attractive alternative to the other channels that are appearing. What is the role of branch in the multichannel banking? Banks should have the ability to deliver the right service, at the right time in the right channel.*

**KEY WORDS:** *branch; banking products and services; distribution; banking distribution channel; multichannel.*

**JEL CLASSIFICATION:** *M31.*

### **1. DISTRIBUTION IN RETAIL BANKING**

Banks have faced several challenges over the past years. One of them is how to efficiently deliver their products and services to the customers. The main distribution channels in retail banking are: branches, ATMs, mobile banking, call centres, Internet banking. This article will explore the evolution, challenges and opportunities that lie ahead for branches as distribution channel in retail banking.

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## 2. TYPES OF BRANCHES AS DISTRIBUTION CHANNELS

The branch represents the traditional way of distribution of banking products and services. The distribution is made by the traditional counter, where the customer and banking officer meet each other.

Banks are experimenting with different branch formats. These provide a stimulating but also relaxing environment and enable banks to trial new products and services. As an alternative for the classic branches, **specialized branches** have been created. They focus on a certain type of activity such as: operations for individuals, small and medium sized enterprises or for corporate clients. These specialized branches have been created in order to have a close relationship with these clients and to better serve them. Different customers require different segment approach.

The main reason of segmentation is to reach different customers with appropriate channels and products. For individuals and small and medium sized enterprises, banks opened **retail branches** in malls and supermarkets. They have an extended work programme (they are opened as long as the malls and supermarkets are opened – even on Saturdays and Sundays). Their primary activities are consumer loans, basic banking operation (domestic and international payments, bill payments, cards etc.). For corporate and top clients banks have created **corporate branches** and **private branches**. These clients require sophisticated products and services, high standards of quality. Therefore the staff employed in such branches should be seniors in terms of banking knowledge and the quality of service delivery.

Specialized branches have been created not only for different customer segment, but also for different products. As a result of high demand for mortgage products, banks have created **mortgage branches**.

**Self banking branches** have been created as a result of appearing of a new type of customer who is familiar with the latest technologies and who requires electronic services. In these branches the clients can use self banking devices which can be used all day long, seven days a week. The operations that can be done are: deposits, domestic and international payments, money exchange, cash deposit and withdrawals, repayment of loans.

**Mobile branches** are flexible and movable branches. They are used to reach customers in rural area for example or by banks which do not have a branch network. These branches can be quickly installed or relocated to another place.

In order to provide a stimulating but also relaxing environment and to enable banks to trial new products and services, the **banking cafes** have been settled. The banking café is the result of partnership of a bank and a café. These branches were created in cities with large business communities and they offer a full range of banking products and services.

## 3. THE ROLE OF BANK BRANCH IN DISTRIBUTION OF BANKING PRODUCTS AND SERVICES

Despite the development of new distribution channels due to the technology, the branch still plays an important role in distributing the banking products and

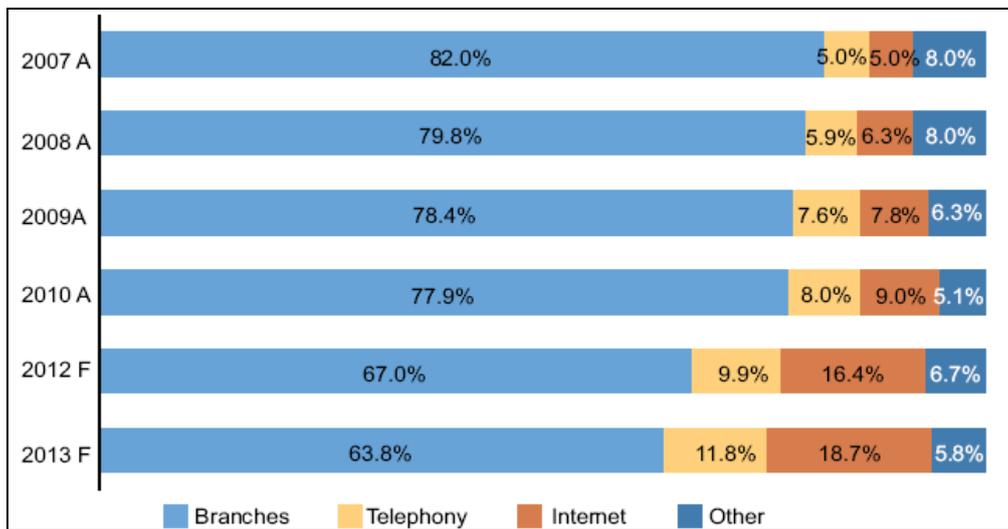
services. The discussion of branch existence has been going on since the appearance of the Internet, mobiles phone, e-commerce. The banks considered the mobile distribution channels as an alternative to the branch and, in their opinion, the direct banking could easily replace the traditional branch channel. In this respect, the banks made important investments in development of services that are not based in the branch. This has led to a dramatic increase in the use of Internet and mobile banking, whilst the role of ATM has also increased. These large investments in direct channels were made taking into consideration the multiple advantages of direct channels:

- close to clients which will reduce the visits to branches;
- no more queues at the banks counters. So the clients can save money and time;
- accessibility – direct channels are available 24 hours a day, 365 days a year;
- higher quality services, operated in real time, offered at attractive prices;
- possibility of quick and efficient information exchange;
- the banking operations are carried out in complete security and confidentiality.

Everybody expected the clients would move from “face-to-face” banking to direct channels and the branch would disappear. In the 90’s, most of the people were pessimistic about the branch existence. Bill Gates forecast the death of the bank branch. In his opinion the branches took the path of dinosaurs. His saying is quite well-known: “Banking is essential, banks are not.

However, the opposite happened. Bank branch have been stable and getting more importance in distribution of banking products and services.

According to 2011 Multichannel Banking in Europe Report issued by European Financial marketing Association and Finalta to whom over 400 participants from 40 European countries took part, the achieved and forecast proportions of all retail banking sales made through each of the main distribution channels are shown in figure 1.



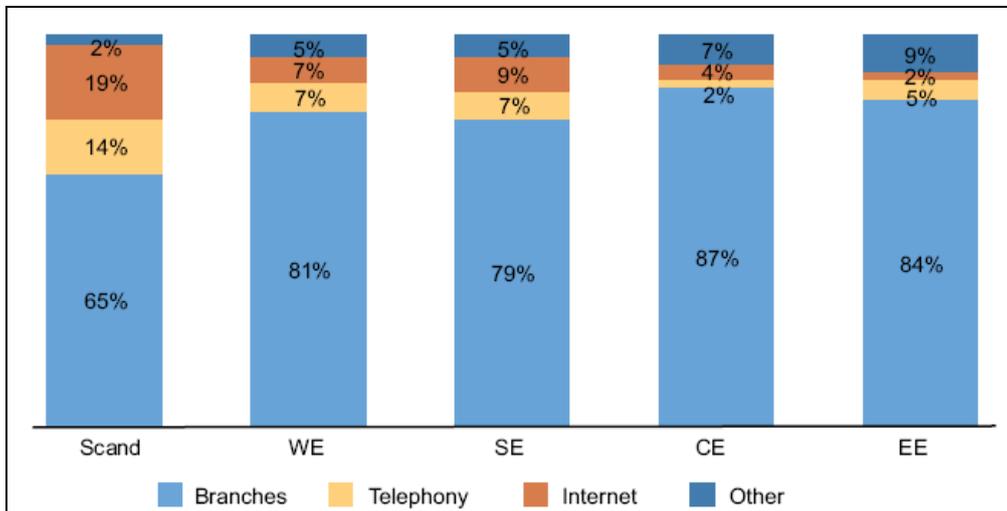
Source: EFMA/Finalta 2010 Multichannel Banking in Europe Report

Figure 1. The percentage of European retail banks sales by channel

As we can see from this chart, since 2007 the proportion of retail bank sales made by branch has decreased from 82 % to 78 % (whilst the proportion of sales made by internet has nearly doubled to almost 10 % in 2010). There is a change on a year-to-year basis on direct channels sales (taking into consideration the impact of information and communication technology on banking industry). Sales are moving away from branches. In terms of volumes, the branch remains the dominant channel.

As we can see from the chart above, the proportion of 2010 branch sales accounts from just under two thirds of sales in Scandinavian countries up to 80 % in Central and Eastern Europe.

Nowadays, discussions still focus on the effective size and the role of branch network. Besides the large costs involved in settling up and in developing a branch network, it is important to point out the reality of these bank branch networks which differs from one country to another.



Source: EFMA/Finalta 2010 Multichannel Banking in Europe Report

**Scand** – Scandinavian countries: Denmark, Finland, Norway and Sweden.

**WE** (Western Countries): Austria, Belgium, France, Germany, Ireland, The Netherlands, Switzerland and United Kingdom;

**SE** (Southern Countries): Italy, Greece, Malta, Portugal, Spain and Turkey;

**CE** (Central Europe): Croatia, Czech Republic, Estonia, Hungary, Lithuania, Poland Slovakia and Slovenia;

**EE** (Eastern Europe): Bulgaria, Romania, Russia, Serbia and Ukraine.

**Figure 2. Regional analysis, the percentage of European retail banks sales by channel**

As we could see, the reality of branch network in European countries differs substantially from one country to the other. The number of branch offices per 1.000 inhabitants ranges from 0.16 in Estonia and 0.19 in Czech Republic to situations such as those in Cyprus and Spain which have almost one branch office for every thousand inhabitants. In terms of number of employees in a branch, there are also important differences (Bulgaria – 5.68, Spain – 6.02 in opposition with United Kingdom – 38.11

or Malta – 33.05). It can be seen that countries with less branches offices per 1,000 inhabitants have larger team in their branch offices. Regarding the number of employees that serves 1,000 inhabitants, there are no important differences among the European countries.

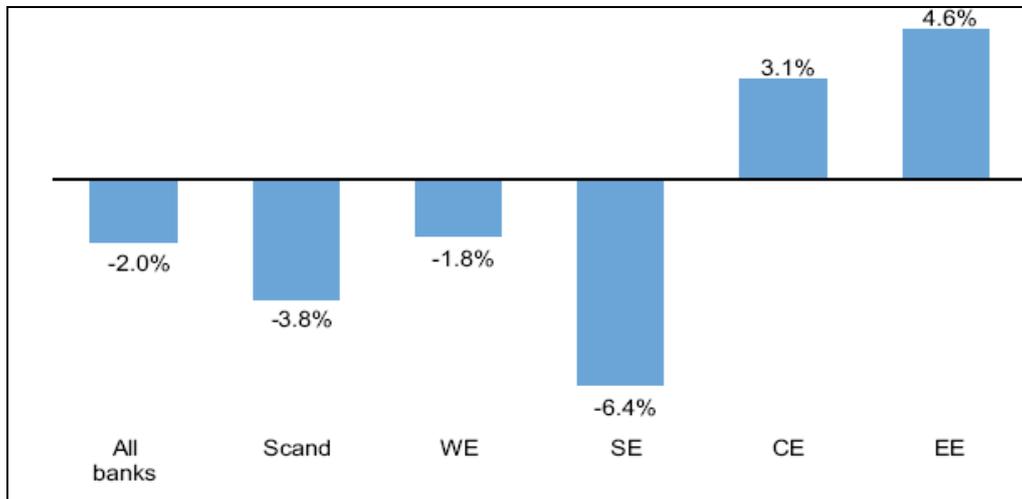
**Table 1. European Banking Comparison 2009**

Country	No. of branches	No. of branches per 1000 inhabitants	No. of employees/branch	No. of employees/1000 inhabitants
Bulgaria	6038	0.80	5.68	4.53
Czech Republic	1998	0.19	19.22	3.66
Denmark	1996	0.36	25.10	9.07
Estonia	213	0.16	26.73	4.25
Ireland	1228	0.28	31.09	8.55
Greece	4078	0.36	16.10	5.83
<b>Spain</b>	<b>44431</b>	<b>0.97</b>	<b>6.02</b>	<b>5.82</b>
Italy	34035	0.56	9.48	5.35
Cyprus	930	1.17	13.45	15.68
Latvia	624	0.28	19.82	5.48
Lithuania	972	0.29	11.22	3.27
Hungary	3551	0.35	12.00	4.25
Malta	116	0.28	33.05	9.28
Netherlands	3137	0.19	35.07	6.66
Austria	4167	0.50	18.54	9.24
Poland	13292	0.35	13.77	4.80
Portugal	6430	0.60	9.68	5.85
Romania	6425	0.30	10.57	3.16
Slovenia	706	0.35	17.26	5.97
Slovakia	1230	0.23	15.24	3.46
Finland	1538	0.29	16.18	4.66
Sweden	2147	0.23	22.86	5.25
United Kingdom	12360	0.20	38.11	7.63

Source: European Central Bank (Report on EU banking Structure – September 2010)

According to the EFMA/Finalta 2010 Multichannel Banking in Europe Report, banks predicted a 2 % decrease in size of the branch network (with significant regional variation). The most mature European market expects a reduction in branch network size. Banks in Central and Eastern Europe expect branch numbers to rise by 2015. Eastern European banks forecast increases of nearly 5 % in the next five years as they increase customer acquisitions.

What will be the future role of branch as a distribution channel? The large development of Internet made us believe that an increasing number of clients would forsake the traditional branch and they would use only new channels. As we could see, the clients use a mix of channels that are at their disposal and a lot of people still demand the traditional branch office with people that they can talk to.



Source: EFMA/Finalta 2010 Multichannel Banking in Europe Report

**Figure 3. Forecast change in number of branches for European banks, 2010 to 2015**

The branch represents the image of the bank and the place where the client meets the bank. The bank's president is far away and not always known by to customers. However the client manager is close, he advises, he listens to the client, makes clients' financial life easier (Gaudins, 2009). Surveys and studies have consistently shown that the branch remains the customers 'preferred channel. Clients still value face to face discussion with their bank advisor. Every customer contact with the bank within the branch is an opportunity to further understands his needs, preferences and expectations. The branch is the most important way of building up a relationship!

According to a survey carried out by Accenture in September 2008, the branch is the most preferred channel for all the interactions that emotionally involve customers, such as buying complex products (76%) receiving financial advise (71%) and resolving an issue (59%). 73% of the customers visiting a branch say that they are looking for a personalized contact (EFMAG Magazine, 2009). In this respect, the branch is a distribution channel where the human factor plays a dominant role. Branches are costly but provide an invaluable service.

#### 4. CONCLUSIONS

Multi-channelling is more than offering multiple channels. Multi-channelling demands, therefore, that all channels should be complementary and not alternative to the traditional branch. In this context, what really does represent a challenge for all financial entities that are involved in retail banking, is to determine the role of branch office teams, in such a way that they can provide value for their customers, that is to say, that they offer that which complementary channels can offer with much greater difficulty, and certainly, in a less specialized manner: advice and customized attention.

The most important financial decisions made by individual customers, such as, for example, taking out a mortgage, or deciding on investments for their retirement, are normally taken through people, and not by means of mere computerized simulators or consultants at remote centres. This happens not because standard on-line solutions does not suit customers, but rather because in the last analysis, this whole process involves a “trust” factor; a subjective factor of a psychological nature, that only a one-to-one personal approach provides for the majority of individual customers.

In fine, branch office human teams are being, and indeed will be, to a greater or lesser extent, reduced in number compared with the past, and will dedicate less time to back-of-the-office or administrative tasks, and will become more specialized and trained in providing specific attention to different customer segments (personal banking, small business, individuals etc.) Furthermore, they will have a more commercial profile, and will be more dedicated to customers advise tasks, which is the real added value that said customers can positively perceive and appreciate, with respect to other on-line channels and above all, with respect to other competitive entities (Aburto Fernando, 2009).

In this respect, banks will have to improve staff capabilities, to recruit and train the right staff for each channel. They should change their staff culture and to improve the communication techniques and contact strategies. All banking officers should become sales oriented persons.

One lesson that has emerged from the crisis is the importance of the customer experience. The financial crisis and its aftermath has caused consumer to think differently about their finances and seek help to regain their footings. They are more concerned today about rebuilding savings, reducing debts levels and affording retirement. The question is, how will these altered consumer attitudes and concerns impact the branch channel? (Stein, 2010).

How can the branch help to boost customer satisfaction and loyalty? They need to keep stay in touch with their customers by offering a service that is convenient, trustworthy and innovative. The latest technology (e.g. video conferencing, touch screens and interactive television) can be used to attract customers and to enhance their banking experience. The branch should evolve so that it provides customers with a powerful and attractive alternative to the many new channels that are appearing.

Branches play an important role in multi-channelling. Multichannel banking is more than just offering multiple channels, but offering integrated channels, with the optimal balance of services, prices and offer across channels. Banks should have the ability to deliver the right service at the right time in the right channel. The bank should define exactly how they are going to use each channels, which services and products in which channels, how to mix and integrate the channels and how to support the channels. To do this, they need to understand customer behaviour, channels performance and the channel’s operating cost. However, managing and integrating the distribution channels within an increasingly complex and challenging operating environment has become very difficult.

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## **QUALITATIVE MARKETING RESEARCH REGARDING THE MULTICHANNEL DISTRIBUTION**

**CĂTĂLIN NICOLAE BULGĂREA \***

**ABSTRACT:** *Market research can be defined as an “active form through which, by means of different concepts, methods and techniques of scientific investigation, is carried out, systematically, the specification, the measurement, the collection, the analysis and the objective interpretation of marketing information for the management of the economic unit, in order to know better the company’s environment, to identify the opportunities, to evaluate the alternatives of marketing actions and their effects. The qualitative research seeks answers to questions like: “why?” and “how?”, in order to find the root causes of consumers' attitudes, motives, behaviours, preferences and opinions and also the subjective, emotional or unconscious elements behind them.*

**KEY WORDS:** *market research; qualitative marketing research; in-depth interview; banking products and services; distribution; banking distribution channel; multichannel.*

**JEL CLASSIFICATION:** *M31.*

### **1. THE QUALITATIVE MARKETING RESEARCH**

Market research can be defined as an “active form through which, by means of different concepts, methods and techniques of scientific investigation, is carried out, systematically, the specification, the measurement, the collection, the analysis and the objective interpretation of marketing information for the management of the economic unit, in order to know better the company’s environment, to identify the opportunities, to evaluate the alternatives of marketing actions and their effects” (Balaure, et al, 2000, p.118).

The qualitative research seeks answers to questions like: “why?” and “how?”, in order to find the root causes of consumers' attitudes, motives, behaviours, preferences and opinions and also the subjective, emotional or unconscious elements behind them (Lefter, 2004, p.36).

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The qualitative research, also called primary research, is used for the purpose of operating diagnosing and providing the information needed to build a structured questionnaire. Its role is to penetrate inside a process and in a lesser extent to provide definitive conclusions on it. Qualitative research techniques are used mainly to obtain basic information when the problem is unknown and when there is a necessity of identifying the behaviour patterns, the consumers' beliefs, opinions and reactions and to explore their attitudes in order to conceptualize them (Gherman, 2007, p.33).

Taking in consideration the aspects mentioned above, it can be said that marketing research is of great importance for the management of a bank. Without it, managers could not design and implement successfully the marketing strategies for their organization (Forțu, 2011, p.114).

## **2. CASE STUDY: QUALITATIVE MARKETING RESEARCH – AN IN-DEPTH SEMI-DIRECTIVE INTERVIEW: „The opinions of Braşov's branch managers regarding the multichannel distribution and the customers' behaviour in the acquisition of the specific products and services**

The theme of the qualitative research targets to analyze the views of Braşov branch managers on the multichannel distribution and the Braşov's consumer behaviour. We have chosen the in-depth semi-directive interviewing technique from the large variety of qualitative techniques. An in-depth semi-directive interview is based on a guide which contains the subjects to be discussed in the interview. The researcher establishes on the one hand an initial list of topics, of no more than five to six themes and on the other hand, the subjects to be approached for each theme of the guide (Brătucu, et al, 2006, p.49).

The in-depth semi-directive interviews took place in January 2011 and we interviewed eight branch managers from Braşov. These interviews were the start of the qualitative research which aims to analyze the attitudes, opinions and behaviours of Braşov's population regarding the various distribution channels.

### **2.1. The hypothesis and the main objectives of the qualitative research**

The qualitative research starts from the following **hypothesis**:

- Knowing the main features of the profile of Braşov's consumers that purchase banking products and services represents a priority for each branch manager from Braşov.
- Most of banks from Braşov are concerned with analyzing the consumer purchasing behaviour in order to fully meet the need and demands of Braşov's customers.
- In the context of continuing developments of banking products and services and the appearance of distribution channels, a major concern of Braşov's branch managers is to set up and to maintain a beneficial relationship for both the institution and for its customers.
- Braşov's banks are concerned with the identification and analysis of economic effects of financial crisis on multichannel distribution of banking products and services in order to adapt them to the needs and market requirements.

The **objectives** of the qualitative research are:

- Characterization of Braşov’s customers that purchase banking products and services.
- Analysis of purchasing behaviour of Braşov’s consumers.
- Identification of local branch managers’ views on the relationship between the bank and the clients in the context of the continuing diversification of distribution channels.
- Analysis of influences of financial crisis on the multichannel distribution of banking products and services.

## **2.2. The methodology of qualitative research**

In this respect, it was designed a questionnaire for selecting the potential respondents and a list of themes and subthemes of the in-depth semi-directive interview. The selection questionnaire aimed to identify the representative respondents for this research: Brasov branch managers according to a predetermined set of criteria: participation in the last six months in focus groups, the age of the institution in Romania, market share of the bank, the extension of work history in this institution. The next table shows the selected branch managers and the institutions they represent. (No name will be revealed in order to maintain the confidentiality of their personal data).

**Table 1. The identification data of the interviewed managers**

	<b>Position</b>	<b>Name of institution</b>	<b>2009 Market share</b>	<b>Year of entering the Romanian market</b>
Manager 1	Branch Manager	Millenium Bank	0.6%	2007
Manager 2	Branch Manager	Credit Europe Bank	1.7%	2000
Manager 3	Branch Manager	Volksbank	6.6%	2000
Manager 4	Branch Manager	RBS Bank	2.2%	1995
Manager 5	Branch Manager	BRD	14.1%	1923
Manager 6	Branch Manager	BCR	19.0%	1990
Manager 7	Branch Manager	Banca Românească	2.6%	1993
Manager 8	Branch Manager	Raiffeisen Bank	6.0%	1998

Regarding the interview, this was structured in four themes and each theme in four subthemes.

1. Characterization of Braşov customers who purchase banking products and services:
  - Information sources used by Brasov’s customers in order to purchase banking products and services.
  - Reasons for purchasing the banking products and services.
  - Factors that influence the choice of banking products and services.
  - The socio-demographic features of Braşov’s customers of banking products and services.

2. The Braşov customers' behaviour of purchasing banking products and services:
    - The types of banking products and services purchased by Braşov's customers.
    - The main channels for buying the banking products and services.
    - The attitudes of Braşov's customers towards the new distribution channels of banking products and services.
    - Satisfactions and dissatisfactions of Braşov's customers regarding the distribution channels.
  3. The Bank managers' points of view regarding the relationship between the bank and its customers, in the context of continuing diversification of the banking distribution channels:
    - Characterization of the current relationship between the bank and the customer.
    - Multichannel distribution of banking products and services and the process of identification of demands, preferences and satisfactions of Braşov's customers.
    - Potential benefits for customers in multichannel distribution.
    - The impact of current legislative regulation on the relationship between the bank and the customer.
  4. Impacts of economic crisis on the practices of multichannel distribution of banking products and services:
    - Factors that limit the multichannel distribution.
    - Specific factors of economic crisis that have an impact on multichannel distribution.
    - The main distribution channels affected by the current financial crisis
    - Opinions on the possible development of multi-channelling distribution over the next five years.
- The in-depth semi-directive interviews were taken in the offices of local banks. The answers were firstly recorded and then transcribed in order to interpret them. We have used the qualitative content analysis of the primary qualitative findings.

### 2.3. The analysis and the interpretation of the results

The findings of in-depth semi-directive interviews were analyzed by two methods:

- *Vertically* through individual approach of each in-depth semi-directive interview and of opinions of each branch manager. We pointed out the attention of these branch managers on the themes and subthemes of the in-depth semi-directive interview.
- *Horizontally* through synthesis of each theme and subtheme.

### 2.4. The vertical analysis of in-depth semi-directive interviews

**The vertical analysis of in-depth semi-directive interviews** highlights the Braşov's manager's views on multichannel distribution and on their purchasing behaviour.

**The first branch manager (Millenium Bank)** pointed out the printed media, outdoor advertising, bank leaflets, bank branches, Internet and television as main sources of information used by Braşov's consumers to purchase the banking products

and services. The reasons for which the Braşov's consumers purchase the banking products and services are: the evolution of society, personal needs, the prestige offered by a certain products (for example, the Gold Card) and the product which is imposed by the employer. Among the factors that influence the choice of banking products and services, the first branch manager mentioned the quality of products and services, the way in which the products are presented, the staff of the bank branch, the ambience inside the bank branch.

The main categories of banking products and services purchased by the Braşov's customers are: loans, saving products, cards and various insurance. The distribution channels are: bank branch, Internet, direct sales agents. The branch manager believes that the Braşov's consumers are open and the use of new distributions channels involves the increase of the level of accessibility of information. The Braşov's consumers appreciate the lower costs and the possibility of saving the time.

Due to the multitude of distribution channels of banking products and services, gaps occur frequently in the process of knowing the users' common needs, preferences and their level of satisfaction, which leads to solutions inadequate to consumer profile. Among the restrictive factors, the general ones that influence the practices of multi-channel distribution of banking products and services we can find also the customers' mistrust. The customers' lack of information makes these channels to be used by the bank, especially for submission of offers and less for purchases, which are also made through bank branches.

According to the data he holds, the manager believes that with the gradual exit from the crisis, banks will tend to diversify continuously their practices of multichannel distribution of banking products and services.

**The second manager interviewed (Credit Europe Bank)** points out the need for large sums of money, which is the main reason why Braşov consumers buy banking products and services, and then the need of paying the bills, the desire of saving in safe conditions and the need of getting some interest income.

Taking in consideration the structure of bank supply, the manager has shown the main factors influencing the process of choosing the banking products and services, namely: the product characteristics, the adaptation degree of banking products and services to customer needs, the customer confidence in the banking institution, the price of banking products/services and the quality of the relationship of customers with bank employees.

The bank customers are residents of a city where the banking network is well represented and they have an average/higher education; in terms of banking operations, the largest proportion of consumers are passive, preferring the saving products, and less active, taking in consideration the fact that the number of requested credits has been reduced in the past two years. The satisfaction of Braşov consumers regarding the purchasing channels through which they buy banking products and services refers mainly to the high degree of efficiency, to the high level of service quality and also to the significantly minimizing of costs. Instead, the customer dissatisfaction is related to the banking products/services that don't meet their needs, to the large waiting time, to

the instability of electronic settlement platform, to the inability to easily access funds, but also to some unfair contract terms.

According to the interviewed manager, the relationship between the bank and customers tends to be depersonalized, as the institution's intention is to direct the flow of customers to alternative trade channels. The development and the implementation of an alternative channel are the results of some processes of researching the requirements and preferences of customer. The alternative channels are further refined as a result of customer feedback which is obtained both by means of communication, developed in the alternative channels and through the bank network and studies measuring customer satisfaction.

Regarding the potential benefits that the customers can benefit from, in the context of a multichannel distribution of banking products and services, among them can be pointed out the cost savings, the efficiency in initiating and completing bank operations, the easy access to other banking products and services, the higher social status, given by the increasing sophistication level, through accessing the alternative channels.

The most important factors specific to the current economic crisis which affects the practices of multichannel distribution of banking products and services are: the reduction of the budget assigned by banks for alternative channel development, the low level of application and use of banking products and services and the permanent changes of legislation.

According to the manager, in the next five years the bank customers will be more receptive to all the payment arrangements and financial consulting in terms of efficiency, safety, privacy and convenience; the alternative distribution channels will migrate more towards mobile phone integration solutions (electronic wallet), Internet and interactive television; the ATMs will move from the passive role they have today (cash release) to a more active role in order to support the collections, on the one hand and non-cash payments, on the other hand, thus becoming bank counters unaided by bank employees. To ensure the confidentiality, it is possible that in the next future some biometric keys for verifying the applicant identity will be introduced.

**The third manager (Volksbank)** considers that the main reasons why Braşov consumers buy banking products and services refer to the need of large amounts of money, to the desire of saving in safety conditions and obtaining interest incomes.

The main categories of banking products and services purchased by Braşov consumers are: the savings accounts, the accounts for collecting the allowances, the packages of banking products and services for the employees of the companies that are customers of the bank, the credit and debit cards and the credits.

The bank customers are open to new products and cooperative in order to identify the most appropriate solutions to meet their needs. Their main satisfactions are related to avoiding of going to the bank and to the reduction of the volume of documents that have to be completed in general. Dissatisfactions are generated by the banking products/services that don't meet their needs and also by the instability of electronic platforms. Regarding the means of knowing the Braşov consumers' requirements, preferences and satisfactions, the bank make periodic surveys among the

bank customers, these being based on the customers' feedback received by the bank employees through various means of communication.

According to the manager, the legislation is ambiguous, generating conflicts between banks and their customers, an example being the Ordinance 50/2010, which offers the possibility of different interpretations. If the restrictive factors, the general ones, which influence the practices of the multichannel distribution of banking products and services, are related to the institution's policy, which can encourage or restrict the distribution of a product or a service through a particular channel, the factors specific to the current economic crisis are related to the decreased volume of loans, generated by the low living standards.

The manager thinks that in the next 5 years, the channels specific to the online environment will experience a significant development and to avoid the situation in which the customers have to go to the bank, various collaborative arrangements will be created through intermediaries or by bank officials.

**From the point of view of the fourth manager (RBS Bank)**, the decision of customers to purchase banking products and services is based on the following reasons: the finance of goods of personal necessity, the purchase/construction of a dwelling/house, the collection of salary or other incomes, the necessity of saving (making deposits for the safety of both economies and interest), the having to make payments/receipts and other banking operations and also the need of investing in treasury complex products or in other products specific to monetary/financial market that can represent a real source of profit.

In relation to the most important two categories of products that a bank can offer, there is a series of factors that influence the customers in their process of choosing banking products and services. Thus, in the case of those who make savings or investments, there are some factors that have a special impact: the cost of administering the purchased products and services, the monetary advantage that can be obtained, the accessibility and the quality of providing after-sales services, the transparency of information provided by the bank. In the situation in which customers choose lending products, the most important factors taken in consideration are: the costs of the credit, the amount obtained and the amount to be repaid, the terms of the credit (commissions, insurance, interest), the quality of selling and providing after-sales services, the ease of paying the loan rates, the bank's flexibility regarding the renegotiation of the initial terms and the transparency of information.

The profile of the bank customers, realized by the interviewed manager, pointed out a percent of 5% consisting of students/high school students, a percent of 65% representing employees aged 21-55 years, 40% of these employees having medium education and wages of maximum 2,000 Lei, a percent of 20% indicating the pensioners and a percent of 10% composed of people with incomes that are suitable for specialized investments in complex products.

According to the interviewed manager, the main acquisition channels of banking products and services used by the Braşov consumers are: the bank branch network, the agents specialized in direct selling (employees of the bank or of a broker) and the franchises. He also pointed out that, over the past three years, there was a greater responsiveness of the Braşov consumers to the alternative distribution channels

used by banks. However, the insufficient development of the infrastructure and the poor financial education of consumers make all the banks initiatives of modernizing the distribution channels to be implemented in a relatively slow pace.

The relationship between the bank and its customers is a direct one, meaning that the institution remains the most important factor in driving and responding to the client for any changes made to the original contractual terms and conditions. The bank has the main role, this being responsible for the information provided, whatever the channels were chosen by the customers. The process through which the institution discovers the consumers' requirements, preferences and satisfaction is based on the feedback of Braşov customers received by the bank employees through various means of communication. The manager believes that the banking legislation has a negative impact on the relationship between the bank and its customers, because it allows different interpretations. The frequent changes of the legislation are not in conjunction with the accounting – financial ones, with those regarding the consumer's protection etc. and the uneven application of law, from one bank to another, has led to some suspicions and to the clients in some banks and its practices.

Over the next five years, the development of the modern automated machines is expected to take place, these being capable of distributing banking products and services and to assist consumers in making their desired settlements. It is also expected an increase in the use of electronic platforms for most of the banking operations required by consumer.

**The fifth manager (BRD)** identified among the main reasons for which the Braşov consumers bought banking products and services the following ones: the need of evolving and the necessity of ensuring a financial comfort for an undetermined period of time. The categories of banking products and services most commonly purchased by the Braşov consumers are the loans, the deposits and savings accounts, the current accounts and the attached services. Among the acquisition channels used by customers the most important are: the Internet, the call centres, the agents who are specialized in direct sales and the bank branches.

From the data he holds, the interviewed manager believes that, in general, Braşov customers are reluctant to new distribution channels for banking products and services (provided through call centres and Internet) because of the excessive mediatization of bank frauds. However, he consider that the relationship between the bank and its customer is an open one, the customers being much better informed and knowing exactly what they have to request to the bank employees.

The main satisfactions of the Braşov consumers regarding the channel through which they purchased banking products and services are related to time savings, to convenience and simplicity. The dissatisfactions arise from the lack of safety in terms of banking operations and the instability of electronic settlement platform. According to the manager, as a result of the new changes in the banking regulations there could be pointed out the following aspects: a slight reluctance of customers to banks, the decreased consumer confidence in purchasing new products and services.

**As it concerns the sixth manager (BCR)**, he indicated that among the factors that influence the consumers' process of choosing banking products and services the

most important are: the price, the quality of banking products and services, the recommendations of friends and the transparency in the bank activity.

The main reasons for which the Braşov consumers buy banking products and services are: the need to finance personal projects/firms, the desire for saving in safety and with returns matching the available funds and also the need for secure transaction and saving time. Most bank customers live in urban area; in the case of loans, the bank's customers are from the category of those aged 30-55 years, and in case of deposits, the bank's customers are people with secondary and higher education, aged between 40 and 75-80 years. They are generally open to new and they are cooperative in the case of sales made through call centres.

The main channels used by the customers for buying banking products and services are: the bank branch network, the call centres, the intermediaries and the agents who are specialized in direct sales. According to the manager, the satisfactions of the Braşov customer regarding the channels through which they buy banking products and services are generally related to the positive attitude of bank employees, to the rapidity with which banking services are offered and to the high level of confidentiality offered by the institution. The dissatisfaction consists in the lack of transparency regarding the costs, and sale of products which are sorted by customer needs.

The respondent thinks that in the next five years there will be dramatic developments in the sales through call centres and Internet banking site and a specialization of banking units will take place, this consisting in providing consultancy and post - sales services to certain categories of customers.

**The seventh interviewed manager (Romanian Bank)** considered that the most important factors influencing the customers' process of choosing the banking products and services are: the way the offers are presented, the price and the recommendations of colleagues and family. They purchase banking products and services due to the requirement imposed by employers, but also because of the need for large amounts of money, namely the need to make payments/receipts and other banking operations.

The main categories of products and services currently used are the credits, the deposits and savings accounts and the credit and debit cards.

According to the manager, the Braşov customers are generally reluctant to new distribution channels for banking products and services, being satisfied only by the possibility of saving time. The complaints are generally related to the lack of transparency regarding the costs charged by the bank and to the high-tech products and services that require additional knowledge. Sometimes customers don't understand the need for banking regulation, this situation leading to a rejection of innovations in the field of banking products and services. The process discovering the customers' requirements, preferences and satisfactions is based on the customers' feedback received by the bank employees through various means of communication. The main factors specific to the current economic crisis that affect the practices of multichannel distribution of banking products and services are: the dissolution of the institution's sales division in order to reduce the costs, the increase of unemployment rate and therefore, the decrease of purchasing power of the population. The respondent

considers that in the next five years the sales techniques based on the Internet will experience a significant development.

**The eighth interviewed manager (Raiffeisen Bank)** considered that the financing of personal necessity goods, the need of saving and the need for payments/receipts and other banking operations are the main reasons for which the Braşov consumers purchased banking products and services. He also identified different categories of bank customers, from those who had accounts in order to get the monthly allowances of their children, to various entrepreneurs who aimed advantageous packages of banking products and services. These customers are open to new and they are cooperative in order to identify the most appropriate solutions that can meet their needs.

Regarding the current relationship between the bank and its customers, in the context of using the multichannel distribution of banking products and services, can be observed its trend to sophistication, as a result of the increasing access to information. According to the manager, the main means used by the bank for knowing better the Braşov consumers' requirements, preferences and satisfactions, are: the marketing research, the analysis of using the banking products and services and the customers' feedback received by the institution's employees.

The most affected distribution channels of banking products and services, as a result of the impact of the economic crisis, are: the agents specialized in direct sales and brokers. The manager expects that in the next five years, the channels specific to online environment will experience a significant development.

**NOTES:** The vertical analysis can be approached in terms of the information quantity provided by bank managers in order to determine the measure in which they have information about the purchasing behaviour of the Braşov's consumers regarding the banking products and services sold through alternative distribution channels. Table 2 points out the share of the managers' interventions specific to each theme in all interventions:

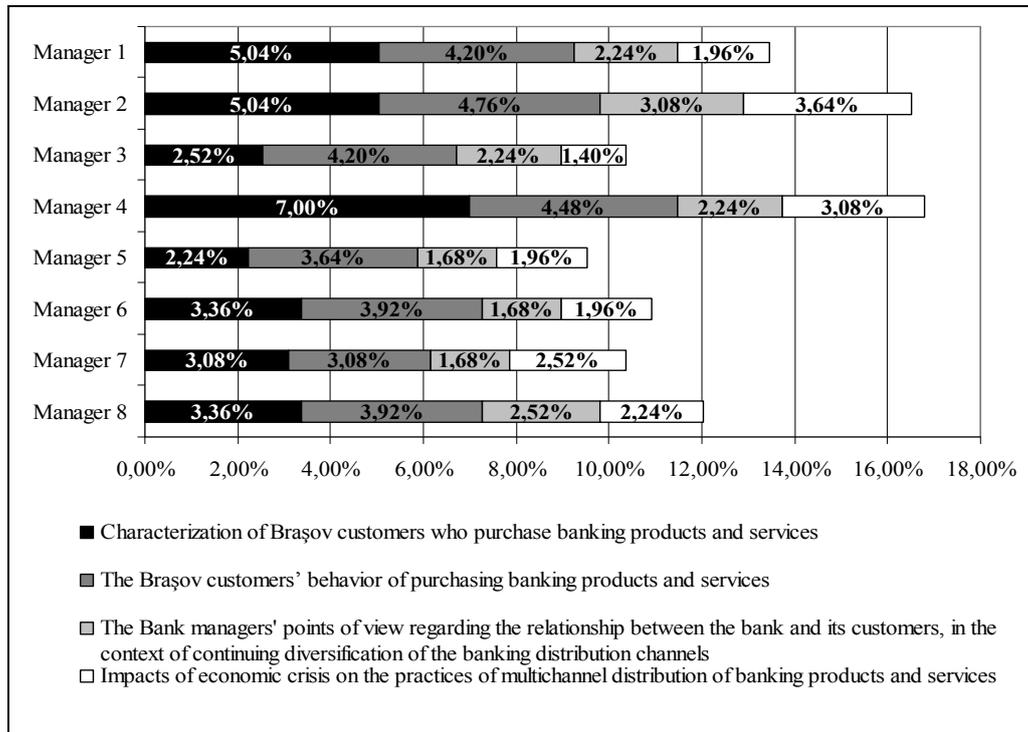
**Table 2. The share of the managers' interventions specific to each theme in all interventions**

<b>Issues</b>	<b>Share in total interventions (%)</b>
Theme 1: Characterization of Braşov customers who purchase banking products and services	31.65%
Theme 2: The Braşov customers' behavior of purchasing banking products and services	32.21%
Theme 3: The Bank managers' points of view regarding the relationship between the bank and its customers, in the context of continuing diversification of the banking distribution channels	17.37%
Theme 4: Impacts of economic crisis on the practices of multichannel distribution of banking products and services	18.77%
<b>TOTAL INTERVENTIONS</b>	<b>100.00%</b>

Table 2 points out that managers paid more attention to the second theme (32.21%) related to the Braşov customers' behaviour of purchasing banking products and services, followed closely by the first theme (31.65%) related to the characterization of Braşov customers who purchase banking products and services. The third theme, which aimed to highlight the bank managers' points of view regarding the relationship between the bank and its customers, in the context of continuing diversification of the banking distribution channels, has the lowest percentage (17.37%).

**2.5. The horizontal analysis of in-depth semi-directive interviews**

The horizontal analysis of the interviews made among the Braşov bank managers was realized through synthetic approach of each theme/sub-theme. Taking into account the quantitative determinations of overall scale, the horizontal analysis highlights a number of differences between the bank managers' perceptions regarding different variables that define the behaviour of the Braşov consumers who purchase banking products and services. These differences are also found in the product and distribution policies, which banks use on the local and nationally market. The following figure highlights some features of the managers' interventions regarding the themes and sub-themes discussed in those 8 interviews:



**Figure 1. The importance given by the interviewed managers to the themes discussed in the in-depth semi-directive interview**

### 3. CONCLUSIONS

One of the main objectives of the qualitative research is to gain preliminary insight into decision problems and opportunities. On the surface, qualitative research methods incorporate some scientific elements but normally there is a lack of critical elements of true reliability. Qualitative research tends to focus on the collection of detailed amount of primary data from relatively small samples of subjects by asking questions or observing behaviour (Hair, et al, 2002).

This qualitative marketing research was intended to be a source of information on problems faced by banks in the current economic crisis, the Braşov consumers' attitudes and opinions regarding: the various distribution channels of banking products and services.

In the present research a number of disadvantages can be highlighted, such as:

- a relatively small number of interviews, situation due to relatively high costs generated by this method of research;
- the frequent interruptions of the interviews, due to interference of others, in the context in which the discussions were held at the headquarters of the banks in which the managers - respondents operates;
- the unrepresentativity of the results of qualitative research, at the level of the studied population and also the impossibility of extrapolation of the results to all bank managers from Braşov.

The results obtained in this research provided valuable information to the management of banks. It was a reference point in designing the hypotheses and the questionnaire used in the quantitative marketing research, which was realized in September – October 2011. This quantitative research was a descriptive one, aiming the study of the attitudes and opinions of Braşov population regarding the distribution channels of banking products and services.

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## **STUDY ON THE NEEDS OF COMPETENCIES AND ABILITIES FOR THE GRADUATES' ADAPTATION TO THE REQUIREMENTS OF THE LABOUR MARKET IN THE CONTEXT OF EUROPE 2020 STRATEGY**

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NICOLAE BALTEȘ\***

**ABSTRACT:** *The workforce competence is a core value for the development of a competitive, sustainable and innovative economy, in accordance with the objectives of Europe 2020. In times of budgetary constraints and unprecedented global competitive pressures, the European Union's policies on employment and competencies that contribute to the shaping of the transition to a green, intelligent and innovative economy has to be a priority. Romania's European Union accession is a major challenge for our country and implicitly for the Centre Region in terms of adapting the Romanian economic and social environment to the European one. Under this new context, the changes to ensure competitiveness will cause major changes in the field of employment and the workforce professional training. The development of the continuous vocational training system that would meet the requirements of the labour market and of a knowledge-based economy requires relevant information on the evolution of jobs and professions, the evolution tendencies of the labour market, the needs for competencies and qualifications of companies, the level of correlation between the demand and offer of workforce and the identification of gaps, the programmes' offer of professional training suppliers and its suitability to the needs of applicants. These are some of the reasons that have contributed to the accomplishment of the study on the needs of competencies and abilities for the graduates' adaptation to the requirements of the labour market in the context of Europe 2020 strategy.*

**KEY WORDS:** *key competencies; professional competencies; abilities.*

**JEL CLASSIFICATION:** *J24; I20; I25.*

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## 1. INTRODUCTION

Europe 2020 is the European Union's strategy of economic growth for the next ten years. In a permanently changing world, the European Union wishes to become an intelligent, sustainable and favourable to inclusion economy. These three priorities are mutually supportive and able to help the EU and the member states to obtain a high level of employment, productivity and social cohesion. In practice, the Union has established five major objectives – regarding the employment, innovation, education, social inclusion and the environment/energy – that are about to be achieved until 2020. The member states have adopted their own national objectives in these areas. Various European and national actions come to support the Strategy.

Within the Europe 2020 Strategy, the European Union has approved a 75% employment objective for men and women for the age of 20-64 until 2020: an ambitious undertaking for the sustainability of the social European model, of the social welfare systems, economic growth and public finances. Moreover, the school dropout rate should be reduced under the level of 10% and at least 40% of the young generation should have a college diploma. (3.3.2010 COM (2010) 2020)

At the level of the Union, there have been established a series of actions to solve these problems for the substantially increase of employment, actions focused on four key priorities:

- *A better functioning of the labour markets.*
- *A more competent workforce*, able to contribute and adapt to the technological changes through new models of work organisation. This is an important challenge, given the rapidly changing competencies needed and the persistent disparities of competencies on the labour market.
- *A better quality of jobs and working conditions.*
- *Stronger policies to create jobs and workforce demand.* It is not enough to make sure that people remain active and acquire the necessary competencies to get a job: the economic recovery should be based on growth that generates employment.

## 2. ASPECTS REGARDING THE COMPETENCIES AND ABILITIES

In accordance with the Commission's Communication to the European Parliament, Council, the European economic and social Committee and the Committee of the Regions (COM (2010) 682/23.11.2010, Strasbourg), "*regardless of age, sex, socioeconomic context, ethnicity or disability, all EU citizens should have the opportunity to acquire and develop the range of knowledge, competencies and skills they need in order to be successful on the labour market*".

For this purpose, the education and training systems should provide the adequate range of competencies, including the digital and cross key competencies, mass-media and communication education in a foreign language. These should also provide the possession by young graduates of secondary and tertiary education of the competencies needed to achieve a rapid and successful transition towards getting a job. The fight against early school-leaving and the low educational results in basic skills

such as literacy, numerical and scientific skills, including for adults, is a core element for inclusion, employment and job development.

According to the Government's Ordinance no. 129/2000 on the adults' professional training, republished, the Official Gazette no. 711/2002, as amended, and to the Explanatory Dictionary of the Romanian language, **competence** is the person's ability to use and combine knowledge, skills and specific attitudes demonstrating personal and professional values to perform working activities at the specified quality standard. The **professional competence** is defined as the ability to perform the activities required at the workplace to the quality specified in the occupational standard. **Ability** refers to cleverness, ingenuity, capability, skill.

**Key competences** are defined as a combination between knowledge, skills and attitudes adequate to the context, being those necessary to all individuals for personal affirmation and development, active citizenship, social inclusion and employment.

The National Council for Adult Training approved, by Decision no. 86/24.06.2088, in compliance with the European Union's and the European Union Council's Recommendation on the key competencies lifelong learning (2006/962/EC), The List of key competencies, common to various professions, a list that includes:

a) *The ability to communicate in the official language*: it represents the ability to express and interpret concepts, thoughts, feelings, facts and opinions in both oral and written form (listening, speaking, reading and writing) and to interact linguistically in a proper and creative manner in all cultural and social contexts: in education and professional training, at the work place, recreation and leisure.

b) *The ability to communicate in foreign languages*: it generally shares the main communication abilities in the official language: this is based on the ability to understand, express and interpret concepts, thoughts, feelings, facts and opinions both in an oral and written form (listening, speaking, reading and writing) in adequate social and cultural contexts (in education and professional training, at the work place, recreation and leisure), in terms of someone's wishes and needs. It requires skills such as mediation, intercultural understanding. An individual's advanced knowledge varies between the 4 dimensions (listening, speaking, reading, writing) and between different languages, in accordance with the social and cultural environment the individual comes from, the environment, his/her needs and/or interests.

c) *Basic skills in mathematics, science, technology*. *The mathematical competence* is the ability to develop and apply mathematical thinking with the purpose of solving a series of problems of daily situations. In the attempt to develop competencies regarding the work with basic mathematical elements, the focus should fall on the process itself, on the activity, as well as on knowledge. It involves, to various degrees, the ability and willingness to use types of mathematical thinking (logical and spatial thinking) and ways of presentation (formulas, models, constructions, graphs, charts). *The competence in science* refers to the ability and willingness to use a number of knowledge and methodologies with the purpose of explaining the natural world, identifying questions and drawing conclusions based on evidence. *The competence in technology* is regarded as an implementation of these knowledge and methodologies as an answer to human needs or desires.

d) *Computer skills*. They involve the critical and safe usage of the information society's technologies during office hours, free time and for communication. These are established through basic competencies in ICT: use of computer for recovery, evaluation, storage, production, presentation and exchange of information, communication and taking part in collaborative networks via internet.

e) *The ability to learn*: it represents the ability to pursue and persevere in learning, to organise your own learning, including through an effective management of time and information, both individually and in groups. This ability includes the awareness of self learning processes and needs, by identifying the available opportunities and the ability to overcome obstacles in order to learn successfully. It involves the acquisition, production and assimilation of new knowledge and skills, as well as the use of counselling.

f) *Social and civic competencies*. This category includes personal, interpersonal and intercultural competencies and all types of behaviours are covered in order to give the individual the opportunity to take part in a constructive and efficient manner to the social life and to the work field, and especially in the increasingly diversified companies, offering the possibility to solve conflicts, if necessary. Civic competencies properly equip the individual to actively participate to the civil life, based on the knowledge of social and political concepts and structures and on the commitment to a democratic and active participation.

g) *Entrepreneurial competencies*. These competencies refer to an individual's ability to put the ideas into practice: creativity, innovation, taking risks, as well as the ability to plan and manage projects with the purpose of achieving the objectives. This helps individuals not only in their daily lives, but also at work, making them aware of their work's context, making them able to take advantage of opportunities and it represents the foundation for more specific skills and knowledge required by those who establish or take part to a social or commercial activity. The competence should include the awareness of ethical values and should promote good governance.

h) *The cultural expression competence*: it represents the appreciation of the importance of creative expression of ideas, experiences and emotions, through a number of means, including music, artistic interpretation, literature, visual arts.

However, key competencies are the only ones that should be considered for employment. Besides these, there are a series of other competencies and general abilities that an employee should have. These, however, can be more or less important, depending on the employee's profession, the nature of work, the position held.

### 3. DATA ANALYSIS AND INTERPRETATION

In order to identify the needs of competencies and abilities for the graduates' adaptation to the requirements of the labour market, a workshop on "Competencies, abilities and qualifications for the graduates' adaptation to the requirements of the labour market" was organised, where, together with other instruments, the "Questionnaire on the needs of competencies and abilities for the graduates' adaptation to the requirements of the labour market" was introduced. The workshop was attended by students, teachers, employers, representatives of some public organisations (County

School Inspectorates, county Agencies for Employment, County Youth and Sports Agencies, etc.), representatives of some non-profit organisations with responsibilities in education and youth activities. The workshops were held during 2011 in Sibiu, Cluj, Craiova and Timisoara. The distribution of respondents on counties is the following: Sibiu: 27 respondents; Cluj: 26 respondents; Craiova: 26 respondents; Timisoara: 27 respondents.

The results of the study will be used to organise the Career Caravan – training seminars and my Map for the journey on the labour market, within the SOP HRD contract “Career Caravan”.

### 3.1. Key (cross) competencies

The collected data on key (cross) competencies are presented in table 1. For a hierarchy of competencies, the score was calculated (from 1 – Not at all important to 5 – Very important) for each of them, on towns and then centralised (due to independent reasons – the space assigned to the papers – the calculations and graphs shall no longer be presented).

**Table 1. Key (cross) competencies**

Key (cross) competencies	Score Sibiu	Score Cluj	Score Craiova	Score Timișoara	General score
The ability to communicate in the official language	4.52	4.92	4.81	4.70	4.75
The ability to communicate in foreign languages	4.59	4.58	4.65	4.59	4.60
Basic skills in using the general notions of maths, science and technology	3.78	3.65	3.73	3.74	3.73
Computer skills (IT usage)	4.48	4.31	4.58	4.48	4.46
The ability to learn	4.70	4.85	4.85	4.63	4.76
Social and civic competencies	4.11	4.00	4.23	3.81	4.04
Entrepreneurial competencies	4.00	4.08	3.96	4.26	4.08
The cultural expression competence	4.19	3.65	3.85	3.70	3.85

From the analysis of data processing on the four towns where the workshops were organised, we conclude that:

- In **Sibiu**, the highest score was calculated for *the ability to communicate in foreign languages* (4.59), followed at a small difference by *the ability to communicate in the official language* (score 4.52). The lowest importance is given to *the basic skills in using the general notions of maths, science and technology* (score 3.78);
- In **Cluj**, the respondents stated that the most important key competencies necessary for the graduates' integration on the labour market are *the ability*

to communicate in the official language (score 4.98) and the ability to learn (score 4.85). The lowest level of score was for *the basic skills in using the general notions of maths, science and technology* and for *the cultural expression competence*;

- A similar situation can be noticed in **Craiova**, a town where the most important key competencies are also considered to be *the ability to learn* (score 4.85) and *the ability to communicate in the official language* (score 4.81). The least important competence is *the basic skills in using the general notions of maths, science and technology* (score 3.73).
- **Timișoara** has a similar situation, the most important competencies being considered by the respondents as *the ability to communicate in the official language* (score 4.70) and *the ability to learn* (score 4.63). *The cultural expression competence* (score 3.7) has a lesser importance from the perspective of integrating the graduates on the labour market, followed at a very small distance by *the basic skills in using the general notions of maths, science and technology* (score 3.74).

After processing the collected data – the general score – in order to assess the importance of key (cross) competencies that graduates should have to integrate on the labour market, the following is noticed:

- *the ability to learn* (score 4.76) and *the ability to communicate in the official language* (score 4.75) are considered to be the most important for the integration of graduates on the labour market;
- also in the category of very important competencies there is *the ability to communicate in foreign languages* (score 4.60);
- with regard to *computer skills* (score 4.46), the social and civic competencies (score 4.04) and entrepreneurial competencies (score 4.08), they have been considered by respondents as important for the graduates' integration on the labour market;
- also, *the basic skills in using the general notions of maths, science and technology* (score 3.73) and *the cultural expression competence* (score 3.85) are considered important, having, however, the score under the value of 4.

### 3.2. Professional competencies

However, common competencies are the only ones that should be considered for the graduates' adaptation to the requirements of the labour market. Besides these, there are a series of professional competencies that a potential employee should have.

The data collected on the professional competencies are presented in table 2.

From the analysis of the data processing on the professional competencies from the four towns where the workshops were organised, we conclude that:

- in **Sibiu** the highest score was calculated for the *Professional involvement* (4.78), closely followed by the *Professional effectiveness / Efficiency* (score 4.74). The lowest importance is given to *the Organisation of the profession (drafting a plan for personal professional development)* (score 4.19);

**Table 2. Professional competencies**

<b>Professional competencies</b>	<b>Score Sibiu</b>	<b>Score Cluj</b>	<b>Score Craiova</b>	<b>Score Timișoara</b>	<b>General score</b>
Competencies (expertise) specific to the field	4.44	4.65	4.42	4.59	4.53
Professional experience / Accomplishments	4.41	4.38	4.31	4.41	4.38
Professional effectiveness / efficiency	4.74	4.77	4.69	4.59	4.70
Professional involvement	4.78	4.85	4.81	4.74	4.80
Professional motivation (self evaluation of training needs for adapting professional competencies to the dynamics of the company and the labour market)	4.52	4.00	4.31	4.37	4.30
The organisation of the profession (drafting a plan for personal professional development)	4.19	4.00	4.08	4.04	4.00

- in **Cluj** the situation is similar to that in Sibiu, the respondents stating that the most important professional competencies necessary for the graduates' integration on the labour market are the *Professional involvement* (4.85) and *Professional Effectiveness / Efficiency* (score 4.77). The lowest level was obtained for *Professional motivation (self evaluation of training needs for adapting professional competencies to the dynamics of the company and the labour market)* and the *Organisation of the profession (drafting a plan for personal professional development)* (both with a score of 4.00);
- in **Craiova**, too, the most important professional competencies are also considered to be *Professional involvement* (4.81) and *Professional Effectiveness / Efficiency* (score 4.69). The *Organisation of the profession competence (drafting a plan for personal professional development)* registered the lowest score (4.08).
- **Timișoara** has a similar situation, the most important required competencies being considered by the respondents the *Professional involvement* (score 4.74), *Professional Effectiveness / Efficiency* and the *Competences (expertise) specific to the field – depending on each field of activity* (both with a score of 4.59). The lowest score was calculated for the *Organisation of the profession (drafting a plan for personal professional development)* (score 4.04).
- We notice that in all four towns where the workshops were organised, none of the professional competencies has obtained a score below the value of 4.00, which proves that these are considered by the respondents as very important or important for the graduates' integration on the labour market.

After processing the collected data – the general score – for the assessment of the professional competencies that graduates should have in order to integrate on the labour market, we can notice the following:

- *Professional involvement* (score 4.80) is considered as the most important for the graduates' integration on the labour market. Also in the category of "very important" there can be found the *professional effectiveness / efficiency* (score 4.70) and the competencies (expertise) specific to the field – depending on each field of activity (*Research-development, Production, Supply, Logistics, Sales, Marketing, Finance and Accounting, Personnel, legal, Administrative, Management*);
- There have been mentioned as important the *professional experience / accomplishments* (score 4.38), *professional motivation* (self evaluation of training needs for adapting professional competencies to the dynamics of the company and the labour market) – score 4.30 – and the organisation of the profession (*drafting a plan for personal professional development*) – score 4.00.

### 3.3. Other competencies and abilities

There are a number of other competencies and abilities that can, however, be more or less important, depending on the profession, the nature of work, the position held, etc.

The data collected on other competencies and abilities are presented in table 3.

From the analysis of the general scores, we can conclude that the most important competencies and abilities necessary for the graduates' integration on the labour market are considered to be the following:

- Fairness and honesty (score 4.74);
- Punctuality (score 4.66)
- The ability to use time efficiently (4.64);
- The ability to work in a team (4.64)
- The ability to communicate effectively (4.62);
- The ability to cope with change (adaptability to new situations, risk management) (4.47).

The lowest values of the general score are for the synthesis and analysis capacity (score 3.89), the ability to assert and the ability to motivate and influence the others (score 3.86), the availability to work long hours (3.53), the willingness to accept criticism (score 3.71), the capacity for critical analysis and self-criticism (score 3.73).

In order to obtain additional information, participants were asked to select the main 3 key competencies and abilities, and 6 other competencies and abilities, considered as necessary for the graduates' integration on the labour market (Craiova does not appear in this classification because the methodology was later on changed).

From the analysis of the collected data on town for the key (cross) competencies, we conclude that:

- **Sibiu** – the most important key competence is considered to be „*The ability to learn*” – 18 votes, followed by „*The ability to communicate in foreign languages*” – 14 votes;
- **Cluj** – the most important key competence is considered to be „*The ability to learn*” – 15 votes, followed by „*The ability to communicate in foreign languages*” – 14 votes;
- **Timișoara** – the most important key competence is considered to be „*The ability to learn*” – 13 votes, followed by „*The ability to communicate in foreign languages*” – 12 votes.

**Table 3. Other competencies and abilities**

<b>Other competencies and abilities</b>	<b>Score Sibiu</b>	<b>Score Cluj</b>	<b>Score Craiova</b>	<b>Score Timișoara</b>	<b>General score</b>
The ability to cope with change	4.67	4.38	4.54	4.30	4.47
Creativity and innovative thinking	4.37	4.19	3.88	4.33	4.20
Synthesis and analysis capacity	4.00	3.81	3.69	4.07	3.89
The ability to organise and coordinate & The ability to solve problems	4.52	4.35	4.23	4.48	4.39
The ability to take decisions	4.52	4.04	4.23	4.41	4.30
The ability to assert & the ability to motivate and influence the others	4.11	3.62	3.73	3.96	3.86
The ability to work in a team	4.59	4.62	4.65	4.70	4.64
The ability to negotiate	4.41	4.19	3.88	4.48	4.24
The ability to communicate effectively	4.48	4.81	4.62	4.59	4.62
Resistance to stress	4.07	4.19	4.35	4.67	4.32
The ability to use time efficiently	4.59	4.73	4.62	4.63	4.64
Availability to work long hours	3.37	3.81	3.35	3.59	3.53
Punctuality	4.52	4.88	4.65	4.59	4.66
Interpersonal abilities	3.93	3.92	3.81	4.04	3.92
Willingness to accept criticism	3.74	3.58	3.96	3.56	3.71
The capacity for critical analysis and self-criticism	3.85	3.58	3.77	3.74	3.73
Fairness and honesty	4.70	4.96	4.73	4.56	7.74

From the analysis of the collected data on towns for the professional competencies, we conclude that:

- **Sibiu** – the most important key competence is considered to be „Professional involvement” – 14 votes, followed by „Professional effectiveness / Efficiency” – 13 votes;
- **Cluj** – the most important key competence is considered to be the „Professional involvement” – 21 votes, followed by „Professional effectiveness / Efficiency” – 17 votes;
- **Timișoara** – the most important key competence is considered to be „Professional motivation (self evaluation of training needs for adapting professional competencies to the dynamics of the company and the labour market)” – 13 votes, followed by „Competencies (expertise) specific to the field – depending on each field of activity (Research-Development, Production, Supply, Logistics, Sales, Marketing, Finance and Accounting, Personnel, Legal, Administrative, Management)” – 11 votes.

From the analysis of the collected data collected on towns for other competencies and abilities necessary for the graduates' integration of the labour market, we conclude that:

- **Sibiu** – the greatest percentage of respondents chose „The ability to work in a team” and „Fairness and honesty”, both with 17 votes each, closely followed by „The ability to cope with change (adaptability to new situations, risk management)” which registered 16 votes;
- In **Cluj** – most respondents chose „Fairness and honesty” – 16 votes, followed by „The ability to work in a team” which got 15 votes;
- In **Timișoara** the respondents first chose „The ability to cope with change (adaptability to new situations, risk management)” which got 13 votes. This is followed, with 11 votes, by „Resistance to stress” (11 votes) and „The ability to work in a team” (10 votes).

#### 4. GENERAL CONCLUSIONS

The most important key (cross) competencies that graduates should have to be able to integrate on the labour market are considered to be *the ability to learn* (score 4.76) and *the ability to communicate in the official language* (score 4.75). Also in the category of very important competencies there can be found *the ability to communicate in foreign languages* (score 4.60). With regard to *computer skills* (score 4.46), *the social and civic competencies* (score 4.04) and *entrepreneurial competencies* (score 4.08), these have been considered by the respondents as important for the graduates' integration on the labour market.

*Professional involvement* (score 4.80) is considered to be the most important **professional competence** for the graduates' integration on the labour market. Also in the category of “very important” there can be found “*The Professional effectiveness / Efficiency* (score 4.70) and *the Competencies (expertise) specific to the field – depending on each field of activity*” (Research-Development, Production, Supply, Logistics, Sales, Marketing, Finance and Accounting, Personnel, Legal, Administrative, Management) – score 4.53.

After the general classification of the **other competencies and abilities**, “*The ability to work in a team*” obtained the greatest number of options from the respondents, followed by “*The ability to cope with change (adaptability to new situations, risk management)*” and “*Fairness and honesty*”.

As a conclusion, the acquisition and further development of competencies are crucial for improving the graduates' employment perspectives and they contribute to personal fulfilment, social inclusion and active citizenship. The Romanian education, through the provided curriculum, has to be adapted so that it helps graduates acquire the competencies and abilities necessary for the immediate integration on the labour market and also for continuous learning for their development. Developing the curricula, teaching, evaluation and learning environments should be based consistently on the results of the teaching process, and on the knowledge, skills, abilities and competencies that need to be acquired by learners.

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## **THE ROLE OF THE MANAGEMENT OF FINANCIAL INSTITUTIONS IN REDUCING THE EFFECTS OF THE ECONOMIC CRISIS**

**IOAN CUCU** \*

**ABSTRACT:** *The financial crisis profoundly affected the USA economy, highlighting many problems related to the five management systems of financial institutions. But the most important aspect that influenced the dramatic evolution of these institutions in the last few years was the inadequate management manifested in the lack of coordination and equilibrium between the five systems. Most of the problems highlighted in the financial crisis can be pursued at the deficiencies related to the five leadership systems inside each major public or private actor from the financial markets: incentive measures, control and information technology, book-keeping, human capital, culture.*

**KEY WORDS:** *leadership systems; economic crisis; subprime crisis.*

**JEL CLASSIFICATION:** *G01.*

### **1. INTRODUCTION**

The present-day model of the unitive governance in the United States of America and abroad is abusively damaged and all takes place since many years. The financial crisis revealed the extent to which these problems came. Neither managers, nor the board of directors foresaw or hindered the massive destruction of value which affected companies such as AIG, Bear Stearns, Fannie Mae, General Motors or General Electric. Nor external private monitors like the media, stocks and shares analysts, credit analysts and rating agencies warned enough against the danger that would appear for the companies. Of course, public agencies like the Federal Reserve, FDIC or Securities & Exchange Commission did too little to preclude the financial conflagration.

To approach the fact that systemic failures of the unitive governance caused the economic crisis is a very controversial statement. Some assert that the lack of

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adequate regulations combined with an excessive corporate avidity was enough to determine these problems. In the case in which regulations had been more severe, or managers less covetous, the crisis would have been avoided.

So, what went wrong? What should have managers done to protect their companies and the whole society? What should have directors done? What would have resulted from using compulsory regulations? What should have investors done?

Every aspect of the system must be changed, from the book-keeping governance system to the roles and structures of the company members. The most important and difficult changes are the ones requested to the company managers, because they abide a disproportionate part of the responsibility for what happened and what is unrolling. What is recently going on happened before, but not at the same scale.

Managers made wrong and very dangerous decisions, investors and consumers involved in risky businesses and the settlement authorities were inefficient. Greed played a tremendous role, but a bigger problem was incompetence.

## 2. THE ECONOMIC CRISIS

The whole society is in the middle of a difficult period of meditation and adjustment. The greatest attention seems to be paid to settlement structural changes and the norms that affect unitive governance and to financial markets. Changes that will result will do too little to reduce the probability or the proportion of the next panic bubble - panic cycles. Roots of these cycles are very deep and it is little probable for them to be approached through the public order or other external means.

Most of the problems highlighted in the financial crisis can be pursued at the deficiencies related to the five leadership systems inside each major public or private actor from the financial markets (Sahlman, 2009):

- *Incentive measures* - the manner in which risk and reward are shared, how people respond to this crisis if they rely on their own interest from the money prospect.
- *Control and information technology* - how behavioural limits are distributed, how information is perceived and shared, the way in which risk and reward are measured and the manner in which these estimations affect tactics and strategy.
- *Book-keeping* - the manner in which managers choose book-keeping politics, the way in which managers measure economic damages and profits.
- *Human capital* - the process through which persons with certain specific features (skill level, experience, character and attitude) are drawn and administrated or encouraged to leave the organization.
- *Culture* - values that guide group or individual decisions.

Patient, successful companies have remarkable proficiency and high integrity employees, sensitive book-keeping politics that reflect the economic reality, data of great interest over the measurement of the risk level and of the management system, and sensitive incentives that balance risk and reward between staff and leadership members. These companies have a culture in doing the right thing to help protect all

electoral circumscriptions even if these do not transform in reward. Companies prone to risk have a combination between all the ones mentioned before, but in the opposite sense.

In the last twenty years, there were remarkable examples of problems caused in the firms whose managers did not succeed in administrating their merchants efficiently. Examples include Société Générale and Jérôme Kerviel (the loss of \$7.2 billion), Baring Securities and Nick Lesson (\$ 1.3 billion) and Sumitomo and Yasuo Hamanaka (\$ 2.6 billion).

In the study of the financial crisis, this clearly shows that many organizations suffered from a lethal power mix, sometimes wrongly manifested, inadequate control of risk administration systems, deceivable book-keepings and a low human capital quality concerning integrity and/or competence, all covered in a culture that did not succeed in offering a quality management behaviour guide. This estimation refers to the financial service firms such as Countywide, AIG and Bear Stearns, but it also applies to other fields like regulatory agencies, politicians, rating agencies and, why not, individual consumers.

Taking as an example, Investment Bank UBS, specialized in administration of the wealthy people's estates, reported a shocking loss of \$18.7 million related to *subprime* mortgages in 2007. This was followed by a \$19 billion loss in the first quarter. In April, 2008, the company put forward a special report to the shareholders, who diagnosed the causes of these damages. Actually, this report revealed fundamental failures proceeded from incentives, control systems, book-keeping decisions and decisions made by employees.

In the incentives area, UBS discovered a few major effects, like (Sahlman, 2009):

- employees received high incentives in order to engage in the so-called currency transactions with interest rate differential in which they used the capital of UBS to invest in mortgage debentures .UBS paid a very low cost of capital and did not change the rate based on the risk level assets bought;
- the structure of duties at UBS stipulated special incentives to buy more risky securities. For example, merchants received a three to four times higher tax when they bought CDOs (collateralized debt obligations) than when they bought safer ones;
- UBS supplied "insufficient incentives to protect the UBS Franchise for a long period". They offered a lot of cash compensations to individuals who engaged in trading operations, but who endangered the company an increased risk. Also, they rewarded bonuses which "were measured against gross returns after personnel expenses without taking into consideration the quality or the viability of these incomes".

Generally, these problems related to incentives are classic: the supply of "strong" incentives to engage in risky fields; lack of incentives to protect the company and measurement of insignificant events in an adequate period. These mistakes probably wouldn't have been so expensive if UBS had had in exchange risk countermeasures or a general manager with dominant responsibility and authority.

UBS centred on the “*mea culpa*” adage, and management details diminished in these segments.

UBS presented a report in which it highlighted 75 different areas that suffered and moreover, brought damages at the company level concerning making certain decisions and doing wrong processes.

At the leadership level, administration management worked out a growth strategy centred more on market share incomes and profit growth than on reducing the risk level. In every own business there were errors in the risk measurement, weak or absent compulsions regarding position dimensions, inadequate and prone to loss book-keeping. Persons responsible for making decisions either had not the competence to understand and change the risk rate, or had not the necessary incentives or authority to expel them.

Besides, financial leadership’s decisions were not in the same consonance with the risk of assets decisions, and in some cases these even exacerbated the general risk level of UBS. For example, the company owned mortgage secured assets that supplied liquidities in case of assets diminution - these values eventually diminished very much and cash assets disappeared.

A common problem, that can illustrate the ones mentioned above, was that all market players relied abusively on the rating put forward by firms like Moody’s and Standard & Poor’s. Afterwards, there was presented a report of UBS in which market risk control unity was described.

MRC relied on the AAA type rating of several *subprime* positions although CDO were built from RMBS small rated tranches that meant a residential mortgage guaranteed titles. This thing seems to have been common for the whole industry. There was no clue that MRC tried to revise the quality of extant portfolios like questions raised in connection with the *subprime* sector. A comprehensive analysis of portfolios would have shown that positions would not have been necessarily made in accordance with their rating. From the forecast retrospective ratings assigned by external rating agencies to real mortgage estates were wrong. These agencies were for a long time in the corporate bonds issuer representation risk assessment activity (Sahlman, 2009).

Many technical aspects referring to the way in which risks were estimated and ratings assigned existed, but the main causes were implicit assumptions through which prices for dwelling places would have been rather probable to decay and the coefficient of correlation between prices of dwelling places from different regions to lower. For example, if prices lowered for Miami property acquisition, this would not mean that these would lower in Phoenix too (afterwards, both regions being seriously affected by the financial crisis).

A problem of the rating agencies was that they adopted structure incentives that led to the creation of possible conflicts. Specifically, these agencies were paid by issuers of real estates and not by buyers or regulatory authorities. For a variety of reasons, there were only two main rating agencies that intensely competed for the same clients. This is a system from which the most precise estimations do not result, but for a change ratings meant to disadvantage clients in order to increase the market and profit share.

The safety assessment assets business was extraordinarily profitable. Between 1997 and 2006, to illustrate, Moody's incomes from this source increased nine times, representing the biggest income source for the company. Price of stocks grew from \$15 in 2001 to more than \$70 in 2006.

All the employees who worked for S&P and Moody's had no doubt that they were not meeting the requirements demanded by the company's managers in order to perform the job. Companies had internal politics meant to ensure that ratings were not influenced by the desire to receive a business or market share. Moreover, no one realized that they were doing dangerous conjunctures about the possible prices of dwellings. Profits, stock and compensation prices were all exorbitant and none of them foresaw the end of the financial boom.

Many of the problems concerning the estate industry financial crisis are assigned to the political and economic system in the global economy. All type politicians are willing to promote ownership and increase of prices. Industry is full of fundamental challenges regarding the connection between incentives, control systems, book-keeping and human capital.

Taking into consideration the two main financial institutions in the USA market - Fannie Mae and Freddie Mac, both private companies but sponsored and granted by government, they were privileged by the congress with a mission to "supply cash, stability and accessibility for estate and mortgage markets from USA". They fulfilled this objective through the acquisition or guarantee of mortgage property values from the secondary markets. Their capital costs are low because they have a guarantee on the behalf of the government.

These are organizations that from the economic viewpoint are very big and that had, at the end of 2006, a fortune or guarantee right of over \$500 billion. These rights were in the form of mortgage credits representing almost half of the USA market. A possible obvious problem is that both companies have a clear objective to maximize the estate of the shareholders. General Managers are paid alike private market salaries and own a substantial quotation of the shares. In case in which great damages appear, the American Government is responsible, but if these companies present a high profitability level, managers will be awarded in the same measure.

A second problem appeared for Fannie Mae and Freddie Mac refers to the objective declared in order to sustain the ownership in disadvantaged groups and/or in regions subdued to economic turnovers. Every year, both organizations are obliged to report to the Government progresses of these dimensions.

Politicians, having an important role in the decision power, reproved many times the leadership of the two main companies for being much more aggressive in sustaining the social objective to increase the power of property over buildings, even if these do not have purchasing power. Congressman Barney Frank encountered both companies to roll the dice in the name of dwellings acceptable for their price (Wall Street Journal, 2008).

One of the supplementary concerns, valid for many governmental agencies, is that Government does not levy an insurance premium for the implicit guarantee of the GSE - uttered debts that vary once with the risk of vested interests decisions.

Moreover, the levied rate is not a market rate after all, but it is a political negotiation between settlement agencies and companies.

Putting these three systems together, a volatile mix creates. Government guarantees a set of activities but does not levy costs for the right to insurance and allows companies to be extremely plunged into debts. Politicians centre on risky credits, ironically increasing the economic cost of the guarantee. Private managers come to bet on possible personal payments and on governmental guarantees. It was not surprising the fact that these companies got in a doubtful situation when real estates started to decline, because they were set up effectively to thrive on these markets and not to go on the wane.

Similar evolutions always existed on the markets on which governments bear a part or all of the risks of certain private activities. Some would say that these savings and credit crises of the 80's reflected a toxic mix in increasing governmental deposit guarantees, in industry deregulation, in companies' ownership and in the dynamic increase of the risk of vested interests decisions, without a proportional growth of insurance premiums requested by government.

Although it looks like the S&L crisis, assessed by government to almost \$500 billion, appeared in a relatively short period of time, the reality was that this had a good precedent several years before, when inadequate incentives were put into practice. USA's real budgetary deficit before the crisis period was bigger than the deficit that followed in the crisis period, because of adopting inadequate costs for the insurance of deposits.

A final aspect in the characterization of the financial crisis is held by the level of competitiveness in which companies operate. To illustrate this thing, when managers have the possibility to increase incomes and to gain market share in competitive sectors, they become more aggressive in order to establish prices and innovation.

In any company, the only way to get a market share or to remain at odds regarding the company's profit is to offer a product based on the preferences of consumers or employees. Unfortunately, in mortgage businesses, the only way to maintain market strength was to reduce the standards for granting a loan and/or to introduce new price-pay systems such as reduced fees for advance. In a business that is situated in a very competitive industry, the marginal price is often established by the lowest common denominator - the company with a more reduced quality, the most honest and aggressive consumers, the weakest control system and the most aggressive book-keeping system.

One of the American financial companies through which this system was exposed is Countrywide Financial. It is one of the greatest mortgage companies from USA, and their management strategy was a special one. Named "the matching strategy" or "the supermarket strategy", through which it compelled the company to be engaged "in offer of no product and/or underwriting manager available from at least one "competitor".

This politics lead to dramatic, and ultimately fatal, rise of *subprime* loans, including ARM payment loans. The latter, representing over 20% of the company's loans was particularly risky, because debtors many times had small tax credits, high

loan - value ratio and high profitability of non-payment. Eventually, Countrywide encountered severe financial difficulties and was bought by America's Bank. Therefore, America's Bank was intoxicated too, after it bought Countrywide, by its problems.

In autumn 2008, the possible decline of AIG triggered a wide range of governmental responses that changed forever the Global Financial landscape. At mid 2007 AIG had a market capitalization worth of \$200 billion and until October 2008, the total worth fell under \$10 billion, and government invested almost \$100 billion in saving the company.

A clear problem at AIG was the fact that a small group of employees, fewer than 400, of the Financial Products Group (FPG) wrote a large amount of insurances, over \$500 billion, for corporate bonds and real estates, including the ones for mortgage securities. Because AIG offered impeccable credits and because few people thought that there was a risk in any of these titles, FPG was capable to issue insurances without any guarantee requested in advance. Thus, any profit represented a high, even infinite, capital yield.

### 3. CONCLUSION

Management enables the appropriate coordination of all elements or systems of the components that ensure proper functioning of an organization or institution. This is why adequate management of incentives, information technology, book-keeping, human capital and culture would have created a balance between all these and would have offered the opportunity to prevent financial institutions from collapse and, implicitly, to avoid, or at least, to diminish the financial crisis and its effects felt until today in economy, at its global level.

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## **HOW TO INCREASE THE COMPETITIVENESS OF SMALL SOY FARMERS IN PARAGUAY**

**MAYKELL LEITE DA COSTA, ANDRÉA CRISTINA DÖRR,  
JAQUELINE CARLA GUSE\***

**ABSTRACT:** *Soybean is today the most traded commodity in the global market. Soy is a plant of great importance to human nutrition, animal feed and industries. Based on research efforts conducted in the main soy producing region in Paraguay, the study aimed to characterize the agents involved in the national soy industry and present an overview of the relations between them, particularly between business companies and farmers, with emphasis on small farmers. Emphasis will be given to contractual relations and how they impact the activity. The results indicate that contractual arrangements, formal or not, are tools that contribute to stable relations between the parties, especially in a business so dependent on exogenous factors, as is the case of agriculture. Therefore, it is crucial that the public and/or private organizations encourage the use of contracts to reduce costs and keep the agents in the productive activity.*

**KEY WORDS:** *agro-industrial complex; contractual relations; scenario analysis.*

**JEL classification:** *F10; Q11; M11; L11.*

### **1. INTRODUCTION**

Soybean is today the most traded commodity in the global market. Soy is a plant of great importance to human nutrition, animal feed and industries. Nearly 60% of the food products contain ingredients from soy. The main products are soy oil and

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protein ingredients for multiple uses. Integral soybean is also used for several purposes.

Due to its wide range of uses, production has been increasing continuously. In 2010 global production of soy was approximately 250 million tons (USDA, 2010). In Paraguay, agricultural production is of huge economic and social importance and, in this context, soy is the agricultural product that contributes most to the country's Gross Domestic Product (GDP). Based on data from CAPECO (Cámara Paraguaya de Exportadores de Cereales y Oleaginosas – Paraguayan Chamber of Grains and Oilseeds Exporters) and the World Bank (2010), soy contributes to about 15% of the Paraguayan GDP. The country is the third biggest producer of soybean in South America and the sixth in the world (USDA, 2010), as shown in Table 1.

**Table 1. Ranking of the world's largest producers of soybean - 2008/2009 (million tons)**

<b>EUA</b>	<b>Brazil</b>	<b>Argentina</b>	<b>China</b>	<b>India</b>	<b>Paraguay</b>
80.54	57.00	43.80	16.80	10.00	6.50

*Source: Own compilation based on information released by USDA (2009)*

In 2010, over 2.5 million hectares were cultivated with soybean in Paraguay, which represents an increase of more than 130% over the last ten years (CAPECO, 2010). Average yields have been approximately 2,700 kg/ha. In the last five years average, about 70% of the production was exported in the form of grains (USDA, 2010). It is also worth noting that 45% of the Paraguayan soybean culture is dedicated to the cultivation of genetically modified soybean (INBIO, 2009).

Based on research efforts conducted in the main soy producing region in Paraguay, the study aimed to characterize the agents involved in the national soy industry and present an overview of the relations between them, particularly between business companies and farmers, with emphasis on small farmers. Emphasis will be given to contractual relations and how they impact the activity.

## **2. THEORETICAL FRAMEWORK**

### **2.1 Institutional environment**

North (1990) emphasizes the role of the institutional environment as an important variable to reduce transaction costs, e.g. guarantee of property rights. With the purpose of analyzing the role of the institutions, this movement has focused on: a) investigating the impacts of changes in the institutional environment on the economic result; b) theorize about the creation of institutions (FARINA; AZEVEDO; SAES, 1997).

Institutions set the “rules of the game” in a society (North, 1990). Precisely, “institutions consist of informal restrictions (sanctions, taboos, customs, traditions and codes of conduct) and formal rules (constitution, laws, property rights)” (North, 1991, p.97). Coase (1937) emphasizes that the neoclassic results by efficient markets can

only be achieved when no transaction costs exist. When transaction costs are high, institutions start to have a key role in the process.

The organizations are the players and consist of groups of individuals dedicated to any activity performed with a specific purpose. Limitations imposed by the institutional framework define the opportunities and, therefore, the types of organizations that will be created (North, 1990). The agents of changes are businessmen, politicians or economic agents, the decision-makers in the organizations.

On the other hand, formal rules include, among others, law reforms, passing and enforcement of new laws; legal changes resulting from jurisprudence that changes the law institutions; changes of standards and codes by regulatory agencies; and changes in constitutional provisions, which change the rules that govern the development of other rules (North, 1990).

Moreover, institutional changes resulting from changes in informal restrictions, such as standards, conventions or individual honesty standards, occur much more gradually and sometimes unconsciously, as people develop alternative patterns of behavior consistent with their evaluation of the transaction costs and benefits.

Given a set of institutions in a society, Alston (1998) points out that the person will enter into contracts with raw materials suppliers to minimize the overall costs of transaction and processing. As a result, we have a variety of contracts in which the divergence between the components of costs of the transaction and of production appears. The institutional environment is seen as the *locus* of shift parameters that influence the decision about the organizational form of production to be used (Zylbersztajn, 1995).

Transaction costs arise when the multiple valued dimensions included in the transaction are measured and when executing contracts the information has high costs, and can be imperfect. Efficient institutions and organizations can reduce the costs of every transaction so as to achieve a larger portion of potential gains from every human interaction (North, 1990). Therefore, institutions may be inefficient when the transaction costs of political and economic markets, together with the actors' subjective model do not cause the economic system to move forward to more efficient results (North, 1990).

## **2.2. Contractual relations**

The use of contracts to govern the sale of products and purchase of inputs guarantees that the price of sale and the goods purchased will be received by the parties. Given this, contracts respond to the transaction dimensions – frequency, uncertainty and specificity of the assets involved – which are influenced by the institutional, technological and organizational environment that surround private businesses (Mondelli & Zylbersztajn, 2007).

For Neves (1999), contracts incompleteness is due to five reasons: a) the terms in the contracts are ambiguous due to the faulty design of the contract; b) some possible important aspects are not considered, creating gaps; c) high costs for the preparation of more complex contracts; d) ex-ante asymmetric information; and e) ex-post asymmetric information. Silva and Borges (2010) conducted a study on the

contractual relations in the tobacco supply chain. According to the authors, the process begins early in the season when contracts are executed, by which the tobacco processing industries undertake the obligation to provide seedlings, seeds, agrochemicals and other inputs required by the tobacco culture, and technical assistance to the growers, besides submitting financing requests to the banks, endorsing them and undertaking to buy the production at the end of the season. There are also contracts entered into by the processing industries and the foreign market.

In contractual arrangements, the characteristics of the agents and transactions are considered. According to Zylbersztajn (2000), with respect to the agents, there is limited rationality in contrast to the hypothesis of full rationality (neoclassic approach), and opportunism towards actions that promote the achievement of quasi-revenues associated with the transaction, which can affect the institutions accepted by society. On the other hand, transactions identify the frequency of exchanges, uncertainty and specificity of assets, the latter being related to space or capital or human resources.

The Transaction Costs Theory (TCT) uses contracts as key elements of the transactions once the rationality is limited and the agents' behavior is many times opportunistic. According to Zylbersztajn (1995), there are three types of contracts: the classic one, whose nature is discrete or discontinuous with no links with later periods; the neoclassic contract, whose transactions refer to transactions with effects in the long run and, therefore, subject to arbitrations proceedings; and the relational one, whose objective is to maintain a negotiable and continued structure instead of seeking to maintain a complete contract.

## **2. METHODOLOGY AND STUDIED AREA**

The study comprised literature review, search and analysis of primary data and field surveys in Alto Paraná District, Paraguay. Firstly, we conducted a literature review on the subject to characterize the agents and processes involved. Next, statistical data on the soybean industry in the region under study were reviewed to characterize the production environment and determine the main issues of the sector.

Later, forms were developed and applied to a sample of the participant agents, among them: farmers, agro-input dealers, cooperatives, financial institutions, transport and trading companies. Thus, the research study could be characterized as a multi-case study.

According to the literature consulted, a case study is generally applicable when you wish to obtain analytical generalizations, instead of statistical ones, which can contribute to a certain theoretical model. Research by means of case studies has been considered one of the so-called qualitative methods, characterized by a greater focus on the understanding of the facts rather than the measurements itself. Thus, it contrasts with the quantitative methods, which deal with the measurement of phenomena and are applied to broader samples (Lazzarini, 1997).

For this work, we opted for the multi-case study analysis because of its advantage of providing evidences inserted in the most diverse contexts, which makes the research as a whole more robust. However, the main limitations of such case

studies are the subjectivity of analysis and the inability to generalize conclusions (YIN, 1989).

Gil (2007) distinguishes the most usual data survey tools, such as questionnaire, interview and form. Questionnaire is a series of questions made by the interviewer to the interviewee, who answers the questions (when the interview is totally structured, i.e., with fixed questions, it is mistaken with the form), and form is the technique by which the respondent answers questions previously prepared by the researcher, who records the answers. According to Gil (2007), “because of being applicable to the most diverse segments of the population and permitting to obtain data that can be easily tabulated and quantified, the form is today the most appropriate technique used in opinion polls and market surveys”. Finally, data were tabulated and analyzed with the purpose of outlining a profile of the soybean industry in the studied region.

### **3. RESULTS AND DISCUSSIONS**

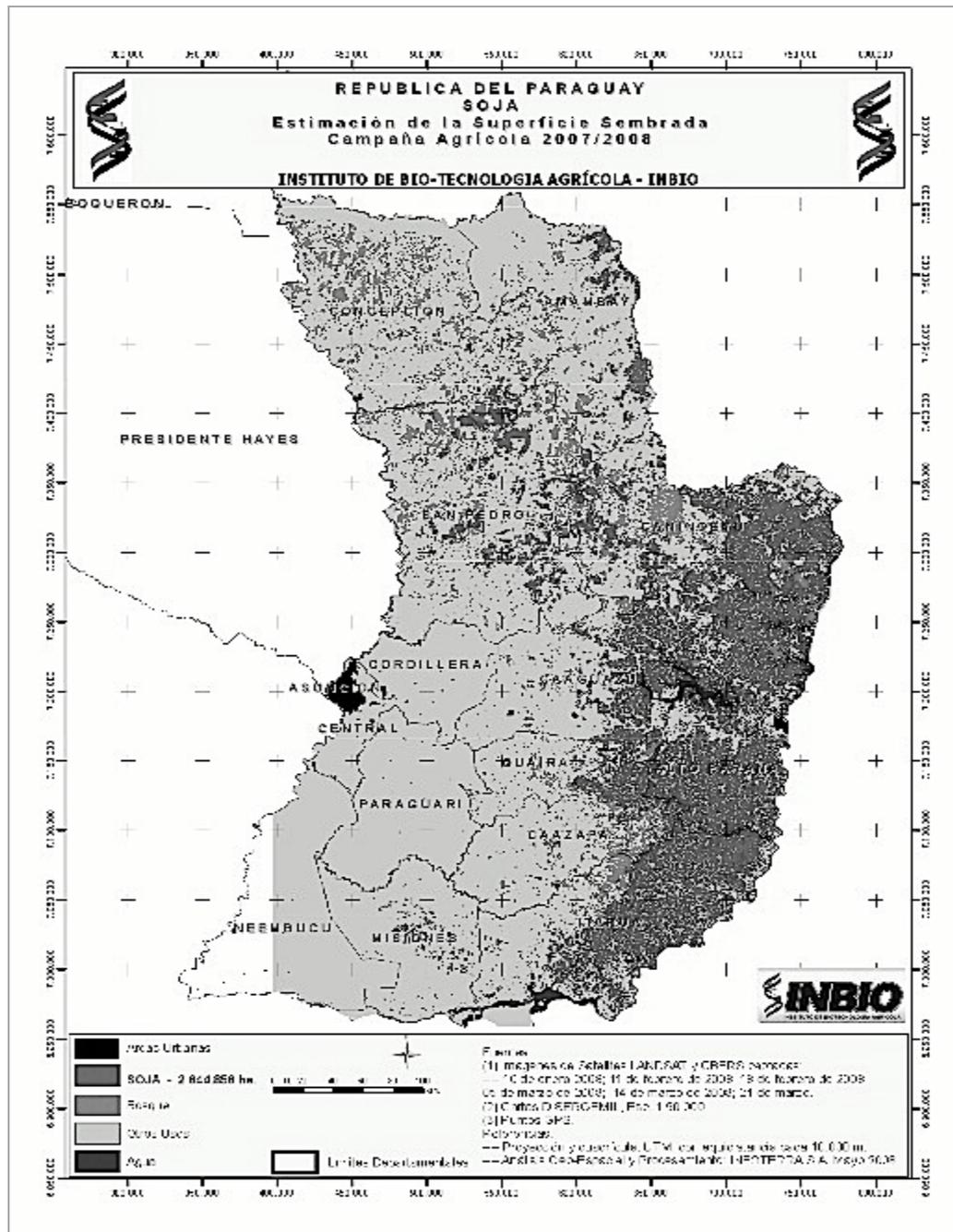
#### **3.1 Agents characterization**

The grains producing region in Paraguay is located in the eastern portion of the country (Figure 1), where climate and soils are appropriate to large scale agricultural production. This region has been colonized recently and most of the resident population settled in the 1970s, when the construction of the Itaipu power plant began and thanks to government agricultural incentives at the time.

In the eastern region of the country is the Alto Paraná District, which, according to data from CAPECO (2010), contributes to about 30% of the national soybean production and has average yields higher than the rest of Paraguay, reaching 2,940 kg/ha. The district is located at the eastern half of the country, where the edaphoclimatic characteristics are favorable to the soybean culture, increasing yields and contributing to greater profitability of the business. It is worth noting that, according to estimates of the Paraguayan Government, 90% to 95% of the soy production is controlled by Brazilian immigrants, most of them coming from the southern region of Brazil.

As soybeans are the main export commodity of Paraguay, the fact that Brazilian immigrants control most of the production contributes to frequent conflicts between these producers and the Paraguayan peasants. This fact is aggravated mainly because Paraguay has about 40% of its population established in the rural area, a very high rate considering the increasingly urbanized standard in Latin America.

Therefore, the advance of soy crops into the most traditional peasant areas has had a severe social impact. Rising land prices make small farmers sell their properties to soybean companies. The money they receive is often wasted in unsuccessful attempts to start their own business in the city, because in general they do not have education and experience to conduct such activities and end up in low-skilled jobs in the cities for a living, which aggravates social inequalities and violence.



Source: INBIO (2008)

**Figure 1. Distribution of soybean cultivation in Paraguay**

The production of soybean in the country is concentrated in large properties. According to data from CAPECO, most of the producers own lands in the range of 200

and 1,000 ha, followed by producers with lands over 1,000 ha. The medium and large producers are technically equipped and have appropriate infrastructure for production. They have equipment in good working order, but regarding high-tech techniques like precision agriculture have not been used in large scale yet. However, small farms are characterized by having areas smaller than 50 hectares, by using low-tech equipment and agro-inputs, and, as a consequence, yields are low and therefore they cannot compete with the big producers. Such handicap contributes to a vicious circle, where, because of the lack of resources, small farmers become marginalized and subject to the power of the big players in the marketplace.

Regarding technical assistance and services, the farms are typically assisted by agronomists and technicians, most of them from cooperatives, traders and agro-input dealers. However, regarding small farms, effective technical assistance is not usual and is sporadic because of the lack of interest of the big companies and traders in serving small farmers.

The agro-inputs market is made up of medium and large size companies. If we subdivide this market, we have two main sectors: agrochemicals, which consists of big multinational companies – in general the same established in Brazil – and Paraguayan companies, mostly controlled by Brazilian immigrants. Another important sector of the inputs market is fertilizer, dominated by trading companies, followed by big companies and co-ops. Because the small growers are not the main target of these agents, they have to buy inputs from small companies, where quality and prices are not the same as those obtained by the big farmers. This is another factor that contributes to the small farmers' low competitiveness to cope with the big market players.

Regarding co-ops, there are 32 farmers' co-ops in Paraguay. Noteworthy is that most of the owners are Brazilian immigrants coming from the southern region of Brazil. In addition, there are cooperatives formed by Japanese immigrants, who have a significant share in the agricultural production in the region under study. This entire context makes the market for agricultural commodities one of the most concentrated sectors in the world, being dominated mostly by family, secular businesses.

To have an idea, grain trade in the world is concentrated in the hands of just five families (PINAZZA, 2007). In Paraguay, this reality is not different. Most of the Paraguayan soy trade is made by a small number of trading companies, which are transnational corporations with a strong presence in Brazil too. The four biggest trading companies operating in Paraguay commercialize more than 90% of the country's production.

### **3.2. Logistics: inputs, storage and transportation**

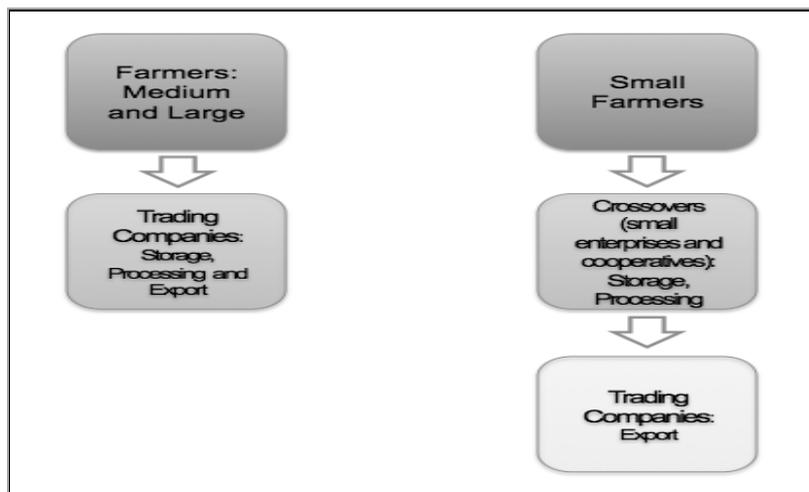
As mentioned earlier, the agro-inputs market in Paraguay is controlled by a few companies – traders, retailers and co-ops – and some agents play important roles in the market. The traders and some companies with high cash availability import inputs directly (agrochemicals, fertilizers, among others) and resell them to smaller companies, co-ops and farmers. In the case of agrochemicals, part is imported, formulated and then bottled in Paraguay, while another part is bottled abroad. These products come mainly from China and India and reach the American continent through

the ports of Montevideo in Uruguay and Buenos Aires in Argentine. Later, these products are transported by river to the port of Concepción, a city located at the left margin of the Paraguay River, one of the most important Paraguayan cities, with good port structure. From Concepción, the products travel by road to the soy-producing regions.

With respect to the storage of the crops, after leaving the farms the grains are transported by trucks to the storage facilities: co-ops, corporate middlemen or directly to the traders. In this matter, it is worth noting that the farms do not have their own silos, mainly due to the high investments required to build them. This is particularly true for small farmers: because they do not have their own storage facilities they are forced to sell their production quickly, especially during the crop peak periods, when prices are lower. According to the data collected in the survey, lack of silos is the result of lack of resources and credit lines to finance such facilities. Another important issue is that the storage companies and co-ops receive the products and store them at no extra costs to the farmers only until April 30 of the current season, and thereafter they bill \$1.5 dollars/ton/month (prices in the 2009/2010 season for storing grains). In addition, they bill between five to six dollars per ton to process the oilseeds.

### 3.3. Soybean transportation routes from Paraguay

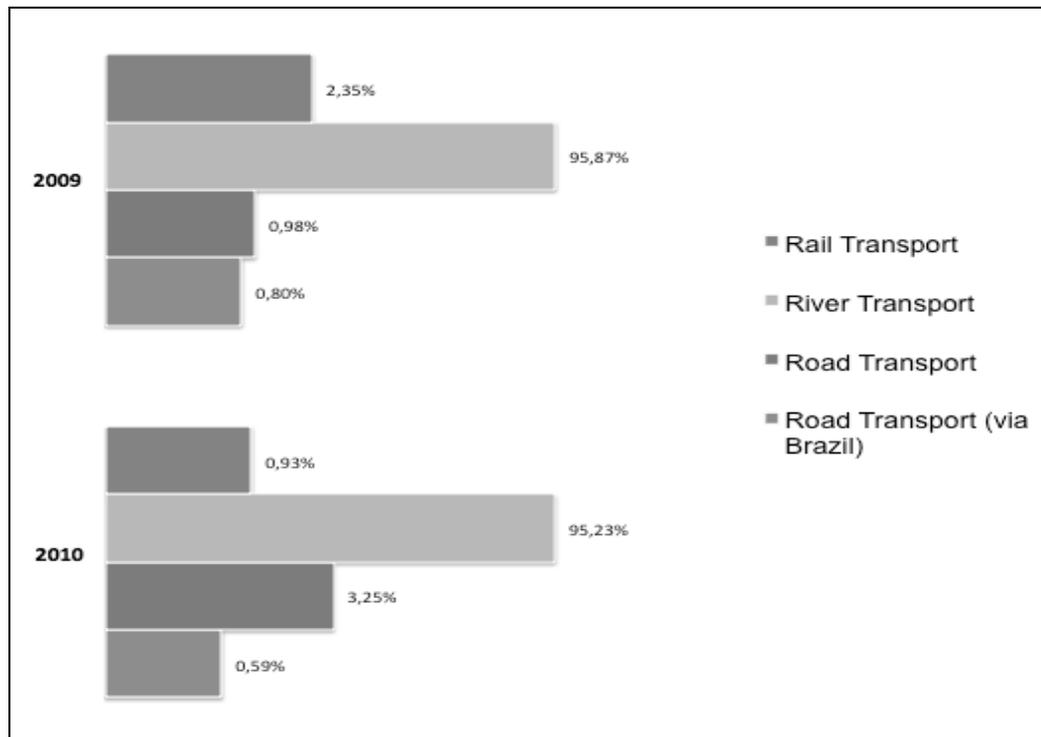
The soybean produced by the big producers leave the farms to the storage facilities, most of them owned by trading companies, and then are exported. Transportation in general is made by roads, which actually are in very inappropriate maintenance conditions. Soybeans produced by small farmers are transported from the rural properties to the corporate middlemen and afterwards to traders, in contrast to the big farmers who deliver their products directly to the traders, thus enjoying lower transaction and freight costs.



Source: Own illustration

Figure 2. Transportation flow of the soybean produced by farmers in Paraguay

Figure 2 shows the transportation flow of the soybean produced by small, medium and large farmers, where the presence of another agent in the small farmers' transaction can be clearly seen: the middlemen. This agent contributes to the higher costs that small farmers have, compared to those of the medium and large producers



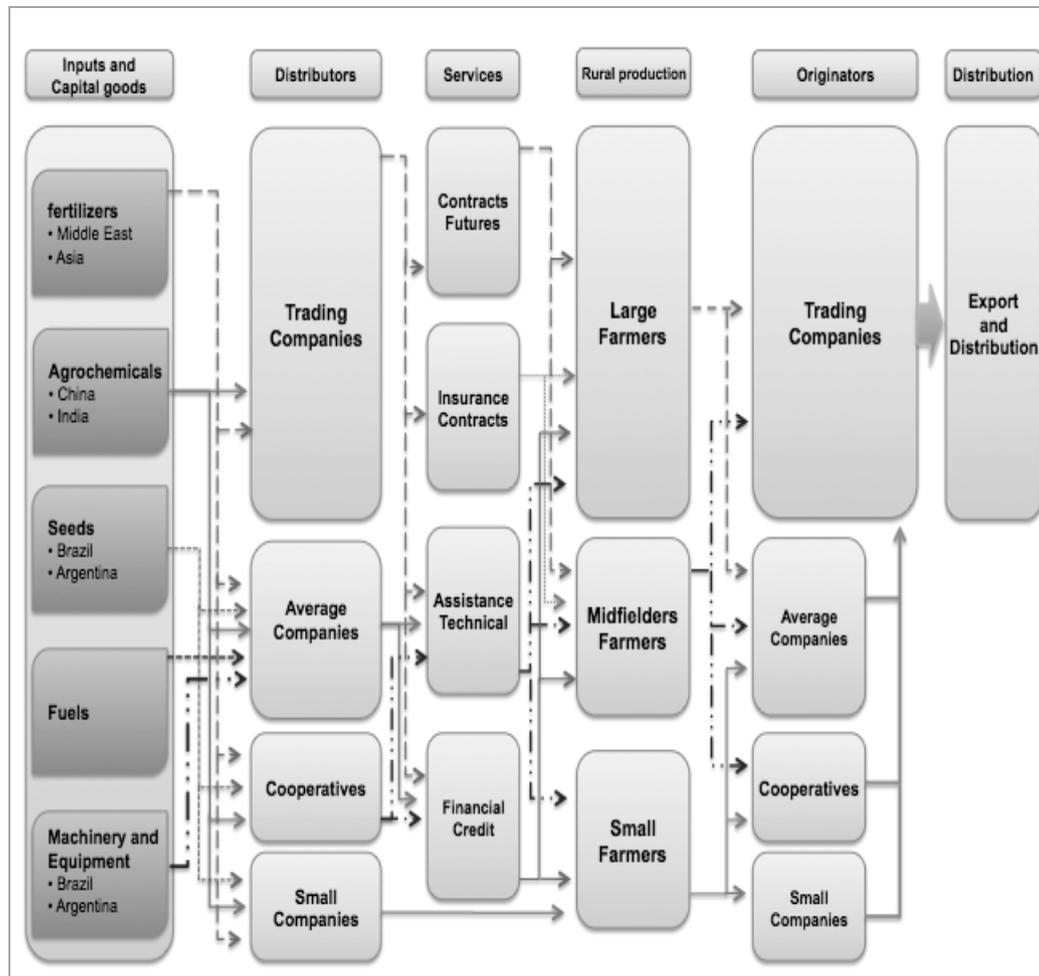
Source: Own compilation based on information released by CAPECO (2010)

**Figure 3. Percentage of output of soybeans from Paraguay by point of embarkation logarithmic scale**

From the exporters – the traders – the oilseed crop is transported by road or rail to the neighboring countries or to the port of Concepción, from which they travel from the Paraguay River to the Uruguayan and Argentine ports. Next, the grains are shipped to Europe or Asia in big vessels. Figure 3 shows the Paraguayan soybeans leaving the country by point of embarkation.

### 3.4. Mapping of the soy industry in Paraguay

Based on the analysis of the soy industry in Paraguay, it was possible to map the supply chain and identify the goods and services flow from the moment they enter the country until the commodity is exported.



Source: Own illustration

**Figure 4. Conceptual framework of the soybean sector in the eastern side of Paraguay**

Figure 4 shows the goods and services present in the business and the main agents involved. These data indicate that part of inputs – goods and services – pass through the trading companies, who have a key role in the current model of soy production in the country. Figure 4 clearly shows that the small farmers buy inputs from small and medium companies and transport their products by small or medium companies or co-ops. Afterwards, the products are shipped to the trading companies which are responsible for the distribution and exportation of the product.

### 3.5. Analysis of the scenario: contractual and problematic relations

Despite the importance of the agricultural production, mainly soybean, to the sustainable growth of Paraguay, there are problems with severe impacts on the business. Among these problems, it is noteworthy the deregulation of this sector. This

scenario contributes to the fact that a few companies control the market and, on the other hand, there are no credit lines available for agricultural production costs, especially for small farmers. It should be noted that the main problem that the farmers face is the lack of funding, a common fact to small and big producers. However, for small farmers the problem is much more critical. Prices fluctuations in the global market and the heavy dependence on traders are other major obstacles to the sustainable development of the soybean culture in the country. In particular, the small growers claim that credit is the biggest problem, because financing is practically nonexistent, and the private banks have high interest rates, around 11% to 12% per year. In addition, the traders – the main financing agents of the Paraguayan agriculture – are not interested in financing small farmers.

It was also noted that there has been a serious problem of default on the part of the farmers. This happens mainly due to incomplete contracts between the parties, which contribute to increase the transaction costs. Such problems occur mostly with small corporate middlemen, which, although they now require guarantees to finance the products they still suffer losses as high as 10% a year. In addition, it was also found that there is no loyalty between the parties.

As for the larger companies, they claim that although they might have some debts refinanced, they do not have financial losses. This is because they only grant loans to farmers who hold title of land and enter into contracts where their property is given as collateral for the loan. They also emphasized that they haven't had any loyalty problems with the clients, as mentioned by the smaller companies.

Regarding losses caused by weather conditions, this is one of the threats of the business, because agriculture depends heavily on climate conditions, which, in turn, are considered exogenous variables. Thus, the agents involved seek for strategies that can minimize the losses caused by such events. However, for small farmers the situation is different because they have difficulty in contracting agriculture insurance. This is because their production scale is small, which makes them a less attractive audience to the insurance companies.

Taking into account that the major agents that promote and organize the soy business in Paraguay are the trading companies and larger companies, it is noted that all these organizations only grant credit, in money or inputs, to the producers that contract insurance coverage for the entire crop. Furthermore, public insurance is not available in Paraguay, and all contracts are made with independent insurance companies and/or insurers directly associated with the trading companies. This also contributes to make the access to insurance contracts more difficult to the small farmers.

Regarding the agents' relation issue, the communication between the companies and the farmers is made mostly by the field technicians – agronomists and agricultural technicians – who sell inputs and supplies, provide technical assistance to the crops and purchase the soy production. It is important to emphasize that these services are not billed directly because they are included in the products price sold to the farmers. In the case of small farmers, the contact between the field technicians and the farmers is more distant, because, as mentioned earlier, these farmers are not the primary target of the companies and, as a consequence, of technical assistance.

Additionally, the relations between the business agents – farmers and companies – in some cases come from non-contractual arrangements and in others from formal contracts. Noncompliance to the agreements (formal or not) sometimes occur, which contributes to the increase of the transaction costs, with direct impact on the entire soy sector, particularly on small farmers.

With respect to the contractual relationship between the agents of the soy agribusiness in Paraguay, there are particularities especially related to the size of the farmers business. The business relationship between the big producers and the companies is made by direct purchase/sale agreements. They are formal agreements with safeguards for both parties. The companies and big farmers also use futures contracts to minimize the risk of price fluctuations as well as agriculture insurance contracts.

In contrast, small farmers in general do not have contracts directly with the companies. Purchase and sale transactions are made with middlemen, which causes the transactions costs to increase in all dimensions. Furthermore, they are highly dependent on price fluctuations because they do not have future sale contract, as well as on climate conditions for not having agriculture insurance. All this makes that the agricultural activity becomes even more unstable for the family farmers, and to make a living becomes much more difficult, contributing to rural exodus.

### **3.6. Competitive strategies**

In modern international competition, the companies compete with global strategies, involving not the international trade only but also management and logistics efficiency, risks control, and the ability to adapt to the economic environment. Competitive advantages include the concepts of segmented markets, differentiated products, technological diversities and economies of scale (PORTER, 1999). Aligned with these variables, the big players of the soybean business in Paraguay are using the most diverse strategies to become more competitive. Some examples are:

- Companies' verticalization. It is the case of some larger companies and traders that already have their own road transporting fleet, barges for river transportation, direct importation and sale of inputs, construction of fertilizer and vegetable oil plants;
- Efforts towards economies of scale to reduce unit costs;
- Control of climate risks by contracting crops insurance, without the need of intermediate agents;
- Control of prices risk by entering soybean futures contracts directly with Chicago Board of Trade. This future sale device is also largely used by big farmers, who sell at future contracts to ensure at least the coverage of production and marketing costs.
- Exchange rate control by means of dollar future contracts.

The strategies adopted by small farmers are quite different. If on the one hand the production and marketing strategies of big companies and farmers are well defined and structured, on the other hand small farmers face a quite different situation. They usually lack financial, human and organizational resources to plan production and sale

efficiently. In addition, they are not able to adopt the technological innovations as fast as the big producers, creating competitive disadvantages that make it much more difficult for them to make a living from the agricultural activity.

#### 4. CONCLUSIONS

The agribusiness sector is highly complex: besides depending on production inputs and labor, it is also heavily dependent on environmental factors. These factors influence production and the commodity prices in view of the great speculation that exists in the agricultural market.

The situation of the small farmers is much more complicated. Added to these factors we can mention difficulty in accessing credit lines, dependence in relation to the big players, lack of political power and knowledge, mainly in management techniques. Based on the results, it can be seen that in increasingly competitive and globalized markets, which recurrently increases bureaucracy and transaction costs, small farmers need to adopt well-defined strategies, otherwise they may be forced out of the marketplace. Such strategies should make that these farmers gain in production scale and negotiation power. In this context, two forms of organization may help small farmers succeed in different ways in both these requirements, besides assisting them with the technical and economic management of the business. They are Cooperatives and Associations.

If both these forms of organization are well implemented and managed, all conditions to help small farmers to remain and succeed in the agricultural activities will be provided, and better, with life quality and conditions for a sustainable development.

Finally, it is important to emphasize that the contractual arrangements, formal or not, are tools that contribute to stable relations between the parties, especially in a business so dependent on exogenous factors, as is the case of agriculture. Therefore, it is crucial that the public and/or private organizations encourage the use of contracts to reduce costs and keep the agents in the productive activity.

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## **STUDYING THE RELATIONS OF ORGANIZATIONAL LEARNING WITH EMPLOYEE EMPOWERMENT: A CASE STUDY AT TEHRAN SOCIAL SECURITY ORGANIZATION**

**HASSAN DARVISH, MALIHE NOROZI \***

**ABSTRACT:** *This article is dealing with the study of Organizational Learning and Employees' empowerment and assessment of the rate of employees' empowerment feeling and specifying context of Security Organization in view of organizational learning. To do so, two learning and empowerment standard questionnaires have been used. Statistical society of this research includes 500 managers, experts and employees of Social Security Organization of Tehran city. Statistical sample of the research was estimated to be 220 persons. Nevertheless, 240 questionnaires were distributed and 220 questionnaires were analyzed. The results showed that there is a significant relation between learning on empowerment. Based on data analysis and the conclusions extracted, Social Security organization's staff are equipped with required empowerment and the following criteria including feeling of work meaningfulness, feeling of deserving forcefulness, feeling of choice, feelings of effectiveness and feeling of trusting on colleagues, are founded in the employees of social security organization, among which feeling of deserving competence gains the higher grade and feeling of choice and trusting on colleagues, the lowest grade. Context of Social Security Organization was determined in regard to organizational learning and it was found that there is a gap between desirable context of organizational learning and current status of company based on data analysis and extracted results. Among fourfold factors perspective, organizational learning and then organizational culture have obtained the lowest degree needing to further overview.*

**KEY WORDS:** *Employee Empowerment, Organizational Learning, Social Security Organization, Iran*

**JEL CLASSIFICATION:** *D23, H55, M00*

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## 1. INTRODUCTION

Changes are taken place through quick steps within today business environment. Organizations are undertaken, in the arena of competition in worldwide job environment, to show whether a desirable interaction in regard to continuous changes or lose power. Business world is changing from capital dominance to knowledge superiority. To be dominant over other organizations, an organization must develop human resources and increase available information and knowledge ratio. Employees and their possessed knowledge are valuable resources for organization. Knowledge and quality of gaining information in regard to organization's strategic resources must be managed and developed. Therefore, organizational learning and knowledge production have been taken into consideration during the last several years (Hornstein, 2006, Ojala, 2000; Paajanen & Kantola, 2008). Organizational learning is an active process enabling organization to be adapted to change quickly. This process includes production of new knowledge, skills and behaviors. Organizational learning is principal way to create knowledge work and efficiency improvement of organization. Therefore a successful organization must be active in learning (Zhang et. al, 2009).

Empowerment means making employees empowered, i.e. to help them to promote feeling of confidence and overcome feeling of disability or frustration and make them powerful and motivated to perform activities (Whetten & Cameron, 1998). In Empowerment, employees are permitted to have more space concerning autonomy, freedom of action and decision-making responsibility. In other words vertical enrichment and other similar methods to increase employees' autonomy is called empowerment as well (Huczynski & Buchanan, 2001). Organizational dimensions in view of Senge(2000) consist: joint perspective, personal dominance, mental patterns-team learning- system thought. However, in view of Marquardt(2002), newest dimensions of organizational learning to promote learning, as are used in this research, consist the four variables of perspective, organizational culture, strategy and its organizational structure (Marquardt, 2002).

In view of Blanchard and others (1999), empowerment dimensions consist: sharing information – creating self-autonomy through specifying limits- substitution of self-regulatory groups by hierarchy, and in view of Scott and Jeff (1991) development of partnership–leadership relations facilitates making empowered groups. Thomas and Volt House (1990) believe that psychological empowerment is the process of job internal motivation increase consisting the four cognitive area of feeling of competency, feeling of independency, feeling of deserving forcefulness and feeling of meaningfulness. "Trust" was added to the above-said dimensions through Mishra's studies (1992) and five dimensions of psychology, used in this research, were formed as such.

This research is dealing with the relationship of organizational learning and employees' empowerment. This subject matter is a new subject in the arena of organizational learning and employees' empowerment, which has not carried out in Iranian state organization especially in Social Security Organization, and is deemed a new and novel subject matter. In addition, none of the previous researches has dealt with the relationship between the two constituents of organizational learning and empowerment and its constituting dimensions. The subject matters of organizational learning and

employees' empowerment have been dealing as an independent subject in previous researches, yet, in this research, the two subjects are studied as two subjects related together. In other words, this research is carried out to study relationship between organizational learning and empowerment of social security organization's staff of Tehran city as a new research. The principles presented in this essay make a powerful organization based on organizational learning including how to create a space for exceptional activities besides a feeling of trust and empathy in persons and how to fulfill actual collaboration in group works. Answering the following questions, the present research is also evaluating relationship of learning independent variable and fivefold dimensions of empowerment dependant variables:

Whether organizational learning influences on feeling of competence, independency, effectiveness, meaningfulness and trust among Social Security Organization's staff? Is there a significant relationship between empowerment dimensions with organizational learning of Social Security Organization's staff?

Therefore, at first instance, theoretical fundamentals of the research are summarily reviewed. Then research methodology is expressed in form of subject matters of research methodology, data gathering means, statistical society, statistical sample, validity and reliability of the research. After that statistical assumptions test is dealt with in form of title of the discussion, finally conclusion and recommendations of the research will be presented herein. Taking into account title of the research, key subject matters of empowerment and organizational learning are dealt with in this part.

## **2. LITERATURE REVIEW AND HYPOTHESES**

### **2.1. Empowerment**

Now, empowering employees is unavoidable owing to active attendance of organization in the arena of competition, technology, occurrence of new jobs and the necessity for multi-skilful employees. Empowerment is a modern and effective technique to promote organization's productivity through enjoying employees' power. Employees possess a hidden power, having been gained through their knowledge, experience and motivation, to be released actually through empowerment. This technique provides for potential capacities to enjoy human ability source and recommends, in an organizational safe milieu, a balanced method through implementation of quiet control by management and quite autonomy by employees. Work capacities are increased through delegation of authority, responsibility increase, self-dependence in decision making and feeling of self-efficiency resulting in promotion of productivity and effectiveness of organization.

Empowerment word in oxford dictionary has been translated as follows: "to be powerful", "to give permit", "to apply power" and "to become powerful". Empowerment consists of a set of motivational techniques seeking for raising employees' participation level to improve their performance. Principal characteristic of employees' empowerment is making personal and organizational aims to move in the same direction (Vecchio, 1986). In empowerment, employees not only need authority but also accessible sufficient training, financial validity as well as essential information to make them responsible against decisions made by them (Tubbs & Moss, 2000). Others have defined

empowerment as a form of lack of concentration requiring delegation of the authority to make essential decisions, to subordinates (Rue & Byars, 2003). Empowerment, enables employees to participate in management (Lussier, 2002) and is a term broader than self-control. Thomas and Volt House (1990) believe that psychological empowerment is a process of raising job intrinsic motivation consisting feeling of competence, effectiveness, meaningfulness and feeling of choice. The dimension of "Trust" was added to the above-said dimensions through Mishera's studies (1992) and five dimensions of empowerment psychology were formed as follows:

**Feeling of Competence.** While people become empowered, they feel a sense of self-efficacy or a sense of sufficient capability and proficiency to fulfill a work successfully. Empowered people feel not only a sense of competence but also a sense of confidence regarding fulfilling a work efficiently. They feel a sense of personal-mastery and believe that can learn and grow to face with new challenges (Beniss and Nanoos, 1985). Some writers believe that this characteristic is the most significant element of empoweredness, since possessing a sense of competence specify whether people will try to do a hard and difficult work assiduously or not. According to Bandoura (1986) "strong people's belief about their effectiveness may impact on whether they endeavour to overcome critical situations". When feeling themselves capable of organizing those situations to be threatening to them if failing to do so, people will be engaged in the activity confidently, "efficacy expectations" will specify how much they will endeavor to cope with obstacles and incompatible experiences and how long they resist (Bandoura 1986).

**Feeling of Choice.** Empowered people, also, feel a sense of self-determination. "To be self-determined", means experiencing feeling of choice by a person to administer and organize her/his activities (Bowen et al., 1992). When people desire to engage in a job voluntarily instead of doing it compulsorily or stopping it, they feel a sense of choice. Their activities are consequence of freedom and personal authority. Empowered people hold themselves responsible against and have a sense of possession in regard to their activities (Mishra, 1988). Feeling of choice about methods to be used for task fulfilment, quantity of attempt to be done, work speed and time framework the work is to be done within which are directly connected to each other. , Since empowered people can specify quality of working and the speed by which the works will be terminated, they have a feel of possession over their works (Benet et. al, 2008).

**Feeling of Effectiveness /Impact.** Empowered people have a sense of personal control over outcomes. They believe that they could make changes by influencing the environment they are working in or outcomes resulting thereto. Green Berger believes that feeling of effectiveness consists "person's beliefs within a specific time period concerning his/her ability to create change in an appropriate direction" (Green Berger et.al, 1989). This is a strong belief that a person can influence on happenings by his/her own activities. Empowered people do not believe that external environment obstacles control their activities, but believe that those obstacles could be controlled. They feel a sense of "active control" –in which are given some space to make environment compatible with their desires–in contrary to "passive control" –in which people's desires will be compatible with environment's demands. Those equipped with a sense of effectiveness, try to keep themselves dominant on whatever they observe (Rapport, 1984).

**Feeling of Meaningfulness.** Empowered people have a sense of meaningfulness. They think highly of purpose of aims or activities they are engaged in. Their aims and criteria are dissimilar to whatever they are fulfilling. Practicing in their value system is very important and they are careful regarding whatever they are producing and believe it as well. They invest their mental and moral force to do the forgoing and gain a sense of personal significance because of their engagement and employment. Because of exercising that activity, they experience personal connection and interconnection. Therefore, in one view, meaningfulness is an oriented value. (Beniss and Nanus, 1985).

**Feeling of Trust in others.** Finally, empowered people possess a sense of trust. They are sure that they will be treated fairly and equitably. They preserve this confidence, so that their works will be resulted in justice and fairness not loss and injury, even in regard to subordinates. It usually means they are sure that officers of powerful centres or authorities will not injure them and they will be treated impartially. However, even in conditions where empowered persons are not flexible, empowered people preserve a sense of personal trust in somehow; In other words, trust means possessing a sense of personal safety. Trust also indicates implicitly that people will find themselves in a susceptibility situation. Yet, empowered people believe that no damage will be happened to them because of trust (Mishra, 1992).

## **2.2. Organizational Learning**

In 21<sup>st</sup> century, organizations are continuously faced with change. To make them empowered in regard to efficient competition in competitive markets, the key point is how to learn to produce new knowledge. Organization's survival and growth in today changeable world requires ability to react on-time and appropriately against environmental subsequent changes. Only those organizations could predict emergencies and environmental changes on-time and continue their survival in a permanent variable environment which emphasize and concentrate on organizational learning. Learning is required that people should apply knowledge gained by them through their organization in their behavior. Learning has three stages: recognition (learning new concepts), behavior (development of new skills and abilities) and performance (actual work fulfillment). According to Garvin's view (1993), organization requires for five skills consisting: problem solving, gaining experience, learning from their own experience and history, learning from others and transfer or execution (Bennet & Bennet, 2008). Dimensions of organizational learning in Marquardt's view consist:

**Joint perspective.** Converting joint perspective to learner's organization is important for two reasons: first, since it provides concentration and power for learning and second, the perspective channels persons to act. The perspective indicates their desires and wishes and makes them meaningful. Third, having a tension toward a higher appropriate aim confront force governing current situation. Joint perspective brings about a final aim and encourages risk-taking and innovation. Fourth, values and common meanings, are important in specification of type of knowledge to be stored and transferred by organization (Marquardt, 2002).

**Organizational Learning Culture.** When members of a society, organization or group attempt to adapt to an external environment and solve internal unity problems, they

have taken acts regarding learning unconsciously. They are not only different concerning theorization, learning and problem-solving, but also have a similar basic process from different point of views.

### 3. RESEARCH METHODOLOGY

The objective of the present research is applied and the method of which to gather information is descriptive of correlation type. The independent variables in this research are meaningfulness, competence, choice, effectiveness, trusting to others and the dependent variable is organizational learning. Library resources, essays, and required books have been used to gather information. A questionnaire has been used to gather and analyze data and information from statistical universe under question. The questionnaire has been compiled based on variables under study which have been classified in the following table. Likert five-choice scale, as one of the most current evaluation scales, has been used to design this section.

After compilation of preliminary draft of the questionnaire, the efforts were made to specify reliability and validity of the questionnaire. Test reliability in this research has been calculated using Cronbach's Alpha Measure. To do this, one preliminary draft consisting 30 questionnaires was pretested and then the rate of confidence coefficient was calculated using Cronbach's Alpha Measure through data obtained from these questionnaires, with aid of Spss statistical software. As a result number 0.831 was obtained indicating that the questionnaire under usage has required dependability or reliability, in other words. There are various methods to determine validity of the questionnaire, one of which is content validity. Content validity of a test is to be determined usually by experts in the field of the subject matter under question. Therefore, content validity of the questionnaire has been certified and confirmed to be of required validity by guiding professor, consultant and some theorists.

#### 3.1. The Sample

Statistical universe in this research are directors, experts and employees of Social Security Organization of Tehran city. Simple accidental sampling method has been used in this research. To calculate required sample volume, the following relation is used:

$$N = \frac{\frac{t^2 \cdot p \cdot (1 - p)}{E^2} + \frac{Z^2 \cdot \alpha}{2}}{\frac{1}{E} (Q_1 - 1) + \frac{Z^2 \cdot \alpha}{2} p (1 - P)}$$

#### 3.2. Measurement

240 questionnaires were distributed and 220 ones gathered using this formula with a statistical universe of 500 subjects and a standard deviation of 0.05. Both Descriptive statistical and inferential statistics methods were used to analyze data obtained from samples. Actually, at first instance, research variables were tested by aid of descriptive statistics methods.

- **Binomial test:** This test has been used to determine existence or lack of each one of parameters related to empowerment and organizational learning.
- **Friedman variance analysis:** This test is used when statistical data would be ordinal and it could be possible to arrange them in two-side classification according to their ordinal concept. By aid of this test, it could be possible to rank variables available in research.
- **Correlation coefficient:** It shows intensity and type of relation (direct or reverse) between two variables. As long as research data are of quantitative type, Pierson correlation coefficient has been used to test the relationship between them.
- **Structural equations model:** Many efforts have been done consistently in the latest decay to study causative relationships between variables, one considerable method, among others, is structural equations model or multi-variable analysis with latent variables. The term, ignoring its numerous title or concept, refers to a set of general models consisting of Confirmatory Factor Analysis, Classical Simultaneous Equation Models, Path Analysis, Multiple Regression and ANOVA and other statistical methods.

#### 4. ANALYSIS OF HYPOTHESES AND PRESENTATION OF FINDINGS

##### 4.1. Binomial test

This test is used to determine existence or lack of each one of parameters related to employees' empowerment and organizational learning in Social Security Organization of Tehran city.

**Test of hypotheses related to binominal test.** Generally speaking, the results obtained from Test of hypotheses related to binominal test are summarized as follows:

**Table 1. the results obtained from binominal test**

Results	Ratio for Theory	Test Ratio Observed	Sig. Level	Variable
Social Security Organization does not have organizational learning processes as expected	0.7	0.6	Less than 0.01	Organizational Learning
Social Security Organization does not have empowerment learning processes	0.2	0.6	Less than 0.01	Empowerment
There is feeling of meaningfulness in employees of Social Security Organization	0.2	0.6	Less than 0.01	Feeling of Job Meaningfulness
There is Feeling of Competence in employees of Social Security Organization	0	0.6	Less than 0.01	Feeling of Competence
There is Feeling of Choice in employees of Social Security Organization	0.4	0.6	Less than 0.01	Choice
There is Feeling of Effectiveness in employees of Social Security Organization	0.4	0.6	Less than 0.01	Feeling of Effectiveness
There is Trust to Colleagues in employees of Social Security Organization	0.4	0.6	Less than 0.01	Trust to Colleagues

## 4.2. Correlation Coefficient Test

Pierson correlation coefficient is used to study the relationship between empowerment and organizational learning in social security organization.

## 4.3. Test of Hypotheses

Main Hypothesis: There is a significant relationship between employee's empowerment and organizational learning in Social Security Organization.

**Table 2. Test of Pierson Correlation coefficient between empowerment and organizational learning**

Significant Relationship	Sig	Correlation Coefficient	Variables
yes	0	.456	Empowerment
			Organizational Learning

- *1<sup>st</sup> hypothesis*: There is a significant relationship between feeling of job meaningfulness and organizational learning in employees of Social Security Organization.
- *2<sup>nd</sup> hypothesis*: There is a significant relationship between feeling of competence and organizational learning in employees of Social Security Organization.
- *3<sup>rd</sup> hypothesis*: There is a significant relationship between feeling of choice in affairs and employees' occupations and their organizational learning in Social Security Organization.
- *4<sup>th</sup> hypothesis*: There is a significant relationship between feeling of effectiveness in job and organizational learning in employees of Social Security Organization.
- *5<sup>th</sup> hypothesis*: There is a significant relationship between feeling of trust to colleagues and organizational learning in employees of Social Security Organization.

The results obtained from Pierson Correlation Test between organizational learning and factors related to employees' empowerment are summarized as follows:

**Table 3. Results obtained from Pierson Correlation Test between organizational learning and factors related to employees' empowerment**

Results	Sig. Number	Correlation coefficient	Factors related to employees' empowerment
There is a significant relationship	0	0.436	Feeling of job meaningfulness
There is a significant relationship	0.35	0.142	Feeling of competence
There is a significant relationship	0	0.465	Feeling of choice in affairs and employees' occupations
There is a significant relationship	0	0.304	Feeling of job Effectiveness
There is a significant relationship	0	0.414	feeling of trust to colleagues

**4.4. Freidman Variance Analysis Test**

Freidman variance test was used to rank each one of the factors related to empowerment (Feeling of job meaningfulness, feeling of competence, feeling of choice in affairs and occupations, feeling of job effectiveness, feeling of trust to colleagues) and organizational learning (organizational structure, organizational culture, perspective strategy).

**Table 4. Ranks' mean in Freidman Test to study factors related to employees' empowerment**

<b>Rank Mean</b>	<b>Factors related to employees' empowerment</b>
3.57	Feeling of job meaningfulness
4.16	Feeling of competence
2.30	Feeling of choice
2.54	Feeling of job Effectiveness
2.44	feeling of trust to colleagues

**Table 5. Freidman Test Significance**

<b>Statistical Indices</b>	<b>Calculated Values</b>
Items	220
$\chi^2$	256.240
degree of Freedom	4
Significance number	Less than 0.01

Upon the above-mentioned table, the highest rank is related to feeling of competence and the lowest one to feeling of choice in affairs.

**Table 6. Ranks' mean in Freidman Test to study factors related to organizational learning**

<b>Rank Mean</b>	<b>Factors related to organizational learning</b>
2.62	Organizational structure
2.51	Organizational culture
2.75	Strategy
2.15	Perspective

**Table 7. Freidman Test Significance**

<b>Statistical Indices</b>	<b>Calculated Values</b>
items	220
$\chi^2$	28.20
degree of Freedom	3
Significance number	Less than 0.01

Upon the above-mentioned table, the highest rank is related to strategy and the lowest one to perspective.

#### 4.5. Lizrel Test

Laser software was used to study accurateness and inaccuracy of recommended model. In this section, recommended model and its components are studied and analyzed separately.

**Study of Basic Model.** As Lizrel software output shows, presented basic model is as follows in which relationships between variables and their coefficients. Basic question posed is whether the model is appropriate? To answer the question statistics  $\chi^2$  and other fitting appropriateness criteria of the model concerned must be studied. Taking into consideration laser output estimated  $\chi^2$  value equals to 76.50, low  $\chi^2$  indicates fitting appropriate to model. The lower the value of  $\chi^2$  the more appropriate the model. According to the following results obtained from laser software output:

$$P\text{- Value} = 0.000, \text{ RMSEA} = 0.094.$$

The above model p-Value and low RMSEA has an appropriate fitting.

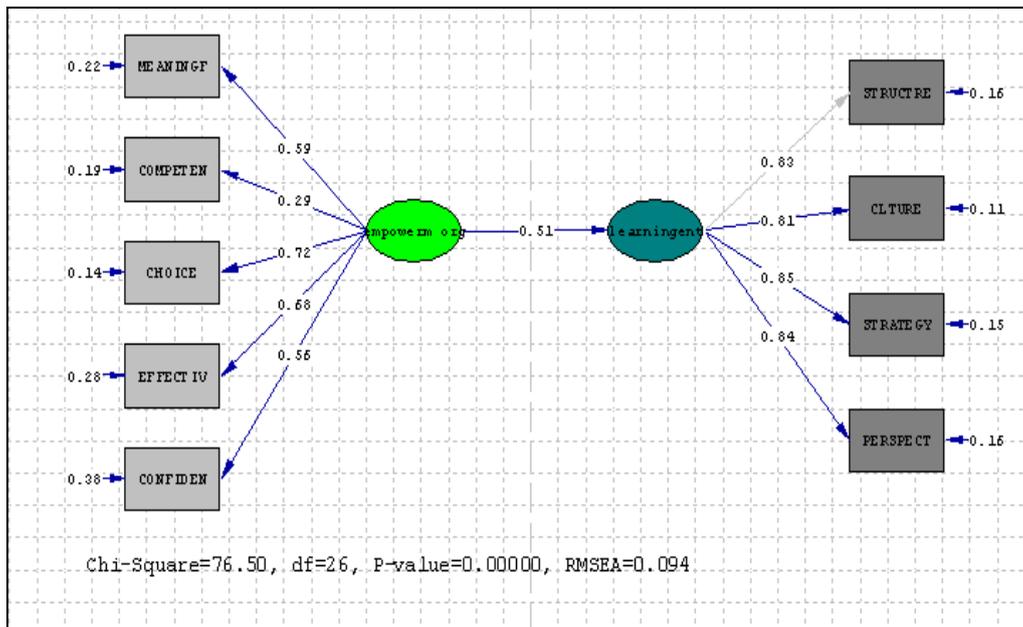


Figure 1. Basic Model of Empowerment and Organizational Learning

**Study of Factors related to Empowerment.** Another output of laser software studies and analyzes factors related to employees' empowerment and their reciprocal impact on employees' empowerment, to be called as X- Model.

Value of p-value,  $\chi^2$  and calculated RMSEA is low, taking into account the following results having obtained from laser software output:

$$\chi^2 = 76.5 \text{ and } p\text{- Value} = 0 \text{ and } \text{RMSEA} = 0.094.$$

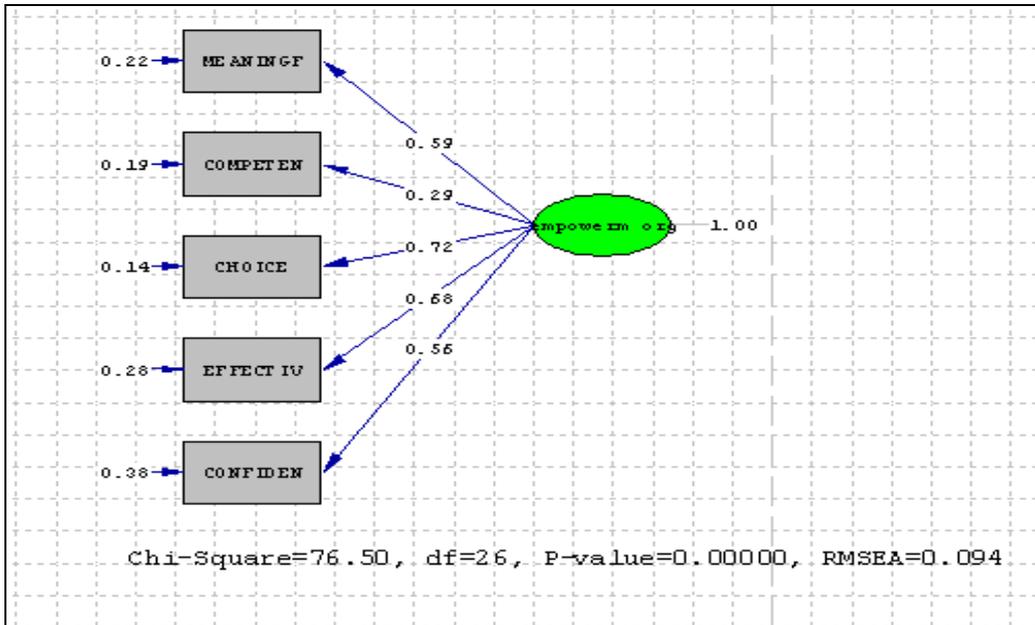


Figure 2. Model of Studying Factors in relation to Empowerment

**Study and Analysis of Factors related to Organizational Learning.** Another output of laser software studies and analyzes factors related to organizational learning and their reciprocal impact they may have on each other which is titled as Y- Model.

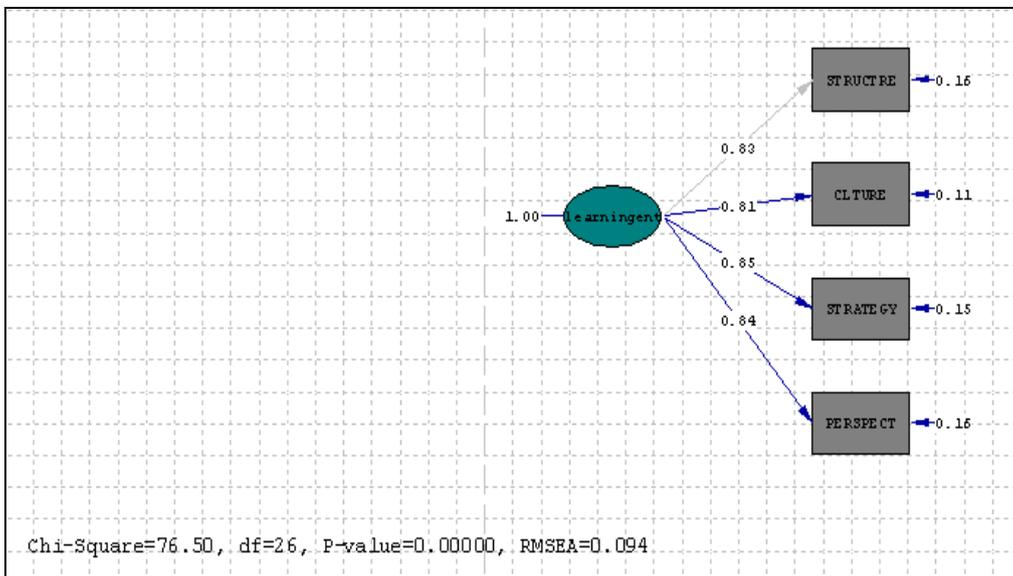


Figure 3. Analytical Model of Factors related to organizational Learning

Value of calculated p- value and  $X^2$  is low, taking into account the following results having obtained from laser software output:

$$X^2 = 76.5 \text{ and } df = 26 \text{ and } p - \text{Value} = 0 \text{ and } RMSEA = 0.094.$$

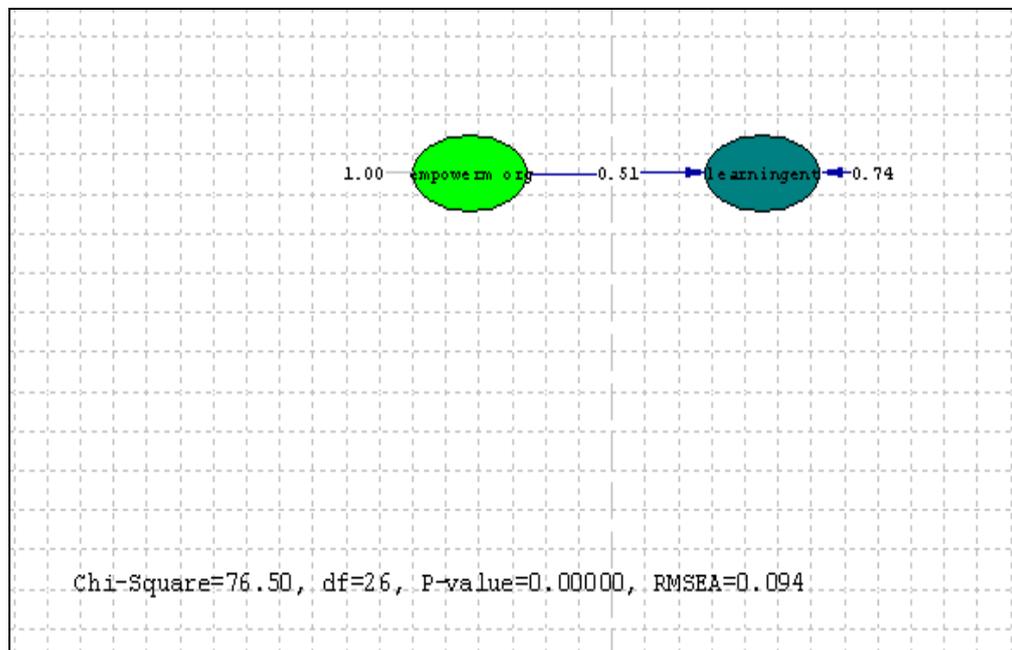
#### **Study of the Model related to Empowerment and Organizational Learning.**

As laser software output ascertains this output studies the impact of and relationship between empowerment and organizational learning entitled as *Structural Model*.

Value of p- value and calculated  $X^2$  is low, taking into account the following results having obtained from laser software output:

$$X^2 = 76.5 \text{ and } df = 26 \text{ and } p - \text{Value} = 0.00 \text{ and } RMSEA = 0.094.$$

Therefore Structural Model presented has an appropriate fitting.



**Figure 4. Model of Empowerment and Organizational Learning**

## **5. CONCLUSION AND RECOMMENDATION FOR FUTURE RESEARCH**

### **5.1. Conclusion**

Factors in relation to organizational learning were recognized thus opinions and views of all theorists in the ground of organizational learning were studies and integrating their views and models, subsequently, four principal indices consisting of process and

organizational structure, experience and organizational culture, strategy and perspective, were extracted upon theorists' consensus.

Factors related to employees' empowerment were specified including job appropriateness, feeling of competence in job, feeling of choice in affairs and occupations, feeling of effectiveness in job and feeling of trust to colleagues.

Empowerment rate of employees of Social Security Organization of Tehran city was measured, the employees have necessary empowerment based on data analysis and extracted results and indices of sense of job meaningfulness, sense of competence, sense of choice in affairs, sense of effectiveness and trust to colleagues are found in the employees, among which sense of competence has the highest degree and sense of selection/choice and trust to colleagues the lowest one, respectively.

Status of Social security Organization of Tehran city was determined in view of organizational learning and there is a gap between appropriate situation of organizational learning and current status of the organization and perspective and organizational culture, respectively, have the lowest degree, among four-fold factors of organizational learning, and need to further retrospection.

Empowerment and organizational learning in Social Security Organization of Tehran city had a positive and significant relationship which was posed in form of a theoretical model and then confirmed owing to fitting appropriateness using laser software.

Both main and subsidiary assumptions were confirmed based on studying research assumptions, i.e there is a positive and significant relationship between employees' empowerment and organizational learning and employees' empowerment indices, one by one, and organizational learning in Social Security Organization of Tehran city.

## **5.2. Recommendations relating to Organizational learning Improvement**

As specified in conclusion section, appropriateness of organizational factors will result in employees' empowerment. Therefore, rewarding system, organizational structure, accessibility to resources and specifying straightforward objectives, as organizational conditions, must be designed in a way that would make employees to become empowered.

Bureaucratic organizational structures are not in charge, in an expeditious-evolving, competitive world and turbulent media. Further, employees' specialty is one factor, among other things, which threatens bureaucracy phenomenon. Professional employees must not be engaged in bureaucracy's bends and turns in a way that they fail to use their creativity. Strategies regarding controlling bureaucracy include rules and regulations, procedures, instructions, policies and authority hierarchy, and making affairs standardized to unify and coordinate behaviours which make the employees to fail in stating their opinions and thoughts and facilitate injustice in power distribution resulting in employees' incapability. So that organizational structure must be proportionate to organizational objectives and empowerment level of employees.

Specifying and clearing objectives and ways to attain them, management direct the employees' behaviour and guide them. Having specified and clear objectives entails

employees to specify their direction. Organizational missions and strategies to be executed in this way specify type of work to be done by employees in organization. Challenging objectives motivate employees especially when they have been participated in specifying objectives. Therefore, organizational goals must be expressed accurately and organization's end be specified in a manner that the goals would be accomplishable, coordinated and attainable.

Using strategies and actions such as providing information, authority delegation, partnership management, team formation, and empowering employees, directors must provide beds and conditions to fulfil organizational tasks in a manner that employees would accomplish whatever they desire with intrinsic intention and motivation. Directors must reduce controlling actions and limitations and use absorption strategies instead of pushing and forcing ones.

Using absorption strategies, directors shall form organizational environment so that keep the employees eager intrinsically to perform their tasks and duties. So long as empowerment is a personal and internal process, i.e. whenever persons desire they may be empowered, therefore, directors must play the role of facilitators and facilitate conditions for empowering employees using management techniques and strategies.

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## **WORKPLACE RELATIONS AND EMOTIONAL INTELLIGENCE**

**GABRIELA DUMBRAVĂ \***

**ABSTRACT.** *The paper resorts to the instruments of social anthropology and psychology to quantify the role of non – cognitive aspects of intelligence, generically known as 'emotional intelligence', in the professional success of the individual and, implicitly, in the efficiency of business communication as a specific form of social interaction. In this sense, relying on research conducted in the field over the past decades, this study is an attempt to substantiate the theory according to which career accomplishment depends not so much on people's IQ as it does on their EQ, the indicator of their capacity to react and adapt to the working environment.*

**KEY WORDS:** *cognitive; non-cognitive; emotional intelligence; workplace relations; IQ; EQ.*

**JEL CLASSIFICATION:** *D83.*

### **1. EMOTIONAL INTELLIGENCE. HISTORY, DEFINITIONS AND RESEARCH PREMISES**

Although the launching of emotional intelligence as a fundamental principle of social interaction is largely attributed to Daniel Goleman's book, *Emotional Intelligence* (1995), the history of the concept goes as far back as the 30's and the 40's of the twentieth century, appearing under different names and definitions in the work of psychologists and sociologists long before Goleman placed it at the center of his research. These two decades marked the beginnings of a more profound approach to communication, as a result of a focus shift from the cognitive to the non – cognitive aspects of intelligence. From this new and more complex perspective, therefore, psychologists and sociologists began to acknowledge that the non – cognitive, affective side of the individual, manifest in empathetic interpersonal relations, plays an equally

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important role in personal development as such cognitive skills as problem – solving, decision – making and memory.

Actually, the existence of non – cognitive skills was acknowledged as early as 1937, when R. L. Thorndike and S. Stein identified them generically as *social intelligence*, defined as “the ability to understand and manage people” (Thorndike & Stein, 1937). Three years later, D. Wechsler was to write an article on the non-intellective elements of human intelligence and their role in the individual’s capacity to deal effectively with the social environment (Wechsler, 1940).

The interest in this topic was resuscitated in the 80’s, when there was an ever more obvious need to build the somewhat fuzzy and haphazard theoretical inheritance into a clearly defined, scientifically based system. Thus, starting with Howard Gardner, researchers in the field of human intelligence became aware that affective information is processed differently from the cognitive one, consequently requiring a specific set of skills. In 1983, Gardner set forth his theory of multiple intelligences, according to which individuals display two types of personal intelligence – intrapersonal and interpersonal – governing their capacity to understand and manage their own emotions, as well as to anticipate and react efficiently to the their interlocutors’ behavior.

By the early 1990s, when Salovey and Mayer introduced the term *emotional intelligence* as such, there was already a long tradition of research on the non – cognitive aspects of intelligence and their role in efficient everyday and business communication. The two psychologists identified emotional intelligence as a form of social intelligence involving the ability to assess and manage one’s own and others’ feelings and emotions in such a way as to use them as effective guidelines of individual thinking and action.

Behavior researcher Daniel Goleman used this study as a foundation for his book, *Emotional Intelligence* (1995), which aims at elucidating the mechanisms by which cognitive intelligence by itself is not a very good predictor of personal success or job performance. Actually, the book completes a series of studies conducted in the 80s and the 90s, which estimated that IQ accounts for the individual’s evolution in a proportion ranging from 25 percent (Hunter and Hunter, 1984) to 10 percent (Sternberg, 1996). On grounds of observation and statistics, these researchers prove that, although cognitive ability is relevant for career success, the latter has to do more with social and emotional skills than with a person’s IQ. In other words, if the IQ ensures momentary success, such as passing exams or writing complex reports, the EQ is the source of skills with long – term impact, such as determination in the face of difficulties, flexibility and tact in relation with colleagues, subordinates, or the management, and a reasonable approach to decision making.

Another important detail to be remembered when discussing emotional intelligence is that cognitive and non-cognitive abilities are not only closely related, but there is research suggesting that emotional and social skills actually help improve cognitive functioning, since people with a high EQ are able to channel their energy constructively, concentrating on essential aspects, rather than dissipating it in useless details (Schulman, 1995). As we have shown, the history of personality and social psychology has generated an impressive body of research pointing to the following abilities pertaining to emotional intelligence: *The ability to manage feelings and handle*

*stress*, which fosters efficient workplace relations and increased productivity (Lusch and Serpkenci, 1990); *Knowing when and how to express emotion*, as warmer, outgoing, emotionally expressive, and sociable individuals establish more productive personal and business interactions (Bachman, 1988); *Empathy*, a particularly important aspect of emotional intelligence, as researchers have shown that people who are able to perceive, identify and manage emotions were more successful in their work as well as in their social lives (Rosenthal, 1977).

## **2. WORKPLACE RELATIONS AND EMOTIONAL INTELLIGENCE**

Organizational behavior consists of a complex network of human relations built and maintained by bridging the gap between significant behavioral differences. The quality of these relations defines the so – called organizational climate or atmosphere. Therefore, organizational atmosphere depends on such social skills as communication, flexibility, and accommodation, as well as on the individuals' capacity to deal with the perceptions, views, attitudes and responses of their co – workers. Under the circumstances, people's ability to deal with one another makes the difference between a productive, supportive and collaborative work environment, in which the employees focus on common goals, and an unproductive, hostile and rigid organizational climate, where energies are channeled into conflicts and reluctance.

The communication skills mentioned above are referred to with the generic term Emotional Intelligence Quotient (EQ) which is defined as “a set of competencies demonstrating the ability one has to recognize his or her behaviors, moods, and impulses, and to manage them best according to the situation”. (Poskey, 2001)

Typically, emotional intelligence involves the following: emotional empathy; recognition of one's own and others' moods; mood management or control over emotions; response with adaptive emotions and behaviors in various life situations, especially under stress; possession of good social skills and communication skills (courtesy, consideration, and respect); good self-motivation and goal management (Poskey, 2001). In essence, an employee with high emotional intelligence can manage his or her own impulses, communicates with others effectively, manages change well, solves problems, and uses humor to relieve tension. As psychologists show, EQ is not determined by personality or by the Intelligence Quotient (IQ). Thus, personality refers to the emotion, thought, and behavior patterns unique to an individual, whereas EQ can identify the biases and clarity in one's thinking patterns that allow them to make the appropriate decisions. Consequently, EQ, rather than the individual's personality type, is the decisive factor in assigning a person for a certain job or position. For instance, the extrovert, sensor, thinker, and judger (ESTJ) from the Myers – Briggs Type Indicator is suitable for leadership roles, which does not guarantee that an individual with those personality characteristics will make sound judgments under stress. On the other hand, a sociable, energetic, and outgoing individual does not necessarily make a successful employee, whereas people with varying personality styles can successfully perform the same job.

In this sense, human resources specialist Mike Poskey outlines a set of five EQ competencies that, in his opinion, contribute more to workplace success than technical

skills, cognitive ability, and personality traits.

**A. Social Competencies** – determine the way in which we handle relationships: *Intuition and empathy* refer to our awareness of others' feelings, needs, and concerns - this competency is important in the workplace for understanding others, in customer services, people development and leveraging diversity; *Political acumen and social skills* - our capacity to induce positive responses in others; this competency is important in the workplace for persuasion, communication, leadership, initiating and managing change, conflict resolution, building bonds, collaboration and cooperation, and team work.

**B. Personal Competencies** – determine the way in which we manage ourselves: *Self awareness* means knowing one's internal states, preferences, resources, and intuitions; this competency is important in the workplace for emotional awareness, accurate self-assessment, self-confidence; *Self Regulation* means managing one's internal states, impulses, and resources; this competency is important in the workplace for self-control, trustworthiness, conscientiousness, and adaptability; *Self expectations and motivation* refer to emotional tendencies that guide or facilitate reaching goals. This competency is important in the workplace for achievement drive, commitment, initiative, optimism, and persistence in pursuing goals despite obstacles and setbacks.

Given the importance of emotional intelligence in establishing a positive, productive work environment, companies should shift the emphasis from selection criteria based on the assessment of personality traits and training programs focused on hard skills to such competencies as stress management, assertiveness skills, empathy, and political/social acumen.

Another definition of Emotional Intelligence (EQ) is “the ability of an individual to deal successfully with other people, to manage one's self, motivate others, understand one's own feelings and appropriately respond to the everyday environment” (Turner, 2003) places the issue into the larger picture of interpersonal skills, which, as communication experts point out, can be learned, trained and developed as any other human ability.

All this, corroborated with a statistics provided by the Center for Creative Leadership, according to which 27% of the individuals working in companies display poor emotional intelligence, determined many organizations to launch the so – called awareness - training programs meant to draw attention that no matter how professionally or technically skilled the employees might be, their ineffective workplace behavior has a negative impact on productivity. (Turner, 2003)

Recent studies indicate that emotional intelligence accounts for 15% - 45% of one's job success, whereas the IQ accounts for less than 6%. At the same time, according to research, professionals and managers with high emotional intelligence are 127% more productive. Under the circumstances, developing the employees' EQ by incorporating emotional intelligence into the training programs should be a top priority of any company.

These programs have to work against a myth according to which expressing emotions and professionalism exclude each other, and promote a workplace that leaves room for both positive and negative emotions, in order to have happier, more creative, productive and motivated employees. As business consultant Alexander Kjerulf shows,

no company can afford to ignore emotions in the workplace for the following reasons:

- **We make no decisions without emotions.** Neuroscientists have proved that the human brain predominantly relies on emotion over intellect in decision – making. Therefore, we should be aware that we cannot cease to be human beings when we are at work, and cannot avoid being biased in making business decisions.
- **Emotions guide workplace relationships,** underlying group work, teamwork, and any business interaction within a company. Positive emotions foster a sense of comfort and secure a productive work environment.
- **Emotions are at the source of employee engagement and motivation,** which are, ultimately, non – rational, emotional processes.
- **Emotions are crucial to creativity and innovation,** which largely rely on people’s state of mind. Studies, as well as everyday organizational experience, show that feelings powerfully affect people’s performance. Thus, when people feel at ease and are in a good mood, their cognitive processes are enhanced, which leads to more flexible, fluent, and original thinking, so that they are likely to be more creative.
- **Emotions are integral to learning at work.** Theories of learning show that emotions play a huge role in learning, as under stress, or any other negative emotion, concentration drops dramatically and people are less able to recall already acquired knowledge and to make mental connections.
- **We cannot leave our emotions at home** because they are part of our unique status as human beings and, therefore, situations in which we cannot express our feelings are stressful.
- **Stifled bad emotions grow stronger,** as negative energy accumulates and result either in apathic withdrawal, or neurotic aggressiveness.
- **Stifled good emotions grow weaker.** If we are not allowed to show our positive feelings they will. That is why communication experts are of the opinion that the most efficient workplaces are the ones that promote the celebration of victories, which keeps the good feelings alive for a longer period of time, and motivates people to make progress.
- **Emotions are a sign that people care about the workplace** and are personally involved in organizational success and failure. (Kjerulf, 2007)

That is why companies should deal constructively with their employees’ emotions, whether positive or negative, as basic components of interpersonal relations that have a decisive impact on business success factors like learning, creativity and teamwork.

To sum up, workplace trainer Ricky Lien outlines four sets of skills pertaining to EQ:

**1. Self – awareness** is “our ability to accurately perceive our own emotions in the moment and to understand our tendencies across different situations.” A high degree of self – awareness can be attained by discerning the source and reasons of our emotions (love, joy, fear, anger, and grief), and by dealing with them in terms of their effects on ourselves, our interpersonal relations and our efficiency as employees.

**2. Self – management** refers to our self-control, our ability to manage ourselves with discipline and focus and includes such factors as personal initiative,

adaptability, a high achievement drive, conscientiousness to complete tasks, and reliability.

**3. Social awareness** has to do with being empathic in relation with others, that is the ability to understand their feelings and emotions and adjust our own responses in accordance with the interlocutor's state of mind and reactions.

**4. Relationship management** refers to such interpersonal skills as the ability to build strong bonds with others, to help others develop, to have influence, to be change agents and good communicators, to manage conflict and exhibit leadership characteristics. Workplace trainers point out that the people who are able to connect technical skills with a high EQ are those who make a difference in today's workplace. (Lien, 2004)

### 3. WORKPLACE CONFLICT AND ITS IMPACT ON PRODUCTIVITY

A negative atmosphere in the workplace is hardly compatible with productivity, job satisfaction or trust building. In his book *How One Turn in Attitude Can Lead to Success*, expert in workplace communication Dr. Alan Zimmerman quotes the results of a survey conducted by a UNC research team, in which 53% of the respondents said they lost work time worrying about a past or future confrontation with a co – worker, 37% said a hostile confrontation caused them to reduce their commitment to the organization, 28% said they lost work time because they avoided a confrontational co – worker, and 22% said they put less effort into their work because of confrontations. (Zimmerman, 2006)

Starting from these facts that illustrate the negative impact of tense work relations on productivity, Zimmerman suggests a number of ways to reduce conflict and improve workplace climate: 1. *Self analysis* in order to realize if something in our own attitude is the source of conflict. Specialists in organizational behavior point out that a major mistake in dealing with workplace conflict is to automatically assume that we are totally innocent, and everyone else is to blame for it; 2. *Empathy* - Zimmerman shows that an efficient way to approach difficult co – workers is based on the awareness that their annoying behaviors typically come from some frustrations and repressed suffering. Therefore, if we are free to judge people's behaviors, we should be more careful about judging the motives behind them; 3. *Learning a lesson from each difficult person and each workplace conflict* instead of wasting energy on getting annoyed, aggravated or defensive. Dealing with difficult working relations as opportunities to train our patience and to practice our interpersonal skills allows us to respond to the workplace conflict in a positive manner; 4. *Taking time before responding to a difficult person during* because impulsive reactions fuel conflict and enhance workplace tension (Zimmerman, 2006).

Starting from Zimmerman's premise that we are often the sources of others' negative behavior, we can admit that one of the most efficient ways to prevent conflict lies in our own ability to express our needs confidently and comfortably, without causing offence or being offended. This crucial interpersonal skill is generically called *assertive communication* and involves the necessary dose of maturity, self - confidence and patience that enables us to meet the challenges of the workplace, where our

comfort and productivity depend on other people. Business communication expert Mimi Donaldson deals with assertive communication by equating it with a type of behaviour for which she coins the term *self-ful* and which she defines as “a person confident enough of their rights to be assertive: to ask for what they need and want without hurting other people.” (Donaldson, 2005) This represents a balance between two extreme behaviours, equally harmful for work relations, namely: the selfish, aggressive attitude which involves total disregard of others’ needs and interests, and the selfless behaviour specific to non – assertive persons, who avoid conflict at all costs and become victims for pushy co – workers.

According to Donaldson, the self – full person takes the following three steps in dealing with invasive co – workers: *acknowledges* their problem by sympathizing with them in order to save time and energy and to prevent further discussions; *advises* them about his/her own priorities; *accepts* the interruption with time limits or suggest an alternative if the intruder does not give up after the first two steps.

Another way to avoid workplace tension is to learn how to complain constructively and to deal with complainers. Communication experts agree that if complaining in the workplace is either banned, or overlooked, the negative energy pertaining to is temporarily repressed and becomes toxic for the work environment. On the other hand, when done the right way and at the right time, complaining becomes legitimate and constructive, being an efficient tool for initiating change. (Kjerulf, 2007)

Constructive complaining involves the following: complaining about the problem itself, not just the symptoms; complaining at the right time; complaining to someone who can do something about it; analyzing ourselves before complaining about others, in order to see if we contribute to either the problem or to the solution in any way; seeking solutions instead of people to blame (Kjerulf, 2007).

Basically, the difference between constructive and unconstructive complaining is that the former actually leads to change, whereas the latter paradoxically obstructs it by reinforcing a bad situation which has already turned into routine. Thus, the amount of safety and comfort in the relatively comfortable state of negativity traps people in the space of perpetual, and often petty dissatisfaction, from which people no longer have the energy and optimism to seek a way out.

Dealing with complainers is a challenge for interpersonal skills, especially in the case of chronic negativity that is contagious and likely to undermine the workplace climate. As Alexander Kjerulf explains, most of our classic responses to complainers are inefficient and actually stimulate them in their negative attitude. Some of the useless attempts to stop chronic complainers are the following: *cheering them up*, which suggests the complainers they are not taken seriously and makes them complain harder; *suggesting solutions*, as the more we try, the harder they will work to convince us and themselves that these solutions could never work for them; *telling them to pull themselves together* will offend them and turn them against us; *complaining about the complainers* would turn ourselves into complainers; *ignoring/avoiding them* makes complainers clamour for attention even more; *complaining along with them* creates bonding but it’s not productive as the more people complain, the less they do about their problems; *confronting them* can drive the complaints underground, where negative energy will continue to accumulate (Kjerulf, 2007).

According to Kjerulf, the only efficient approach to chronic complainers is to show them empathy and admiration for the way in which they cope with what they consider to be a terrible situation or a huge problem. Although this does not always put an end to complaining, it saves us from the vicious cycle of responses that just makes the complainers complain more and more.

#### 4. CONCLUSION

Emotional intelligence is the source of such competencies as influence, initiative and achievement drive, which we generically refer to as job performance. Ultimately, these social and emotional competencies are the conditions that define a productive and psychologically comfortable place of work.

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## **THE IMPACT OF WORKFORCE DIVERSITY ON ORGANIZATIONAL EFFECTIVENESS: A STUDY OF A NIGERIAN BANK**

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**ABSTRACT:** *It is generally recognized that there is diversity in the workforce of any enterprise, be it business, government, or civil society. This study therefore seeks to find out the impact of workforce diversity on organizational effectiveness using a Nigerian bank for the study. We used the Blau's 1977 index of heterogeneity to measure the diversity index. While asset growth for the year 2008 and 2009, using 2007 and 2008 as base year was used to measure the growth strategy. To determine group diversity and performance outcomes moderated by workgroup context, a series of hierarchical regression analysis were conducted. The study finds significant correlation between some of the diversity variables as well as individual diversity variables with the measures of organizational effectiveness. Also it reveals that gender and ethnicity are negatively related to both employee productivity and performance bonus. In addition the study find that gender, age and tenure diversities are positively correlated and are significantly related. It is recommended that company executives use good strategies to effectively manage workforce diversity and collaborative research efforts should be done to ascertain the contextual variables that moderate workforce diversity to produce positive performance outcomes.*

**KEY WORDS:** *performance; organization; gender; age.*

**JEL CLASSIFICATION:** *L1, L2, J7.*

### **1. INTRODUCTION**

The phenomenon of workforce diversity has not been given due attention by corporate Nigeria largely due to a seeming corporate culture that is partly characterised

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by socio-political patronage of people in authority, particularly in human resource procurement and administration. Nevertheless, indigenous corporate organisations with a global focus are beginning to give attention to this management challenge.

Very few researches on this phenomenon have been conducted in African setting; some of them fall short of a comprehensive examination of workforce diversity. These previous studies conceptualised workforce diversity as multi-ethnic. Nigeria like many nations of the world is ethnically heterogeneous, and is characterized by other demographic diversities, which are reflective in workplaces. Business organisations in the developed and developing countries are all caught up in the globalisation web, which has heralded increased demographic diversity in the workforce. This phenomenon is one of the most challenging human resource and organizational issues of our time. Academicians and practitioners have sought to understand the impact of diversity and its management on organizational effectiveness.

Empirically, work place (workforce) diversity is found to have a contrasting dual implication on organizational effectiveness. *Milliken and Martins (1996)*, opines that '*diversity appears to be a double-edged sword, increasing the opportunity for creativity as well as the likelihood that group members will be dissatisfied and fail to identify with the group*'. Some studies have found that various forms of diversity are associated with greater innovation, improved strategic decision making, and organizational performance. Other research shows that various types of team and organizational diversity sometimes increase conflict, reduce social cohesion, and increase employee turnover (*Jackson, Joshi, & Erhardt, 2003; Webber & Donahue, 2001*). The demographic composition of today's workplace, occasioned by the international trend toward increased immigration and the globalisation of firms, is increasingly becoming diverse (*Johnson, 2002; Yaprak, 2002*). The demographic trends in developed and developing countries—aging workforce, growing representation of women and minorities in the workplace, and the rising number of young people in developing countries has altered homogeneous work settings of the recent past (*Mor-Barak, 2005; Gorski, 2002*). Thus, given these demographic and organizational trends, business organizations are contending with the challenges of effectively managing a diverse workforce.

Research has shown that business organizations are increasingly embracing the use of workgroups as a strategy-structure mix in the pursuit of organizational goals. This new trend in organizing work is predicated on flexibility, innovation, and quick decision making prospects inherent in a team-work setting. In a climate of increasing competitiveness, many organizations rely on workgroups to generate the innovations necessary for sustained business success (*Mumford & Licuanan, 2004; West & Anderson, 1996*). In addition, the contemporary demographic changes, increasingly globalized markets, greater mobility, and laws aimed at promoting fairness in recruitment practices, doubtlessly is precipitating diversity within work- teams in today's organizations (*Williams & O'Reilly, 1998*). *Richard (2000)* examined firm-wide business strategies as a variable in determining the relationship between diversity and performance. *Richard (1999) and Richard & Johnson (2000)* espoused human resource practices as possible contextual factors that influence the diversity-performance link. In this study, we seek to extend the existing research on workplace

diversity by conceptualizing and empirically examining the effects of organizational culture and business strategies as contextual environments of workgroups in exploring the impact of workplace diversity on organizational effectiveness.

## **2. RESEARCH HYPOTHESES**

- (1) Workgroups that are demographically diverse are likely to be less effective in workgroup contexts that emphasize competition oriented cultures than in contexts that do not emphasize competition-oriented cultures.
- (2) Workgroups that are demographically diverse are likely to be more effective in workgroup contexts that pursue growth oriented business strategies than in contexts that do not pursue growth-oriented business strategies.

The results of past research on workplace diversity were contradictory. On the one hand, *Watson, Kumar, & Michaelsen, (1993)* show positive effects on organizational effectiveness, while, *Ancona & Caldwell, (1992b)* show negative effects on organizational performance. However, recent research has stressed the importance of contextual variables when modeling the relationship between workplace diversity and effectiveness (*Chatman, Polzer, Barsade, & Neale, 1998; Richard & Johnson, 2001*). Moreover, following the increasing adoption of workgroups as a strategy-structure mix by corporations, several prior researchers have examined the diversity-performance relationship from the standpoint of workgroup heterogeneity. Thus, in order to ascertain the impact of workplace diversity on organizational effectiveness, the scope of this study is to extend research on the impact of workplace diversity by examining the impact of demographic diversity on workgroup effectiveness in the context of organizational culture and business strategy.

This study is divided in to five parts-the above being the introduction, the second part gives the literature review. The third part is the methodology followed by the data presentation and analysis in part four. The fifth part is the research findings, recommendation and conclusion.

## **3. LITERATURE REVIEW**

The literature on workplace diversity contains two main bodies of work. One area focuses on the development of conceptual frameworks for understanding diversity and its impact on organizational behavior and performance (*Jackson, Joshi, & Eisenhardt, 2003; Webber & Donahue, 2001*). The other area presents generalized prescriptions for effectively managing workplace diversity (*Mor-Barak, 2005*).

### **3.1. Workplace Diversity: Concept and Theory**

Workplace diversity is a complex, controversial, and political phenomena (*Janssens & Steyaert, 2003*). It has been conceptualized by researchers from several viewpoints. Several have looked at it from a narrow perspective, while some others from a broad view (*Nkomo, 1995*). Scholars favourably disposed to a narrow definition argue that the concept of diversity should be restricted to specific cultural categories

such as race and gender (e.g. Cross, Katz, Miller & Seashore, 1994). Some opine that diversity based on race, ethnicity and gender cannot be understood in the same way as diversity based on organizational functions, abilities or cognitive orientations (Nkomo, 1995). Moreover, the key issues of diversity are those that arise because of discrimination and exclusion of cultural groups from traditional organizations (Cross et al., 1994). Therefore, if diversity is a concept that is inclusive to all individuals, it will become very difficult to identify discrimination practices. The main concern of this standpoint is that a broad definition may imply that all differences among people are the same. Thus, diversity studies would then be reduced to the conclusion that 'everyone is different' and, if this conclusion is accepted, the concept of diversity may become "nothing more than a benign, meaningless concept" (Nkomo, 1995). The danger in narrowly defining diversity, however, is that only one dimension of cultural diversity (race, age, ethnicity, or gender) is by and large the subject of research at a time. Since a cultural diversity dimension interacts with other dimensions of diversity, a narrow concept of diversity would be deficient by failing to recognize these interactions (Michaéla, Deanne, Paul, & Janique, 2003).

Scholars, who advocate a broad definition (e.g. Jackson, May & Whitney, 1995) argue that diversity encompasses all the possible ways people can differ. Individuals, according to this school of thought, do not only differ because of their race, gender, age and other demographic categories, but also because of their values, abilities, organizational function, tenure and personality. They contend that an individual has multiple identities and that the manifold dimensions cannot be isolated in an organizational setting. Apart from bringing their race, age, ethnicity, and gender, individuals also come with their particular knowledge, personality, and cognitive style to the work place. Therefore, in order to understand the dynamics of a heterogeneous workforce, the interactive effects of multi-dimensional diversity have to be addressed. In addition, it is argued that a broadening of the concept of diversity has a potential positive effect on diversity management programs, as it will be more acceptable if it is all inclusive i.e. not only oriented towards specific demographic groups of employees (Thomas, 1991).

McGath, Berdahl & Arrow (1995) conceptualized workplace diversity by developing a five cluster classification. This often cited categorization is as follows: demographic characteristics such as age, ethnicity, gender, sexual orientation, physical status, religion and education; task-related knowledge, skills and capacities; values, views and attitudes; personal, cognitive and attitudinal styles; Status in the organization such as one's hierarchical position, professional domain, departmental affiliation and seniority.

Theoretically, the workplace diversity literature espouses three different theoretical frameworks for the examination of the possible effects of workplace diversity (Williams & O'Reilly 1998). The first is social categorization, which, according to Turner (1987) describes the categorization of people based on salient attributes like gender, ethnicity or age, resulting in stereotyping on the basis of these differences. The second is similarity/attraction theory, which asserts that similarity on salient and non-salient attributes like race or values increases interpersonal attraction and attachment (Berscheid & Walster, 1978). The third is information and decision-

making theory, which examines the impact of distribution of information and expertise on work-teams (*Wittenbaum & Stasser, 1996*).

These theories lead to different and sometimes contradictory hypotheses regarding the effects of diversity on group process and performance (*Michaéla, Deanne, Paul, & Janique 2003*). Social categorization and similarity-attraction theory predict negative effects, such as reduction in within-group communication, decreased satisfaction and commitment, and increased labour turnover. However, from the information and decision-making perspective, positive effects of diversity are hypothesized, mainly because more diverse work-teams are expected to process information differently, as team members may bring together differing viewpoints (*Williams & O'Reilly, 1998; Cox, 1993; Pollar & Gonzalez, 1994*). This, in turn, is expected to lead to more creativity and increased performance.

Research findings suggest that several factors could be responsible for the conflicts provoked by diversity in work-team composition. Some researchers (*Pelled, Cummings, & Kizilos, 1999; Tsui, Egan, & O' Reilly, 1992*) have proposed that identifying individual group members with distinct groups (i.e., "out-groups") may disrupt group dynamics. Consistent with this, research on self-categorization theory has shown that out-group members evoke more disliking, distrust, and competition than in-group members (*Hogg, Cooper-Shaw, & Holz worth, 1993*). Moreover, biases against out-group members seem to unfold automatically: the perception of a salient quality (e.g., race, sex) more or less inevitably triggers a corresponding categorization (*Fiske & Neuberg, 1990*).

In addition, if out-group members come from cultures or sub cultures with which in-group members are unfamiliar, linguistic or paralinguistic differences may foster miscommunication and misunderstanding (*Hambrick, Davison, Snell, & Snow, 1998; Palich & Gomez-Mejia, 1999*). Less palpable differences associated with attitudes, perceptions, and expectations (*Palich & Gomez-Mejia, 1999*) may pose subtler but nevertheless formidable deterrents to communication and understanding in diverse groups. Together, these factors may combine to make diverse groups a fertile breeding ground for misunderstanding and discord.

Generally, there is empirical support for the assumption that all dimensions of diversity can lead to positive as well as negative effects (*Jackson et al., 2003*). Social categorization theory, emphasize that similarities and dissimilarities can lead to categorizations which, in turn, lead to favoring one's in-group to the detriment of one or more out-groups social (*Tajfel & Turner, 1986*). On an intra-group level, this approach is typically referred to as relational demography. Thus, categorizations within a work group (based on an attribute such as gender, race, or age) can lead to the problematic formation of sub-groups ("us" versus "them").

Further to this, research findings shows that, relative to homogeneous groups, members of diverse work-groups display less attachment to each other, show less commitment to their respective organizations (*Harrison, Price, & Bell, 1998*), communicate less with one another (*Watson et al., 1993*), miss work more often (*Tsui, Egan, & O' Reilly, 1992*), experience more conflict (*Pelled, Eisenhardt, & Xin, 1999*), and take more time to reach decisions (*Hambrick, Cho, & Chen, 1996*). When the members of a work group have different demographic backgrounds, they may have

dissimilar belief structures (*Wiersema & Bantel, 1992*), i.e., priorities, assumptions about future events, and understandings of alternatives (*Hambrick & Mason, 1984*), based on previous training and experiences. *Eisenhardt, Kahwajy, & Bourgeois (1997b)* noted that executives "who have grown up in sales and marketing typically see opportunities and issues from vantage points that differ from those who have primarily engineering experience." Such distinct perspectives may stem, in part, from resource allocation and reward disparities (*Donnellon, 1993*), which encourage contrasting views of what is important. Due to their respective belief structures, group members with different demographic backgrounds may have divergent preferences and interpretations of tasks (*Waller, Huber, & Glick, 1995*).

These divergences are likely to manifest themselves as intra-group task conflict. As diversity within a work group increases, such task conflict is likely to increase. Increased diversity generally means there is a greater probability that individual exchanges will be with dissimilar others. Members are more likely to hear views that diverge from their own, so intra-group task conflict may become more pronounced. Also, cognitive tasks in organizations typically demand the experience and knowledge obtained through exposure to functional areas and organizational tenure. *Ancona and Caldwell (1992a)* noted that for tasks such as those of product development teams, functional background and company tenure are likely to be particularly important because they determine one's technical skills, information, expertise, and one's perspective on an organization's history. Others (*Sessa & Jackson, 1995; Milliken & Martins, 1996; Pelled, 1996*) have similarly argued that functional background and tenure are especially pertinent to work group tasks. Age, gender, and race, in contrast, are low in job-relatedness.

These empirical evidences notwithstanding, the controversy whether or not there is a positive connection between workplace diversity and organizational performance still persists. *Anderson & Metcalfe (2003)* reviewed the evidence for managing workplace diversity. They suggested that, while there are claimed gains for workplace diversity, there are also adverse implications. They argued that there is a paucity of stout research examining the impact of diversity upon businesses, which has raised questions about the existence of any connection between workplace diversity and business performance. The business benefits of workplace diversity have been widely contested ever since the idea was conceived. And, even now, there is an ongoing debate as to whether there is indeed any discernable business benefit (*Mulholland, Ozbilgin, & Worman, 2005*).

#### **4. METHODOLOGY**

Both theoretical and empirical findings reveal that the specific effects of team diversity are difficult to predict. Several contextual conditions seem to moderate the relationship between diversity and performance. Context is a multilevel construct that encompasses innumerable specific elements. Theoretically and empirically, all work teams share the company-wide context, such as organizational culture, business strategy and people oriented human resource policies. Other elements of context are more local, and vary from one team to another. Regardless of whether company-wide

conditions are favourable or unfavourable for diverse teams, local conditions represent another level of context that may account for diversity's effects on work groups.

## **5. DATA**

Data for this study were gleaned both from primary and secondary data sources. Published annual reports of the bank and the Central Bank of Nigeria were examined for relevant data, and complemented with a random sample of work teams within the bank's 62 branch network in Lagos Island and Mainland, using questionnaires. The sample size surveyed is 120 work-teams drawn from 248 teams within the Lagos area. The choice of Lagos branch network of the bank as the sample frame is informed by the metropolitan demographic composition of Lagos, which is reflective of the heterogeneous make-up of Nigeria's labour force.

## **6. MEASURES**

### **6.1. Independent Variables**

**(i) Cultural Diversity.** Two types of group diversity measures that have been widely utilized in past studies (*Jehn et al., 1999; Pelled, Cummings, & Kizilos, 1999*) are used in this research. For the categorical variables of ethnicity, gender, and function, the study measures the diversity index using *Blau's (1977)* index of heterogeneity which is defined as:  $(1 - \sum p_i^2)$ .

Where  $P$  represents the proportion of team members in a diversity category, and  $i$  is the number of different categories represented on a team. This is consistent with the approach suggested by *Teachman (1980)*, and *Ancona & Caldwell (1992b)*. But for the continuous variables, the coefficient of variation (the standard deviation of the selected attribute divided by its mean) was used to measure the group diversity for continuous variables—age, tenure, and level of education; (*see Allison, 1978*).

**(ii) Growth Strategy.** Asset growth for the year 2008 and 2009 were taken directly from the published annual financial reports of the bank. Asset growth for 2008 and 2009 were the percentage growth in total assets using 2007 and 2008 respectively as base years. This measurement is consistent with previous measurements of a bank's orientation toward growth (*Hunter, 1996; Mehra, 1996; Richard, 2000*). Higher percentages reflect a growth strategy, and negative percentages reflect asset reduction or a downsizing strategy. In order to smooth the annual fluctuation for the growth strategy measure generated by the recent global economic meltdown and the CBN's banking reforms, a two year average of this measure is used for the study.

**(iii) Control Variables.** Three control variables were used and are discussed below. Group size is included as a control variable in most analyses in order to reduce the probability of attributing size-related phenomena to the effects of diversity. Previous research has found that work-group size and organization size are associated with work attitudes and related outcomes, such as turnover (*Berger & Cummings, 1979*). Also, for statistical reasons, heterogeneity measures are correlated with group size when teams are relatively small (*e.g. Bedeian & Mossholder, 2000*). Controlling

for size reduces the consequences of this measurement artifact. The average tenure of employees was also included as a control variable. Like size, previous research has found that organizational tenure is correlated with work attitudes and performance (Berger & Cummings, 1979), and these effects need to be taken into account when examining the effects of diversity. Similarly, gender diversity, measured by Blau's (1977) index was also included as a control measure. Previous research also indicates that gender diversity correlates with racial/ethnic diversity as well as to performance (Pelled, Cummings, & Kizilos, 1999).

## 6.2. Dependent Variables

**Performance Measure.** We used two measures to derive a more comprehensive picture of the impact of cultural diversity on the organization's effectiveness by evaluating the productivity of each group sampled. First, employee productivity is an intermediate output measure. Productivity per employee is an important performance criterion in a service organization like a bank, because human labour costs are high (Mehra, 1996). Using Bartel's (1994) labour productivity equation, productivity was calculated as the logarithm of net income (net profit) per employee for 2008 (see Richard, 2000). This measure reflects employee efforts (Richard, 2000). We also used performance bonus as a measure of employee productivity. The bank's remuneration package includes bonuses for achieving prescribed performance goals. The survey instrument elicited responses from participants whether he/she did receive performance bonus in the last two years.

**Data Analysis.** To determine group diversity and performance outcomes moderated by workgroup context, a series of hierarchical regression analysis were conducted. This is consistent with recent strategic human resource management research (see Richard 2000; Jehn & Bezrukova, 2004; Jackson & Joshi, 2004). Step 1 of the hierarchical regression contains control variables. Step 2 includes the main effects of the group diversity variables. Step 3 include the context variables, and step 4 includes the interactions of diversity variables for each context interaction (eg, gender diversity x competition oriented culture x age diversity x competition oriented culture x tenure x competition oriented culture x ethnicity x competition oriented culture; etc).

## 7. DATA PRESENTATION AND ANALYSIS

Data for this study were gleaned both from primary and secondary data sources. The Published annual reports of the bank for 2008 and 2009 were examined for relevant data. In addition, a random sample of work teams within the bank's 62 branch network in Lagos Island and Mainland was undertaken, using questionnaires. The sample size surveyed is 120 work-teams drawn from 248 teams within the Lagos area. Response rate to the survey was 40%, involving 48 work teams, made up of 162 individuals; most of whom perform marketing functions.

**7.1. Demographic Characteristics of Respondents**

Table 1 shows the age characteristics of respondents. 43.2% are within the age group of 26-30, while 74.7% are cumulatively within the age group of 26-35. The data shows that a relatively high proportion of the workforce is in their active productive years. It also shows that the bank’s recruitment policy is consistent with contemporary trends, which emphasizes recruitment of relatively younger people.

**Table 1. Age of Respondents**

Age Group	Frequency	Percentage	Cumulative Percentage
20-25	9	5.6	5.6
26-30	70	43.2	48.8
31-35	51	31.5	80.2
36-40	23	14.2	94.4
41 & above	9	5.6	100
Total	162	100.0	

Table 2 shows the gender distribution of respondents. Female respondents constituted 59.3% of respondents, while 40.7% were male. The data is consistent with a recent trend in the Nigerian banking industry where the female gender is very prominent, especially in the marketing function.

**Table 2. Gender of Respondents**

Gender	Frequency	Percentage	Cumulative Percentage
Male	66	40.7	40.7
Female	96	59.3	100
Total	162	100.0	

Table 3 shows that, cumulatively, 74.7% of respondents have worked with the bank for a period ranging from 1 to 10 years, while 25.3% have been with the bank for a period ranging from 11 to 15 years.

**Table 3. Tenure of Respondents**

Tenure	Frequency	Percentage	Cumulative Percentage
1-5	40	24.7	24.7
6-10	81	50.0	74.7
11-15	41	25.3	100
16-20	0	0	
Total	162	100.0	

Table 4 shows the ethnic composition of respondents. Cumulatively, respondents from the three southern geo-political zones constitute 69.1%, while 30.9% of respondents are natives of the three northern geo-political zones. 4.3% of respondents hail from the North West geo-political zone constitutes the least geo-political zone.

**Table 4. Ethnic Composition of Respondents**

<b>Ethnicity</b>	<b>Frequency</b>	<b>Percentage</b>	<b>Cumulative Percentage</b>
South/West	52	32.1	32.1
South/East	24	14.8	46.9
South/South	36	22.2	69.1
North/East	14	8.6	77.7
North/West	7	4.3	82.0
North/Central	29	18.0	100
Total	162	100.0	

## 7.2. Diversity Analysis

Two types of group diversity measures that have been widely utilized in past studies are used in this research: for the categorical variables of gender and ethnicity, the Blau's heterogeneity index was used, while the variance (standard deviations of the individual group mean, divided by its mean) was used for the continuous variables of age and tenure. The composite measures for these diversity variables are presented here.

**Categorical Variables.** Table 5 shows the Blau's heterogeneity index for gender, and ethnicity. Composite gender diversity is 0.48, while the composite ethnicity index is 0.78.

**Table 5. Categorical Diversity Measures**

<b>Composite Diversity Variable</b>	<b>Composite Diversity Index</b>
Gender	0.48
Ethnicity	0.78

**Continuous Variables.** Table 6 shows the coefficient of variation for age and tenure which is the heterogeneous measures for continuous diversity predictors of performance outcomes.

**Table 6. Continuous Diversity Measures**

<b>Work Group Diversity Variables</b>	<b>Workgroup Diversity Measures</b>
Age	0.11
Tenure	0.33

### 7.3. Workgroup Context

Management policies translate into the work context of workgroups. Below is the analysis of workgroup context of the teams within the bank. Two categories of workgroup contexts were investigated. The first was work group culture and the second was organizational strategy.

**Table 7. Workgroup Context of Respondents**

Workgroup Context	Proportion
People-Oriented Culture	13.8
Competition-Oriented Culture	86.2
Growth-Oriented Strategy	94.7
Non-Growth-oriented Strategy	5.3

Table 7 shows the proportionate distribution of work group contexts. It indicates that 86.2% of respondents work in competition oriented cultural context, while 13.2% carry out their work in a people-oriented cultural setting. Also, 94.7% of respondents conduct their work in growth oriented strategic context, and 5.3% work in a non-growth oriented strategic environment.

### 7.4. Correlations of Diversity Predictors with Measures of Effectiveness

Here we present the correlation analysis of the heterogeneous factors investigated with the measures of group effectiveness. Table 4.8 shows these relationships.

**Table 8. Correlation Among Variables**

	1	2	3	4	5	6	7	8	9	10	11
<b>1. Group Size</b>	1	.097	-.275(*)	-.177	.147	.072	-.045	.057	-.096	1.000(**)	.174
		.255	.029	.114	.159	.313	.382	.351	.258	.000	.118
<b>2. Mean Tenure</b>	.097	1	.066	.003	.122	-.184	.075	-.007	.184	.097	.291(*)
	.255		.327	.492	.204	.105	.307	.482	.105	.255	.022
<b>3. Gender Diversity</b>	-.275(*)	.066	1	.682(**)	.609(**)	.492(**)	-.006	-.113	-.017	-.275(*)	-.111
	.029	.327		.000	.000	.000	.484	.221	.454	.029	.225
<b>4. Ethnic Diversity</b>	-.177	.003	.682(**)	1	.490(**)	.474(**)	.052	.021	.011	-.177	-.185
	.114	.492	.000		.000	.000	.363	.444	.469	.114	.104
<b>5. Age Diversity</b>	.147	.122	.609(**)	.490(**)	1	.592(**)	-.037	.023	-.158	.147	.249(*)
	.159	.204	.000	.000		.000	.403	.440	.142	.159	.044
<b>6. Tenure Diversity</b>	.072	-.184	.492(**)	.474(**)	.592(**)	1	.005	.187	-.127	.072	.000
	.313	.105	.000	.000	.000		.487	.102	.195	.313	.499

7. People oriented context	-.045	.075	-.006	.052	-.037	.005	1	.309(*)	.085	-.045	-.047
	.382	.307	.484	.363	.403	.487		.016	.284	.382	.376
8. Competition Oriented Context	.057	-.007	-.113	.021	.023	.187	.309(*)	1	.154	.057	-.047
	.351	.482	.221	.444	.440	.102	.016		.148	.351	.376
9. Growth Oriented Context	-.096	.184	-.017	.011	-.158	-.127	.085	.154	1	-.096	-.005
	.258	.105	.454	.469	.142	.195	.284	.148		.258	.487
10. Employee Productivity	1.000(**)	.097	-.275(*)	-.177	.147	.072	-.045	.057	-.096	1	.174
	.000	.255	.029	.114	.159	.313	.382	.351	.258		.118
11. Bonus	.174	.291(*)	-.111	-.185	.249(*)	.000	-.047	-.047	-.005	.174	1
	.118	.022	.225	.104	.044	.499	.376	.376	.487	.118	

\*Correlation is significant at the 0.05 level (1-tail), \*\*Correlation is significant at the 0.01 level (1-tail)

Table 8 shows the correlation among all variables. Regarding correlation between the diversity and performance variables; Gender is negatively related to both employee productivity and performance bonus ( $r_s = -.275$  and  $-.111$ ,  $p_s < 0.01$  respectively), but is significantly related to employee productivity ( $r = -.275$ ,  $p < 0.01$ ). Age is positively related to employee productivity ( $r = .147$ ,  $p < 0.05$ ) and significantly related to performance bonus positively ( $r = .249$ ,  $p < 0.05$ ). Ethnicity is insignificantly related to both employee productivity and performance bonus negatively ( $r_s = -.177$  and  $-.185$  respectively,  $p < 0.05$ ). Also, tenure is insignificantly related to employee productivity positively ( $r = .072$ ,  $p < 0.05$ ) and is not related to bonus ( $r = -.000$  respectively,  $p < 0.05$ ).

### 7.5. Hypothesis Testing

We propose to test 2 sets of theoretical arguments in this study. These hypotheses were tested using hierarchical linear modeling. The analyses were conducted using SPSS 15.0. Tables 9 and 10 show the results for the three tests.

**Table 9. Hierarchical Multiple Regressions for group diversity effectiveness outcomes (Bonus) moderated by context (main effect)**

	Variable	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
Step 1	Group Size	.240	.217		1.104	.275
	Average employee tenure	.054	.026	.291	2.066	.045
Step 2	Group Size	.430	.379		1.132	.264
	Average employee tenure	.040	.028	.218	1.432	.160
	Gender Diversity	.167	.383	.095	.437	.664
	Age Diversity	1.285	.916	.291	1.403	.168
	Tenure Diversity	-.270	.295	-.175	-.916	.365

	Ethnic Diversity	-.360	.376	-.191	-.958	.344
Step 3	Group Size	.691	.935		.739	.464
	Average employee tenure	.042	.030	.226	1.390	.172
	Gender Diversity	.155	.407	.088	.381	.706
	Age Diversity	1.246	.983	.282	1.267	.213
	Tenure Diversity	-.270	.316	-.175	-.854	.398
	Ethnic Diversity	-.354	.396	-.188	-.895	.376
	Mean People oriented context	-.058	.201	-.044	-.287	.776
	Mean Competition Oriented Context	.014	.190	.012	.072	.943
	Mean Growth Oriented Context	-.030	.250	-.018	-.118	.907
Step 4	(Group Size)	1.300	1.221		1.065	.294
	Mean employee tenure	.029	.032	.155	.903	.373
	Gender Diversity	-.143	.476	-.081	-.301	.765
	Age Diversity	-.551	1.773	-.125	-.311	.758
	Tenure Diversity	-.587	.420	-.380	-1.397	.171
	Ethnic Diversity	-.419	.411	-.222	-1.019	.315
	Mean People oriented context	-.050	.266	-.039	-.189	.851
	Mean Competition Oriented Context	-.295	.346	-.252	-.852	.400
	Mean Growth Oriented Context	.142	.319	.089	.446	.658
	Gender x age x tenure x ethnicity	14.793	21.045	.545	.703	.487
	Age x competition x gender x completion x ethnicity x competition x Tenure x competition	.331	.352	.283	.942	.353
	Age x growth x gender x growth x ethnicity x growth x tenure x growth	.453	2.958	.037	.153	.879

Dependent Variable: Bonus; (N = 48)

**Table 10. Hierarchical Regression Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.291(a)	.085	.065	.46065
2	.401(b)	.160	.061	.46175
3	.403(c)	.163	-.009	.47858
4	.470(d)	.221	-.047	.48735

Tables 9 and 10 show the results of the hierarchical regression model used to test the hypotheses. The test was predicated on the performance variables of employee productivity and performance bonus. The test however did not find significant statistical results when employee productivity was used as dependent variable.

**Hypotheses 1.** Hypothesis one predicts that workgroups that are demographically diverse are likely to be less effective in workgroup contexts that emphasize competition oriented cultures than in contexts that do not emphasize competition-oriented cultures. Step 4 of the hierarchical regression analysis indicates that the relationship between diversity moderated by competition oriented work context and organizational effectiveness is not significant. Hence, no support for this hypothesis was found.

**Hypothesis 2.** The second hypothesis claims that workgroups that are demographically diverse are likely to be more effective in workgroup contexts that

pursue growth oriented business strategies than in contexts that do not pursue growth-oriented business strategies. The result of the hierarchical regression analysis did not provide support for this hypothesis.

There was no result for the test regarding diverse groups operating in a competition oriented cultural context. It is probable that the reason for this is due to the inherent conflict of interest engendered by competition-oriented environments. Participants of the field survey were mostly marketing groups who are given account targets individually and as a group. However, the bank's performance appraisal policy emphasizes individual goal achievement. Thus, members within such groups can be seen as a constellation of individuals working independently with only necessary minimal interaction with one another. The social categorization diversity theory assume that negative effects of diversity can be attributed to conflicts that arise from negative stereotypes or biases and escalates as group members interact within their in-group (Williams & O'Reilly, 1998).

Also, the hierarchical regression analysis test did not show that growth oriented strategy moderates diversity's impact on organizational effectiveness. This may also be an overriding effect of competitive culture of workgroups in the marketing department, which was highlighted above. Similarly, the results did not show moderating effects of workgroup contexts for group diversity in age, gender, ethnicity, and tenure. One possible reason for this is that the workgroups are already existing groups and have been working together for some time. Besides, the demographic statistics show that group members are in the prime of their work life. As a result, age, ethnicity, gender, and tenure may have become less relevant and important (Harrison, Price, Gavin, & Florey, 2002).

## **8. SUMMARY OF FINDINGS, RECOMMENDATION AND CONCLUSION**

### **8.1. Summary of Findings**

Overall, we did not find empirical support for the two propositions about workforce diversity's impact on organizational effectiveness. However, the study found significant correlations between some of the diversity variables, as well as individual diversity variables with the measures of organizational effectiveness. The field study showed that gender is negatively related to both employee productivity and performance bonus, but is significantly related to employee productivity. Age is positively related to employee productivity, and it is significantly positive in its correlation to performance bonus. Ethnicity is insignificantly negative in its relationship to both employee productivity and performance bonus. Also, tenure is insignificantly positive in its correlation to employee productivity, and is not related to bonus.

In addition, the study found that gender, age and tenure diversities are positively correlated, and they are significantly related. However, gender is negatively correlated to group size. Moreover, the study showed that ethnic diversity is significantly correlated with age and tenure diversities. In the same vein, age diversity is significantly correlated with tenure diversity positively. Again, the study found that

though the combined effect of diversity on organizational effectiveness is positive, its impact is insignificant. In terms of the moderating effects of workgroup contexts - competition oriented workgroup culture, and growth-oriented strategy - of diversity factors, the research results indicate that context effect is insignificant.

## **8.2. Recommendation**

Diversity sometimes is associated with effectiveness, other times with negative outcomes, and often it has no effects at all (Webber & Donahue, 2001; Jackson et al, 2003). However, the results of this study suggest that company executives are not likely to see a direct positive relationship between workforce heterogeneity and organizational effectiveness. Instead, the effects are likely to be determined by the strategies a firm pursues and by how organization leaders and participants respond to and manage diversity. Hence, the imperativeness of collaborative research efforts to ascertain the contextual variables that moderates workforce diversity to produce positive performance outcomes. This is so, because of the complexity of the diversity phenomenon and the large volume of data involved in conducting an in-depth study of this phenomenon.

## **8.3. Conclusion**

The result of this empirical study indicates that the impact of workforce heterogeneity on organizational effectiveness when moderated by workgroup contexts is minimal. This singular case study may not be generalized, considering some caveats. The study focused on only four diversity dimensions - gender, tenure, age, and ethnicity - which may have limited the robustness of this research. Each of these diversity attributes measured may also be associated with other unmeasured, but theoretically interesting dimensions of diversity, such as marital status or religion. Also, the sample size used for the study may have accounted in part for the research outcome. These limitations notwithstanding, this field work has enriched the diversity literature, by demonstrating empirically, that there is no causal relationship between workforce diversity and organizational effectiveness.

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## **THE ANALYSIS OF UNEMPLOYMENT IN HUNEDOARA COUNTY IN THE CONTEXT OF THE ECONOMIC CRISIS**

**ALINA FLEȘER, OANA DOBRE-BARON \***

**ABSTRACT:** *The objective of the work consists in analyzing the phenomenon of unemployment, a phenomenon which is becoming more and more alarming day after day. In the following it is presented the highlighting of the main statistical indicators for assessing the unemployment of the Hunedoara county level. The main purpose is carrying out a comparative study of the number of unemployed in the period 2006-2009 in the context of the economic crisis.*

**KEY WORDS:** *economic crisis; mining industry; unemployment; unemployed population; unemployed paid; unpaid unemployed.*

**JEL CLASSIFICATION:** *L7, J6, J65, E24, H12, H55.*

### **1. THE EFFECTS OF THE ECONOMIC CRISIS ON THE UNEMPLOYMENT IN HUNEDOARA COUNTY**

Situated in the central-western part of Romania on the courses of three major rivers (Mures, Jiu and Crisul Alb) and next to Apuseni, Orastie, Retezat-Godeanu, and Piana Rusca Mountains, Hunedoara County is administratively composed of seven municipalities (Deva, Brad, Hunedoara, Lupeni, Orastie, Petrosani, and Vulcan), seven cities (Aninoasa, Călan, Geoagiu, Hațeg, Petrița, Simeria and Uricani), and 55 large villages.

The industry represents the largest proportion of the economy in the county, in which the metallurgic and mining industry are predominant (over 62%), Hunedoara County being an area rich in mineral resources. Also an important proportion of the industry is represented by electric power, wood exploitation and process, construction materials, light industry, food chemistry, etc.

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The economic crisis has obviously affected the entire country, leaving its print as well on Hunedoara County, which occupies one of the first places regarding economic regression, the prognosis of the National Speciality Commission placing Hunedoara County, in the beginning of September last year, on the seventh place of a country level negative classification regarding economic regression during the last year.

Moreover, the number of unemployed is continuously increasing from month to month, by the end of 2009 reaching a value of 22,013 people. It should also be mentioned that this level of approximately 1.5 times larger than 2007, when the number of unemployed was 13,760. According to the management of Hunedoara County Employment Agency, the unemployment rate exceeded 105 by the end of 2009. Although Hunedoara County is not one of the first 10 counties most affected by unemployment. According to the data of the National Employment Agency, over 100,000 people, mostly males lost their jobs in Prahova, Argeş, Cluj, Braşov, Timiş, Sibiu, Galaţi, Dolj, Alba and Suceava counties.

The ten mentioned counties reunite two fifths of the total of unemployed women on a national scale. Moreover, the percentage of unemployed women last year is more than 15% of the total of people who had lost their jobs in the past year on a national level.

## 2. HUNEDOARA COUNTY UNEMPLOYED NUMBER EVOLUTION DURING 2006-2009

The following paragraphs will classify paid and unpaid unemployed in Hunedoara County during 2006-2009, according to age, sex and professional formation during 2006-2009.

### 2.1. Hunedoara county unemployment in the year 2006

The total number of unemployed in Hunedoara County in 2006 was 17,074 people, out of which only 8,867 people were paid and respectively 8,207 not paid.

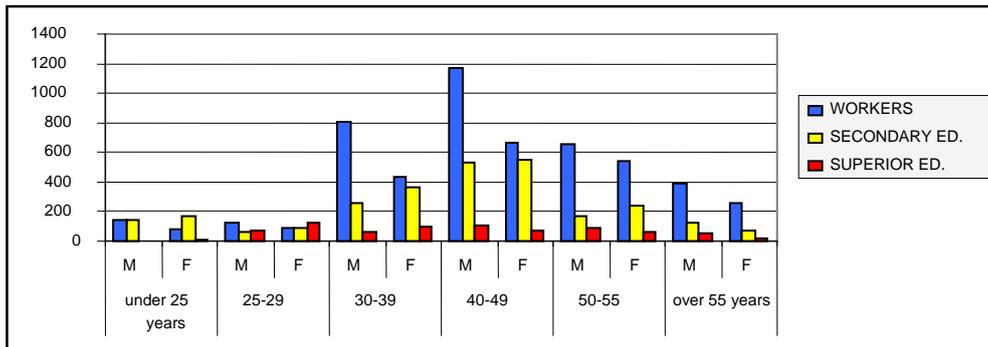


Figure 1. Paid unemployed number evolution in 2006

The total number of paid unemployed recorded on the 31<sup>st</sup> of December 2006 in Hunedoara County was 8,867 people. 5,355 of these people with basic studies, 2,756 people with secondary studies and respectively 756 people with superior studies. A total of 541 people under 25 years old, 559 people between 25 and 29 years old, 2,017 people between 30 and 39 years old, 3,093 people between 40 and 29 years old, 1,755 people between 50 and 55 years old and respectively 902 people over 55 years old.

It may be observed in Figure 1 that by the end of December 2006 the largest number of paid unemployed was recorded for males with basic studies between 40 and 49 years old. The number of paid unemployed with superior studies is extremely small in relation to the other two professional categories, an exception being females with an age between 25 and 29; on the other hand, the number of basic studies graduates exceeds the other two professional categories for people with ages over 30.

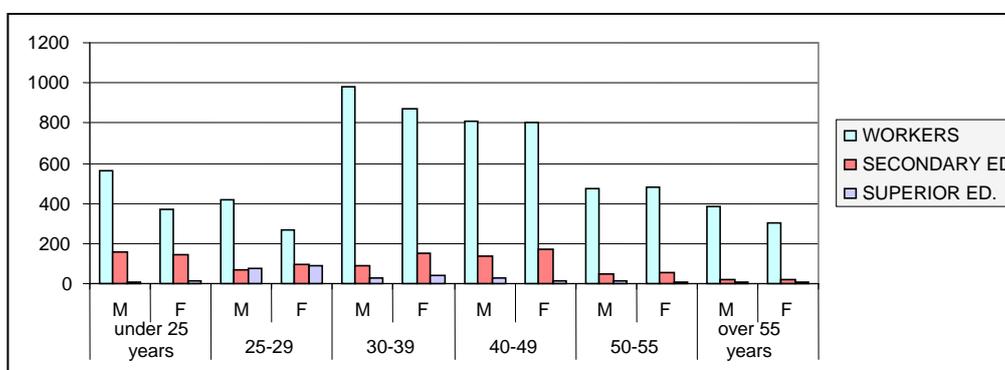


Figure 2. Unpaid unemployed number evolution in 2006

The total number of unpaid unemployed recorded in Hunedoara County on the 31<sup>st</sup> of December 2010 was 8.207 people. Out of them, 6.726 are people with basic studies, 1152 people with secondary studies and respectively 329 with superior studies. 1256 people under 25 years old, 1010 people between 25 and 29, 2162 people between 30 and 39 years old, 1958 people between 40 and 49 years old, 1079 people between 50 and 55 years old and respectively 742 people over 55 years old were recorded.

It may be observed in Figure 2 that the highest number of unpaid unemployed were males with basic studies between 30 and 39 years old., followed by females with basic studies from the same age group.

The highest number of unpaid unemployed with secondary studies was recorded by the number of women between 40 and 49 years old. The number of unpaid unemployed with superior studies is really small, being a little higher among women between 25 and 29 years old. Unpaid unemployed with basic studies exceed the number of unemployed from the other two categories, independent on their sex or age. The total number is approximately 5 times higher the number of secondary studies graduates and approximately 25 times higher than the number of superior studies graduates.

## 2.2. Unemployment in 2007 in the entire Hunedoara County

In 2007, the total number of unemployed in Hunedoara County reached 13,760 people, out of which 4,974 were paid unemployed and respectively 8,786 people were unpaid.

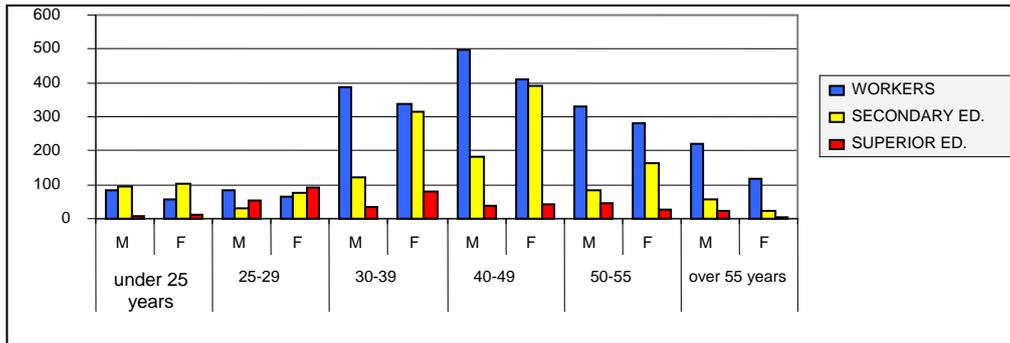


Figure 3. Paid unemployed number evolution in 2007

The total number of paid unemployed recorded on the 31<sup>st</sup> of December 2007 was 4974 people out of which 2873 people with from studies (workers), 1648 people with secondary studies and respectively 453 people with superior studies. 357 people under 25 years old, 400 people between 25 and 29 years old, 1275 people between 30 and 39 years old, 1565 people between 40 and 49 years old, 931 people between 50 and 55 years old and respectively 446 people over 55 years old were recorded.

In Figure 3 it may be observed that the highest number of paid unemployed was recorded among the male workers (basic studies graduates) between 40 and 49 year old. The highest number of people with superior studies was recorded for women between 25 and 29 years old. From the analysis of the data for 2007 it results that women with secondary and superior studies were more affected by unemployment than the opposite sex population with the same professional formation.

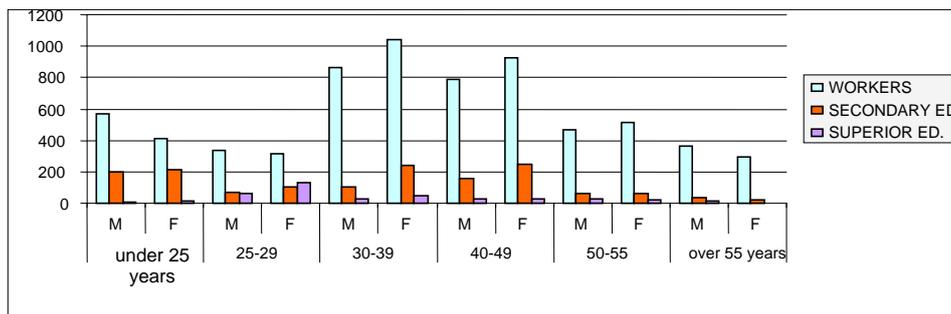


Figure 4. Unpaid unemployed number evolution in 2007

The total number of unpaid unemployed recorded on the 31<sup>st</sup> of December 2007 in Hunedoara County was 8786 people out of which 6880 people are workers (basic studies graduates), 1506 people with secondary studies and respectively 400 people with superior studies. 1404 people under 25 years old, 1014 people between 25 and 29 years old, 2328 people between 30 and 39 years old, 1141 between 50 and 55 years old and respectively 726 people over 55 years old were recorded.

In Figure 4 it may be observed that the number of unpaid unemployed with basic studies is very high compared to the other two professional categories. In what secondary studies is concerned the number of unemployed women exceeds the number of unemployed of the opposite sex within the age groups under 25 years old, between 25 and 29 years old, between 30 and 39 years old and between 40 and 49 years old. The number of unemployed with superior studies was insignificant, their proportion in the total number of unemployed being 5%.

### 2.3. Hunedoara County unemployment in 2008

In 2008, the total number of unemployed recorded in Hunedoara County was 15,568 people, out of which, 6187 paid unemployed and respectively 9381 unpaid.

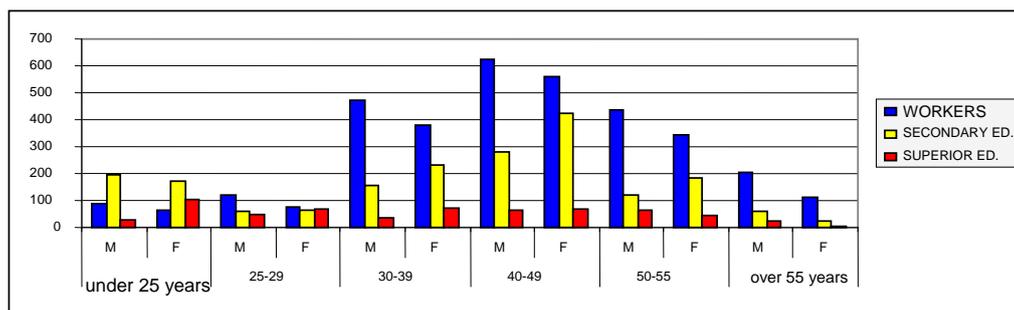
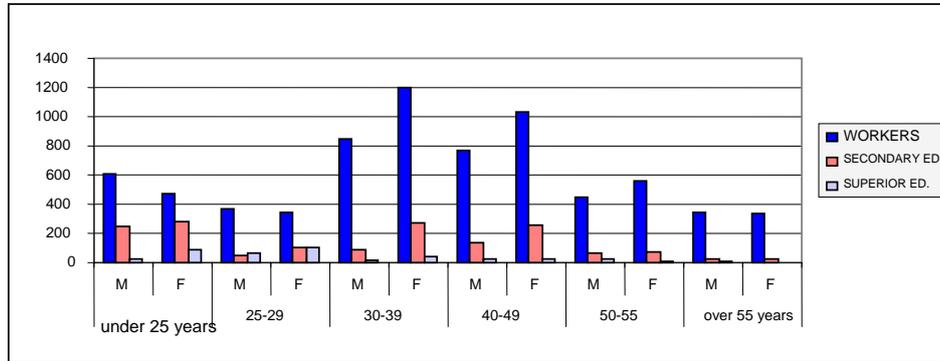


Figure 5. Paid unemployed number evolution in 2008

The total number of unemployed recorded on the 31<sup>st</sup> of December 2008 was 6187 people, out of which 3485 people with basic studies (workers), 2071 people with secondary studies and respectively 631 people with superior studies. 653 people under 25 years old, 440 people between 25 and 29 years old, 1439 people between 30 and 39 years old, 2026 people between 40 and 49 years old, 1196 people between 50 and 55 years old and respectively 433 people over 55 years old were recorded.

It may be easily observed that by the end of December 2008 the highest number of paid unemployed was recorded among male unemployed with basic studies and ages between 40 and 49 years old. The lowest number of unemployed was recorded by people with secondary education with ages over 55. The highest number of paid unemployed with superior studies was recorded by women with ages under 25.



**Figure 6. Unpaid unemployed number evolution in 2008**

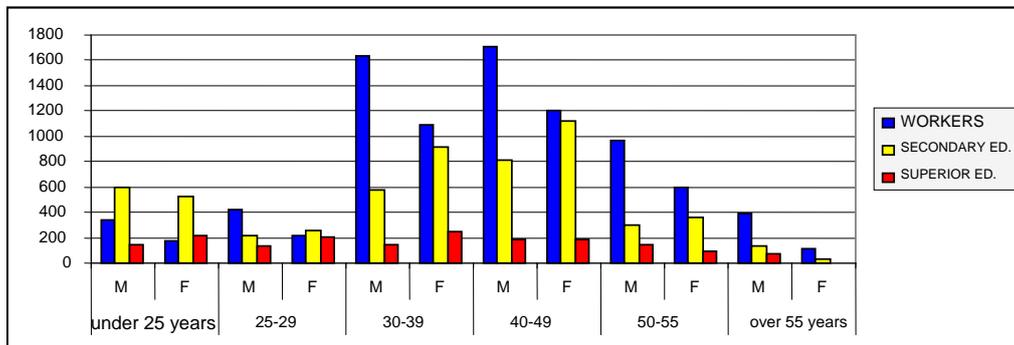
The total number of unpaid unemployed recorded on the 31<sup>st</sup> of December 2008 was 9381 people, out of which, 7328 people with basic studies (workers), 1631 people with secondary studies and respectively 422 people with superior studies. 1721 people under 25 years, 1031 people between 25 and 29 years old, 2469 people between 30 and 39 years old, 2241 people between 40 and 49 years old, 1176 people between 50 and 55 years old and respectively 743 people over 55 years old.

According to the data of 2008, it may be seen that the number of unemployed with basic studies is higher than the other two categories, approximately 17 times higher than the number of unemployed with superior studies and 4.5 times higher than the number of unemployed with secondary studies.

The highest number of unpaid unemployed with secondary studies was recorded by women under 25 years old, while the highest number of unpaid unemployed with superior studies was also recorded by women with ages between 25 and 29 years old.

#### 2.4. Unemployment in Hunedoara County in 2009

The total number of unemployed recorded in Hunedoara County in 2009 was 23,013 people, out of which 16,483 paid and respectively 6530 unpaid.



**Figure 7. Unpaid unemployed number evolution in 2009**

In 2009 the total number of paid unemployed was 16,483 people, out of which 8875 people with basic studies (workers), 5841 people with secondary studies and respectively 1767 people with superior studies. 1991 people under 25 years old, 1454 people between 25 and 29 years old, 4608 people between 30 and 39 years old, 5223 people between 40 and 49 years old, 2454 people between 50 and 55 years old and respectively 753 people over 55 years old were recorded.

In what the recorded number paid unemployed is concerned in 2009, the highest number of unemployed was recorded by basic studies males (workers) with ages between 40 and 49 years old. Considering the three professional categories, it may be observed the most significant influence on the number of paid unemployed with basic studies. Moreover, a more important proportion from the total number of paid unemployed, respectively 35.5%, is held by secondary studies unemployed.

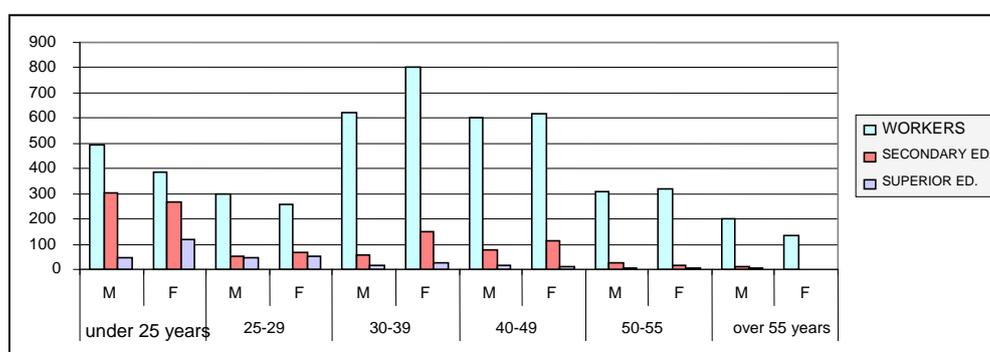


Figure 8. Unpaid unemployed number evolution in 2009

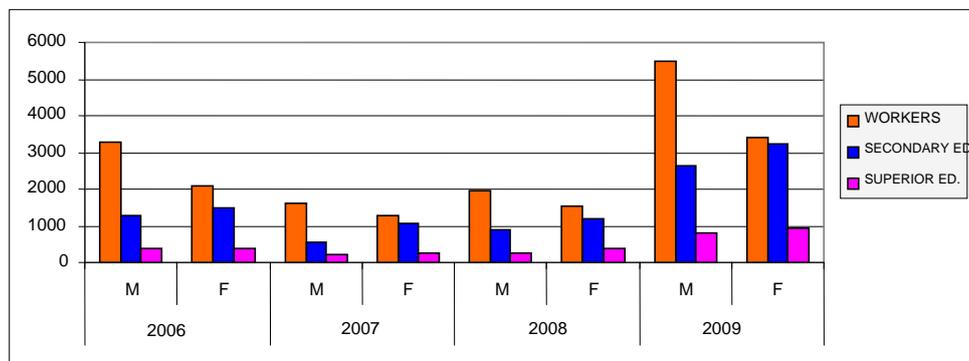
The total number of unpaid unemployed recorded in Hunedoara County on the 31<sup>st</sup> of December 2009 was 6530 people out of which, 5045 people with basic studies (workers), 1144 people with secondary studies and respectively 341 people with superior studies. 1616 people under 25 years old, 774 people between 25 and 29 years old, 1673 people between 30 and 39 years old, 1430 people between 40 and 49 years old, 688 people between 50 and 55 years old and respectively 349 people over 55 years old were recorded.

The highest number of unpaid unemployed was recorded by women with basic studies with ages comprised between 30 and 39 years old. Considering the 3 professional categories, it may be observed that the number of basic studies (workers) unemployed has the largest influence on the total number of unpaid unemployed, exceeding therefore the number of unemployed with secondary and superior studies independent on age or sex.

The number of unemployed with superior studies is insignificant, being approximately 14 times smaller than the unemployed people with basic studies and approximately 3 times smaller than of the number of unemployed people with secondary studies. But, the highest number of unemployed with superior studies is recorded by females under the age of 25.

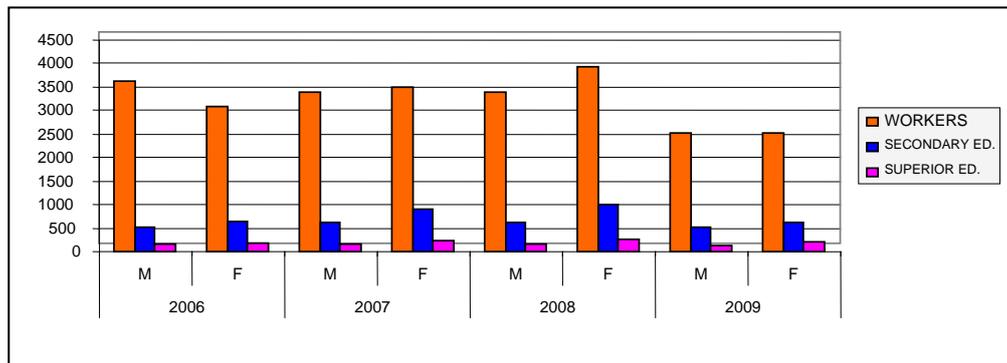
## 2.5. Comparative survey regarding the number of unemployed and unemployment rate in Hunedoara County between 2006 and 2009

A sensitive drop of the number of unpaid unemployed was recorded in 2007 compared to 2006. It may be seen, on the other hand, a significant increase in 2009. It may be observed that the number of paid male unemployed is higher than the number of female unemployed, independent on the year of the analysis. Independent on their sex or the year of analysis, the highest number of paid unemployed was recorded by people with basic studies, followed by people with secondary studies, the smallest influence on the total number of unemployed being that of people with superior studies.



**Figure 9. Unpaid unemployed number evolution between 2006 and 2009 considering their sex and professional formation**

Considering the period between 2006 and 2009, it may be observed that the evolution of unpaid unemployed number oscillates from one year to another, the number of unpaid unemployed males slightly reducing during the analysed period, while on the other hand the number of opposite sex people with the same professional formation has continuously increased between 2006 and 2008.



**Figure 10. Unpaid unemployed number evolution between 2006 and 2009 according to age and professional formation**

The biggest drop of the number of unpaid unemployed was recorded in 2009, and their proportion of 28.4% within the total number of unemployed in 2009 being unexpectedly small.

Independent on the year of analysis, the unemployed number with basic studies (workers) is extremely high compared to the other two professional categories. Considering the mentioned period, it may be observed that the highest number of unpaid unemployed was recorded in 2008.

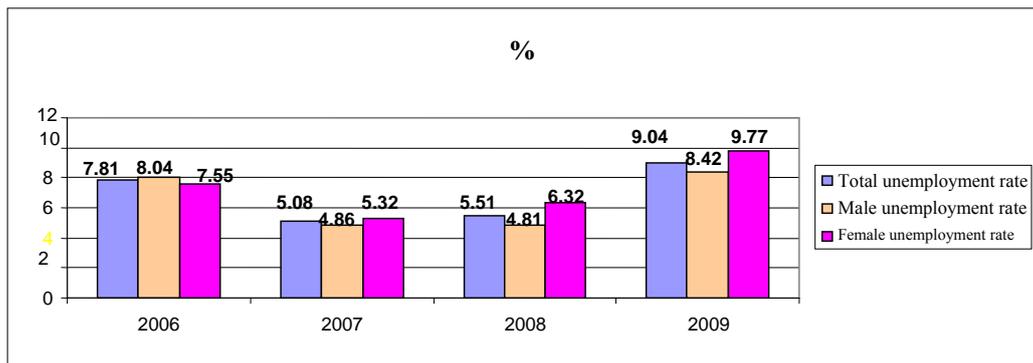


Figure 11. Unemployment rate evolution between 2006 and 2009

According to the above figure, it may be observed that the total unemployment rate has continuously risen starting with 2007. The highest increase was recorded in 2009, when the unemployment rate reached 9.04% being with approximately 3.5% higher than the unemployment rate from the previous year, respectively 5.51%. Unemployment rate in 2009 (9.77%) exceeds the female unemployment rate in 2008 (6.32%) with approximately 3.5% while the male unemployment rate in 2009 (8.42%) exceeds the male unemployment rate in 2008 (4.81%) with approximately 3.6%. It may be observed in the presented figure that in 2006 the unemployment rate was higher for the male population, while between 2007 and 2009 the unemployment rate for the female population exceeded the unemployment rate of the opposite sex population.

### 3. CONCLUSIONS

- Although Hunedoara County is really affected by the economic crisis, the unemployment rate in 2009 was 10.56%, and it needs to be mentioned that the county is not among the first 10 counties most affected by unemployment.
- It may be easily deduced that the highest number of unemployed was recorded by people with basic studies (workers), while the lowest number was recorded by people with superior studies.
- Unemployment recorded for people with ages under 25 years old and ages comprised between 25 and 29 years old is very small considering elderly people, the main motivations being the easiness of a young person to find a work place, to mobilise and change the work place; on the other hand a person over 30 years old does no longer correspond to previous motivations. It is really difficult for example for a

lifetime carpenter to change the lost work place, but, on the other hand for a young graduate it is quite different even if he does not find a work place which fits his professional formation, the young person has the capacity to easily reorient.

- Considering paid unemployed, it is observed that the number of male unemployed with basic studies is more predominant than the number of female unemployed from the same professional formation category, while, on the other hand the number of female unemployed with secondary and superior studies is sensitively higher than the unemployed from the opposed sex population, independent on the year of analysis.

- From the analysis of 2009 data it results that the number of paid unemployed was approximately 2.5 times higher than the number of unpaid unemployed. Between 2007 and 2008 the larger proportion in the total number of unemployed is constituted by the unpaid unemployed.

- Between 2007 and 2009 the female unemployment rate was higher than the male unemployment rate. The unemployment rate for the mentioned period had risen continuously.

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## **A DECADE FROM THE MAJOR LAYOFFS IN THE JIU VALLEY**

**IOAN VALENTIN FULGER, ION HIRGHIDUS,  
EVA BOCSA \***

**ABSTRACT:** *This essay is an overview of how the population of the largest coalfield of Romania Jiu Valley, the perceived major staff cuts in the mining industry, the solutions required for economic rehabilitation of the area and difficulties of everyday faced by residents of the region.*

**KEY WORDS:** *mining; economy; restructuring; unemployment; quality of life; occupation.*

**JEL CLASSIFICATION:** *J60; E20; E24.*

Throughout this paper we tried to do an accurate analysis on some data out of the context, of a more extensive research across the Jiu Valley. The purpose of the research I have mentioned is to faithfully record the changes that have occurred in this area over a decade, the entire study was just thought on this line. The area of the research being specified, let's remember that the sample on which we worked was one built on the principle of quotas related (the share of each city's population in the Valley, the distribution by age and sex of the population), a number of 1612 persons were interviewed. Once specified these elements with a specific methodological nature that the research data of 2007 were compared with those taken from us available from other private studies conducted in the same area, hence the referral of certain socio-economic development or involution of the area. For Romania, the coal mining, between 1997-1998 became an industrial activity extremely burdensome, if we refer to the figures presented by the experts of the Ministry of Industry and Commerce. The losses that they have actual estimated, as real, only in the Jiu Valley mining, were

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placed around the amount of two billion dollars and that in a time between the years 1991 and 1998. Over twenty thousand persons employed at the enterprises belonging to the National Coal Company were dismissed "on request".

Prime Minister Victor Ciorbea's report on Government's work during the first year in office, had also the following remark : "I started getting the mining sector restructuring in a few months what it took other countries decades to accomplish. From this claim it would result Ciorbea's Government unmatched efficiency compared with other European governments - ineffective and powerless. In the days when this governmental ordinance applied, the Minister of Labour and Social Protection, Alexander Athanasiu said that by using the received money (between 9 and 15 wages) the miners will be able to establish small enterprises and by association, medium enterprises. But shortly after this affirmation, half of the small businesses across the country, about 300,000, have disappeared due to high taxes imposed by the government. For those who saved money in banks, interest rates offered were rarely able to offset the losses of the depositors due to the galloping growth of inflation. Two years after this extreme measure, which was a premiere in Romania after the revolutionary December 1989, the situation of the population in the area appeared to be one that contradicted the assurances that the authorities had ensured an economic recovery of the region by force of the Government programs, to absorb the redundant labor. Even if the Government's insurance between the years 1997-1998 were not realized, it was expected that the leakage of a decade should bring with it many changes, especially since this decade was one that meant for the Valley, not just structural changes, but pointed an important transformation in the mentality of its inhabitants. Ten years after the important changes in 1997, the area population is concerned with major phenomena such as poverty and unemployment at a higher level than that of 1999, over 12 percent. We consider that the worsening is an important one, not because there was an increase of those who were affected by these phenomena, but rather that it occurred due to the population decrease of the Jiu Valley (about 30,000 people in the past decade), trend that ought to facilitate the finding of a job in an easier way and to relieve the authorities from the pressure.

The authorities had been previously forced to deal more with the developing of the social programs than with the economic development projects for the Jiu Valley. Regarding the assessment of the quality of people's material life, we found a fact which doesn't surprise us, even considering the same elements but after a period of ten years. If in December 1999, 67% of people questioned said that they used to live good (and very good) before 1990, the population surveyed in 2007 (and we mean those who were adults before 1989, so knowledgeable of the situation) at a rate of 63% believes that by 1989 their material life was good (and very good). A minimum difference, due to depopulation, which highlights the inefficiency of the actions that took place to improve the economic and social crisis. For the period of 1990-1996, the research in December 1999, the interviewed subjects showed a good material level in 40% of cases. Another interesting comparison is for the period of 1997-2004.. We would like to point out, before going ahead with the exposure, that the periodicity is not an arbitrary one, but it takes into account, rather relatively, the political development of Romania, just to record the fluctuations experienced by the population, considered by

us, as the finest receptacle of the facts. In this way we were able to establish by comparison, that at the level of the mentioned above period, but set in December 1999 in the research from 1996 to 2000, only 4% of the study subject said it was the beneficiary of a good material life. Let's specify that the research in December 1999 also took place just a little over two years from the major layoffs, placing us in interviewing the subjects when, according to the theory, chronic poverty is installed. Returning to the present, i.e. to the resulted data from the research of 2007, it concluded that for the period 1997-2004, (the interval 1997- 2000 is excluded, we have already defined it and this is also the artifice that we call) but understood with and through the existent modifications in the interval 2000- 2004, the social assistance had a very important role in the Jiu Valley, 33% of the respondents considered that they had a good standard of life. After 2005, there aren't any major changes, good or bad in life and we could tell that it stagnated at the threshold to be reached at the end of 2004.

Although there had been many government promises on changing the specific of the valley, from a mono-industrial area into a multi-industrial center, based on cutting-edge technologies in different areas of production, after ten years from the staff redundancies, the coal mining operation remains the most important activity carried out here. It seemed so normal to ask those included in our analysis, what they think it would happen with the Jiu Valley, and also with them, though the main activity here would be narrow, as is expected of the EU policy. Some responses received, don't indicate any wave of optimism among the population, related to the reducing of mining activity. Only 12% of the investigated people give survival to the area, other respondents being very reserved, even nihilistic in front of this situation. We believe that the attitude of those who responded, is one connected with the realities that they live in the last decade, i.e. a safe job and relatively well paid cannot be conceived than at the one of the mines in the Jiu Valley. So, a failure recovery policy of the labor force that barely leaves the school benches, jobs are either too few or poorly paid, or in other areas where the redundant graduates were trained or instructed. Another danger, except the unemployment and growing poverty, is the deprofessionalization of the labor, the loss of skills acquired over the years of training required by those who were fired "on demand", and were practiced at the workplace. It's the same thing with the young graduates who are unable to develop their skills and put into practice the knowledge they have accumulated during schooling. Moreover: such inactivity, coupled with the unemployment and social aid, teaches people that they can live not only from work but also from aids, in this way they acquire a mentality of a social assisted person (although required) that "kills" the will to go through all the floors of the pyramid of needs. Hence the loss of desire for value, or strive for social esteem, changing, or better said the notion of individual human malformation. We believe that losses in the Jiu Valley must not be translated only into numbers and amounts of money, but also, and especially into the loss of human capital, often irrecoverable. Because the continuous restriction mining activity, or its disappearance, it's seen with a lot of reluctance by people, we asked them to indicate what are the advantages and disadvantages. The first advantage, exposed so far, easy to predict, is that of the employment (52.2%). And a job at one of the exploitations is considered relatively

secure and well paid enough to make it desirable. Moreover, the main disadvantage that we determined in the conscience of the population, namely environmental pollution (32.3%), indicates changes in well in terms of attitude and awareness that industrial activities like mining, while providing jobs could significantly affect the quality of the natural environment is now endangering the health of the Valley residents, but also that of the future generations. Another disadvantage, as it appears to be conceived as real in the Jiu Valley area, is the youth migration to other urban centers, because in their hometowns they can't profess in other fields. We consider that this disadvantage would be possible to manifest only if the mining would be artificially maintained at a level above the other sectors, however, but the fact that young people from the Valley go to other places is mainly due to the lack of investors in the Jiu Valley, who have financial and material capacity to establish new production facilities in which thousands of unemployed and graduates be able to value their knowledge, without deprofessionalization, or acquire new ones at work.

Definitely, avoiding this area by large companies, Romanian or foreign, is an undeniable reality. We know many cases of prestigious companies who have preferred to open new working points or branches in other cities in the county, thus avoiding an investment in the Jiu Valley. We wanted to understand not only why this area is avoided, we know many of these elements, but also how this phenomenon is explained to the population. The most important cause subjects attributed to the lack of interest of the investors is the widespread poverty in the area (37%). From the beginning we doubt of the plausibility of such a cause, or rather that it could act as a major factor. Our arguments are fair: widespread poverty was not typical for this community until 1997. It is therefore logical not to blame the community for this poverty, it's being awarded by the state through the collective redundancies measures "on request". More: this community did not have any viable economic alternatives to offer in return other than mining. In such a case, with a labor market so opened, it's more logical for investors to be interested in taking advantage of it at least from two perspectives: cheap labor, the large number of people looking for a job and the fact that they have diverse specializations.

Secondly, in the public perception, the unstimulative contradictory legislation is acting as a deterrent factor to economic development (16.5%). This factor is more reliable than the first one, but the example of the years when the Jiu Valley was officially declared a deprived area is well known, the positive results were almost absent. In other words, even this cause may not be considered as the relevant explanation we want. The other seats were occupied by the following alleged causes: insufficient interest of the authorities (15.1%), the image of the area in the country (11.5%), insufficient qualified workforce (8.2%), opposition from local investors (7.3%), failure in practice of the legislation (3.9%), another case (0.6%). Without insisting with any comments on other cases, however, we must pay attention on the fourth case: the image of the area in the country. This cause is not even placed in the top three as probable awareness of the community, but without doubt is the main one, not excluding, however, the joint actions of others, such as for example the resistance of the local investors, insufficient interest of the authorities or the failure in applying the legislation. This mechanism of self-exoneration is one that I've met in another

research conducted in 2002 across the Jiu Valley. More specifically, although it is accepted by 80% of respondents that there is a bad opinion about the Jiu Valley to the other citizens of the country, only 28% of respondents believed that at the origin of such views are the miners' strikes, most of them ( 58%) feel that bad image of the area is a consequence of the poverty. It's the same thing in the present situation: the image of this area in the country is, undoubtedly one that remained in people's consciousness as troubled by powerful social movements, it doesn't create the feeling of stability and from this lack of stability many investors refuse to invest in this area. It is nevertheless interesting to study the defense mechanisms promoted by the community, this type of community self-exoneration could form the basis of a research which aims among other things, finding the popular opinion about the community itself.

Because we have examined so far different community characteristics, including its opinion about the reasons that hampers the development it deserves, we asked the opinion of those included in the study about the solutions that seem the most appropriate for reducing unemployment and directly the poverty, which are the prerequisites for the favorable economic recovery of the Jiu Valley. Not always, the opinion of the majority is true, a piece of evidence is the exaggerated confidence of the community area in the tourism industry in the Jiu Valley, which industry is in an incipient form. Almost 40% of those surveyed believe that employment in tourism is the key to solving the economic problems they have. But what nobody wants to realize is that at the level of this area, this industry is not able to absorb twenty thousand people but a very small number, up to several hundred people so that the community efforts to invest in such an industry will never be rewarded at their fair value. A second solution as seen as viable is the private sector development (22%), an extremely vague idea that does not exclude, for example, the investments in tourism, thus returning to a solution which we've already defined as inefficient. There are the following alternatives, such as the housing reconstruction fund (17.7%) and the infrastructure (16.5%) activities that lack the permanent character, being applicable only for determined periods of time. At least from this perspective the question remains open, our view is that the Government's intervention is necessary if we want to save this region and avoid its depopulation and gradual extinction of municipal and industrial elements.

Even if the lack of jobs is no longer an acute problem as in 1998-1999, and we motivate what we say by telling that in that moment people did not have job opportunities in the private sector as they have now, this lack is still impressive for the large number of those affected. However, the effect is no longer exclusively due to the lack of jobs, other causes having priority. In this way we established that the main factor generating unemployment in the Jiu Valley is the unstimulative wages (26.8%). At a first glance some wrong conclusions might be drawn. Whether the unemployment benefits are satisfactory by their amount, people prefer "to stay unemployed, whether their claims about the wages versus work are exaggerated . The fact is that over the past decade the unemployed labour force has learned certain elements of the market economy, unfortunately in the pejorative sense, refusing to sell their labor for poor wages, often obtained at the "black market." Thus, what is installed here can be called

the "laziness culture", which many have accepted it as true, even trying to justify it. A second reason we found in the hierarchy, with a noticeable difference closed to the first one, is the inability to find a job suitable for the training available (26.1%). If we couple this with the low educational level of those who seek employment (3.3%), we'll get a percentage of almost 30% and a mismatch between the job and the applicant. This discrepancy shows that most of the jobs are unattractive because they don't require from the employee the full potential available, years of training and multiple personal efforts, in this regard it is seen as void, and useless if the employee accepts a job below his competence scale. Only thirdly the effective lack of employment (18.8%) is seen as a factor that generates mass unemployment. So there are jobs and employment opportunities, but in many cases, the illegal aspect is claimed, which discourages the applicants. We infer that people are naturally concerned about finding a legal job, which automatically means the "safety of the tomorrow." In fact, only the job insecurity (12.3%) makes the unemployed to refuse such opportunities which transforms the employees in day workers or seasonal workers, deprived of any protection of the law. Finally, it is not excluded any option that people are not interested to work. Although it's in the last place in the top of the factors that generates unemployment, the 12% of those who see such a variant as possible is an important one, resulting ultimately from the knowledge of the reality faced by the respondents directly. Eventually, the unemployment in the Jiu Valley is not the result of a single factor but of a complex mixture of past and present actions that have had and still have an important role in the detriment of the community from here. Starting from a material and financial level and ending at the mentality one.

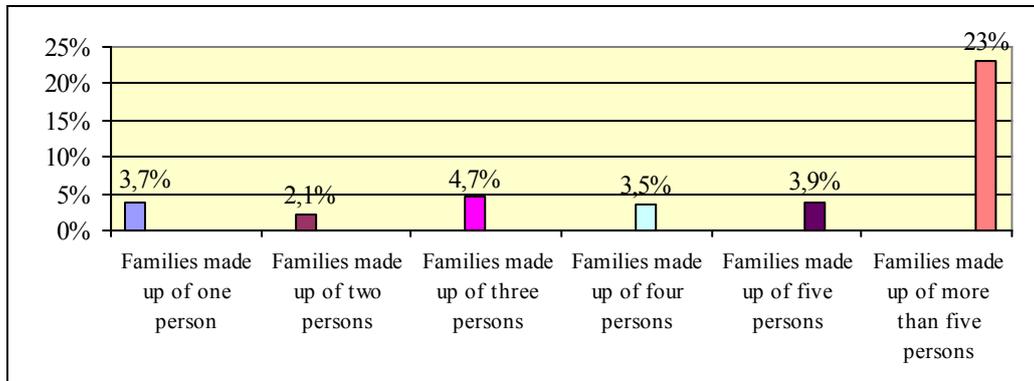
To obtain a more detailed knowledge of the phenomenon analyzed above, we have imagined even an ideal situation, asking subjects to indicate what job they would choose if they have available an unlimited supply of jobs. More specifically, we were interested to determine where exactly they would prefer to work, and we don't refer to fields of activity but to the type of ownership of the economic unit, whose employee would choose to be. Most subjects would choose a job in the state sector (46%), followed by the private sector with 16.3%. The gap between the two options is important and supports the previously mentioned above: those who are looking for a job, are trying to get employed, not to be a jobber or a seasonal worker, very often the work in the private sector is equivalent to something like that in the Jiu Valley area. Other options are expressed too, for example 25.2% of the subjects being indifferent where their work as long as they are legally employed, and 12.5% of them cannot express any option or refuse to do so. A job in the state sector is very attractive, as also a job in the private sector, as long as it provides the "safety of tomorrow".

The fact that there are changes in the way of thinking of people in the Jiu Valley is confirmed by the items they choose as a priority in setting the wages. The acknowledgement of the proven competence of the employee at his workplace and his responsibility matter first and foremost. In other words it is agreed that a salary must be "flexible", aspect that involves intrinsic motivation, but must be accompanied by a financial motivation to correlate directly with the proven competence. It is a facet of the things that marks a shift from wage claims supported only by difficult working conditions to wage claims based on work quality. There is certainly a positive aspect,

the evolution from the years in which high salaries were demanded only because of the harsh conditions of work, to the realization that the quality level at which they work must be rewarded first. However, working conditions are maintained at a level which easily exceeds 25% of the responses. We must specify that it's about the working conditions encountered in general, regardless of activity or type of ownership, which means a step forward from the 90s period when the wage demands were almost exclusively dependent on the working conditions.

Already knowing which factors should be taken into account in determining the salary income, we surveyed including what the investigated subjects expect from their workplace. The highest expectation is related to material and financial reward (41.3%). Let us not forget that this expectation is linked to the criteria considered in determining the salary level. It is undoubtedly a positive extrinsic motivation type, but pecuniary. For example, a little over a quarter of those surveyed want their individual merits to be recognized, that they are competent in what they do. We interpret this requirement as a need for the confirmation of the personal value, element that contributes to increasing the self-esteem and status crystallization. It is a form of positively extrinsic motivation, but with a subjective nature involving stimulation by praise and encouragement. Another type of expectation is related to job security, the possibility to borrow money from banks without the fear of being fired (18.7%). If this kind of motivation should consider the work, we could say that this is a negative extrinsic one. But it manifests itself in a completely different context, which transforms it into a positive character.

There are also subjects who are expecting from their workplace the recognition of its social utility (2.7%), the total investigated population have positive extrinsic expectations, with slight variations in hue. Especially in the 90s, the Jiu Valley was known as one of the areas in which was invested heavily in the social care. This state intervention, due to the lack of jobs, however caused the appearance of a certain type of mentality: that of the social assisted person. It has spread much the common belief, that it is more profitable to get money from the state rather than doing your job. I made a few remarks at the beginning of the paper about the counterproductive way of thinking and now we will detail the status quo by presenting the views expressed about the social aid. Most of our respondents (61.5%) disapprove the according of the social aids which are perceived as a tool that determines people not to work. It was certified in fact that, eventually, the community realized what is damaging for its interests, that the guaranteed minimum income should not constitute a definitive solution but a temporary one. What happened in the Jiu Valley was a perverse type effect: the social aids have been transformed into a permanent form of social assistance. Following the established correlation between the number of people who make up families in the Jiu Valley and the income categories in which they suit here is the following statistical situation of the families who benefit from the GD (Government's Decision) nr. 5 of 10 January 2007 guaranteed minimum income, above nr.21/12 published in the Official Gazette in January 2007:



**Figure 1. The distribution on families, depending on the members, who benefit the GD (Government's Decision) nr.5 of 10 January 2007**

A statistic that we consider quite accurate, from the point of view of the sample on which we worked, but quite disturbing, especially for families made up of five persons. The leap is a consistent one, but it shows the reality that many families have to face in the absence of a social protection, they would be in a desperate situation. This protection is seen by the rest of the population in a critical way. Responses received are some which try to discourage the perpetuation of welfare practice in the permanent form those who can work. The positive valences of social protection are not ignored by the population, almost one third (31.2%) considering that this is a good way but on a short term, given only for subsistence. Other answers incriminate both the welfare recipients, considering that in this way it is encouraged the laziness 25.8%) but also the state, by providing social protection it conceals its own impotence in creating new jobs (42.8%) by ignoring objectionable, the emergence of new production capacity is infinitely less than the granting of long term social benefits, which are already proven as totally unproductive. The financial situation of the families in the Jiu Valley is one you already know as a difficult one, it was revealed to us by other research. I asked those included in the study to specify the category of monthly income of each family. Because we do not want to lose in details we have resorted to merging some of the categories, thus better understanding the financial context of the families in the Valley:

**Table 1. Distribution of family income categories in the Jiu Valley**

	Monthly income category					Total
	Up to 10 mil. lei	10.1-15 mil. lei	15.1-20 mil. lei	20.1-30 mil. lei	Over 30 mil. lei	
Family	58.2%	23.2%	12%	5%	1.6%	100%

Already having an objective starting base in judging the incomes which these families have, we asked for a subjective evaluation, wanting to see how this state of facts is received even by those who live it daily. Almost two thirds of the respondents

say with conviction that their family incomes reach at the limit (62.7%). Merging the incomes with the number of members per family it is easy to conclude that there is no exaggeration of the situation. Furthermore, 29.4% of respondents said that the revenue available to the family level is very much or well below what they need to live decently. There are also families in the Jiu Valley whose incomes exceed their needs (7.8%) , much or very much . The needs-income ratio sketches correctly the financial context in which families live their lives in the Valley: one located at the boundary of decency and sometimes even below it. Knowing the economic situation of these families, we considered that conducting further work is desirable to obtain other sources of income to enable them to raise the living standards. Not without surprise, but confirming once again the negative effect of the prolonged social protection, but also of undeclared work, constituted a negative experience, we found that 49.3% of subjects don't do anything for the multiplication of family income's sources. But this is not the spirit which characterizes all the families in the Valley.

There are some cases, many of them, (26.7%) of people who wish to have a second job but they cannot find this opportunity in the city who reside, or in other cities that make up this urban conglomerate. There are also other income generating activities, as follows: occasional activities (18.4%) second job (3.6%), rents (2.1%). Let's note an issue which we define as categorically negative: a very small proportion of the population of the Jiu Valley who has a second job. Compared with other areas of the country, the situation is one below the most pessimistic expectations, especially because the time of the last layoff in 1997 was one long enough for its economic "reinvention", validating once again the hypothesis of underdevelopment on the background of reducing the principal activity in mono-industrial areas. Just to certify the veracity of the previously reported, we will remember that according to Engel's Law "a high proportion of food expenditure in the total expenditure indicates the presence of poverty" (M.S. Stănculescu, "Between absolute poverty and welfare", the Magazine for Social Research, No.2 / 1998, p. 27). Based on the researches, it resulted that in the Jiu Valley no less than 58.9% of household expenditure goes towards food, and 30.7% for housing maintenance. In such a situation it can no longer surprise anyone that for other types of expenses are given tiny amounts: 5.2% for medicines and medical services, 2% for clothing and footwear, 1.3% for education and culture etc.

In an area where poverty is present for almost a decade, it was easy to assume that the population often calls to certain types of money lending. We were interested in their type and from where they borrow the money. After processing the responses we have established three categories of subjects, or rather families: the / those who only borrow from relatives, friends, colleagues or neighbors (61.4%), the / those who only borrow from banks / NFI (Non-banking Financial Institutions) etc. (27%), and the / those that are not in a position to borrow money from someone, whatever the source of the loan is (11.6%). The proportion of the people who get a loan is very impressive, but also the loan sources' cleavage. The fact that almost two thirds of those who have answered our questions avoided to borrow money from specialized institutions, shows the same reality: the chronic poverty and the lack of jobs (with all the variations that

may be included here). The conclusions we drew from the analysis of a decreased data segment compared with the results of the whole research throughout 2007, are:

1. the material life of the population has experienced a continuous degradation in the last ten years ;
2. although mining has known a significant process of collapse, paradoxically this activity is still considered the main source of living in the Jiu Valley;
3. there was a failure from the point of view of the human resources management. In this way, the state has witnessed almost passively at the deprofessionalization of the people, at the professional inactivity of the young graduates of vocational schools, colleges or universities;
4. avoiding the area by large investors is a reality, the causes that contributed to this situation are multiple, but the main cause is the negative image of the Valley;
5. the social benefits, received with enthusiasm at the beginning of the last examined decade, had a real perverse effect, almost two thirds of the population disagreeing with this practice in a permanent form;
6. the share of food expenditure in the total expenditure of the families here, without doubt, indicates a poor population that will continue to pauperize in the absence of some intervention programs, others than those so far.

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## **RELEVANT ASPECTS OF PUBLIC INVESTMENTS VALUATION**

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**ABSTRACT:** *Recent developments, such as privatization and the private finance initiative, have raised the issue of which assets should be owned by the public sector and whether assets have different values in the public and private sector. In order to answer to this question we make here a parallel between public and private investment under considerations such investment appraisal, valuation criteria, cost of capital and the required rate of return, as well as the risk associated to public-sector investments. Finally we offer an example that highlights some of the considerations presented below.*

**KEY WORDS:** *investment project; property; public sector; private sector; cost of capital; costs; benefits; risk; assets; taxes; cash flow.*

**JEL CLASSIFICATION:** *H43.*

### **1. INTRODUCTION**

The governments are responsible for setting macroeconomic policy. They seek to promote equity by aiding the poor and the disadvantaged and they provide a variety of services- education, health, defense, infrastructure, police and postal services. Most of these activities involve large investments.

One of the problems raised in public and private investment's appraisal is the value of the assets. If the assets have different values in the public and private sector which assets should be owned by the public sector and how to price assets that are transferred between the two sectors? In fact, investment appraisal in public sector should differ from that in the private sector? In this paper we try to answer to that question.

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## **2. PUBLIC VERSUS PRIVATE INVESTMENTS**

The managers of firms in private sector will maximize the welfare of shareholders by undertaking all projects that increase shareholder wealth. A project's contribution to shareholder wealth, named its net present value (NPV), is calculated by discounting the project expected cash flows by the return expected on capital market securities of equivalent risk. Irrespective of the model used for estimating the expected return, investors require a premium for bearing risk. This risk premium takes the form of a higher required return and depends on the project's non-diversifiable (or factor) risk. Managers can best help shareholders by accepting all projects with positive NPV.

Both public and private sectors undertake projects that require making some initial investments and are expected to provide benefits over a number of years.

Both sectors must choose between making these investments and returning the cash to be invested to their beneficiaries (the shareholder in the case of private-sector firms and the citizenry in the case of governments) who can then invest the cash directly in the capital markets or spend it on current consumption. All parties involved (firms, government, shareholders, citizenry) have access to the same capital markets, so the opportunity cost of these investments should be the same for both sectors.

In neither case can the beneficiaries' wishes be ignored with impunity. Directors can replace managers if they prove to be incompetent, or run the risk of themselves being replaced. Similarly, citizens in a democracy are provided, through elections, with the regular opportunity to replace incompetent governments. They also elect representatives whose role is to monitor the government.

At first sight, one might expect the investment criteria that are appropriate for private sector firms to be fairly similar to those for government. That this need not lead to the same investment appraisal procedures is a consequence of the different nature of the agency relationships in the public and private sectors and of the differing intent of the contemplated investments as well as the presence of distortions such as taxes.

## **3. VALUATION CRITERIA FOR PUBLIC-SECTOR INVESTMENTS**

These criteria cannot be identical to those for private-sector. The only cases where government assets should have the same value as their private-sector equivalents are those where there are no public goods, no monopolies and no externalities. These are the cases in which there no motive for public ownership.

Despite the assumption of a difference between public and private-sector valuations, there are important dimensions along which valuation techniques should be the same in both sectors. Differential agency effects, public goods, monopolies and externalities affect only the cash flows of a project. As we shall see, the cost of capital is the same in the public and private sector in the absence of tax distortions and with complete capital markets. Under these conditions, a given set of future cash flows with particular level of risk should be evaluated in the same way in the public and in the private sector. So we have to analyze the imperfections, such as taxes, that drive a wedge between the opportunity cost of capital in the public and private sector.

First, we have to consider the issue of unanimity among shareholders and citizen. The cost and benefits of a firm's investment decisions are shared proportionately by the firm's shareholders, who are therefore largely united in their objectives. Such proportional sharing is generally not true of public sector investments. Government investments may be motivated by externalities, which affect different segments of the population in different degrees. A rule that requires the government to make only Pareto improving investments (investments that make at least someone better off and no one worse off) is clearly too restrictive for practical use. An alternative rule (Hicks, 1940; Kaldor, 1939) would require the government to value all the benefits and costs of proposed investments and make those investments that offer the largest net benefits.

Under this criterion, project should be undertaken by the government if those who benefit from the project can afford to compensate those who suffer (those who bear the direct costs of the investment or are exposed to its negative externalities). If such compensation may not always be paid, the government needs to recognize the distributional effects of the investments it makes. This may be achieved by postulating a social welfare function that summarizes the relative merits of alternative income distributions, but it is unclear how such a function should be determined. Moreover, it would be suboptimal to take distributional considerations into account on a project-by-project basis. Thus, it is common simply to calculate the net benefits of an investment and to make separate judgement as to its distributional consequences.

#### **4. THE COST OF CAPITAL IN THE PUBLIC SECTOR**

The defining characteristic of investment decisions is their concern with benefits and costs that are not coincident. Costs are generally incurred at the outset, whereas benefits may be delayed. Future benefits and costs must be discounted to the present, so an important problem in public finance is the determination of the appropriate discount rate or cost of capital and its comparison with that used by private sector firms.

In the following considerations we first abstract from risk and taxes.

The opportunity cost to the government of investing in risk-free real assets is the reduction in interest payments that it would achieve if the cash to be invested were instead used to repurchase government debt. Since similar opportunities are open to private-sector firms, the rate of interest on government debt is the opportunity cost of capital for a risk-free investment by both the private and public sectors. The discount rate used by the government, the social rate of time preference or social discount rate should differ from the market rate of interest (Pearce and Nash, 1981) and conceptual distinction between the market rate of interest and the social discount rate:

- I. Resource expenditure by government has an opportunity cost, because the resources would otherwise be available for other uses, to provide immediate consumption benefits and be at least partly invested to produce a return. There is a further cost of the distortions caused by taxation, at the margin, to fund increments in public expenditures.

- II. These opportunity costs apply equally to extra expenditure and to expenditure savings, and in general, apply as much to later as to earlier years. They are therefore generally not relevant to the simple comparison of public expenditure over time, for which the conceptual basis depends on people's time preference for consumption.

It is unclear what is the appropriate decision rule if the two rates point to different courses of action or how the choice of rate depends on the nature of the flows. The difference between the two rates is unlikely to be large enough to justify making a practical distinction.

There may be several motives for wishing to distinguish between the opportunity cost of capital and the social discount rate. A benevolent government may be justified in encouraging investment for the future and may even want to invest in projects that have a lower return than that required by investors. More rationally, individuals may fail to consider the welfare of future generations in making their consumption and investment decisions. The government, acting as a guardian of future generations, should invest at rates of return that individuals acting in their own selfish interest would find unacceptable.

To the extent that involves a value judgement about the sacrifice that one generation ought to make on behalf of another, the social rate of time preference cannot be a matter for economics analysis. But it is not even clear that, in principle, a democratically elected government could or should use any discount rate but the market rate of interest to value its investment.

A government would be justified in using a discount rate that is lower than the market rate of interest only when the resources to be invested by the government cannot be invested at the market rate of interest. When these resources can be invested at the market rate of interest, whether by the private sector or the public sector, it is undesirable to divert them to an investment that will return the lower social discount rate. We may state that the issue of distinguishing between the market rate of interest and the social discount rate arises only in the case of a large project in a large economy, for such a project may affect the market rate of interest. In the case of a small open economy, as are most economies today, resources can always be invested at the world market interest rate. As a conclusion, the social discount rate cannot be lower than the market interest rate, for it is the latter that represents the opportunity cost of any investment.

## **5. THE OPPORTUNITY COST OF CAPITAL AND THE REQUIRED RATE OF RETURN**

In order to make a conceptual distinction between the social discount rate and the opportunity cost of capital, we have to distinguish between the opportunity cost of capital and the real required average rate of return (RRR) which is used as the discount rate for investment in trading activities. It is difficult to understand this distinction. It is true that, if private sector firms undertake only those projects that have positive NPV when valued at the cost of capital, the average rate of return will be higher than the cost of capital. But private-sector firms do not in consequence change their criterion to one

of earning an above-average rate of return. If governments follow a policy of accepting only those projects that are expected to earn at least the cost of capital, they will find that their average return exceeds the cost of capital.

## **6. RISK AND THE COST OF CAPITAL FOR THE PUBLIC SECTOR**

The choice by many governments and multilateral institutions of discount rate that are close to the risk free rate suggest that they view the public-sector projects as being of low risk. It is not entirely clear, whether this is because governments consider the projects undertaken by the public sector as being by nature of low risk or whether it is because they consider that projects become of low risk by virtue of being undertaken by the public sector.

A common but simple case for using a low public-sector discount rate focuses on the fact that the government can borrow at the risk-free interest rate. Private-sector firms generally borrow at a higher rate of interest than does the government and, must service equity made costly by the risk premium that must be paid to shareholders. The apparent contrast between cheap debt raised by the government and costly debt and equity raised by private-sector firms is misleading. Taxpayers bear the residual risk of government investments, particularly those of making good on the obligations to debtholders, in much the same way as the shareholders of a private-sector firm.

A more sophisticated argument for a low public discount rate has been made by Arrow (1965, 1966), Arrow and Lind (1970), Samuelson (1964), Solow (1965). As noted by Bailey and Jensen (1972), underlying this argument is the presumption that: a) the risk of public-sector projects is distributed over the entire population; b) diversifying risks through government ownership can serve to eliminate risk to a very large extent, and c) such diversification can be achieved more cheaply by the government than by financial markets..

Critics of these risk-pooling arguments are directed against each of the argument's three headings (Bailey and Jensen, 1972).

a) While it is true that much of the uncertainty about the costs of a government project is borne by taxpayers and is widely distributed, the uncertainty about the project's benefits is generally borne by the specific individuals who receive those benefits.

b) Pooling can eliminate risk only if the outcomes of public projects are independent both of each other and of outcomes of private investments. While Arrow and Lind recognize the former condition, they provide no evidence that it is satisfied.

c) The assertion that private markets do not constitute an efficient mechanism for insuring risk is not justified.

Perhaps the determining consideration is this (Hirshleifer, 1964; Bailey and Jensen, 1972): in the presence of complete capital markets, in which the pay-offs to all projects are spanned by existing securities, taxpayers can shed any risk that accrues from the undertaking of a project by the government by trading in the capital markets. The risk premium demanded by the capital markets is the cost of shedding this risk. It is therefore the risk premium demanded for both public- and private-sector projects.

It is well-known that the discount rate should vary with a project's exposure to risk. It is difficult to make fine distinctions regarding project risk, but when assets are exchanged between the public and private sectors, spurious apparent value may be created by the use of an inappropriate discount rate. This is particularly important in the case of those asset transactions that are effectively financing transactions (for example the sale and leaseback of a government property should be evaluated using a lower required rate of return than a typical public-sector project, because it generally has a very low risk level).

For many public projects, sponsors are concerned with the maximization of net benefits. In many cases benefits are taken as given and sponsors are concerned only with the minimization of costs. If these costs contain a sizeable fixed element, they may be somewhat less risky than net benefits. We cannot observe separate market prices for the revenue and cost streams of private-sector firms, but it is possible to estimate the covariance of changes in these firms' revenues and costs with changes in aggregate accounting profits. These co-variances can be used to derive accounting betas' that serve as proxies for the systematic risks of the revenue and cost streams.

The case for using a relatively low discount rate to value a stream of costs relies on the fixed nature of many costs. This is distinct from the common misconception that, when calculating present values, the adjustment for risk should depend on the sign of the cash flow. Stiglitz (1988) argues: "To see how increasing the discount rate may lead to absurd results, consider a project that, at termination, requires expenditure. Assume that there is some uncertainty about the magnitude of that cost. We would normally think that this uncertainty would make that project less attractive than if we knew for sure what the termination costs were. But consider what happens if we use a higher discount factor to offset the risk: the present value of those costs is reduced and the project looks more, not less, attractive".

## **7. INVESTMENT AND FINANCING**

Another important feature of private-sector investment is that the evaluation of an investment should be independent of the financing of the investment. Also, it should be independent of the accounting treatment of the investment and its associated financing. For example, the fact that the government finances its investments by borrowing at a lower rate than the private sector is irrelevant to the evaluation of its investments as this low borrowing rate is made possible only by the government's powers of taxation and is unaffected by the projects that it invests in. Similarly a government transaction that happens to increase the public-sector borrowing requirement should not be treated differently from another transaction that does not affect the public-sector borrowing requirement.

## **8. AN EXAMPLE OF APPLICATION**

We conclude our considerations with an example that highlights some of the issues mentioned above. This example is that of general purpose property, such as office buildings used by the public sector. The question we want to answer is: Should

these be owned and maintained by the public sector or should they be rented? Or: Should the public sector's valuation of these assets be different from their private-sector valuation?

In order to answer this question we consider the various effects that may give rise to a difference between public- and private-sector valuations: public goods, monopoly power, externalities, risk and taxes. In the absence of any differential effect across the two sectors, public-sector valuation should simply follow the best practice in private-sector valuation.

In the case of general purpose property, such as an office building, it is difficult to argue that there are any significant public goods, monopolies, or externalities. Agency effects that may result in less-efficient management of the property will be reflected in the estimated cash flows from the property. The discount rate used for valuation will not be affected by the existence of these effects. In so far as risk is concerned, risk sharing should be the same whether the asset is owned by the private sector or by the government, as the existence of a claim on a given property will do very little to complete the market. This leaves the final issue of taxes. If the public sector decides to own the property, rather than lease it, the present value of the lease payments thus saved must be compared to the purchase price of the property. This calculation should be carried out by discounting pre-tax cash flows at the appropriate pre-tax discount rate. In the private sector the relevant calculation involves the discounting of after-tax cash flows at the after-tax opportunity cost of capital. As a result, the private sector may value the asset more highly than the public sector if the private sector can use the asset to reduce taxes. The private sector may therefore be willing to pay more for the asset than the public sector by the present value of the tax savings it can achieve by owning the asset. This should not necessarily constitute a reason for the government to sell the asset to the private sector, for it is taxpayers who will pay for this apparent gain.

## **9. CONCLUSIONS**

In this paper we made a general assessment of public investment, highlighting the differences between investment project in public and private- sector. Also, we presented the investment criteria within public-sector enterprises with particular emphasis on the cost of capital. In particular we argue that:

- in an open economy the relevant discount rate for government projects is the opportunity cost of capital – that is the expected return on comparable investments in the capital markets;
- since the government receives all tax revenues, risk-free projects should be valued by discounting their pre-tax cash flows by the pre-tax interest rate;
- if the pay-offs of the project are spanned by existing traded securities, then the risk premium demanded should be the same in both the public and private sectors; the presence of complete capital markets lessens the need for the government to diversify on behalf of citizen;
- the appropriate discount rate for costs is generally substantially lower than for net cash flows.

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## **FLEXICURITY BETWEEN THEORY AND PRACTICE IN THE ROMANIAN ECONOMY**

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**ABSTRACT:** *Addressing the employment issue in Romania raises interest by its importance in the country's economy. The concept of "flexicurity", created relatively recently, and the connections between it and the employment issue and the labour market represents the subject of this paper. The degree of implementation of the flexicurity principles to the Romanian realities can be highlighted by the analysis of the main indicators characterizing it. This way it is demonstrated if there are differences between the values obtained in Romania and those registered in the European Union.*

**KEY WORDS:** *employment; flexicurity; unemployment; labour market.*

**JEL CLASSIFICATION:** *E20; E24.*

### **1. INTRODUCTION**

The economy has undergone in the recent years some powerful transformations, but foreseeable in the evolution of the business cycles. There have been voices who presented the end of the capitalist era and its replacement with another form of organization and functioning of the economy still unknown, but which can be shaped in this period, because capitalism has shown its limits. There have been economists who argued that the current crisis does nothing else but strengthen capitalism and determine the improvement of its organization and operating way (Soros, 2007).

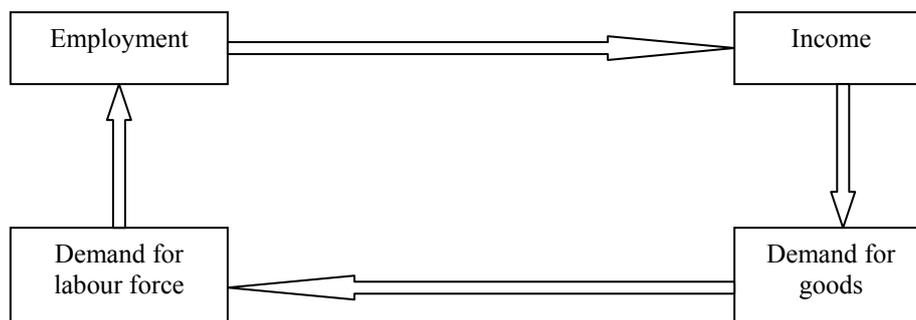
The challenges brought by the economic-financial crisis are multiple, both internationally and nationally. Overcoming the crisis by adopting the best decisions is a requirement of the present, but a requirement which should take into account both the

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economic aspect and the human one. We believe that moving towards a new stage of development should be focused on the individual, viewed as an economic actor.

Emphasizing the importance given to people is based on the role of employment in economy, because it creates either a vicious circle or a virtuous circle between employment - income - demand for goods - demand for labour force. The vicious circle is formed when employment is not a priority objective of the national strategies and it is not supported by adequate measures to the current economic situation. In antithesis to this is the virtuous circle when the State is concerned about increasing employment, so that it can generate benefits to the economy.



Source: Figure made by the authors

**Figure 1. Virtuous circle/vicious cycle of employment**

Throughout time it was observed that the market economy has created jobs for almost everyone who wanted to work. “This ability of the economy to create enough new jobs to allow the employment of millions of people - newly labour market entrants is the great result of competitive markets.” (Stiglitz, 2005)

The employment degree is directly influenced by the demand for goods, because the labour market is directly related to the goods and services market. John Maynard Keynes showed that the labour force employment level may decrease without any change from the aggregate demand, in case the demand direction is influenced by the products with a relatively low elasticity of the labour force employment. (Keynes, 2009)

## 2. VALENCES OF FLEXICURITY AT MACROECONOMIC LEVEL

The attempt to increase the employment degree in the contemporary period also requires understanding and applying a relatively new term in the field of employment, namely “flexicurity.” Flexicurity can be defined as being an integrated strategy of simultaneous consolidation of flexibility and security on the labour force market (Report Flexicurity, 2007)

Flexicurity involves two notions specific to employment:

- **flexibility** represents the transitions that every individual records during their lifetime (from school to the place of work, from one job to another, between

unemployment or inactivity and the place of work, and from the place of work to retirement). However, the meaning of this notion does not refer only to these transitions, it also involves the ability of individuals to respond effectively to the requirements of productivity and to reconcile the professional life with the private life;

- **security on the labour force market** has a broader meaning than keeping the job, referring to the development of skills as basis for progress in the professional life, from appropriate unemployment allowances in order to move towards the socio-professional integration, to professional training opportunities for everyone, but especially for those with low qualifications or for the elderly.

Achieving these goals can be accomplished with the help of the flexicurity policies, policies covering four essential components. These components are presented in table number 1.

**Table 1. Components of the flexicurity policies**

<b>Components</b>	<b>Characteristics</b>
<i>Flexible and reliable contractual arrangements</i>	They are provided by labour law and by collective agreements They ensure the organization of modern labour
<i>Comprehensive strategies for lifelong learning</i>	They provide adaptability and worker employability capacity, especially for the most vulnerable categories
<i>Policies from the active and effective labour force market</i>	Individuals can respond quickly to changes They help to reduce unemployment periods They ease the transition to new jobs
<i>Modern social security systems</i>	They provide financial support (unemployment benefits, pensions and healthcare) Encourage employment of labour force They determine mobility on the labour force market

Source: Created by the authors using the information from the "Report.Flexicurity", Bucharest, 2007, p. 4

In our country the implementation of flexicurity aims at the four components of the flexicurity policy presented in table number 1, and to quantify the results obtained the relevant reference indicators are used. The real situation in Romania at the moment can be highlighted through an analysis carried out by using the indicators that characterize flexicurity.

The indicators presented in this paper and with the help of which we analyze the results obtained in our country are:

- Adult population involved in education and professional training activities;
- The overall employment rate, by gender and age;
- Unemployment rate among young people;
- Long-term unemployment;
- Rates of poverty risk.

We stopped at these indicators from those characterizing flexicurity as we believe that they are the most representative to demonstrate the level reached by our country.

### 3. ANALYSIS OF INDICATORS SPECIFIC TO FLEXICURITY IN ROMANIA

The analysis of the indicators specific to flexicurity will include the 2006 - 2010 interval, and the series in which there is no data for the last year the analysis will cover the period from 2006 to 2009. The indicators obtained in Romania are compared with the average value recorded in the European Union, and in the eloquent situations also with the values recorded in the main European Union member states.

The percentage of adult population aged between 25 and 64, involved in education and professional training activities is presented in table number 2.

**Table 2. Adult population involved in education and professional training activities in Romania**

Years	Total	Male	Female
2006	1,3	1,3	1,3
2007	1,3	1,2	1,4
2008	1,5	1,3	1,6
2009	1,5	1,3	1,6

Source: <http://epp.eurostat.ec.europa.eu>

In Romania the percentage of adult population who continue professional training is low as compared with the value recorded in the EU of 9.3% for 2009. The values obtained in our country differentiate females from males, because the former record higher percentages, indicating the desire of women to continue their training throughout life. The differentiation based on gender is also reflected in the European Union, 8.5% is the percentage of males and 10.2% for females (values recorded in 2009).

The technological improvements and the increase of investment lead to raising the labour demand, but dividing the labour supply according to the level of training. Reality has shown that capital accumulation is supported by the accumulation of knowledge, proportionally with the development of the human personality through investment in human capital. The labour – capital substitution, seen as factors of production, determines in this situation the increase of the labour demand for skilled labour and the reduction of the labour demand for unskilled labour so that lifelong training is a guarantee to obtain higher income and job security.

The employment rate is a very relevant indicator to characterize the situation in our country, but also to make comparisons with EU countries.

The employment rate in Romania is found during 2006 - 2010 at a difference of approximately 6% as compared with the European average, but it is significantly reduced if we compare it with the values recorded in Germany. Table number 3 shows the employment rate in France, a country from the European Union considered developed, but it records an employment rate lower than the European average. In the

EU the employment rate had increasing values until 2008, and in the last two years the percents were declining, so that it may be considered that the current crisis has caused a reduction in employment. In Romania only the year 2009 recorded a reduction in the employment rate, increasing by 0.2% in 2010, even if the effects of the crisis were felt strongly by the Romanian economy.

**Table 3. Employment rate**

Country	2006	2007	2008	2009	2010
EU 27	64,5	65,4	65,9	64,6	64,2
Germany	67,5	69,4	70,7	70,9	71,1
France	63,7	64,3	64,9	64,1	64
Romania	58,8	58,8	59	58,6	58,8

Source: <http://epp.eurostat.ec.europa.eu>

The European Employment Strategy aimed to achieve an average employment level of 70% in 2010 in the European Union. The data presented demonstrate that this objective was not achieved, but through the objectives of Europe 2020 Strategy, the European Strategy on Employment sets out the objectives that target the year 2020. [8]

The strategy encourages the adoption of measures to meet the following three major objectives in 2020:

- 75% of the people aged between 20 and 64 to be active on the labour market;
- reduction of school dropout to less than 10% and the increase to at least 40% of the proportion of higher education graduates among the population aged between 30-34 years;
- reduction by at least 20 million of the number of people who suffer or may suffer from poverty and social exclusion.

The European Strategy on Employment intends to form an adequate environment for job creation, better and more jobs throughout the European Union.

**Table 4. Employment rate by gender**

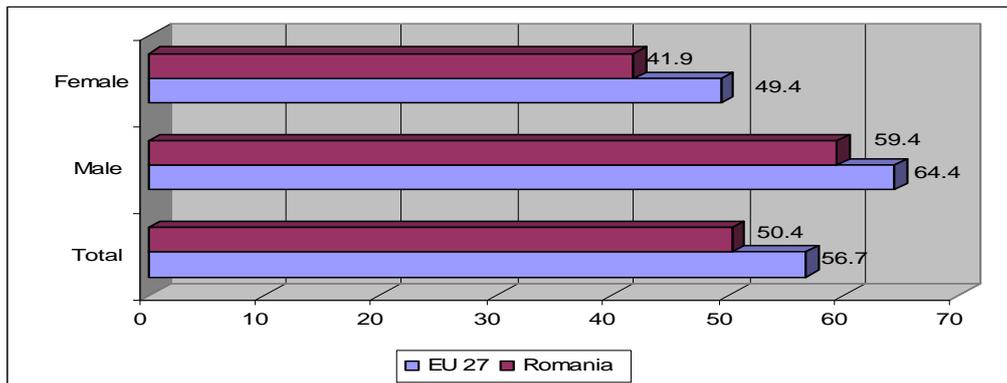
Country		2007	2008	2009	2010
EU 27	M	72,5	72,8	70,7	70,1
	F	58,3	59,1	58,6	58,2
Germany	M	74,7	75,9	75,6	76
	F	64	65,4	66,2	66,1
France	M	69,2	69,6	68,4	68
	F	59,7	60,4	60	59,9
Romania	M	64,8	65,7	65,2	55,7
	F	52,8	52,5	52	52

Source: <http://epp.eurostat.ec.europa.eu>

Having gender as a selection criterion, the employment rate has significant differences, so that in the EU the employment rate among males was of 70.1%, and among females of only 58.2% in 2010. Romania is part of this gap, but recording

lower values, 55.7% employment rate among males and 52% employment rate among females.

What is interesting to note is that although the percentage of females who continue their training throughout life is higher as compared to males, the figures are smaller when we talk about the employment rate.



Source: <http://epp.eurostat.ec.europa.eu>

**Figure 2. The employment rate of elder employees in 2010**

The employment rate of elder people is lower compared to the entire period in which the person may be employed. In the case of this indicator, the values recorded in Romania are closer to the level of the European Union.

The unemployment rate represents the indicator found in contrast to the employment rate, but which allows us to notice the categories most affected by unemployment.

**Table 5. The unemployment rate among people under 25 in Romania**

Years	Total	Male	Female
2006	21,4	22,3	20,2
2007	20,1	21,1	18,7
2008	18,6	18,8	18,3
2009	20,8	21,2	20,1
2010	22,1	22,3	21,8

Source: <http://epp.eurostat.ec.europa.eu>

Elder employees are less likely to become unemployed than younger workers, so that youth unemployment is universally higher than that of adults (Lipsey, 1999).

Unemployment among young people in our country records values leading to the conclusion that young people represent a category largely affected by unemployment. Youth unemployment rate had a decreasing trend in the first three years analyzed and recorded increases in 2009 and 2010. Clearly, the crisis has also affected the young because of reduced qualification and experience specific to this age

group. The European Union average of this indicator is of 20.6% for the last year analyzed.

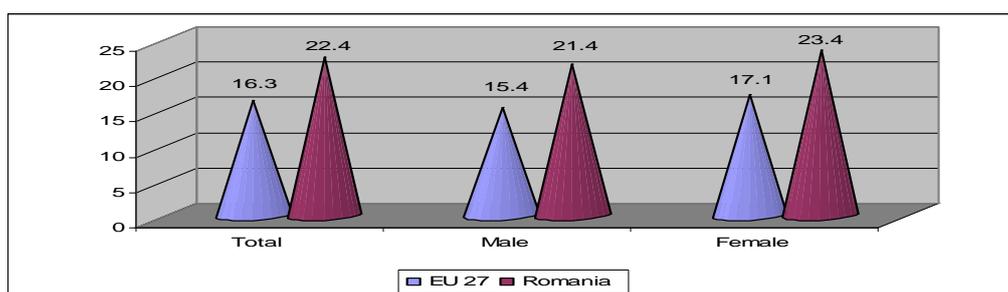
**Table 6. Long-term unemployment in Romania**

Years	Age 15 – 74	Age 20 – 64
2006	57,8	59,3
2007	50	51,4
2008	41,3	42,6
2009	31,6	32,7
2010	34,9	35,9

Source: <http://epp.eurostat.ec.europa.eu>

The rate specific to long-term unemployment in Romania has a downtrend, only in the last year recording growth values. At this indicator Romania can be found below the EU average for both age ranges. The European Union average for the 15 - 74 years range is of 39.9% and for the 20-64 years range is of 41.3%.

Long-term unemployment causes serious social problems since the resources families have (savings, insurance in case of unemployment, the others' goodwill, etc.) begin to decrease after several months of unemployment. (Samuelson, 2008)



Source: <http://epp.eurostat.ec.europa.eu>

**Figure 3. Rates of poverty risk in 2009**

The poverty risk affects 22.4% of Romania's population, females being more affected than males, because the employment rate is lower in this category. The difference as compared to the European average is of approximately 8%.

#### 4. CONCLUSIONS

The concept of flexicurity is easy to perceive, but its application in the real economy is an attempt through which each country shows its degree of understanding. In other words, the theoretical part is clear, but the difficulty arises when we refer to the practical part.

The indicators presented to characterize the situation from Romania show that our country has differences, sometimes significant, as compared to the average values obtained in the European Union.

The involvement of the adult population in lifelong training records values of almost four times lower than the European average. The employment rate is 6% lower as compared with the level achieved by the European Union. The unemployment rate among young people is almost 2% higher than the EU average, and in the risk rates the difference is of 8%. The only indicator at which Romania records positive values as compared to what is happening at EU level is long-term unemployment, which for both age ranges presented is lower than the European values.

Romania has tried to act in two directions on the labour market: increasing the participation rate on the labour market and improving the quality of human resources.

Understanding the importance of lifelong learning for each person will increase the employment rate, especially given that according to the training level, the employment rate for people with higher education is of 82.4% in our country, and at European level it is of 82.3% for 2010.

Extending active life is highly important taking into consideration the demographic trend, but especially given the circumstances in which at European level we talk about implementing a culture of active aging.

In Romania it was concluded that the following policy areas are a priority for implementing the flexicurity principles:

- lifelong learning;
- implementation of active policies on the labour market.

This year the Labour Code was amended so as to cause an increase in the flexibility of both employees and employers.

All these aspects demonstrate that our country needs, next to investment, to increase the absorption degree of the EU funds, but all this should be achieved through the creation of the appropriate operation mechanism of the labour market.

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## THE AGENTS OF EDUCATION MARKET

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**ABSTRACT:** *The hereby paper is grounded upon an approach that considers education from the point of view of market economy adapted to the demands and the specific character of the educational system. Under such circumstances, we have drawn out this study through which we have elaborated an analysis of the main market components of the educational system. At the same time, due to the particular traits of the education market, we have displayed the part, influence, and action detained by each of this market's agents.*

**KEY WORDS:** *education market; educational services; educational capital; beneficiaries; customers; buyers-sellers; bidders.*

**JEL CLASSIFICATION:** *B21; B22; I21; I29.*

### 1. INTRODUCTION

Economic science includes various definitions of market; each of them focuses upon certain elements or/and certain processes that represent the complex phenomenon of market. Among them we are going to stress in the hereby analysis a classical definition according to which “market is the meeting point of *economic agents* that are divided into two large categories: *buyers* and *sellers*”; let’s also notice that on the same market and within the same action (selling-buying) an agent can only play a sole part, either that of seller or that of buyer. On the *economic* goods and services market, especially on the *private* goods and services market, the two agents as well as the two positions they detain may be easily identified: the buyer is *the one who pays the price* of the goods and services, irrespective of their subsequent destination while the seller is *the one who gets the price* of the goods and services, irrespective of the fact that he/she is (also) the producer or only an intermediary (Măcriș, 2009, pp.15-17).

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On the market of educational goods and services and, especially when these goods and services have a *public* (not private) character, things get complicated: educational goods and services are not always bought (sometimes they are obtained for free), the agent who buys is not always the consumer of the good, yet he/she should be, in one manner or another, the beneficiary of the good he/she bought, etc.

Similar issues concern the definition of *sellers*. *In case of tax education*, a seller is quite obvious: namely, the institution that perceives taxes in order to matriculate certain persons sells its services to buyers, that are also easily identifiable, in exchange of a price (school taxes). *In case of free education*, a seller is not so easily identifiable. Under such circumstances, educational establishments mostly appear to be educational services bidders or suppliers and not sellers according to the strict meaning of the term. The fact that education is free does not mean that it has no costs and that nobody sells and pays. In case we consider that the State (at a central level or/and through local administrations) is the one that provides free education (owing to direct financing or subsidies), then it could be considered as a sort of *intermediary agent*, buyer-seller, that first buys (pays) educational services which it subsequently re-sells, namely distributes for free to its citizens (Măcriș & Măcriș, 2009, p.181). In case we consider the main source of incomes the State employs in order to finance education (taxes paid by citizens), then we should notice that the buyer is the citizen who pays taxes although he/she does not directly decide upon the price and quality of the good he/she bought nor upon the manner such a good is used.

## 2. BENEFICIARIES, CUSTOMERS, BUYERS

When one attempts to approach education through market economy, the first obstacle to be surpassed regards terminology. The taking over of certain terms such as: customer, buyer, seller, consumer, etc., is considered to be inappropriate or even degrading for the noble character of education, for the kind of values and inter-human relationships that belong to the field of education. Nevertheless, the economic *connotation* of such terms is not doubted, but rather their subjective and contextual *connotation* that comes out of associating those terms with a mercantile, commercial vision upon education.

Yet, difficulties not only regard terminology; they also exhibit an essential character as the reality of education is not entirely accessible for the economic paradigm of analysis. In case we have in view the hypostasis of *buyer* within the relation selling-buying, the difficulty is given by the extreme diversity of the agents that may come out at a certain moment and under certain circumstances within such a hypostasis (pupils, students, parents, companies, institutions, etc.).

Another difficulty is determined by the fact that such a hypostasis may be either entirely detained, along all its segments (customer, buyer, and beneficiary) or partly detained (for instance, only beneficiaries and not buyers or customers). Accordingly, for the student who pays school taxes out of his/her own resources the quality of *buyer* is quite obvious: for him/her, those taxes represent the price he or she pays for the educational services he/she wants. In case of the 1st form child, the quality of buyer is entirely inappropriate: first, because he/she cannot be a direct buyer but

only a beneficiary for whom others pay (parents, tutors, the State, etc.). Out of the terms proposed by the title of the hereby paragraph (beneficiaries, customers, buyers), the most inclusive is the term of **beneficiary** due to the fact that the getting of the quality of beneficiary is not compulsory determined by playing the parts of customer or/and buyer. Then follow, according to the degree of inclusiveness, the terms of *customer* and *buyer*.

Being the most concrete and specific, the hypostasis of **buyer** is quite easily identifiable: the buyer is *the one who pays the price of the acquired educational goods*, irrespective of the fact that he/she is or is not the direct beneficiary of these goods and irrespective of the subsequent use he/she gives to them. Certain difficulties may come out while analyzing the quality of buyer according to the two components of educational goods. In case of *educational services*, things are quite simple: the buyer is the one who pays the price (cost) of these services. Although, as a rule, the quality of direct or indirect beneficiary is present, nevertheless it is not compulsory (for instance, the sponsor who pays educational services may not be interested at all in having a benefit from the educational capital resulting out of the services he/she paid). In case of *educational capital*, the buyer should be, as a rule, the employer or the entity that uses, in one way or another, this capital. Yet, under such circumstances, the buying relation does not anymore occur in connection with the agent that produced the educational services (the educational unit) but in connection with the owner of the educational capital (the graduate); at the same time, the employer (buyer) may get the educational product at a smaller price than the normal one, accordingly having benefits from the positive externalities of education without contributing to its financing. It is quite obvious that the issue does not regard the owner of the educational capital who got this capital through paying his/her educational services. Nevertheless, the issue is quite evident when the educational capital has been acquired without a proper counter-benefit as well as in all circumstances when there is dissociation among the one who pays the educational services, the one who gets the educational capital owing to such services, and the one who buys educational capital.

The hypostasis of **customer** is more inclusive than that of buyer, mainly due to the fact that the category of customers includes both present buyers and potential buyers. The quality of customer does not regard a specific producer but a specific product, the only viable behavior of producers (bidders) being to attract customers out of the potential ones and to transform them in present buyers. The market of educational services displays a similar condition. The category of customers is more inclusive due to the fact that it is also more diverse. The customers may only be the beneficiaries of the educational product and not its buyers. Accordingly, one may draw out a classification of the customers of the educational product that includes three categories (Marinescu, 2001, p.110):

- **Primary customers** are those who learn and represent the main beneficiaries of the educational product; they also become its most important components, namely the human educational capital (Pribac, 2011);
- **Secondary customers** include the parents, local and central administrations, various sponsors, being a category of customers that do not play a direct part in financing the educational product.

▪ **Tertiary customers** that include the future users (beneficiaries) of the labor that graduates represent; they are not directly involved in the carrying out of the educational process so that they do not represent real customers. The quality of tertiary customers is indirectly acquired through comparison with the owners of the educational human capital (the graduates) with whom they establish relationships on the labor market.

As regards the above classification, let's notice that the third category is rather a category of beneficiaries and not one of customers due to the fact that it does not directly address to the school unit, it does not appear as its customers nor does it directly contribute to the covering of the costs of educational services. This category may be included within the category of secondary customers when it finances (through scholarships or other forms) the education of those whose educational capital they are going to use.

As previously shown, the hypostasis of **beneficiary** is more inclusive due to the fact that it includes all those who have benefits from educational goods, in case of the two components (educational services and educational capital), irrespective of the fact that they are buyers or/and customers. It is quite obvious that the category of those who benefit from education is extremely diverse; it may include natural persons, institutions, administrations, companies, foundations, etc. as well as the social community as a whole. Nevertheless, such diversity may admit certain delimitation between the direct beneficiaries and the indirect beneficiaries of educational services; accordingly:

▪ **Direct beneficiaries** mainly include those who directly “consume” educational services and who gain an educational human capital: *students* and their *families*. At the same time, *social community* may also be a direct beneficiary to the extent to which it shows a specific interest in the education of its members and is willing (capable) to financially, materially, and humanly support educational services. Direct beneficiaries may also include *the companies, institutions, and organizations* that financially support educational services and use the educational capital they determine.

▪ **Indirect beneficiaries** are identified and located more difficultly due to the extremely diverse and hard to be evaluated effects education has upon individuals, social organizations, and society as a whole. Generally speaking, one may consider as indirect beneficiaries all those who benefit from the positive externalizations of education without directly contributing to its carrying out. For instance, social community may be considered an indirect beneficiary of the educational human capital acquired by those of its members who have financed their educational services out of private funds (and not out of public funds). Indirect beneficiaries may also appear under the circumstances of proximity (neighborhood) relations to the extent to which living in the presence of well educated persons represents a benefit that does not come out of a direct and personal effort. An important category of indirect beneficiaries is that of those who benefit from a component of the educational product (educational capital) without taking part, in one way or another, to the other component (educational services).

### 3. PRODUCERS, BIDDERS, SELLERS

The characteristics of education market not only emphasize several hypostases of the quality of buyer, as we have already shown in the previous paragraphs, but also an even larger number of hypostases of the quality of seller. Education market cannot be perceived according to the terms of a strict sell-and-buy relation, at least due to the fact that neither education costs nor its incomes always appear as money; moreover, it is quite usual not to be able to rigorously determine a monetary equivalent of educational services or of educational capital. Consequently, price, though present within various “transactions”, is not the sole mediator of the relation between demand and offer; as regards another aspect, price is not the only form through which educational goods “circulate” from those who produce them to those who are their beneficiaries. Accordingly, the quality of offer bearer does not always strictly match the quality of buyer; it may be quite often designated by the terms of bidder or/and producer.

Obviously, the quality of *seller* is, due to its concreteness, easily identifiable. A seller is no matter what *agent* – natural person (teacher), formal educational institution (school, university) or non-formal educational institution (clubs, cultural centers, etc.), foundations or associations – that *sells* educational services at a certain price which, as a rule, means *school taxes*, to certain *buyers* who are willing to pay that price for those services. Such sell-and-buy relations operate within an important segment of educational services market that functions, to a large extent, similarly to the economic goods and services market. The phenomenon of private lessons is typical for the sell-and-buy relation of educational services. Under such circumstances, prices are the result, to a large extent, of market conditions; even a conventional measuring unit of the amount of educational services is accordingly settled – *a course hour*.

In case of the educational units that perceive school taxes, we may further talk about a sell-and-buy relation, although we should analyze to what extent school taxes can be assimilated with prices according to the economic meaning of the term. It is possible that such taxes rather behave as the costs of educational services their beneficiaries pay as a co-participation in supporting educational services under the circumstances of partnership relations stipulated by a contract that mentions the rights and obligations of the parts. In such a case, the quality of seller, respectively buyer, is no more so evident and the relations between the institution that offers the services and the beneficiary they address to no more strictly match the sell-and-buy relations (Vaideanu, G., 1998. p 96).

Accordingly, one may raise the following issue: to what extent is price (school taxes) determined by the “principles of market economy”, namely based on a manner which, on the one side, should show the costs afferent to educational services and, on the other one, should display the existing relation between demand and offer, at a certain moment. In economic terms, this issue can be formulated as follows: is there a *balance price* on the market of educational services, namely a price for which the amount of the services sold is maximum or, in other words, a price where demand and offer are balanced at the level of the maximum amount of services sold and bought on the market? In case the mechanism of balance price would function then when prices

(taxes) increase we should witness both a tendency towards offer increase, on the one hand, and a tendency towards demand decrease, on the other hand. Inversely, a decrease of prices (taxes) should determine a tendency towards offer decrease and demand increase; also, the aggregation of these mechanisms should determine a permanent tendency of taxes to come closer to a balance price.

Nevertheless, in fact, things are a bit more intricate and do not occur in strict concordance with these mechanisms. For instance, a university may have high level taxes or may increase them from one year to another, a fact that does not determine the decrease of the demand (number of candidates). Inversely, another university may have smaller taxes or may decrease them, a fact that does not determine the increase of the demand of education. In both cases, the maximum amount of services sold (and bought) does not match a balance price but several prices which are settled under the specific circumstances of the relation between the educational unit and the demand segment that addresses to it. Accordingly, certain factors are involved determining the price not to be directly dictated by the market. For instance, a high level tax may be perceived as a quality signal of the offered services and may determine, paradoxically, an increase of demand while a low tax may be perceived as a poor quality signal of the services and determine a decrease of demand.

The mechanism of balance price does not fully function on education market also due to the fact that on this market prices' dynamics is not guided and does not come out towards increasing the amount of sold services; in other words, real price is not always settled at the level demand and offer match the maximum amount of services sold and bought on the market. Such things happen due to the fact that both offer and demand can be restricted owing to the intended or spontaneous intervening of certain factors that do not directly belong to the market. For instance, a university may maintain high level school taxes in case the number of students it needs is smaller than the number of candidates that address to it. Moreover, it may implement a strategy of qualitative selection of its candidates even while practicing high taxes as it is not interested in a balance price at which the amount of sold services is at its maximum. Inversely, under different circumstances, another university may be interested in increasing the number of students, implementing a low taxes strategy which nevertheless does not determine the increase of the number of candidates due to certain factors that restrict the absolute level of school demand beyond which not even free school is going to determine an increase of the number of candidates.

Due to the characteristics of educational market, the term *bidder* seems to render more adequately the statute of the educational unit in relation with its beneficiaries mainly because this quality does not necessarily involve prices, namely it does not involve a strict act of selling though it does not exclude it. Obviously, the range of bidders is even larger than that of those who sell educational services. It includes those educational institutions that offer State subsidized (free) educational services, irrespective of their level and specialization, as well as any other form of financing that does not determine beneficiaries to bear direct costs. At the same time, the term bidder seems more adequate in order to designate the special character of the relation between the one who offers and the one who benefits from educational

services, a relation that implies the direct interest and cooperation of the beneficiary in “producing” educational services.

The use of the term *producer* of educational services targets the clearing up of two aspects. First, this term emphasizes the feature of educational goods as well as of educational services of being *products* meaning that their coming out implies, on the one hand, *efforts and costs* (as educational goods are not “free goods”) and, on the other one, a minimal (optimal) *specialization and professionalization* of those who produce them. Secondly, the term of producer designates those who effectively produce educational services in order to delineate them, when necessary, from those who offer or sell these services. There are indeed numberless occasions when the one who offers educational services is not their direct producer. For instance, a labor employment agency may offer to those who are interested services of professional reconversion which it does not directly produce, but which it acquires from a specialized training institution. To a certain extent, this dissociation also exists in case of compulsory general education and of other forms of education financed and organized by the State, meaning that schools are the *producers* of educational services, but *do not entirely meet the quality of bidders* (neither that of sellers) of such services (Marinescu, 2001, p.113).

The hypostases of seller, bidder or producer, with their previously displayed characteristics, were related with one of the components of the educational product, namely with educational services. Let’s see further what happens with the other component: *educational human capital*. In case we refer to the relation between the bidder and the beneficiary then none of the two agents is *by itself* (and cannot be) a producer of educational capital. Obviously, educational capital is the result of a co-production, the quality of the product simultaneously relying upon the quality of educational services and upon the characteristics of the beneficiary (pupil, student) of these services as regards the physical and psychical capacities, the motivation and capacity of learning, other objective or/and subjective factors that influence the learning process and, especially, the relation between the teaching process and the learning process. There are also cases when the institution that gives educational services imposes certain selection criteria of the beneficiaries (pupils or students), a fact that may provide a more direct relation between the amount and the quality of the teaching and the amount and quality of learning; nevertheless, in such cases, too, the beneficiary’s contribution is still important. Briefly, the term producer is improper in case of educational capital. The other two terms (*bidder, seller*) may be used, though according to the context. For instance, the graduate who paid himself/herself his/her education, being a direct owner of the educational capital acquired, may be considered as a bidder or even as a seller of this capital on labor market. At the same time, a company that finances, according to a contract, the education of certain pupils and students or that is specialized in carrying out training programs, may be considered as an educational capital bidder to the extent to which it is able to impose certain conditions to the graduates who benefitted from their education financing and to the employers who benefit from the services of such graduates.

#### 4. CONCLUSION

The previous analysis carried out with regard to the issue of educational capital has determined the following solution, namely: educational goods should not be sold and bought “as spare parts”, but as a whole (services + capital), a fact implying that the one who pays the educational services is also the beneficiary of the educational capital that results or that the beneficiary of the educational capital is also the one who pays the educational services. In case of educational institutions and, generally, in case of the bidder (producer) of educational services, the issue is not as intricate. In fact, the buyer is the one who directly pays the educational services and the behavior of the educational unit should adapt to his/her exigencies according to certain relations of quality/price, demand/offer basically existing on no matter what type of market.

Nevertheless, in all cases, one should also take into account the fact that, owing to its nature, educational human capital cannot be dissociated from the personalities of those due to whom it exists and that these personalities, bearers of the educational capital, cannot be offered or sold as common “goods”. Liberty as an attribute of the human being should be paid respect although, within a market economy, even liberty costs and may be gained or preserved at a certain price.

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## **RELEVANCE OF ECONOMIC INSTRUMENTS USED IN SUSTAINABLE DEVELOPMENT PROCESS**

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**ABSTRACT:** *The interaction between environmental, economic and social factors influences the ecological balance and generates the change of living conditions and those of socio-economic development. One of the essential conditions for building a sustainable economic development is the identification and implementation of active or voluntary instruments to influence economic and social activity towards ensuring their sustainability. In this paper, we intend to introduce the tools used in the process of sustainable development, which have a key role in adopting an environmentally responsible behavior. The results of this study are represented by the drafting of the advantages and disadvantages of using these economic and financial instruments. The purpose of this paper is to present the evolution of costs for environmental protection and the relevance of instruments used at the national level in environmental protection.*

**KEY WORDS:** *taxes; environmental fund; sustainable development; standards; environment; pollution.*

**JEL CLASSIFICATION:** *H23, Q01.*

### **1. INTRODUCTION**

Mankind has reached such a point of the "offensive" against his nature, that some of the environmental protection and conservation issues have become universal. The fast pace of development of contemporary society, many social and environmental problems necessarily require in-depth knowledge of development and its effects. The key element of sustainable development is the reconciliation between the process of development and environmental quality, promoting integrated progress of development and decision making, globally and regionally, nationally and locally.

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Unfortunately, environmental issues are taken in different ways, with no unified logic vision upon these, that is why there are adopted different attitudes, from a tolerant system (governed by the principle that pollution is a phenomenon not so serious) and culminating with a radical system (zero pollution is to be considered the only acceptable solution, the integration of nature is not compromised). Also the financial impact of environmental damage is far from negligible, thus, the entities must submit information on policies, objectives and implemented environmental programs, expenditures that were committed in this area and the environmental risks faced.

## **2. RESEARCH METHODOLOGY**

The study was conducted using existing information in the field, from the emergence of the concept of environmental protection and culminating with the need for using economic and financial tools in order to apply an ecological behavior. Based on the theoretical research and documentation we achieved to classify the instruments used in environmental protection and present their main advantages and disadvantages.

In the substantiation of decisions on the relevance of instruments used in national sustainable development process, we used the Annual Report of the Environmental Fund to highlight the evolution of concern for environmental protection activities. Also, after the statistics based on this analysis, the importance of the environment could be established as the main economic instrument of environmental protection, having as a benchmark the amount of revenue in the Environmental Fund.

## **3. THE SYSTEM OF INSTRUMENTS FOR SUSTAINABLE DEVELOPMENT POLICY**

Since the early twentieth century and the interwar period, economic experts have drawn attention to the need of considering the undesirable effects of pollution, resource depletion or demographic factor in the economic calculation. To reduce pollution and environmental impact of economic activities and consumption, the government resorted to legislation by negotiating directly with the economic sector, which is the main source of pollution in the market, either directly through taxes or emission permits, or indirectly through stimulating mechanisms such as reducing taxes on the purchase of environmentally friendly equipment.

Ever since 1920, the necessary instruments were adopted to stimulate green behavior. Thus, Arthur Pigou highlights the opposition between private cost and social cost of an activity, in his paper "Economics of Welfare", and in order to solve this "market weakness" he suggests State intervention in the form of fees (pigouan taxes). In the developed countries, the environmental policy was not left to chance, but was imposed by applying various regulatory instruments such as standards, permits and licenses, direct control of impact upon the environmental factors.

• ***Environmental Standards*** – are the most used means for direct regulation of environmental quality. The standards establish their objectives in environmental protection, by limiting the acceptable concentrations of certain substances in water, air, soil and in the products for personal consumption. Standards are developed by or under

governmental authority and are benchmarks for evaluating environmental quality, and also goals to be achieved through legislative action.

In developed countries these types of standards are used to limit pollution:

a) *Quality standards of the environment*, which establish the maximum allowable concentration of pollutants in water and air for a certain period of time. For example: at some point in the course of water, the calculated average concentration of oxygen in 24 hours does not fall below 4 parts per million, more than three days a year.

b) *Emission and effluent standards*, which establish the legal limit for the total amount or concentration of a pollutant discharged from a source (mg / liter, g/24 h, kg / ton) and the maximum limits of effluent discharged during certain periods of time (maximum daily, average maximum for a month or a year), prescribing requirements for monitoring emissions and effluents;

c) *Standards for technologies* are standards for effluents which indicate the technology that the operator must use to comply with environmental protection regulations (e.g. use of a specific catalyst at the filtration plant to reduce emissions of oxides of nitrogen);

d) *Performance standards* are effluent standards that define quantitative performance of equipment (e.g. volume or concentration of a pollutant in a quantity of liquid discharged, or the percentage reduction in the quantity of pollutants in the effluent), giving the polluter the chance to choose the best means to meet this standard;

e) *Standards for products*, establish a legal limit for the total amount or concentration of a pollutant that can be discharged into environment per unit of production (kg pollutant / ton product), prohibiting the addition of harmful substances to improve the quality of a product (e.g. unleaded gas).

f) *Standards for processes*, limit the emissions of pollutants associated with certain production processes (e.g. the escape of ammonia at the nitrogen fertilizer manufacturing).

Worldwide, a notable work was done to develop ISO standards 14000 series, intended to provide a common framework for environmental management approach. According to ISO 14000, Environmental management system is "part of general management system that includes organizational structure, planning activities, responsibilities, practices, procedures, processes and resources for developing, implementing, achieving, reviewing and maintaining environmental policy. "

• **Permits, licenses and other authorizations:** may be granted for compliance with conditions imposed by organic standards.

• **Pollution fees** are amounts paid by polluters for every unit of pollutant discharged into environment, but leaving uncertain the result of environmental quality. The system is effective when the damage can be estimated with precision.

a) *Taxes on effluents and emissions* are amounts proportional with the quantity and quality of pollutants discharged and must be paid by the polluter. They are used along with standards and permits which will minimize the costs of developing the environmental quality requirements. The value of effluent and emission charges are determined by measurements of pollution released into the environment and taking into account the costs of funding a program to eliminate pollution.

b) *User charges* are direct costs of the polluter to cover the costs of remediation, they are charged for collection and waste treatment and disposal of sewage into drains. They are payments for which the user benefits of a service directly proportional to the amount paid.

c) *Taxes on product* are costs added to prices of the final or intermediate products which cause pollution in production or consumption phase or for which it is necessary to organize a special system of disposal after use (e.g. mineral oils, batteries, pesticides packaging, non-returnable packaging). The system involves a grant for recycling these products.

d) *Administrative fees* represent amounts paid to public authorities for services rendered in connection with the environment and they are: documentation, analysis and granting operating licenses.

e) *Differentiated fees* they are used to promote environmentally safe products. Differentiated fees can be positive for polluting products and negative for a cleaner version. They are used in case of two or more products with different effects on the environment to encourage the use of less polluting products.

• **Tradable permits and liability insurance:** a) *Trading permits* serve the authorities to ensure the desired quality of the environment defined by a permissible level of emissions or a quality standard. Based on these instruments, it is given the "right to pollution"; b) *Liability insurance* is a second mechanism for the creation of the specific market for protecting the environment, through which the risks of penalties for environmental damage are transferred from the polluter to the insurance company. Insurance premiums are commensurate with the risk of pollution.

• **Grants** - may take the form of donations, loans with preferential interest, tax reductions or exemptions, with the role of determining the polluter to change environmental behavior. Reductions or exemptions are offered to companies that operate production technologies that minimize the emissions of pollutants or to some companies in order to relocate factories outside populated areas.

• **Refundable security systems** - consumers must pay a guarantee for the purchased products that may be polluting. In case the consumer returns goods to a specialized recycling or disposal center, he will get the guarantee back.

#### 4. ADVANTAGES AND DISADVANTAGES IN THE USE OF ECONOMIC AND TAX INSTRUMENTS FOR ENVIRONMENT PROTECTION:

Regulatory and economic instruments aim at achieving environmental objectives contained in the environmental policies, facilitating the collection of funds for financing pollution control. The problem is that these economic instruments are initially in many parts of the world and they are not yet effective: they are to be applied in the beginning and adapted in time. In some areas it succeeds, in others not, that is why we must be very careful before implementing certain economic instruments, for not doing more harm than good. These economic instruments should be stimulating to persuade polluters to act in such a way as to protect the environment; by changing the production technology to obtain more profit than if they continued to produce in the same conditions.

**Table 1. Advantages and disadvantages of the instruments used for environment protection**

Type of tool	Advantages	Disadvantages
<i>A. Regulatory tools</i>		
Environmental standards and the quality of the environment	Provides information necessary to appreciate effectiveness of existing controls;	Requires technical knowledge in order to appreciate the effects of pollution;
Emission and effluent standards	Provides maximum control of the authorities;	Implies an advanced monitoring and surveillance;
Standards for technology	Provides maximum control of the authorities;	Does not offer flexibility in production;
Product and process standards	Eliminates or limits pollution during production;	Requires close substitutes for prohibited products;
Permits, licenses and other authorizations	Facilitates application of environmental programs; Allows the intervention of the acceptance / rejection of certain activities; Meeting standards and implementation existing legislation;	Need to perform the constant checks and periodic reports; Implies large transaction costs.
<i>B. Economic instruments</i>		
Taxes on pollution	Oblige firms to reduce pollution; Provide funding for investment in new pollution control technologies; Partial compensation of the social costs of pollution.	There is no methodology to assessing environmental damage; Implies a complex and costly monitoring; Difficulties in geographical zoning polluting areas and the establishment of the polluter.
Tradable permits and liability insurance	Income generation; Ensuring established level of environmental quality; Facilitates the economic growth in polluted areas without further increasing in pollution	Implies high transaction costs and the existence of specialized markets; Requires a complex administrative system in administration of the market.
Grants	Provides reducing pollution; Reduced monitoring costs; Promotes technological innovation and development of eco-industries.	Implies government spending;
Security systems	Effective use by the private sector; Encourages recycling.	Increased price of products.

The advantages of using economic and legal regulatory instruments refers to the fact that they facilitate control measures, stimulate reduction of emissions below the limits imposed, encourage technological innovation and development of eco-industries, recycling, providing revenue and promoting the reducing of the cost.

The disadvantages of using economic and legal instruments of adjustment are related to the administrative costs and monitoring that they involve, some of them do not provide flexibility in production (technology standards), require close substitutes for banned products (product and process standards), encourages illegal discharges (user fees).

In the environmental consequences related to the practical use of economic instruments, it is imperative to distinguish between economic impacts (expressed by the environmental quality level) on environmental protection conditioned by the location of actual targets and specific consequences of applying economic instruments as a substitute or complement to regulation.

From this point of view, we can distinguish two main aspects:

- At the micro level, specific companies (business groups) will probably be faced with considerable costs on a relatively short period of time, which may jeopardize the continuity of business.
- At the macroeconomic level, the instrument considered will allow effective long-term solutions, provided that it is based on economic principles.

Given that the economic situation of companies concerned should not be affected by high environmental costs, it is preferable that between the overall effectiveness on long-term and regulation of problems on short-term, to choose for temporary financial measures in order to solve them. It is considered that the application of temporary measures is more justified in economic terms, than in the use of tax exemptions imposed by economic instruments. Using economic instruments has, at the same time, positive economic consequences. Thus, the first part relates to the trading of emissions rights, which allowed the continuation of economic growth, which would not have been possible only by applying a stringent direct regulation. Incentive fees may promote (as direct regulation, in fact) the emergence of technological innovations and the creation of new markets and even new products for export.

Taxes on effluents and emissions incurred by economic agents responsible for the simultaneously use with standards and environmental permits, facilitate the obtaining of environmental quality requirements to minimum costs. Also taxes on effluent and emissions require firms to reduce pollution in terms of lower costs than those resulting from the application of regulatory instruments; it also represents a source of income generators that can be used to finance and improve environmental protection activities.

Income taxes can be used to fund supporting government programs and priority eco-finance of environmental investment, or other government spending irrespective of other environmental costs. Economic instruments are compatible with trends in the current priorities of the regulatory and tax reforms, which have as main objective the improvement of market competition, improving the efficiency of government intervention (including implementation), paying more attention to customer requirements, reducing costs and promoting innovation technology.

Economic instruments can have positive effects on innovation and competitiveness through higher prices for pollution or other resources which encourages new processes, technologies and products.

## **5. ENVIRONMENTAL FUND - MAIN ECONOMIC INSTRUMENT FOR ENVIRONMENTAL PROTECTION AT NATIONAL LEVEL**

The use of and effectiveness of environmental instruments in Romania is still limited. Among the factors contributing to this are: poor monitoring and implementation, low social acceptance and / or poor understanding of economic and environmental policy integration, insufficient institutional capacity and lack of political will to determine which taxes to boost investment level.

In order to support the development of projects under the National Action Plan for Environmental Protection, the Environmental Fund was established (Law 73/2000 on the Environment Fund). Environment Fund (EF) is made according to European principles "polluter pays" and "producer responsibility" for implementing environmental legislation, harmonized with the provisions of the Community Acquis, is regulated by Emergency Ordinance no. 196/2005 regarding the Environment Fund, approved by Law nr.105/2006 amended and supplemented (Law no. 105/2006, Law no. 292/2007, GEO. and Ordinance No. 37/2008. 25/2008).

The unit responsible for the management of the environment is the Environment Fund Administration, also referred to as the Environment Fund Administration, a public institution with legal personality, financed entirely from own revenues, in coordination with the Ministry of Environment. Environment Fund is an economic and financial instrument designed for supporting and achieving the priority objectives of great public interest, from the National Action Plan for environmental protection in accordance with national and international environmental standards, having a special fund and extrabudgetary character.

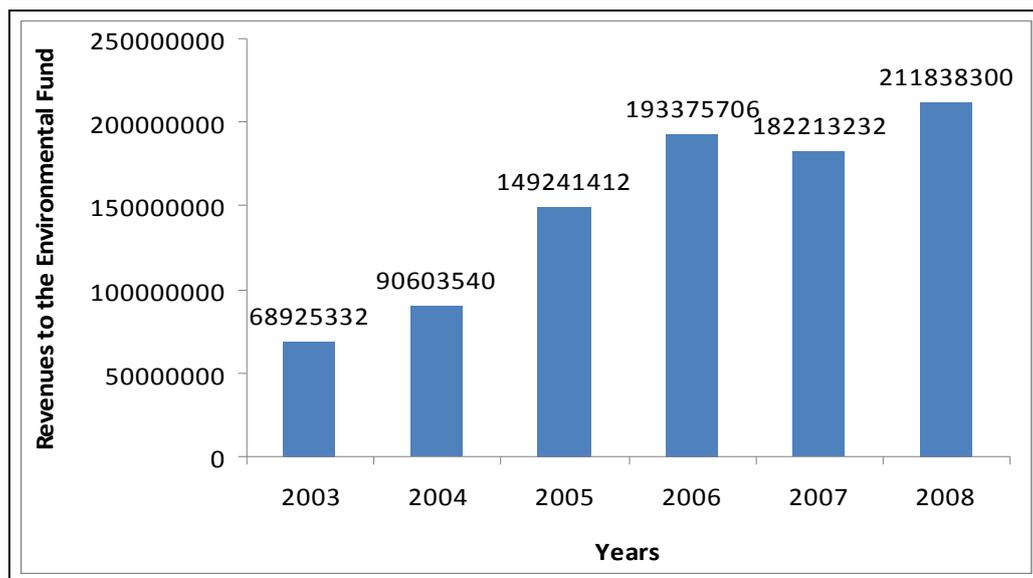
Environmental Fund aims to stimulate a limited number of public environmental investments, giving priority to those included in the National Action Plan for Environmental Protection. From January 1 to December 31, 2008, the Environment Fund budget revenue, according to GEO no. 196/2005 is 201,838,300 lei (10.77% higher than revenues in 2007, with 4.38% higher than in 2006, with 35.24% higher than in 2005, with 122.77% higher than in 2004 and 192.79% higher than in 2003).

Starting with July 1, 2008, at the Environment Fund budget is received, according to Government Emergency Ordinance (GEO) no. 50/2008, the car pollution tax, whose value, on 31.12.2008, is 903,987,897.04 lei corresponding the interval 07/01 to 12/31/2008. Thus, the total amount of revenue to the Environment Fund from 01/01 to 12/31/2008, is 1,105,826,197 lei.

Environment Fund Administration provides financial support for priority environmental projects, helping on one hand local governments to implement the National Development Plan priorities and The Directives of the European Union, to increase investment potential, environmental rehabilitation and improving quality of

life in communities and to protect human health and on the other hand, economic operators to fulfill the obligations contained in the compliance programs.

In order to carry out the obligations assumed by Romania in the process of negotiating the Treaty of Accession to the European Union, the Environment Fund Administration finances the following types of projects ([www.afm.ro](http://www.afm.ro) / report on the use of environmental fund): preventing pollution, reducing the impact on the atmosphere, water and soil, reducing noise levels, use of clean technologies, waste management, including hazardous waste, protection of water resources, treatment plants, sewage plants for the local community, integrated management of the coastal areas, biodiversity conservation, protected areas management; education and public awareness on environmental protection, increased energy production from renewable sources, reducing emissions of greenhouse gases, ecological restoration and sustainable management of forests, afforestation of degraded regions in the poor forest areas, established by law; closed tailings ponds from the mining sector; works to prevent, eliminate and / or reduce the effects of hazardous weather phenomena in the work related to water management objectives in the public domain.



Source: [http://www.afm.ro/main/info\\_stuf/raport\\_privind\\_utilizarea\\_fm\\_2008.pdf](http://www.afm.ro/main/info_stuf/raport_privind_utilizarea_fm_2008.pdf)

**Figure 1. The evolution of revenue to the Environmental Fund in 2003- 2008**

The financial support from the Environment Fund is granted in order to stimulate environment investment needed to modernize, re-engineer and purchase of installations for producing energy from renewable sources, conducting facilities using clean technology across all industrial sectors, reducing consumption of raw materials and energy, reducing the amount of waste and their introduction to the economic cycle, increase the recovery, recycling and packaging waste, use of the least dangerous pollutant emissions, increased forest cover, soil erosion, reducing flood risk.

## 6. COSTS FOR ENVIRONMENTAL PROTECTION - ENVIRONMENTAL POLICY INSTRUMENT

The costs on environmental protection are the economic measure of the response given by the society to address the problems of environmental conditions in a certain stage. These include expenses incurred for surveillance activities and environmental concerns and those that prevent or repair the damage to it.

In 2009, expenditure on environmental protection at national level was approximately 12.2 billion lei, representing 2.4% of GDP compared to 2.7% in 2008 (National Institute of Statistics - Press Release, no. 222 of October 15, 2010).

**Table 2. Costs for environmental protection on sectors and categories of expenditure in 2009**

-thousand lei-

Activity sectors	Total expenses	Investments	Current expenditure		Other expenses
			internal	external	
<b>Non-specialized producers</b>	<b>3929598</b>	<b>1773140</b>	<b>1324524</b>	<b>831934</b>	
Forestry, exploitation	48686	22065	16746	9875	
Quarrying	652947	303104	148975	200868	
Manufacturing	1752331	717713	711155	323463	
Production and supply of electricity, gas and hot water	1059509	655651	175083	228775	
Constructions	264061	8268	210071	45722	
Transport	152064	66340	62494	23230	
Specialised producers	6951154	1046720	5070253	834181	
Public Administration	3357708	1518164	1061184	384676	393684

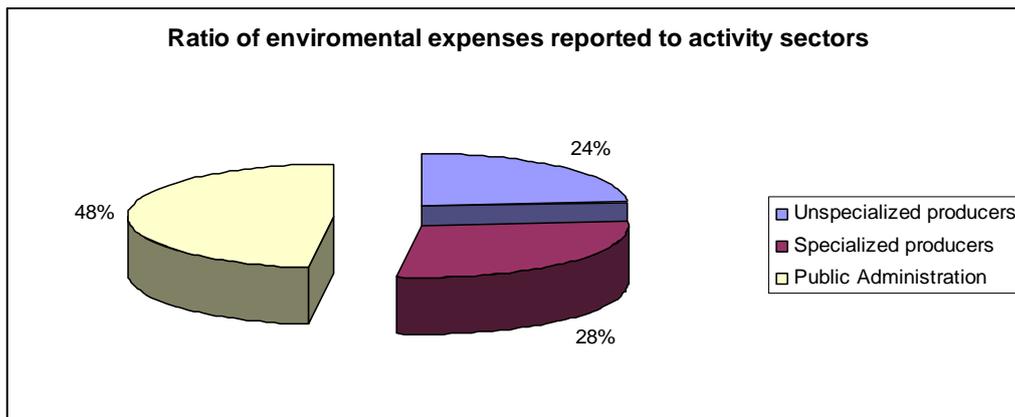
At the national level, the environmental investment share of producers represented the non-specialist producers (40.9%) of total investment, followed by public administration (35.0%) and specialized producers (24.1%).

In the processing industry it has been achieved 44.6% of the non-specialist producers, while the "production and supply of electricity and heat" absorbed 27.0% and 16.6% mining industry. In environmental areas, the largest expense is recorded in air protection from non-specialist producers (66.4% of total expenditure for this area). For water protection, the largest expenditure was made by specialist producers (49.6%) who registered the biggest expenses for waste management (74.4%).

Current expenditure for environmental protection includes those expenses that are necessary for the operation, repair and maintenance of equipment and machinery for environmental protection. These expenses include personnel, material expenses and services, other current expenses and may be internal or external to the unit.

Total expenditures for environmental protection include investments for added technical means and respectively, for technical means integrated in the process and current expenses that are internal or external to the unit.

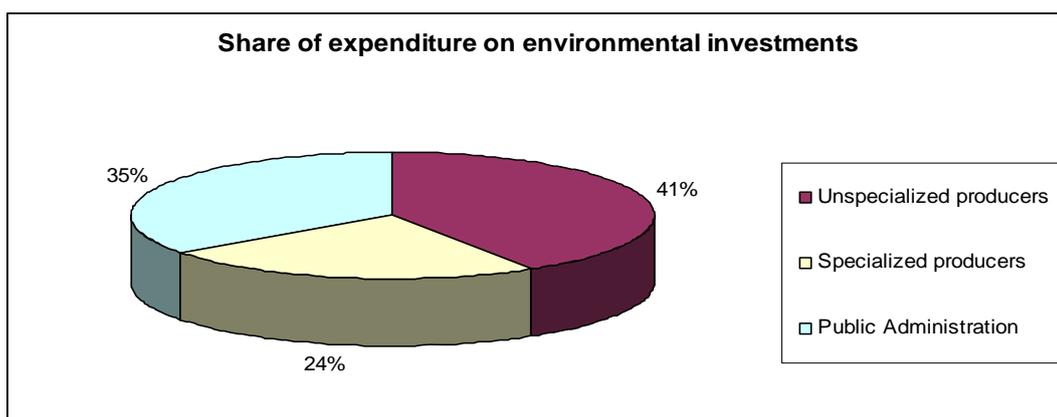
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Source: [www.insse.ro](http://www.insse.ro)

**Figure 2. The share of environmental expenditure by sector of activity in 2009**

In Romania, environmental protection means, primarily, reducing waste, a fact stated by the amount actually used last year by the state and by the environmental and waste management producers. It is a sum of 6.94 billion lei compared to 7.28 billion lei the total money spent for activities such as protection on air, water soil, natural resources, to combat noise and for other areas.



Source: [www.insse.ro](http://www.insse.ro)

**Figure 3. The share of expenditure on environmental investments in 2009**

Thus for the protection of air, the producers have spent the past year 1.95 billion lei and 2.65 billion lei for water protection. Groundwater and soil have been allocated an amount of 468.7 million lei while conserving natural resources and biodiversity 223.6 million lei. In order to combat noise and vibration, 69.5 million lei were appropriated. The sum of 1.92 billion lei has been forwarded to other environmental areas.

## **7. THE ROLE OF ECONOMIC AND FISCAL INSTRUMENTS OF ENVIRONMENTAL PROTECTION IN ROMANIA**

Like many other countries, Romania has inherited from the communist regime, serious environmental problems caused by industrial policy based on higher productivity, which did not take into account the impact on the environment and human health. The most serious problems are encountered in water quality, waste management, air and soil pollution.

In this respect, Romania has introduced a series of reforms meant to strengthen the administrative capacity at local level such as providing regional responsibilities of the eight Environmental Protection Inspectorates and sectorial development strategies.

Areas that require the largest investments are:

1. Raising quality standards for potable water;
2. Development of urban sewer network;
3. Reducing pollutant emissions from large companies;
4. Development of dangerous and municipal waste incineration units;
5. Creating of landfill for waste.

The long time environmental policy in Romania provides gradual increase in the share of economic instruments to the detriment of administrative tools and command control. It is desirable that these economic instruments to reduce pollution as much but also the creation of funds to be used for environmental protection. These economic instruments need to be incentive to induce polluters to act in such a way as to protect the environment, by changing production technology to obtain more profit than if they continue to produce in the same conditions.

## **8. CONCLUSIONS**

As it is clear from the study presented, more countries have implemented a comprehensive range of financial and economic instruments for pollution control. The main purpose of using these tools is to provide a flexible and effective pollution control measures. An economic tool that is designed to have a stimulating impact and will force the polluter to choose, if they avoid the costs imposed by investing in measures that are less polluting or bear those costs. Because of this stimulating function, economic instruments designed properly, influence the choice and conduct of the polluter on a long term. The key of administrative tools is their ability to use market power and individual interests by changing economic incentives to producers and consumers.

There is no ideal economic or financial instrument for environment protection, so we can not give a specific example that a certain tax for environmental protection would be more effective than the other, what is fairly relevant is that the amount of revenue derived from tax / fees to be also used to protect the environment and more accurately in carrying out projects on investment in green technologies, producing bio and the "green" strategy.

As we can see from the information presented, at national level the main instrument used in sustainable development is the environmental fund, what it is important though is the evolution of annual revenue to the environmental fund, which is growing every year. These revenues were also intended for a wide range of projects, this represents an advantage in national sustainable development policy.

Business objectives can be achieved without affecting the environment and the profitability is not affected by the orientation towards eco products and services (green). The central idea is that objectives such as increased turnover and profit can be achieved through a responsible approach to environmental policy because recycling materials, reducing energy consumption, transport optimization, removing toxic substances are also environmental standards but they are also measures to increase efficiency.

## 9. ACKNOWLEDGEMENT

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## **HAITI: MUCH ATTENTION, NO RESULTS. WHY DEVELOPMENT ASSISTANCE DOESN'T WORK**

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**ABSTRACT:** *The present paper is an excerpt, with little adaptation, from the master thesis: "Project management's contribution to international cooperation. How to make things work: ODA in Haiti" wrote under the coordination of Prof. Dr. Horst Brezinski from Technical University Freiberg Bergakademie and Prof. Dr. Eng. Sabina Irimie from University of Petroșani, while benefiting from an Erasmus study scholarship at the first mentioned institution. It presents the case of Haiti, a small country facing big challenges and enjoying plenty of international attention especially due to the recent earthquake that struck the country at the beginning of 2010. The SWOT analysis inside the paper offers a detailed view of Haiti's actual situation, identifying in the same time its problems and the variables that should be taken into consideration when designing programmes and projects targeting Haiti's development.*

**KEY WORDS:** *Haiti; Millenium Development Goals; SWOT Analysis; Programmes and Projects.*

**JEL CLASSIFICATION:** *P45; E20; G18; I00; J01; L31; N52; Q17.*

### **1. INTRODUCTION**

Haiti was chose as a study case first because the attention it presently receives from the international community and as well because the challenges it raises. Haiti is not only a poor and underdeveloped country. Haiti resembles with a meticulously constructed worst case scenario that brings together regular natural disasters, abject poverty, political violence, corrupted governments, racial hate and discrimination.

International community's ample answer to the crisis created by the earthquake that struck the country at the beginning of 2010 is an example of real international

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solidarity motivated by the wish to help. The international community proved itself to be united with other occasions like, for example, signing the nuclear non-proliferation treaty. But this was an act born from fear. It was an act made to increase the global security and to keep the status-quo of the big powers. Other regional organizations like OPEC are united in promoting their political or economic interests. But helping Haiti, a state that has little to give back is seems to be indeed a proof of humanity.

“Official Development Assistance (ODA) is defined as those flows to countries and territories on the DAC list of ODA recipients and to multilateral development institutions which are: 1. provided by official agencies, including states and local governments, or by their executive agencies; and 2. each transaction of which: a. is administered with the promotion of the economic development and welfare of developing countries as its main objective; and b. is concessional in character and conveys a grant element of at least 25%” [“Is it ODA?” Factsheet, 2008]. In addition to financial flows, technical cooperation is included in aid. In conformity with DAC’s directives the costs for military aid, peacekeeping, civil police work, social and cultural programmes, military application of nuclear energy, research and anti-terrorism should not be considered and reported as ODA. All this costs represent foreign assistance but not official development assistance.

Even with this limitations there remain a lot of areas to which ODA could be allocated. Some of these areas are humanitarian assistance, community and capacity building, conflict prevention, nation and state building, good governance or economical development. The biggest international donor is the European Commission and its member countries, followed by United States and Japan. In the Table 1 we can see the first 10 DAC donors as amounts of ODA and percent of GNI in 2008 [OECD Report, 2010].

**Table 1. Top 10 DAC donors and their ODA in 2008**

<b>Country</b>	<b>% GNI</b>	<b>US\$ million</b>
USA	0.19	26842
Germany	0.38	13981
UK	0.43	11500
France	0.39	10908
Japan	0.19	9579
Netherlands	0.80	6993
Spain	0.45	6867
Italy	0.22	4861
Canada	0.32	4785
Sweden	0.98	4732

Other big non-DAC donors are China, Brazil, India, Russia and some Arab countries. As from the non-DAC donors registered which reported their aid flows to DAC we can mention the next countries: Saudi Arabia, Korea (become member of DAC in Jan. 2010), Turkey, Chinese Taipei, Poland, Kuwait, Czech Republic, Thailand, Israel, Romania. Most of the “new donors” are not members of the Paris Club or DAC or any other donor forum, making their development assistance to be hard to monitor and coordinate with the efforts of other governments or institution. The

main instruments for channelling the development assistance are multilateral institutions like United Nations Agencies, Funds and Commissions, European Union institutions, International Monetary Fund, World Bank Group, World Trade Organization (WTO), Regional Development Banks and other multilateral institutions; Non governmental organizations (NGOs) and civil society; public private partnerships and networks. It is estimated that there are between 3000 and 10000 non-governmental organizations in Haiti (Kristoff & Panarelli, 2010). But from this high number of NGOs estimated to work in Haiti only 550 are registered to the Haitian government. The Republic of NGOs as it was named has apparently the second number of NGOs per capita from the entire world, after India. It might seem unbelievable but 65% of the all donor contributions in Haiti are channelled through non-governmental organizations which make them to receive a lot of attention from the international community.

To name only some of this representative organization we will mention CONCORD (European NGO Confederation for Relief and Development), CCIC (Canadian Council for International Co-operation), Coordination Sud (French NGOs platform), Coordinadora (Spanish NGOs for Development), ABONG (Brazilian NGOs platform), Accion (Chilean NGOs platform) and InterAction. As aid is considered to be the key instrument in Haiti's development, some concept clarifications should be useful in order to understand it better. Aid activity, for example, can take many forms and it is used for a project or a programme, a cash transfer or delivery of goods, a training course or a research project, a debt relief operation or a contribution to a non-governmental organization. Aid activities are financed through grants and "soft" loans (low interest rate and long duration) and the implementation of an aid activity can go on for several years (OECD-DAC, User's guide to the CRS Aid Activities database).

Under bilateral aid we can find the activities undertaken directly with an aid recipient or with national and international non-governmental organizations active in development; and the promotion of development awareness and other development-related spending in the donor country (e.g. debt reorganization, administrative costs). Projects executed by multilateral institutions or non-governmental organizations on behalf of DAC Members are classified as bilateral aid (since it is the donor country that effectively controls the use of the funds). Multilateral aid is the one going to the regular budget of multilateral institutions.

At global level the most ambitious international development targets are represented by the Millenium Development Goals. They also represent a great cornerstone in DAC's objectives as it commits the nations to a new global partnership with the purpose of ending extreme poverty and other development bound targets until 2015. Millenium Development Goals were established out of the eight chapters of the United Nations Millenium Declaration, signed in 2000. The deadline for achieving the goals is 2015. They include eradication of extreme poverty and hunger, achievement of universal primary education, promotion of gender equity and women empowerment, the reduction of child mortality rate, improvement of maternal health, fighting disease epidemics, ensure environmental sustainability and developing a global partnership for development.

MDG seem sometimes impossible to reach and for sure they are a real challenge for the international community and although there were 1.4 billion people

living in extreme poverty with under \$1.25/day in 2005 and 10 million die every year of hunger or hunger related diseases there is still the believe that MDGs will be achieved by 2015 and that as, the United Nations former Secretary-General Ban Ki-moon declares the MDG feasible: "Eradicating extreme poverty continues to be one of the main challenges of our time, and is a major concern of the international community. Ending this scourge will require the combined efforts of all, governments, civil society organizations and the private sector, in the context of a stronger and more effective global partnership for development. The present Haiti can be understood and approached only on the basis of its history, taking into consideration the long term tension between black majority and creole minority population, their religious specificity combining voodoo practices with Roman Catholic ethic, the authoritarian leadership of the country, the long history of state kleptocracy and its rejection by the population, their colonialist history and outside intervention into their national affairs.

In 2006 Haiti entered on the list of HIPC [Heavily Indebted Poor Countries] eligible countries and during 2009 \$1.2 billion from its \$1.8 billion external debt was erased. With the interest rate and the new announced IMF loan of \$100 million, Haiti's external debt is estimated in 2010 at \$890 million.

**Table 2. Evolution of Haiti's external debt**

1825	1970	1987	2004	2009	2010
\$ 21 billion	\$ 40 million	\$ 844 million	\$ 1.4 billion	\$ 1.8 billion	\$ 890 million

In present, the largest multilateral holders of Haiti's debt are the Inter-American Development Bank (\$441 million), the IMF (\$165 million, plus \$100 million in new lending announced in January 2010 and \$60 million announced in July 2010), the World Bank's International Development Association (\$39 million) and the International Fund for Agricultural Development (\$13 million). The largest bilateral loans are held by Venezuela (\$167 million) and Taiwan (\$91 million).

Nevertheless in March this year, IADB agreed to cancel Haiti's \$441 million debt. In Venezuela, the president Hugo Chavez announced the cancellation of the debt and offered his support to Haiti in terms of fuel supply. Taiwan's president, Ma Ying-jeou, announced in May 2010 that Taiwan cannot offer debt relief as the majority of the contracted credits are from banks rather than the from the government but instead they agreed to pay \$12-13 million in interest on loans and Haiti will be exempt of making any payments in the next five years. As well, in March 2010, the international community pledged \$5.3 billion to fund the initial phase of Haiti's reconstruction over the next 18 months, including a contribution of \$479 million by the World Bank.

In 2008, Haiti received \$912 million in ODA flows from all donors combined. The largest donors were the United States, Canada, the Inter-American Bank, the European Commission and France [OECD. *Aid to fragile state: Focus on Haiti*]. The figure 1 indicates the sectors with the biggest financial allocation over the period 2007-08. The biggest amount of development assistance, around 30% of the total aid, was spent on social services particularly health activities, government services and peace-building activities. Other two sectors with a high financial allocation were health and population, humanitarian aid and programme assistance. Important sectors as

production and economic infrastructure and services were on the bottom of priorities and the aid received for these two was more than modest if we keep in mind the importance of the two sectors for the economical development of the country. Even though Haiti has a history of receiving development assistance that goes back in time with more than 50 years is still the poorest country in the Western hemisphere and one of the poorest in the world. As Larry Birns the director of Council of Hemispheric Affairs said, “If you want to get a pre-vision of the dimension of hell, you’ll go to Haiti”. The difficult situation of Haiti and the long history of development assistance make us wonder what is not done properly over there. There is no doubt that something is not done right or that, maybe, something is missing in the international actors’ approach. Maybe they fail to address to some of the structural causes of the situation, or focus too much on development assistance instead of focusing on trade policies or maybe the lack of trade barriers is more harmful than useful for Haiti. There are many questions that can be raised and we will try now to cover some of them.

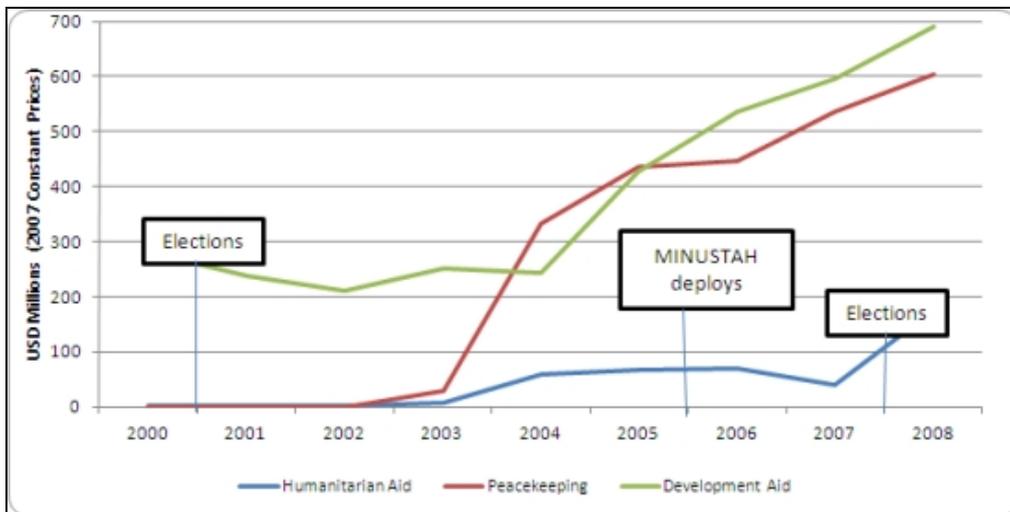


Figure 1. Humanitarian, peacekeeping and development aid between 2000 and 2008

To understand why after so many years Haiti still find itself in a deplorable situation and more, seems not to head in the right direction, we need to analyse the variables characterizing Haiti’s plight. To understand easier the low impact of development assistance and its challenges in Haiti we will picture a SWOT analyse were the Weaknesses and Threats will represent the answer for the question – Why NGO’s and ODA didn’t have a real contribution to the development of Haiti?, and where the Strengths and Opportunities will represent the answer for the questions – What can they do to have a real contribution? The original paper takes into consideration the economical, political and social situation of the country. Because of space limitation we will be able to cover here only the economical situation of Haiti.

## 2. SWOT ANALYSIS ECONOMY (PRODUCTION, INVESTMENT, TOURISM AND UNEMPLOYMENT)

**Strengths** - Cheap labour force should be an ace in promoting Haiti to foreign investors. Almost half of the population lives with less than \$1.25 per day. A very young population has the advantage of offering a lot of work force without having the burden of paying for social services for a large category of retired persons. Natural beautiful beaches can be an asset used to promote tourism in Haiti.

**Weaknesses** - Unfortunately most of the labour force existent in Haiti is made by uneducated people or with no or low skills. This presumes, that for some type of jobs, at-work training will be necessary, creating an extra cost for the investors. There is no adequate tourism infrastructure and the news that used to make the news headlines at the beginning of '90 that Haiti is the country where HIV/AIDS virus developed might be still affecting its tourism sector. Unemployment rate is estimated at around 30% for the country as a whole (45% in the metropolitan area), 32% for women, and 62% for 15–19 year olds [Government of Republic of Haiti. "Haiti Earthquake PDNA: Assessment of damage, losses, general and sectoral needs," 2010].

**Opportunities** - Funds for education and professional reconversion. The strategy for recovery and development of Haiti contains plans about development of tourism sector and future funds will probably be allocated. The reconstruction of Haiti will require plenty of labour force, boosting the offer and decreasing the unemployment rate

**Threats** - Some of the very serious threats for economy are the existence of a corrupted government or even the suspicious of corruption. They scare investors, donors and maintain an underdeveloped status quo of the country by offering contracts not on the criteria of efficiency and cost-benefits relation but on other criteria. Unclear and/or poor legislation and even instability of the legislation process in the sense that the laws are very often changed is another threat for investors and national entrepreneurs as the law can then be manipulated in the interest of specific groups. The impossibility of enforcing the signed contracts is another fear and threat. Untransparent practices in economy make the actors to play in an insecure economical environment which sometimes discourage them. It is estimated that there will be an 8.5% loss of jobs due to the earthquake that struck the country, particularly in the field of commerce, tourism, communications and transport.

### **3. AGRICULTURE, FISHING AND ENVIRONMENT**

Agriculture is the most important sector in Haiti and it provides more than 50% of the jobs. A special attention must be paid to this sector, as in the present it is mainly characterized by subsistence agriculture. The development strategies don't seem to put a real focus on the sector. Haiti, which in the past used to be able to feed its entire population from its harvest, must now import 80% of the food. We believe that a healthy agricultural sector is the key to reduce the dependency on aid and to give a push to the economic development of the country. Lack of support for this sector will mean that Haitians will always be dependent on humanitarian aid and imports of food without ever having food security and with even less chances of experiencing food sovereignty. Food sovereignty prioritizes local and national economies and markets and empowers peasant and family farmer-driven agriculture, exactly what Haiti needs.

Refusing to support the agriculture sector means refuse to support the economical emancipation of Haitians.

**Strengths** - The wide range of Haiti's environments (different altitudes, diversity of soil types and diversity of climate) is of great importance for the agriculture as more types of crops grow. Another strength is the quality of the traditional seeds as rice, maize and beans varieties. For example, traditional varieties of rice are known to be more nutritious than the cheaper, American rice ('Miami' rice), which replaced them two or three decades ago as a result of trade liberalization. Haiti's traditional rice is therefore better for combating malnutrition. One of the strengths of the fishing sector is the fact that, outside the small border with Dominican Republic, Haiti has a lot of water to use for fishing.

**Weaknesses** - One of the weaknesses of the agricultural sector in Haiti is the small subsistence farm. Peasants generally produce a small quantity of crops, as they do not have too much land, which is sufficient only for the family and some trade. The lack of irrigation systems is another weakness. Of the total arable land of 550,000 hectares, 125,000 hectares are suited for irrigation, and of those only 92,000 hectares (2003 est.) actually have been improved with irrigation. The deforestation process started by the French to make place for the crops and later by Haitian to produce fuel (charcoal) resulted in accelerated soil erosion, depleted fertility, reduced water retention and silting of the country's waterways. It is estimated that Haiti loses around 10,000-15,000 hectares of once-fertile land to erosion every year [New Agriculturalist. Country profile – Haiti]. It is estimated that only 2% of the country is still covered by forests that are anyhow in danger due to the peasant practice of making fuel from wood. Natural disasters are common for Haiti as it lies in the middle of the hurricane belt and is subject to severe storms from June to October, occasional flooding and earthquakes and periodic droughts. As Haiti's trees have disappeared, landslides have become a major concern, especially during the rainy season, and the destabilizing effects of an earthquake on soil only worsen the problem [Than K., 2010].

**Opportunities** - One opportunity resides in the creation of peasant cooperative to increase production but also the power on the market as sellers. Income generation programs should be complemented with nutritional programs to prevent households from using seed capital and micro credits for food consumption. Funds for developing irrigation systems, micro-credits system for peasants, and creation of a system of agricultural instruments use (tractors etc). Reforestation programmes are being developed and implemented, but they can function only if peasant will find an alternative way of making charcoal (from coffee bushes for example). Reintroducing trade tariffs for imported products and giving by this the possibility to the Haitian government to accumulate some finances and to the Haitian products to be able to compete with imported cheaper food products.

**Threats** - Cheap seed and food brought imported in the detriment of local peasants whose work is now uncompetitive. This results in an increased number of unemployed persons living at the mercy of humanitarian aid. Erosion of the fertile soil is another threat. The over use of some fishing sites might led to depleting the fishing stocks.

#### 4. CONCLUSIONS

Other solutions might be probably offered and we are not stating that this is the only way to act in Haiti. What we state is that if the structural grounds mentioned here will not be tackled in drawing development strategies for Haiti, a real multilevel and multisector development will not be possible. The production and economic infrastructure and services were on the bottom of priorities and the aid received for these sectors in the past was modest. The economy failed to develop and the people got poorer and poorer once with the destruction of the agriculture sector by the US rice imports supported by IMF and WB with their policies of eliminating trade barriers.

ODA was not able to take Haiti out of poverty because it was no investing in economical development. Humanitarian aid, health education, sanitation facilities and access to clean water are very important. Although essential they do not make it to go out of poverty. They don't make it competitive and ready to be thrown on the free market. We were hoping that production sector, including agriculture, will receive an increased attention in the reconstruction and development efforts which started after the January, 2010 earthquake. It seems that there was no lesson learned from history. Or at least for Haitians. What is indeed amazing is that damages in the productive sector (including agriculture, industry and retail) represent 10.54% from all the damages registered and the losses represented 28.47% of the whole losses registered, but the reconstruction and development strategy considers enough to redistribute 3% of the aid to the productive sector.

Money can buy many things, even reconstruct a destroyed educational or health system. It can very easily cover the costs for the road infrastructure, or for sanitation and housing. But it cannot very easily create an environment of peace, respect and dignity essential for development. Political violence, discrimination based on skin colour and spoken language, lack of solidarity between rich and poor, are realities of the Haitian society which are rooted back in history and which will have to be dealt with, sooner or later. It is understandable that on short-term projects for infrastructure development and other types of reconstruction will prevail, but on long-term, if the problems of the agriculture and production sectors and nation building won't be tackled, is very less likeable that Haiti will ever break out from its aid dependency and is very less likeable that Haiti will ever develop.

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## **IMPOSITION ON REAL ESTATE PROPERTY UNDER THE CONDITIONS OF ADMINISTRATIVE-TERRITORIAL DECENTRALIZATION AND OF THE INCREASE OF FINANCIAL SELF-GOVERNMENT OF LOCAL COMMUNITIES**

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**ABSTRACT:** *In all the countries with a consolidated and developed democracy from the economic point of view, a major part of public affairs are assigned in the administrative-financial and regulatory responsibility of local authorities. Similar to other states, in Romania this process of decentralization, due to its inter-sector characteristic, is also of a distinctive complexity, imposing clear and efficient regulations, together with the implementation of a performant management at the level of all the involved actors, including that of the recipients. The fulfillment of this process supposes at the same time a financial support in accordance with the assigned responsibilities. The article presents several practical consolidation modalities of the financial resources of the local communities obtained from own incomes. Thus, the realization of a corresponding equilibrium between the tasks transferred from the central level and the real financing possibilities existent at the local level, is considered.*

**KEY WORDS:** *local autonomy; administrative autonomy; financial autonomy; private property tax; tax fairness; tax base.*

**JEL CLASSIFICATION:** *H71, G39, K34.*

### **1. INTRODUCTION**

Local self-government is a fundamental principle of public administration in Romania and consists in the right of administrative-territorial units of satisfying their own interests without the involvement of central authorities.

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Basically, local self-government represents the transfer of some competences from the central level to various administrative bodies or authorities, authorities chosen by those local communities.

The European Charter of Strasbourg mentions the fact that: “local self-government denotes the right and the ability of local authorities, within the limits of the law, to regulate and manage a substantial share of public affairs under their own responsibility and in the interests of the local population” (European Charter for Self-Government:1985)

Local self-government has a series of principles at its base which generally refer to:

- the existence of own administration bodies who represent the interests of the citizens from those communities chosen by direct, secret and freely consented suffrage;
- the right to establish and collect local rates and taxes within and with the observance of law;
- the initiation and execution of any activities considered necessary and desired by the community on the responsibility territory, within the context of the observance of legal regulations.

Local self-government works on the principle of market economy and the fulfillment of these principles is possible only if there is a financing ability at the local level. In conformity with the provisions of the master law of decentralization, the authorities of local public administration benefit by financial resources of which they dispose freely, for purposes of exercising the competences conferred by law. (Law 339:2004)

Consequently, local self-government has two essential components – administrative autonomy and financial autonomy, which condition each other, the first one not being possible without the existence of the second one, or in detail, the administrative autonomy would not be possible without the financial autonomy which insures it the material support of functioning. (Văcărel, 2003)

In order that the financial autonomy responds to the pursued goal, the creation of local financial system that is efficient, balanced and correlated with the policies and necessities at the local level, in accordance with the national regulations in the field, is imposed.

Within this context, Law of local public finances in Romania regulates the sources of incomes of local communities which consist of:

- own incomes formed by: rates, taxes, contributions, other payments, other incomes and shares deducted from the income tax;
- amounts deducted from some incomes of the state budget;
- subsidies from the state budget and from other budgets;
- donations and sponsoring (Law on local public finances no.273:2006)

Considering that from the total of the financial resources of local budgets, the greatest weight is held by financial transfers, which sometimes proved to be subjectively distributed, depending on the interests of the political governing class, fiscal policies for determining the increase of weight of own incomes in the structure of local public finances are imposed. The statistical data indicate the fact that at the level

of the year 2010, the weight of financial transfers from the total of the resources of local budgets in Romania represents 70%, in comparison to Bulgaria 75%, Great Britain 76% and Holland 80%.

The evolution of the structure of local budget incomes summarized at the level of the country during the period 1991-2009 is represented in table 1 and fig.1.

During the period 1991-1992 the structures of incomes was constituted from own incomes and subsidies from the state budget. A decrease of the weight of own incomes from 29.35% to 15.88% and an increase of subsidies from 70.65% to 84.17% are observed. During the period 1993-1998 the structures of the incomes of local budgets was approximately the same with different weights between own incomes and the deductions in advantage from the state budget which come from two sources: amounts deducted from wage tax and subsidies from the state budget with different destinations. In the year 1999, by applying the Law no.189/1998, public finances knew a true decentralization. Own incomes increased to 44.59% by transferring the administration of local rates and taxes to local councils. The deductions in advantage from the state budget increased to 46.75% by the appearance of new sources: shares from wage tax, incomes with special destination (special fund of public roads, fund for water supply and paving of earth roads), subsidies from the state budget, amounts deducted from wage tax.

In the year 2000 the structure of the incomes of local budgets modified by Law no. 216/999 by which a share from the income tax (which replaces the wage tax) for the budgets of local departmental councils was established for the equalization of local budgets. The amounts without destination increased, fact which determined an increase of financial autonomy of local budgets and especially a decisional autonomy regarding the approval of expenses on destinations.

In the year 2001, the incomes of local budgets increased by incomes with destination: amounts deducted from VAT for staff costs in state pre-university education personal, amounts deducted from the income tax for the assurance of the guaranteed minimum income, amounts deducted from VAT for child protection, disabled person protection.

In the year 2003 the structure of own incomes and shares of income tax was maintained. During the period 1991-2003 new financing sources were transferred, but they were not in accordance with the transferred competences, with the structure and volume of expenses on activities. Between 2004-2005 a similar structure is maintained, and from the year 2006 a significant increase of own incomes is noticed.

For the harmonization of fiscal regulations from the local system and on purpose to respond as trusty as possible to the Charter of Local Self-Government, the Congress of Local and Regional Authorities in Europe elaborated a structural scheme of local rates and taxes, recommended to the member countries, leaving up to them the manner and level of implementation. This structure comprises various taxable sources among which the tax on private property as results from figure 2 (Dobrescu et al., 1999).

**Table 1. Evolution of the structure of total incomes from local budgets summarized at the level of the country, between 1991-2009**

	1991		1992		1993		1994		1995	
	Billion ROL	%								
TOTAL INCOMES. Of which:	58.6	100	199.6	100	712.5	100	1765.7	100	3326.9	100
Own incomes	17.2	29.35	31.7	15.88	152.5	21.40	335.1	18.98	924.0	27.77
Deductions in advantage from state budget	-	-	-	-	231.8	32.54	668.1	37.84	1203.0	36.16
Subsidies	41.4	70.65	168.0	84.17	328.2	46.06	762.5	43.18	1199.9	36.07
Don and spons	-	-	-	-	-	-	-	-	-	-
Other incomes	-	-	-	-	-	-	-	-	-	-

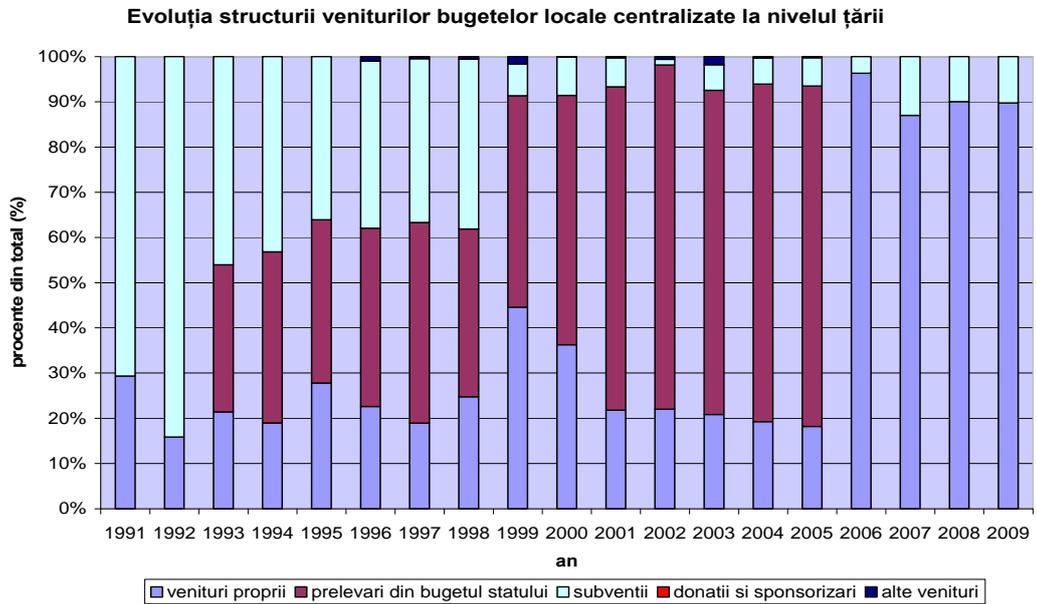
	1996		1997		1998		1999		2000	
	Billion ROL	%	Mill RON	%						
TOTAL INCOMES. Of which:	4998.5	100	10468.4	100	13454.3	100	22243.6	100	3344.5	100
Own incomes	1130.4	22.61	1984.1	18.95	3328.2	24.74	9918.1	44.59	1213.5	36.28
Deductions in advantage from state budget	1972.6	39.46	4644.6	44.37	4998	37.15	10398.9	46.75	1843.0	55.10
Subsidies	1848.5	36.98	3790.2	36.20	5054.5	37.57	1564.0	7.03	285.2	8.53
Don and spons	0.1	0.01	0.1	0.01	0.7	0.01	-	-	-	-
Other incomes	46.9	0.94	49.4	0.47	72.9	0.53	362.6	1.63	2.8	0.08

	2001		2002		2003		2004		2005	
	Mill RON	%								
TOTAL INCOMES. Of which:	7119.6	100	9322.8	100	13078.1	100	15955.8	100	19480.9	100
Own incomes	1551.9	21.80	2053.4	22.02	2729.2	20.87	3076.0	19.28	3547.0	18.21
Deductions in advantage from state budget	5092.4	71.53	7096.0	76.11	9374.3	71.68	11909.8	74.64	14667.1	75.29
Subsidies	453.2	6.36	117.4	1.26	734.9	5.62	920.2	5.77	1218.1	6.25
Don and spons	-	-	-	-	-	-	19.3	0.12	23.5	0.12
Other incomes	22.1	0.31	56.0	0.61	239.7	1.83	30.5	0.19	25.2	0.13

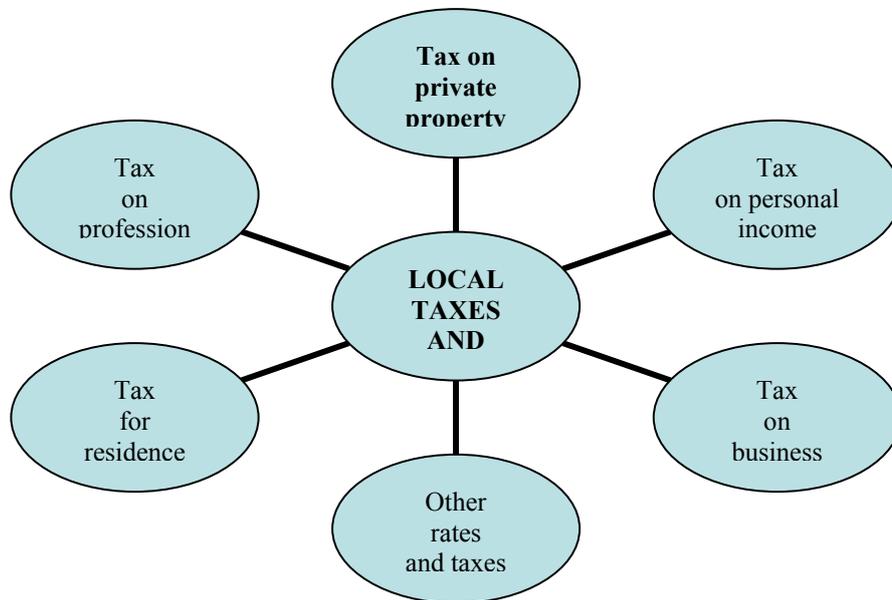
  

	2006		2007		2008		2009	
	Mill RON	%						
TOTAL INCOMES. Of which:	27708.6	100	36805.2	100	43629.1	100	42817.9	100
Own incomes	26691.2	96.33	32027.5	87.01	39280.6	90.03	38435.6	89.76
Deductions in advantage from state budget	-	-	-	-	-	-	-	-
Subsidies	1016.4	3.66	4777.5	12.98	4345.1	9.96	4379.2	10.23
Don and spons	-	-	-	-	-	-	-	-
Other incomes	1	0.01	0.2	0.01	3.4	0.01	3.1	0.01



Source: Ministry of Finance

Figure 1.



Source: Radu Dobrescu, Georgeta Ghete, Anton Parlagi, *Income sources of local budgets*, Economic Publishing House Bucharest, 1999 page 89

Figure 2. Structure of local rates and taxes

## **2. TAX ON PRIVATE PROPERTY IN THE VISION OF NATIONAL REGULATIONS**

For the harmonization of national fiscal regulations with the community ones, Fiscal Code establishes three categories of goods that are the object of property right and which become an income to local budgets, namely: buildings; grounds; transport means. (Law 571:2003)

According to national fiscal regulations, the financial resources derived from local rates and taxes on these goods become an integral income to the local budgets of communes, towns, municipalities and districts of the Municipality of Bucharest or of other counties as the case may be.

The tax on private property (fortune) has its origin in the existence of the proprietary right manifested fully or under the form of the three dismemberment rights (possession, use and disposal), having as a subject both private persons and legal persons, on whose charge the state instituted the obligation of declaring the goods which are the object of the imposition and of disbursing to the local budgets the taxes which derive from them.

Although frequently the payment of this tax is made by holders from the incomes made by them from the possession of fortune, however, the chargeable tax is not sat on the income, but on the existence of a title of property, so that the tax on property is of true type, directly and complementarily to the tax of the incomes realized from the fortune. At first sight it might be inclined toward the idea that the tax on property, as it is described above, would mean a double imposition as long as it is paid from the incomes realized by the holder or from savings realized by reducing the expenses, creating the false impression that the fiscal task is bigger on those who save to the advantage of those who consume or waste. (Tulai C. : 2005)

The reason of being of the tax on private property is supported however on three essential considerations, namely:

- the holder of the goods subdued to taxation profit by the service provided by the state (community) for the insurance of their safety;
- the intervention of the principle of social solidarity of taxation, especially those who have bigger fortunes must prove solidarity to those who have not succeeded in saving or who have consumed more however contributing through bigger indirect taxes;
- the taxation of private property is capable of creating a balance between the capital tax and the income tax.

Practice has proved that the existence of private property generates three taxation types of it depending on the category of the goods which are the object of the imposition and also on the obligation chargeable to them in the following way:

- tax on proper fortune;
- tax on the transfer of property right on the fortune;
- tax on the increase of fortune.

Considering the fact that the property on taxable goods (buildings, grounds, transport means) is the generator of the three types of taxes, it leads to the idea that these must follow the same legal regime without any exception.

It was established that taxes on buildings, grounds and transport means become an integral income to the budgets of local communities depending on the place where these are found. For these reasons, the Fiscal Code also establishes that the financial sources realized from these taxes become an integral income to local budgets of communes, towns, municipalities, districts of the Municipality of Bucharest or counties as the case may be. Therefore, the tax on proper fortune, by its transfer, should become an integral income to the local budgets, according to the principle of the place where the good is placed.

The incomes obtained from the transfer of the property right constituted 50% financial resources to the local budgets. Along with the enforcement of the modifications of Law 273/2006 on Local Public Finances it is established that the tax on the incomes obtained from the transfer of property right are transferred and detained integrally to the state budget. (Law 273:2006)

In my opinion Law 61/2010, contravenes to some financial fiscal principles and norms under the conditions in which our country lies in an ample process of administrative decentralization and of increase of the financial autonomy of local communities, thus:

a) It was erroneously appreciated in the Fiscal Code which regulates the income tax the fact that the amounts resulted after the transfer of property constitute incomes. According to the Economic – financial dictionary edition 2010, Bucharest the incomes represent increases of economic benefits under the form of inputs or increases of the assets or decreases of state debts. (Economic financial dictionary, 2010) Starting from the premise that the exchange through documents between the living realizes an equitable proportion between the value of the good and the price obtained, we cannot talk about benefits especially as the obtained price is lower than the real value incorporated in that good;

b) For the transfer of property right having as an object real estates, the stamp taxes perceived for the procedure of notarial hereditary debate or judicial apportionment, become an income to the local budgets where that public institution functions; ( Law 146:1997)

c) The proceeding regarding the divestment of the budgets of local communities from the benefit of the tax on the transfer of property contravenes to the objectives regarding administrative and financial decentralization of local communities, and also to the recommendations of the Congress of Local and Regional Authorities of Europe who have as a target the financial consolidation of local budgets.

### **3. FISCAL EQUITY BETWEEN TAX PAYERS OF THE TAX ON BUILDINGS**

Fiscal equity assumes the existence of a climate of social justice and rightfulness in the distribution of fiscal pressure among the tax payers with regard to taxes. Fiscal equity assumes equality in front of the tax, meaning the imposition which has the same object should be applied undifferentiated to all tax payers, fiscal pressure being influenced only by the size of the taxable matter.

It cannot be talked about fiscal equity in the field of the tax on buildings. In our country it is treated differentiated, depending on the tax payers, private individuals or legal persons.

Thus, the taxable base in the case of private individuals is constituted by the value of the building established on the basis of some criteria provided by law and calculated per square meter of built surface, to which the correction coefficients are applied depending on the range of the locality where the building is placed, the area of the locality, the vertical disposition, the resistance structure, the existence of some equipment for increasing the comfort and the age of the construction. The value of the tax is of 0.2% in urban area and 0.1% in rural area.

In the case of judicial persons, the base of the tax on buildings is constituted by its value from the financial records which can be: the acquisition value influenced by the market price, the production cost, the contribution value or the value after re-evaluation as the case may be. The tax for this category of tax payers is determined by the application of a coefficient comprised between 0.25% and 1.50% of the inventory value. If within three years the building has not been re-evaluated the imposition quota is comprised between 5% and 10% of the inventory value. In the case of a building whose value has been fully recovered by amortization, the taxable value is reduced with 15%.

If in relation to these differences, the re-evaluation costs every three years are considered, it results that the fiscal task is clearly disproportioned in regard to the tax payers who are private individuals.

According to the theories unanimously accepted, a reduction of the fiscal pressure for the encouragement of investments and also of the consumption, is imposed. An equal treatment of both categories of tax payers is able to accelerate the process of getting out of the crisis.

Also, the classification of the goods which are the object of imposition in movable goods and real estates creates discriminations between their holders.

Thus, according to the provisions of art. 254 of Fiscal Code the tax on buildings is due since the date of 01 of the month following the one in which the building was constructed. The finalization of the construction operation is provided by Law 261/2009 regarding the authorization of the execution of constructions according to which the acquisition date coincides with the time limit of realization provided in the authorization. At the expiration of the realization time of the construction provided in the authorization, the specialty bodies elaborate a record regarding its physical stage, a document which serves at the registration of the building in fiscal accounts on purpose to establish and collect the tax. (Law 261, 2009)

Consequently, real estate developers who realize investments in the field of accommodation constructions on purpose to value them, owe the tax on them since the abovementioned moment, and buyers as new holders to whom the property right on the building was transferred, owe the tax since the date of 01 of the following month in which the acquisition was realized. This coincides with the date of the giving to deduction of the fiscal obligation from the developer's burden.

Constructors and dealers of transport means are treated preferentially, who are exempted from the payment of the tax on these goods registered in the accounting records as merchandise (finished product or acquired for commercialization).

An equal treatment of the two categories of tax payers would be capable of leading to the increase of the profit of real estate developers and implicitly of the incomes realized from their taxation.

Presently in our country as a member with full rights in E.U., serious deficiencies persist with regard to fiscal policy, fiscal pressure, fiscal system, rates and taxes generated by an incoherent, instable fiscal legislation with many gaps and ambiguities which opens large perspectives to tax evasion, financial frauds and corruption. For a country, in general, and especially for a state of the European Union it is very important that the legislation in the fiscal field with clear, precise specifications which do not allow different interpretations prevails.

This paper wishes to constitute a beginning in the reform of local administration and fiscal policy.

#### 4. CONCLUSIONS

The creation of the administration system of local public finances and the organization of fiscal activity on the principles of decentralization and financial autonomy constitutes the problem which lies in the center of the attention of local administrations in our country.

From the point of view of financial autonomy of local councils, local rates and taxes become more and more important as income sources, because they diminish a lot the dependence of central authorities on the state budget.

Fiscal policy has always played an important role in the realization of economic and social programs. The ensemble of the regulations with regard to tax payers, rates and taxes and payment modalities represent the fiscal system.

Presently, for Romania fiscal policy problems, of fiscal pressure, of the structure of fiscal policy, of the establishment and collection modalities of the incomes etc. have a significant importance considering the existence: of a fiscal system still half-baked and of an incoherent, instable fiscal legislation, with many gaps and ambiguities; of a reduced degree of collection of the incomes; of a financial indiscipline and of a vast field of tax evasion, fiscal fraud and corruption.

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## **THE RISKS IN THE AUDIT ACTIVITY**

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**ABSTRACT:** *Following the bankruptcy of large firms (Enron, Parmalat, WorldCom) due to incompetence and failure of procedures is necessary to improve the audit work, paying special attention to risk management and taking into account the recommendations of the auditors. This paper presents a detailed analysis of risks that may arise in financial audit of how risk assessment and the factors involved in their estimation.*

**KEY WORDS:** *auditor acceptable audit risk; inherent risk; control risk; detection risk.*

**JEL CLASSIFICATION:** *M41; M49.*

### **1. INTRODUCTION**

Financial Audit plays a key role in corporate governance mechanism since the quality of financial reporting information is determined by several levers that operate under this mechanism.

Financial Audit plays an important role in more efficient operation of capital markets, the economy in general, by giving credibility to financial reports that are required to users. In recent decades, international companies engaged in combinations have appeared improper or fraudulent financial promoters of some resounding financial scandals (Enron, Parmalat, WorldCom, Baring, Forward Group Bhd).

Confidence in the role of auditors and their professionalism was questioned after the spectacular failures, but failures have occurred after the auditors have expressed their views on financial work in favorable terms without warning on certain aspects of the audited entities.

The main reasons for these failures common were considered disastrous incompetence, poor allocation of roles and responsibilities, abuse of procedures,

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ignorance of risk management, auditors recommendations neglect, ineffective external audit.

These events have contributed to the emergence of a common interest in the need for improved control and risk management audit and audit work. We therefore take more detailed risks that may arise in audit work.

## 2. RESEARCH METHODOLOGY

The main research method was to review the most important views and approaches in the literature, articles and studies in national and international press reports and regulatory bodies in the accounting profession.

## 3. PRELIMINARY ISSUES

The term risk is derived from the Italian word RISICARE which means to dare. *Risk* can be defined as the threat of an action or event that will adversely affect the ability of an entity to achieve its objectives and to successfully execute their strategies (Griffiths, 1998, p.17).

Risk is the threat variable, something might happen, threat refers to an event, something must happen for the risk to crystallize, and if the event occurs, will have an impact on the entity's objectives. The risk under this definition produces a negative impact on objectives. Risk is the possibility or chance that something will happen will have an effect on the objectives of the entity (Griffiths, 1998, p.17).

Risk is the uncertainty of a result which took the form of a probability of a positive nature or threat, of actions or events and should be taken in terms of a combination of the possibility of something happening and the impact that would produce the materialization of this possibility (Treasury, 2004, p.9).

Risk management can be a positive process, the risk arises not only what is wrong, but also activities to be sure they are correct (Ghiță, et al., 2009, p.109).

The risk, in practice, may be perceived as a series of challenges that must appear in the activities we carry, especially when they have to make decisions.

The risk management has proposed to manage uncertain events success.

For any entity, it is important that before identifying risks, to have well defined objectives based on actual and potential risks.

Risks can be grouped according to several criteria:

1. by the possibility to produce (potential risks, possible risks)
2. according to the specific of the audited entity (the entity general risks audited, risks related to the nature of operations, information systems risks, risks related audit procedures).

**The potential risks** are found in all entities, the most likely to occur.

**The possible risks** are the potential risks that management has taken effective measures designed to limit there is a high probability that errors occur without being detected and corrected.

**General risks** arising from specific characteristics of the audited entity entity: the operating sector, the structure, organization, which distinguishes it from other entities.

Examples of general risks of the entity the audited are:

- a) risks related to the economic situation (if the entity is in financial difficulty is tempted to contract loans with high interest)
- b) risks related to general organization regarding the nature and complexity of the structures and rules (if rules are more complex, the risks of error are large), the quality management (quality decision process leads to a reduction in risk), the lack of procedures (separation of duties reduces risk)
- c) risks related to the attitude of management (management of risks involves the use of reliable and efficient systems).

**Risks related to the nature of operations made.** Transactions recorded in the accounts can be:

- 1. repetitive, as a result from ordinary activities entity (purchases, sales, production, wages, etc.). Risks of registration errors are determined by the quality of the accounting system.
- 2. complementary to those repetitive, recorded from time to time more or less regular basis (for example, information relating to amortization, adjustments)

**The risks related to the informational systems.** Collection and processing system of data should be designed to make possible the prevention, detection and elimination of errors.

**The risks related to the audit procedures.** The financial auditor plans audit engagement based on its risk factors is estimated, according to his experience, choosing methods, which involve various risks. The risks are difficult to quantify, requiring a laborious analysis. Risks of the financial audit of the environmental are assumed by the auditor who expresses an audit opinion on the inappropriate financial statements.

Audit risk, according to International Auditing Standards, is the risk which the financial auditor expresses his inappropriate opinion when financial statements contain false information.

Financial auditors, seeking a better assessment as to avoid the risk of audit professional sanctions, payment of damages allocated substantial time to identify risks.

The higher the risk is, the financial auditor will spend more time checking.

Risk model used in planning the financial audit engagement, crucial in deciding the quantity of samples collected within each accounting cycle (sales - receipts, purchases - paying attraction - capital repayment) takes the form:

$$RAa = Ri \times Rc \times Rn$$

RAA - acceptable audit risk

Ri - inherent risk

Rc - risk control

Rn - Risk Detection

#### 4. THE MAIN TYPES OF RISKS IN THE FINANCIAL AUDIT

Acceptable audit risk is a measure of the extent to which the financial auditor accepts that the financial statements contain errors that could be significant after the audit report was delivered.

If one financial auditor assumes an acceptable audit risk of 100%, shall mean absolute uncertainty.

If one financial auditor assumes an acceptable audit risk of 0% shall mean certainty in the correctness of financial statements.

Acceptable audit risk (AAR) expressed as a percentage is used in determining the reliability of financial auditor (GI):

$$GI = 100\% - RAa\%$$

Financial auditors acceptable in audit risk assessment take account of the economic risk of the auditor or audit firm to be injured from a relationship with an audited entity.

Financial auditors reduce acceptable audit risk due to factors related to economic risk (Arens, et al., 2003, pp.302-304):

- a) the extent to which external users rely on financial statements
  - b) entity audited financial problems after completing the audit
  - c) the integrity of management.
- a) *The extent to which external users rely on financial statements.*

If the entity's financial statements are used with priority by external users in decision making, it is recommended that auditors to estimate to a lower acceptable audit risk.

Items that indicate whether external users of financial statements are based on are:

- *the debt amount and nature of the audited entity.* In the case of entities with a high degree of leverage financial creditors will be based on the audited financial statements more than in the case of entities with lower leverage;
- *the audited entity's size.* A large entity with many outlets requires the establishment of a lower acceptable audit risk;
- *the number of shareholders.* The financial statements of entities with a large number of shareholders are the source of information for the shareholders and for the authorities.

b) *The audited entity's financial problems after completing the audit*

If the audited entity goes bankrupt after completion of the audit, the financial auditor is at risk of being contested in court by the audited entity because the entity being the audited is not satisfied with the quality of the audit, whether it wishes to recover some of loss suffered, even though the audit is of good quality.

The elements that indicate a probable financial failure of the audited entity are:

- the rapid growth of profit (loss) indicating possible future solvency problems (including undistributed profits);

- evolution of cash (cash insufficiency indicates future debt problems);
- the business lending (borrowing from financial lenders determines a higher risk of the financial difficulties).

*c) The integrity of management*

Integrity management is an important factor driving the risks inherent to each objective of financial audit, for each account and the accounting cycle.

An inferior quality of management is shown by the frequent changes in internal audit and accounting, treasury and disagreements with previous auditors, the audited entity crimes of the leadership and suggests the possibility of a conflict with the authorities, owners or employees.

**Inherent risk** is the susceptibility of information that contains significant errors, either individually or combined with other information.

Inherent risk is the likelihood assigned by the auditor because of the existence of material misstatements in financial statements reflecting the vulnerability of financial statements errors.

The purpose of assessment of the inherent risk is to enable the financial auditor to form a preliminary opinion on the audited entity, which will be taken into account in the planning process.

Including the inherent risk in the model of financial audit is an important concept of the audit theory, requiring the financial auditors to identify the segment of the financial situation shall be most likely the occurrence of errors.

Factors that are involved in the assessment of inherent (Arens, et al., 2003, pp. 305- 308):

- *specificity* refers to the entity the audited entity's operating activities and appeals to the integrity of management;
- *misrepresentation of information*. Lack of management may result in falsifying the integrity of the financial situation, the occurrence of errors in the inherent risk, with the impact on the attitudes and actions of the leaders, the affection of the integrity, the commitment on the competence with impact on the risk control;
- *results of previous audits*. Deviations identified in the audit in the previous period are likely to recur because the errors are of systematic nature, the entities react slowly to introduce the necessary changes;
- *recurring audits*. Auditing entity for a longer period determines that some auditors to use a higher inherent risk in the first year to the next, if in the first year were not found significant errors;
- *Special operations* which are more likely to be wrong registered because the entity has no registration experience (producing damage leases);
- *unusual pressures exerted on the audited entity's management* may be driven by competition, or by a large number of bankruptcies in the industry in question;
- if the accounting system shall be well-formed in the entity, it will ensure efficiency in the registration point.

Control risk consists in the fact that a material misstatement of an account balance may not be discovered and corrected by the accounting system and internal control system.

Control risk is the measure of the financial auditor's assessment of the likelihood that material misstatements may not be prevented.

The financial auditor tends to place the assessment at a level closer to the maximum level of 100% or even 100%. The control risk is directly proportional to the quantity of audit evidence.

Following the assessment of control risk can be record two situations:

- the financial auditor finds that the accounting and internal control system are not functioning efficiently and effectively, in which case the control risk is at a high level;
- the financial auditors identify that the internal control and accounting system is efficient, able to prevent, detect and correct erroneous significant information. In this case, control risk is lower.

Control risk assessment is carried out in two phases, preliminary and final stage.

Preliminary assessment of control risk assessment is the process of accounting systems and the detection of significant erroneous information, performed for each account balance or class of significant transaction.

The financial auditor recorded, in the working papers, information on the accounting systems necessary to assess control risk, and may use descriptive methods and graphical methods.

Descriptive procedures are based on manual procedures, instructions and internal control questionnaires.

Graphic procedures use circuit diagrams (flow charts) for the graphical representation of the circuit control documents and procedures.

*In the final stage of control risk* assessment, there will be used tests for verification, under which it will be assessed the compliance with the preliminary assessment of the control system and whether amendments are needed depending on audit program items found.

Assessment of control risk at a lower level must be substantiated by evidence obtained through tests of control audit.

The more the assessment of control risk is lower, the financial auditor should obtain more evidence to argue that the accounting systems and internal controls are properly designed and operating effectively.

**Detection risk** is the risk that the financial auditor's substantive procedures will not detect significant erroneous information individually or aggregated with other information.

The factors that are generating detection risk:

- exhaustive checks transaction risk can be generated by using most appropriate audit procedures, failure to apply to proper specific audit procedures and misinterpretation of results.

- for sample checks the uncertainty arises if it is found less than 100% of items. These uncertainties can not be eliminated but they can be controlled by proper sampling procedures

Detection risk shall be inversely proportional to the risk inherent and control risk and directly proportional to the acceptable audit risk.

The audit risk model used in planning the audit shall be:

$$\text{Detection risk planned} = \frac{\text{Acceptable audit risk}}{\text{Inherent risk} \times \text{The control risk}}$$

If inherent and control risks are high, the financial auditor shall ensure that detection risk is low and with a high degree of confidence.

If the detection risk shall be high, the quantity of samples planned will be reduced.

If the detection risk shall be small, the amount of samples planned shall be great.

## 5. CONCLUSIONS

- Risk, viewed in terms of achieving the objectives of advantages and disadvantages: if the risk has a negative impact on achieving objectives it remains a threat, and where they will be positive connotations, opportunities can be ignored or exploited.
- Inherent risk and control risk refer to the risk that the financial statements contain errors, the risks are related to the audited entity and not under the control of the financial auditor. Detection risk is the risk which in the financial auditor does not identify errors, and are compared with the other two types of risks, it is under the control of the financial auditor.
- Acceptable audit risk is directly proportional to other types of risks from of the audit's environment and inversely proportional to the quantity of audit evidence which is planned.
- Inherent risk and control are interrelated , so management entities shall take measures to mitigate the two types of risks by developing and increasing the effectiveness of the accounting
- Detection risk shall be directly related to the fund procedures used by the financial auditor and can not be totally eliminated, regardless of the techniques used.
- Inherent risk and control belong to the audited entity and detection risk shall be associated to the financial auditor, depending on the nature, scope and execution time of the audit procedures.
- Between the auditor's the assessment inherent risk and acceptable level of the detection risk is the following relationship: the higher the level of inherent risk and control risk, the greater shall be the volume of audit work required to reduce detection risk and to achieve the desired overall of the audit.

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## **ISSUES IN ROMANIAN BANKING SYSTEM IN THE CONTEXT OF REORGANIZING ITS ADAPTATION TO THE REQUIREMENTS OF THE MARKET ECONOMY**

**IOAN DUMITRU MOTONIU, LUCIAN-ION MEDAR \***

**ABSTRACT:** *Based on the concept that the banking system is the engine of economic development, the paper is intended as a blueprint for the banking system in Romania since 1989, stages and parts of its reorganizing process. In the article is also carried out an analysis of the Romanian banking system in terms of numerical development banks and through the two indicators considered fundamental in the banking system: market share, expressed in terms of net balance sheet asset, that social / endowment capital and are presented the conclusions that have been drawn from this analysis.*

**KEY WORDS:** *banking system; credit institution; banking reform; market share social/ endowment capital.*

**JEL CLASSIFICATION:** *G21.*

### **1. INTRODUCTION**

More and more specialists consider the banking system in any economy, as economic development engine, an indispensable component on whose strength and proper functioning depends all economic activity. In the context of transition to market economy after 1989 and given the role that banks play in regard to the proper functioning of economic entities and the economy as a whole, in Romania, it was necessary to create a modern banking system, capable to provide a wide range of products and high quality services that meet the requirements of all customers in a market economy. Thus, this article wants to make a brief presentation of the changes that have occurred in the Romanian banking system after 1989, evolution in numbers, focusing on some more delicate moments that have marked this evolution.

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In the opinion of the Governor of National Bank of Romania - Mugur Isarescu, the central banking system transformation, with the state monopoly, feature of Romanian economy before 1989, in one that meets the requirements of market economy, has experienced two phases: the first involving the creation of the Romanian banking system, "as a modern structure in the context of imbalances emerging market economy" and the second represented by the "legislative and functional strengthening of the banking sector after the crisis of 1998-1999" (Isărescu, 2009, p.276).

## **2. THE STEPS OF THE REORGANIZATION OF THE ROMANIAN BANKING SYSTEM**

The first stage of reorganization, which began on 1<sup>st</sup> December 1990 at the National Bank of Romania (the separation of commercial activities and its takeover of by the Romanian Commercial Bank, founded at that time), has resulted in developing the new legal framework, upon approval by Parliament of the Law no. 33 on banking, regarding the National Bank of Romania, namely Law no. 34, both entered into force on May 3, 1991. Under the new legislative framework, the Romanian banking system is structured on two levels (that are still maintained): the first is a single entity, the National Bank of Romania (it is the sole issuer of the state and establishes regulations in the monetary, credit, foreign exchange and payments, refinances the banks, provide liquidity to the banking system and supervision of all banking companies), and the second includes the banking companies (legal entities whose main activity is fundraising from individuals legal and physical form of deposits or negotiable instruments payable on demand or at term, and loans) (Law no.33/1991, art.3).

We can say about the new legal framework that encouraged the development of private banks liberalized the entry of foreign credit institutions on the autochthonous market. Once with Romania's advancing on the market economy it was necessary that the Romanian banking system align to the principles of this type of economy, so that since 1997, **it moved to the second phase of banking reform** (web-site: [www.bnro.ro](http://www.bnro.ro) - Romania – Banking system – present and future – June 2003), characterized by improving and completing the legal framework by approving the new banking law (58/1998), Law No. 101/1998 on the National Bank of Romania and nr.83/1998 law on bank bankruptcy proceedings. On the same line of improving the banking system, is the adoption of Government Emergency Ordinance 97/2000, which created a new legislative framework necessary for the functioning of credit cooperatives.

Also in this stage, as an element in addition, aiming to contribute to the Romanian banking system reorganization and adaptation to the specific characteristics of market economy, was the takeover, within the internal regulations in the field, with the signing by Romania of the Accession Agreement to the European Union, **the communautaire acquis**, the objective contained in the medium term development strategy of the banking system as part of the National Strategy for Economic Development of Romania on Medium Term (Georgescu-Golosoi, p.8).

Among the objectives of the strategy which refer to the banking system we include: the creation of a sector composed of strong banks capable of providing financial intermediation based on efficiency and profitability, diversification and

higher quality banking and financial services, whose purpose targets to be reflected in the increasing competitiveness of the Romanian banking system

The process of adjustment to EU requirements continued in 2005-2008, with special attention being paid to improving the primary legislation on the work of various kinds of credit institutions (commercial banks, credit unions, savings banks and lending for housing, mortgage banks and electronic money institutions), concern that has resulted in the issuance of Government Emergency Ordinance No.99/2006 on credit institutions and capital adequacy, approved and amended by Law 227/2007, bill that took the Directives nr.48/2006 nr.49/2006 and repealed the provisions which hitherto had regulated the banking activity (it is Law No. 58/1998 on banking activity, GEO 97/2000 on credit co-operatives and others).

### **3. HIGHLIGHTS OF THE REORGANIZATION OF THE ROMANIAN BANKING SYSTEM**

But the reorganization of the Romanian banking system is not manifested only in law but took also a physical form, whether we can call it this way, reflected on the one hand, in the recapitalization of banks with problems and removing the non-viable ones from the system, and on the other, by privatization of state-owned banks. We recall here the delicate moment of 1998, when malfunctioning results of large state-owned banks (Agricultural Bank and Bancorex) had come to represent a real threat to the viability of the Romanian banking system. (Mugur Isărescu, 2009, pp.286). By the establishment, in 1998, of the Bank Asset Recovery Agency (BARA) and the assumption by the losses of the two banks, the delicate situation could be overcome in the case of the Agricultural Bank and its recovery, but this was not possible for Bancorex the definitive solution being adopted in 1999, as the fusion with the Romanian Commercial Bank by the absorption of the viable part of Bancorex.

Regarding the Agricultural Bank, after long efforts, which took place during the three years (1999-2001), succeeded in its privatization, the sale of the shareholdings held by the State Property Fund of consortium Raiffeisen Zentralbank Osterreich AG and Romanian-American Investment Fund. (Isărescu, 2009, pp.287).

Measures to remove from the Romanian banking system the problematic or non-viable banks targeted private banks, too. Thus, during 1999-2003, due to a deteriorating of the financial situation due to **mismanagement**, in the case of **Albina Bank, Bankcoop, Credit Bank, Banca Turco-Romanian Scont Romanian Bank, International Bank of Religions, Columna Bank, Bank of Investment and Development (BID)** and of the inability to achieve positive results for the purposes of their financial recovery, even after the special measures adopted by the National Bank of Romania, was initiated bankruptcy proceedings for all these banks.

Yet, reorganizing the banking system has not only put on bankruptcy *clothes* of some banks, (it is true in private equity with a low market share), but **was manifested through the privatization of two major state-owned banks, it is about the Romanian Development Bank and Bancpost SA**. Also, still under the reorganization are the changes that have occurred in the activities of the Savings Bank (the institution that was specialized in attracting savings from the public, it turned into

a credit institution, having included in the scope of work also lending individuals and legal entities), specialization of the Romania Export-Import Bank SA as an agent of the state with a well defined role (that of supporting the exporting firms), and the triggering of a process of privatization, in the case of the largest banks in Romania (Romanian Commercial Bank), which was completed in 2006 by acquiring a majority stake by Erste Bank.

#### 4. EVOLUTION OF THE ROMANIAN BANKING SYSTEM BY OWNERSHIP

The period of the profound changes occurring in the Romanian banking system, is identified not only by the failure of banks and reorganizing or privatization of others, but also by allowing the National Bank of Romania of relatively large number of banks, especially with foreign capital, and by opening on Romania's territory branches belonging to foreign banks.

**Table 1. Banks operating in Romania, according to their capital**

Year	1994	1998	2000	2003	2008	2009
I. Number of banks, Romanian legal persons of which:	20	36	33	30	32	31
I.1. a) Banks with integral or majority state capital of which:	7	7	4	3	2	2
- integral state-owned capital ;	1	1	1	1	1	1
- majority state-owned capital	6	6	3	2	1	1
I.2. b) Banks with private capital of which:	13	29	29	29	30	29
- with Romanian majority capital;	8	13	8	6	3	4
- with foreign majority capital	5	16	21	21	27	25
II. Branches of the foreign banks	7	9	8	8	10	10
Total banks and branches of foreign banks ( I + II)	27	45	41	38	42	41
III. CREDITCOOP				1	1	1
Total credit institutions (I + II + III)	27	45	41	39	43	42

Source: Annual reports of National Bank of Romania

Thus, until 31.12.2009, the Romanian National Bank has authorized a total of 50 Romanian legal persons that carry out banking activities, and 19 branches of foreign banks. By analyzing their evolution over the period 1994-2009 (Table no.1), in numerical terms we can say that by 1998 we witnessed a continuous increase in the number of banks, Romanian legal persons, so that at the end of the year there were 36 banks, after which, following the bankruptcy of some of them, their numbers began to fall steadily until 2003. In the years that followed, even if they have been authorized a total of six (6) Banks (ROMANIAN PORSCHE BANK SA BANK MILLENNIUM SA, GE GARANTI BANK SA, RAILWAY Commercial Bank SA, Raiffeisen Bank for Housing SA, BCR BANK FOR HOUSING SA) at the end of 2009, the number of banks, Romanian legal entities, which existed in Romania did not exceed 31, and

following the merger of some of them (see the Commercial Bank, Ion Țiriac"SA, HVB Bank and UniCredit Bank).

Regarding banks' capital structure during the period analyzed, it can be said that this was a constant evolution, to the increase in the number of banks with foreign capital, along with a decrease in the number of state-owned banks, following the privatization of this segment of the Romanian banking system. Parallel with this phenomenon, and related private sector-owned Romanian bank, until 1998 it has grown steadily after that, the problems occurred in several such banks, led to the bankruptcy of some of them (the Commercial Bank,"ALBINA SA, Romanian Discount Bank, Investment and Development Bank-IDB SA, Bankcoop SA, Credit Bank, International Bank of Religions SA), which made their numbers continued to decrease, so that at the end of 2009 there were only four banks with majority Romanian private capital. It's about Banca Transilvania SA, Commercial Bank Carpathian SA, Libra Bank SA, Railway Commercial Bank S.A.

### 5. MARKET SHARE AND SOCIAL CAPITAL – BASIC INDICATORS CHARACTERIZING THE ROMANIAN BANKING SYSTEM

Next in this article are presented and analyzed in terms of their changes over time, two parameters that define an institution, it is about the market share expressed according to the net assets balance sheet (table 2) and the social capital / endowment (Table 3).

**Table 2. Market share of credit institutions**

	Balance net asset					
	1998		2003		2009	
	mil. lei	%	mil. lei	%	mil. lei	%
Banks with Romanian capital of which:	10668,39	80,05	25225,90	41,72	47922,4	14,51
- majority state capital	9464,77	71,02	22655,37	37,47	24185,3	7,32
-majority private capital	1203,62	9,03	2570,53	4,25	23737,1	7,19
Banks with foreign majority capital	1901,13	14,26	30547,65	50,53	257277,8	77,92
I. Total of commercial banks	12569,52	94,31	55773,55	92,25	305200,2	92,43
II. Branches of foreign banks	758,11	5,69	4684,50	7,75	24199,3	7,33
Total of banks with private majority capital, including the branches of the foreign banks	3862,86	28,98	37802,68	62,53	305214,2	92,44
Total of banks with foreign majority capital, including the branches of the foreign banks	2659,24	19,95	35232,15	58,27	281477,1	85,25
Total of banks and branches of foreign banks (I+II)	13327,63	100	60458,05	100	329399,5	99,76
CREDITCOOP					784,0	0,24
<b>Total of credit institutions</b>	<b>13327,63</b>	<b>100</b>	<b>60458,05</b>	<b>100</b>	<b>330 183,5</b>	<b>100</b>

*Source: Annual reports of the National Bank of Romania*

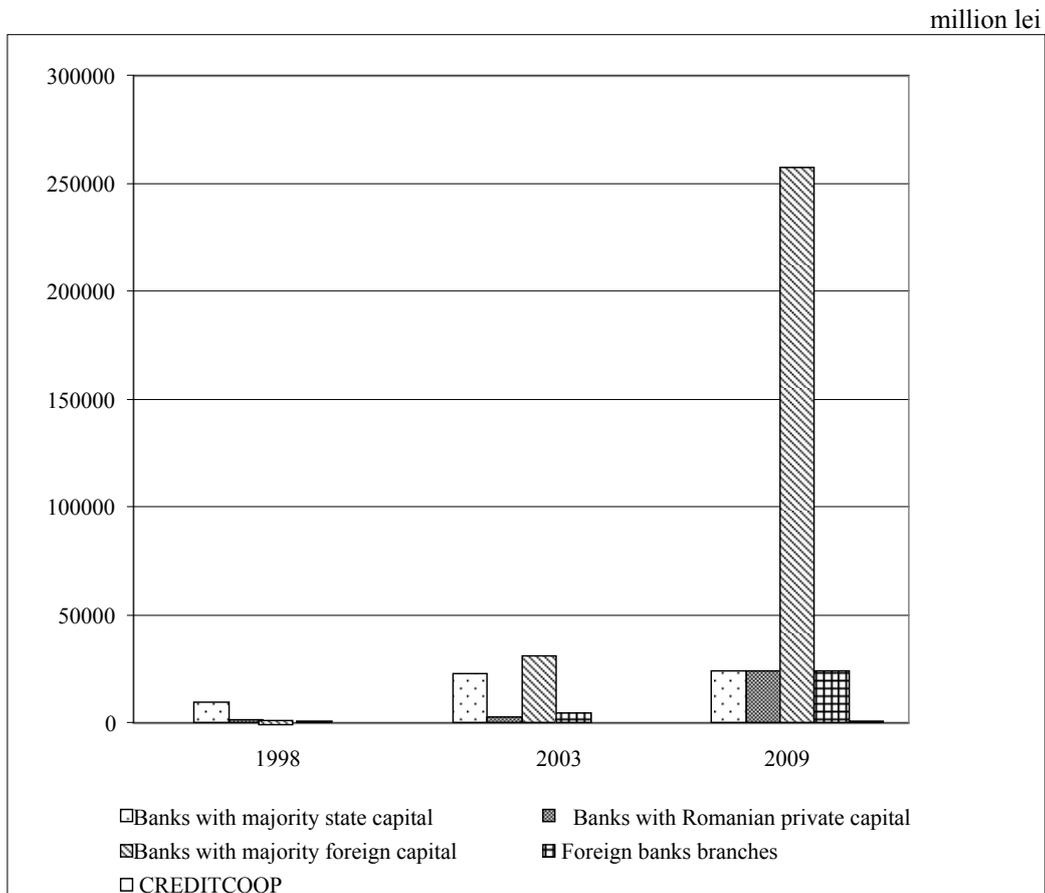
**Table 3. Share of credit institutions in the aggregate volume of the capital**

	Social /endowment capital					
	1998		2003		2009	
	mil. lei	%	mil. lei	%	mil. lei	%
Banks with Romanian capital of which:	369,37	64,21	1 347,70	33,72	3 263,50	22,69
-majority state capital	299,98	52,15	1 027,30	25,70	1 750,00	12,16
-majority private capital	69,39	12,06	320,40	8,02	1 513,50	10,52
Banks with foreign majority capital	139,89	24,32	2 327,07	58,22	10 448,80	72,63
I. Total of commercial banks	509,26	88,53	3 674,77	91,94	13 712,30	95,32
II. Branches of the foreign banks	66,00	11,47	322,24	8,06	551,60	3,83
Total of banks with private majority capital, including the branches of the foreign banks	275,28	47,85	2 969,71	74,30	12 513,90	86,99
Total of banks with foreign majority capital, including the branches of the foreign banks	205,89	35,79	2 649,31	66,28	11 000,40	76,50
Total of banks and of foreign banks (I+II)	575,26	100,00	3 997,01	100,00	14 263,90	99,15
CREDITCOOP					121,50	0,85
Total of credit institutions	575,26	100,00	3 997,01	100,00	14 385,40	100,0

Source: *Annual reports of the National Bank of Romania*

We chose 1998 and 2003 as beginners years, respectively, which meant the physical reorganization of the Romanian banking sector, i.e. the period during which, after a significant increase in the number of banks authorized by the National Bank of Romania (until 1998), there have been many cases of onset of bankruptcy proceedings, the current year and 2009 respectively. Also, in order to make a comparison of data at the three times I used the same measuring unit, namely new million Lei. From the data presented in Table 2 and the graph drawn on the basis of these data (Picture 1) there results that, in the period under review (1998-2009) foreign-owned banks recorded the biggest increase in market share, reaching by the end of 2009 to hold about 80% of the net assets of the banking side of our country.

If we take into account also the balance sheet net assets held by foreign corporate bank branches, it is reached a 85.2% share. This increase was due, on the one hand, to the strong getting in of foreign capital in the Romanian banking system, which took the form of new credit institutions authorized by the National Bank of Romania, on the other hand the banking sector following the privatization of state by taking over the majority package of shares of all banks with foreign capital. Regarding the state banking sector (which is the CEC Bank and Exim Bank.), even though it has increased somewhat in terms of nominal value of net asset side, however, as a share it experienced a dramatic decrease from 71.02% in 1998 to 7.32% in late 2009.

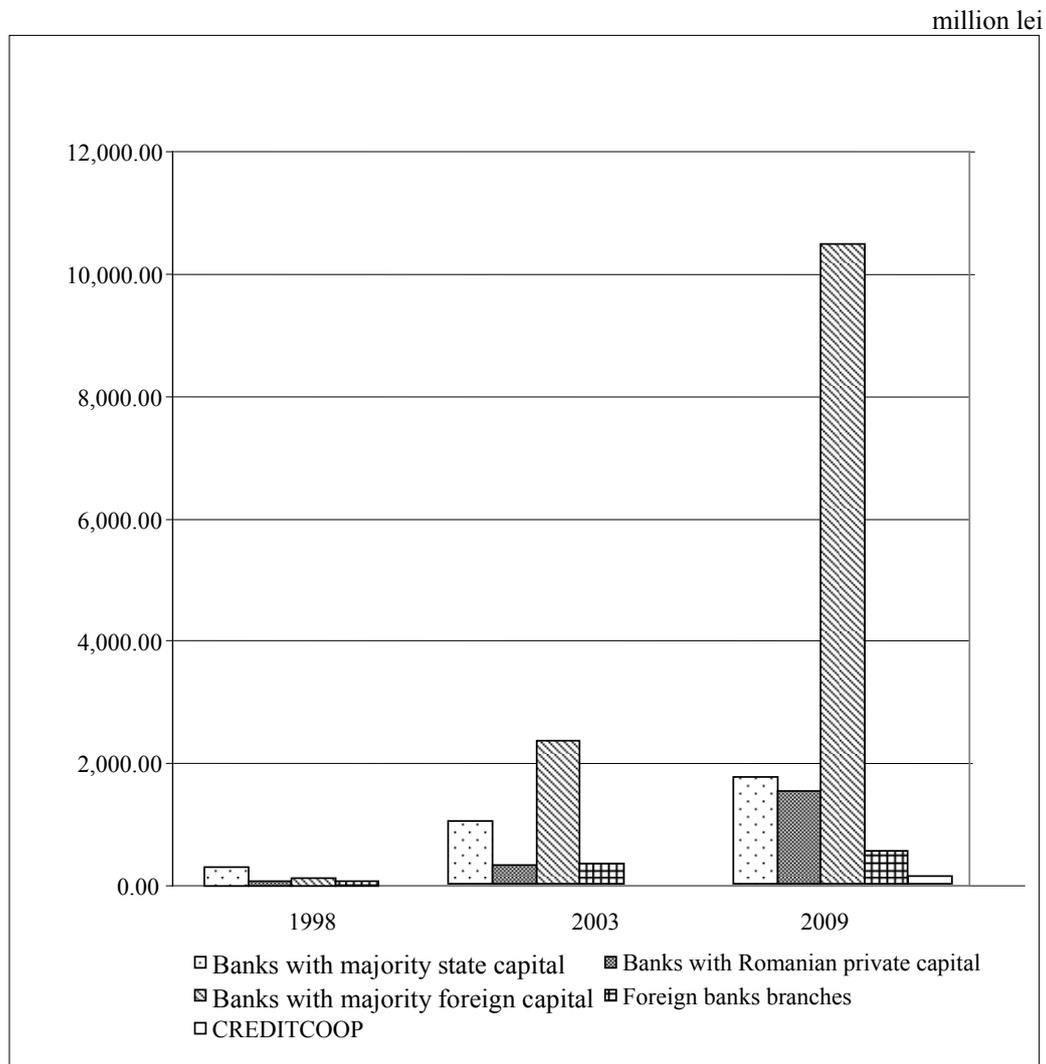


Source: Annual reports of the National Bank of Romania

**Figure 1. Market share of the credit institutions in Romania**

Regarding the Romanian private banking sector, we can say that it had an oscillating evolution, meaning that it dropped between 1998-2003 (when there occurred most bank failures), then began to increase slightly reaching by the end of 2009 to hold a market share of 7.19%, very close to the state-owned banking sector. Please note that this segment of the Romanian banking system is composed of a number of 4-credit institutions.

The same evolution presented for market share, we find in terms of social / endowment capital of banks in Romania (Table No. 3 and Picture No. 2), meaning that by 1998 the Romanian majority-owned banks state-owned share, with 52.15% at the end of 1998, while foreign capital, which had begun to get in the Romanian banking system, both having the form of banks and branches of foreign banks, no more than 35, 79%. Regarding the autochthonous private capital, it failed to impose on the banking market in our country, so that the share of banks with Romanian private capital, in terms of capital / endowment has not exceeded 13%.



Source: Annual reports of the National Bank of Romania

**Figure 2. The level of social/endowment capital of credit institutions by ownership**

After 1998, foreign capital began to be felt increasingly over the banking financial market in Romania, on the one hand by participating in the privatization of state-owned banks and the acquisition of the majority package of shares (as was the case with Bank Romanian Development SA, Bancpost SA Agricultural Bank SA, and the Romanian Commercial Bank SA), and secondly, by authorizing foreign banks. Thus, at the end of 2009 foreign majority capital -owned banks (including branches of foreign banks) had not less than 76.46% of total capital / endowment of the Romanian banking system, while the banks were fully or majority state (in number of two or CEC Bank and Exim Bank.) held at the same time, a weight of only 12.16%. Related to autochthonous private capital, as I mentioned, it failed to keep up with the foreign one,

so its share in the total capital / endowment of the Romanian banking system was up only 10.52% until the end of 2009. Of those submitted in connection with the two fundamental indicators of the Romanian banking system, we can say that the banks with the largest market share are those that have a substantial capital.

## **6. CONCLUSIONS**

Apparently contrary to the reality, the main feature of the Romanian banking system's development after 1989 was not a quantitative dimension of its evolution, but the coherence of structural and qualitative development of banking activity in the sense of an upward direction dictated by the adjustment to the market economy requirements.

The caution and qualitative criteria, which were the basis for the licensing policy conducted by the National Bank of Romania, have been reflected in the relatively small number of new banks which were created in our country, which made Romania to be characterized by a low degree of financial intermediation

Thus, in 1998, considered as the peak year of the Romanian banking system in terms of number of banks and branches of foreign banks which were active in Romania, with a total of 45 such institutions, to a commercial banks were attributed approximately 500 000 inhabitants, compared with the situation in the Czech Republic (195 thousand inhabitants in 1996) and Bulgaria (200 000 inhabitants in 1995), (Mugur Isărescu, 2009, p.278).

But although the National Bank policy concerning the authorization of commercial banks was characterized by prudence, however, during the reorganization of the Romanian banking system were established, and some gaps, which took the form of bankruptcy has no less than eight banks in the range between 1999 and 2003, but were not considered defining for the whole banking business in Romania.

Regarding the number evolution of banks in our country by the year 1998, increasing of their number was achieved mainly on account of autochthonous capital, the entry of large foreign banks knowing more rapidly rhythm thereafter, while accelerating the process of privatization of the Romanian banking sector.

The same evolution met two of the basic indicators characterizing the Romanian banking system, it is about the market share (expressed in terms of balance net asset) and social / endowment capital, meaning that by 1998 the share of the system Romanian banking sector had a majority state-owned banks and private Romanian, by which foreign capital has seized the banking sector in Romania. This was achieved by means of two levers, namely:

- acquiring the package of shares from majority state-owned banks, which have undergone privatization process that began with the Romanian Bank for Development and Bancpost, continued with the Agricultural Bank, the last Romanian bank was privatized Romanian Commercial Bank;
- licensing of foreign capital banks.

All these have led that by the end of 2009 the foreign capital-owned banks hold a market share of 85.25% (calculated based on balance net asset), and their social capital represent 76.50% of total capital endowment of the Romanian banking system.

Starting from those presented in this paper there can be said that the opening of the Romanian economy has left its mark on the current image of the banking system, which determined the need to develop and adapt its operating systems to the international requirements and practices. Also, competitive pressure on financial-banking market in our country, due to the infusion of foreign capital has created the prerequisites for the development and diversification of banking activities, reflected through new banking products and services, increase in speed and the instruments, settlement accounting and control system modernization and computerization of the data transmission systems such as accounting and from the transfer process. In addition, efforts for capitalization and the competitive pressure have caused banks to develop a network of local modern and which fully respond to *consumers* demand for products and services.

Finally, it has to be noted that the new requirements of the "Basel Committee" have imposed, to the European institutions in banking supervision field, the need for detailed provisions on the harmonization of the minimum liquidity that provide banks stability in times of financial crisis and to promote an elasticity of bank activities on long term. Recommendations on capital adequacy and liquidity have been the subject of numerous consultations with Member States' central banks and have also been established and developed new strategies that will be proposed as a new paradigm for management of the credit institutions. It remains to be seen which will be the strategic guidelines on management of bank contributions, by 2019, to provide social/endowment capital and encourage the lending activities.

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## **NETWORKING - THE URBAN AND REGIONAL DEVELOPMENT STRATEGY?**

**MARIA NOWICKA-SKOWRON, DEJAN ERIC<sup>Ć</sup>,  
IVONNE GRABARA, IOAN COSMESCU<sup>\*</sup>**

**ABSTRACT:** *The concept of innovations embraces everything that is connected with creation and application of new knowledge in order to win competitive advantage. A traditional approach applied by organizational and management sciences are not enough to explain and manage the development of enterprises as well as that of cities, regions and countries. According to a new approach to innovativeness, creation of innovations depends on a complex/system approach. A phenomenon of particular importance is the approach to network pro-innovation structures from the urban and regional point of view.*

*What makes a network work is a mutual relation between actors who have same rights to access and participate in the network. The whole system must be perceived by every actor. Simultaneously, every actor is partially responsible for the whole. The nature of networking can be understood as a differentiated system of relations (particularly personal ones) inside the network. Tolerance and trust are other foundations of information flow and information return.*

**KEY WORDS:** *innovation; network environment; knowledge management; social networks.*

**JEL CLASSIFICATION:** *D20; D24; L25.*

### **1. INTRODUCTION**

It has become more and more common to claim that the concept of innovations embraces everything that is connected with creation and application of new knowledge in order to win competitive advantage.

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In this respect innovations concern as well, apart from technology, economy, society and culture. A traditional approach applied by organizational and management sciences are not enough to explain and manage the development of enterprises as well as that of cities, regions and countries.

Simultaneously, according to a new approach to innovativeness, creation of innovations depends on a complex/system approach. The word complex is vital since this approach should embrace the complexity of innovative networks as well as complexity of relations of cooperation and the whole *network environment* together with social context. Most frequently the innovative *network environment* is defined by means of the following elements (Cooke, 1998): producers/creators of knowledge; administrative environment; enterprises.

In recent years, a phenomenon of particular importance is the approach to network pro-innovation structures from the urban and regional point of view.

This approach can be justified by the following factors:

- possibility to locate single elements of the network (geographical proximity);
- direct contacts between actors are possible and they can be created;
- synergy exists through common action for a precise community and territory
- common psychological and cultural patterns, most frequently.

Innovations (innovativeness) do not constitute a technical process. Transforming knowledge into a new product or process requires social sphere to be engaged. Dynamic dimension of the innovation process may be based on a view of an innovation network as a system possessing ability to self-create/self-renew innovations. P. Ståhle defines the following factors of system/innovation network dynamics (Ståhle, Grönroos, 2000).

System possesses features that make it distinct from the environment, it possesses ability to endow identity and to justify the existence. It may also possess a system of common values. Furthermore, the identity of actors (elements) of the system is defined through relations with the environment. The system of common values is created through internal relations (between actors) and through relations with the environment. It can be named *Identity based on self definition*.

Innovations system possesses an ability of self-subsistence by processing information concerning its state, changes taking place in the system, goals and rules of action and cooperation. In consequence, a constant communication and flow of information are necessary among elements of the system (actors). Content of this information concerns the identity of the system. Other factors that determine the identity of a system are autonomy of participants (elements, actors) of a network and a belief, awareness of being a part of network.

What makes a network work is a mutual relation between actors who have same rights to access and participate in the network. The whole system must be perceived by every actor. Simultaneously, every actor is partially responsible for the whole. The nature of networking can be understood as a differentiated system of

relations (particularly personal ones) inside the network. Tolerance and trust are other foundations of information flow and information return.

## 2. SYSTEMS AND NETWORKS

*Knowledge management*, flow of information are immanent characteristics of the system. It is based on proper instruments of knowledge transfer and information streams. In this respect, the system is open to external information coming from the environment. The system exists in a way in *streams of information* as well as in a state of permanent uncertainty (Prigogine, Stengers, 1984). This results in a change in the way of thinking, leading to giving up routine approaches.

*Entropy phenomenon* connected with excess of information and its lack of order constitute factors stimulating creation of the “new”, as well as synthesis of knowledge which leads to innovativeness. Innovations system on the one hand creates entropy of information and knowledge and on the other hand limits it, tries to order and direct it to apply and use for the implementation of goals. In consequence, one deals with a phase (condition) of entropy of knowledge and in the second phase with its ordering (crystallization). As a result, there must be acceptance for information excess among actors as well as tolerance concerning mistakes and uncertainty (Prigogine, Stengers, 1984).

Innovations system functions unceasingly between chaos (lack of order) and order (*crystallization*). Knowledge concerning decision making in relation to the situation in the environment is crucial. Environmental analysis and knowledge about processes taking place outside network are key elements in decision-making concerning goals and strategies that the system aims at. Identification of chances and risks enables an effective implementation of goals.

Urban or region competitiveness as understood through the concept of network cooperation as well as the importance of social capital can be evaluated by means of indicators describing the following areas: competitiveness, attractiveness, networking (Sotarauta, 1999).

In those approaches, the following examples factors may be analyzed:

- *Human capital*, defined by: number of students, number of students of technical institutes, number of graduates of higher education institutions, percent of professionally active persons;
- *Innovativeness*, defined by: expenses on R&D, number of patents, number of employees of R&D institutions;
- *Concentration*, defined by: population density, employment structure, employment in the business services sector;
- *Infrastructure*, defined by: density of communication network, quality of natural environment, prices of energy, water etc., telecommunication network;
- *Economy*, defined by: size and structure of industry, value of exports, participation of industries of high technologies;

- *Institutions*, defined by: higher education institutions, higher education technical institutes, institutes and research centres, etc.;
- *Quality of life and environment*, defined by: pollution, healthcare services, costs of living (media, housing, etc.) and social environment (mutual relations between people, social values, culture, etc.);
- *Pro-development networks*, defined by: the existence of clusters and enterprise groups, networks of cooperation, platforms, etc.;
- *Competition in creativeness*, defined by: potential to create new knowledge, activeness of public regional and local institutions, common initiatives, implementation of supra-local projects and openness to dialogue and cooperation, etc.

The above-enumerated factors constitute only examples of possible indicators, or, in some cases, guidelines that may serve to create indicators which can be helpful in presentation (evaluation) of Cities or Region competitiveness. Competitiveness based on *social capital and innovation networks*.

Simultaneously, the existence of urban innovation networks, as well as other cooperation networks, (production, clusters of various types) creates an urban knowledge system (Smedlund, Pöyhönen, 2005). In this approach it is taken for granted that an enterprise may participate in many local networks and that thanks to such participation innovations appear in natural and constant manner. These factors have decisive influence on the success of any cities or region as well as on capitalizing its potential (Smedlund, 2006).

Local production systems, defined in literature as *clusters*, constitute basis for creation of research methodologies concerning urban / regional intellectual capital. Discussion on the intellectual capital of territories by means of clusters is based on a commonly stressed importance and role of those regional sectoral network systems in shaping competitive advantage of any location. Clusters are perceived as a key element generating and sustaining a high level of competitiveness of enterprises functioning in them in a situation of progressing globalization. In literature on the subject it is stressed that the concept of clusters constitutes a new way of thinking about creating competitiveness of national economy as well as regional economies (Brodzicki, et al., 2004, p.7).

Porter incorporated clusters into a widely practiced model of diamond of competitiveness embracing main determinants of a national competitive advantage. The author of the cluster concept defines them as “*geographical clusters of mutually connected enterprises, specialized suppliers, units providing services, enterprises working in similar sectors and institutions cooperating with them (universities, normalization units and sectoral associations) in specific domains, competing against each other but also cooperating*” (Porter, 2001, p.246).

In consequence, many researchers discuss the problem of regional intellectual capital from the perspective of clusters. One of particularly interesting pioneer

approaches is a proposition of *A. Smedlund and A. Pöyhönen* (Smedlund & Pöyhönen, 2005) who analyze the intellectual capital at the very level of clusters.

They present a system approach based on theory from different scientific sources in order to picture processes of creation of the intellectual capital in clusters framework grouping small local enterprises. This procedure enables to define a regional system of knowledge based on three kinds of networks namely production, development and innovative networks. Further, the authors present another approach and model of evaluation of intellectual capital based similarly on the concept of clusters.

An enterprise functioning as an element of network of *value in cluster framework* profits from numerous advantages such as lower transaction costs, wider possibilities to learn new practices. Finally, it may gain valuable market information from its partners. The main benefit of being a member of a regional economic network though, is a possibility to generate innovations through cooperation with other partners. Local production system provides with constant possibilities to improve products, production methods and processes.

This is possible thanks to creation of conditions favouring joining of different assets and knowledge. In the centre of processes of creation of innovations one should place the ability to create and transfer new knowledge as well as to use the existing knowledge inside the network.

According to *A. Smedlund and A. Pöyhönen*, in order to maximize the potential of value creation by regional or urban clusters of small enterprises, those enterprises should simultaneously create new knowledge as well as transfer and implement knowledge they already possess (Pöyhönen & Smedlund, 2004, p.351). The approach presented by the authors lets understand in a fuller way the processes of creation of regional knowledge and dynamics of creation of intellectual capital in a framework of complex cooperation of many different regional actors.

Authors justly claim that works concerning intellectual capital are in large part dominated by three basic research streams. First of them treats the *IC* in categories of immaterial assets. Second perceives *IC* as dynamic capacities to create immaterial assets. Finally third one takes into account social relations as a framework in which knowledge processes take place (Pöyhönen & Smedlund, 2004, p.352). Authors understand *IC* as an organization's capacity to create, transfer and implement knowledge, which seems to be in compliance with the fact of treating innovations as a key factor in winning competitive advantage.

Each of the above-presented conceptual approaches treats knowledge in a different manner. Intellectual capital understood in categories of static immaterial assets embraces knowledge possessed by an organization and is most frequently classified into three categories:

- *human capital*;
- *structural capital*;
- *customers or relational capital*.

*IC* understood as dynamic capacities to create immaterial assets, on the other hand, treats knowledge as constant and emerging process, in which a central role is played by a capacity to reinforce, develop and change the level of immaterial assets.

Finally the last approach to the concept of intellectual capital is connected with implementation of *social capital in its structure*. In this case, knowledge is perceived as an asset shared in the context of social relations. A joining factor and a bridge for knowledge processes in case of social relations is social capital.

Considerations on intellectual capital through the notion of clusters based to a high extent on organizational and *social networks* require use of dynamic approach towards the concept of *IC*. Such approach should take into account knowledge processes based on relations found inside a cluster.

In this concept, inside a cluster of small enterprises one can find three kinds of networks:

- *production*;
- *development*;
- *innovation*.

The above networks are characterized by different structure and functions that they perform in relation to *IC*. Those functions are identified with basic processes concerning knowledge, i.e. its creation, transfer and application. In a production network, flows between participants are connected with manufacturing of a product and thus embrace mainly physical products and cash flows. Inside this kind of network the sales process takes place.

All information transferred inside a network concern production, for example stocks. Such network may be dominated by one participant occupying a central position in it while other partners included in the exchange process may not even know each other. Thus the structure of this network possesses a *hierarchic character*.

To ensure its effectiveness, production network requires application of clear and coherent rules and regulations. That is why important information circulating inside a network should take a codified form to ensure that it reaches all units. It is sufficient that information circulates in one direction from up to down since any discussion or new thought may lead to modifications, which are not desired in this kind of network and may constitute an obstacle for its effectiveness.

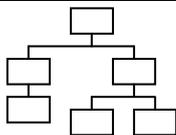
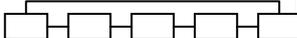
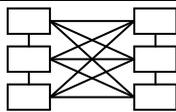
Development network is characterized by *horizontal structure* and can be applied to join enterprises in a regional clusters framework, also in case when they do not cooperate in productive functions. Participants of such network can be competitors who agree to share certain information that constitutes a source of individual profit for them. Flows in a development network possess by nature an immaterial character. It can be for example information concerning production methods or know-how knowledge. Enterprises through learning best practices from others can achieve higher levels of effectiveness.

From the perspective of regional or urban activities, a network orientated for development may boost results of its participants in acquiring high-risk capital. The most important feature of this type of networks is undoubtedly orientation towards sharing knowledge.

A constant development of network is based above all on silent knowledge, bi-directional flow of knowledge and mutually dependent relations of all participants. Relations that one deals with in the network possess a reciprocal character and at their base one will rather find trust instead of formal agreements. In a development network

there is no dominant unit, however a coordinating entity supporting the process of knowledge sharing may be established.

**Table 1. Characteristic features of three kinds of networks of a regional knowledge system**

<b>Characteristic features of three kinds of networks of a regional knowledge system by Smedlund A., Pöyhönen A</b>			
	<b>Production network</b>	<b>Development network</b>	<b>Innovation network</b>
Graphic model			
Structure	Vertical	Horizontal	Diagonal
Function performed in relation to IC	Knowledge implementation	Knowledge transfer	Knowledge creation
Flows between participant of the network	Material (products, payments) Immaterial (information concerning production)	Immaterial (transferable specific information concerning enterprise, know-how)	Material (innovative products, payments) Immaterial (research knowledge, experimental knowledge, know-how)

*Źródlo: Smedlund A., Pöyhönen A., „Intellectual Capital Creation in Regions: A Knowledge System Approach”, [w] Bounfour A., Edvinsson L., red., „Intellectual Capital for Communities, Nations, Regions, and Cities”, Elsevier Butterworth-Heinemann, Oxford 2005, pp. 23*

Taking into account realization of knowledge processes, the most advanced network in this field is innovation network, in framework of which new knowledge is created as well as new solutions needed to deal with specific problems are found. These solutions are worked out consciously and in cooperation with other members of the network. Flows in such network concern the process of innovation, for example product patterns or research knowledge of experimental character.

Structure of relations in an innovation network is diagonal which means that its participants are recruited from different sectors and production chains. In this type of network various public and private institutions may cooperate with enterprises. Innovation network has to master the process of knowledge creation, which should be new to all participants of the network. Leader's function is taken by the most competent unit for coordinating assets and knowledge, which means that leadership is not established according to specific hierarchy.

According to the characteristics presented above, each of the three networks found inside a cluster performs specific functions and implements its strategic goals by engaging various categories of knowledge. The strategic goal of a *regional or urban production network* can be for example creation of a possibly most effective flow of intermediate products.

Development network may aim at formulation and implementation of common marketing policy identified with the sub-region in which the cluster functions. On the other hand, the main goal of innovation network may be carrying out of research-development works on new technologies for a specific sector. Results of such research which are new methods and production processes should then find application in commercial activities of participants of the cluster.

Inside an innovation network in a local cluster one deals with flows of specific material and immaterial assets between participants of the network. Knowledge is the main asset that is transferred. The flow of assets inside the network generates innovations.

According to *A. Smedlund and A. Pöyhönen* research, usually three categories of networks tend to form a system. This system is named by the authors a *regional knowledge system*. From the perspective of creating intellectual capital at regional level, knowledge system constitutes an approach towards the process of generating *IC* according to dynamic approach treating knowledge as dynamic process. It is also compliant with the approach to the concept of *IC* that takes into account social relations as an important factor in implementation of knowledge processes. Regional knowledge system constitutes a source of better possibilities for creating immaterial assets, *modernization of a cities, region, country* and adapting its to changes appearing in the environment.

In order to win competitive advantage, three kinds of networks should function in regions. Innovations generated in *innovation networks* are transformed into measurable economic benefits through their application on the level of *production network*. *Development network* based on social relations and processes of learning performs a proxy role in transferring innovations between other networks. Each type of network performs specific functions connected with intellectual capital. *Production network* applies and implements generated knowledge in economic reality.

*Development network's* task is to share hidden knowledge among network members. The main function of *innovation network* is to create new knowledge. *Production network* shapes core production processes on local level while knowledge applied in those processes is used to supply products to the market.

In *development network*, local actors share their knowledge and provide with reinforcement of *regional or urban social capital*. On the level of these network relations, common language and trust among its participants are formed. In this way, processes of creation, transfer and application of knowledge in a specific cluster become more effective (Smedlund & Pöyhönen, 2005, p. 249).

*In case of existence of the above-mentioned networks in the region, innovations are transferred to all members and bring each of them measurable benefits. Circulation of innovations and new ideas between all types of networks is defined as regional knowledge system. All three kinds of mutually dependent and mutually penetrating networks are essential for existence of a knowledge system.*

Another approach towards the concept of *regional intellectual capital networks* is presented by *M. Viedma* who perceives *intellectual capital of cities* and regions in the context of *industrial sectoral clusters*.

This research approach is compatible with the presented before concept of regional knowledge system based on the development of clusters as a factor determining competitiveness of a given *geographical area*. Research approach accepted by *M. Viedma* seems to be particularly interesting because of the fact of evaluating the intellectual capital not only basing on generated statistical data but above all on qualitative indicators. This type of methodology of *intellectual capital evaluation on the city level* requires deeper analyses as well as finding a proper reference platform in order to execute the evaluation. In case of this approach, *micro-clusters functioning in the city area become the platform representing the development potential of the city*.

As it is in case of the majority of models of regional intellectual capital evaluation, the model presented by *M. Viedma* was created on the basis of an author's model known as *ICBS – Intellectual Capital Benchmarking System* applied in enterprises in the past. Main applications of this model embrace evaluation of immaterial assets understood in categories of core competences in the context of innovative and organizational processes occurring in enterprises. Through execution of certain modifications, the author proposes to apply the method to evaluate intellectual capital of regions and cities as well as social capital of clusters. A modified model is then called *CICBS – Cities' Intellectual Capital Benchmarking System*.

Conceptual approach and model's components are shown in the scheme in a subsequent part of the work. *The presented model of city's intellectual capital evaluation is composed of two sub-models:*

- a general one based on categories of the modified intellectual capital *Skandia Navigator* applied in this case in city context,
- a more detailed model embracing *micro-clusters* specific for a city.

According to the author, management process concerning general intellectual capital of a city is composed of five stages (Viedma Marti, 2003, p.9):

- vision creation;
- identification of core activities necessary for vision implementation;

- identification of core competencies necessary for implementation of core activities;
- identification of indicators for all core activities and competencies;
- categorization of indicators according to existing components of intellectual capital.

All categories mentioned by the author in the context of a general model of intellectual capital model are based on *Skandia* and are compatible with components defined earlier by *N. Bontis* (Bontis, 2004). It seems that an innovatory research approach presented by the author concerns above all the second part of the benchmarking system, that is a more detailed *approach to the evaluation of city's intellectual capital in the context of industrial clusters*, which are specific in case of a given city.

The goal of intellectual capital model specific for a given city (*CSICM – Cities' Specific Intellectual Capital Model*) is intellectual capital measurement and management of every *micro-cluster* which is particular for a given industry branch in the city.

The author claims that in order to apply the described model, it is necessary in the first stage to define proper micro-clusters in a given city. In a situation when clusters have already been defined, it is possible to apply to each of them a system of intellectual capital benchmarking. *M. Viedma* interprets factors which are of crucial importance for the existence of a cluster and which can be investigated in the following manner (Viedma Marti, 2003, pp.15-16):

- *vision*: a future vision picturing the cluster according to City authorities' ideas,
- *demand in a given sector*: classification of various demand segments for products of a given cluster,
- *results*: classification according to various demand segments;
- *goods and services*: functions and attributes of products evaluated according to each demand segment,
- *processes*: operational and innovative value chains analyzed in order to identify core activities and competencies,
- *core competencies*: competencies constituting a base for core activities in value chains framework,
- *professional core competencies*: identification and evaluation of each value chain and type of demand as well as definition of specialists who generate and perfect company's core competencies.

Modern economy recognized by *P. Drucker* as *postcapitalist* requires new approach to development challenges, where a "*single act of innovation*" is not enough. That is why in present times, the core of modern economy is characterized by network structure. One of characteristics of network dependencies being created is most frequently their spontaneous and chaotic character.

In consequence, an important role is attributed to the environment of *the administrative / governance* environment as a “*catalyst*” and participant of network cooperation.

If innovativeness is: a constant process of flow and creation of knowledge, then certain factors defining effective functioning of *network structure* are of crucial importance. If we also take for granted that networking on its own is insufficient to create a process of *continuous innovations*, but requires also *quality of interactions*. The category of *IC and social capital* appears to be a stimulating factor for quality and effectiveness (Coleman, 1990; Nahapiet & Ghoshal, 1998, pp.243-267) and explain system thinking approach and analyzing.

### 3. CLOSING REMARKS

Social capital, the structure of which is interdisciplinary, creates a system concentrating elements and relations of various nature: psychological, economic, sociological, historical, cultural. Simultaneously, among most dynamically developing scientific concepts one may quote management and creation of knowledge, as well as networking and pro-innovative systems in development process, especially for local and regional levels.

The present paper is definitely not aiming at a complex and full presentation of the described point. It rather expresses authors’ interests in searching for a way to explain urban and regional development challenges.

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## **THE GRANTING OF LETTERS PATENT FROM THE POINT OF VIEW OF THE INTERNATIONAL STANDARDS OF FINANCIAL REPORTING**

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**ABSTRACT:** *The development of the competitiveness hasn't been a priority for Romanian companies until the moment of the economical crisis. The difference can be seen in quality, services, innovation, image, knowledge, the approach to information, culture, etc. The companies that manage to differentiate from the others will resist in time and the economic advantage is made through intangible assets. The assessment of the intangible assets is the real description of the company wealth which is very well known to all balance sheet users, because it contains their fair value. Result of the Knowledge Revolution, the intangible assets started to be the most important component in the balance sheets of the companies starting with the post industrial and post modernist period we live in. Being means of production of the highest qualitative level, made through scientific research, creativity and intellectual effort, they have really high values and help the companies to achieve high performances in all their areas of activity: processes quality, products and services, productivity, efficiency, economic profitability, global efficiency.*

**KEY WORDS:** *patent; assessment; reassessment; recognition; balance sheets.*

**JEL CLASSIFICATION:** *M41.*

### **1. LEGAL ASPECTS REGARDING THE LETTERS PATENT**

Originality and creativity are the most important features that favoured human differentiation during his evolution from all the other beings. The ability to transform

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these features into something useful is very important for the economic structures and human society. The survival of each human being, of each company, organisation and even of a nation depends on the ability of keeping in touch with the development and progress at all levels.

The creations that are subject of protection of industrial property are like all the other creations that benefit of protection under the name of „intellectual property” products of human creative activity, the result of human intelligence, knowledge, and rational activity, the result of man’s ability to invent and to approach concepts, to operate with abstract concepts. Unlike the copyright and the similar rights, which protect the form of creation and the fund, inside the „intellectual property” is protected the fund of the intellectual creations which is applicable in industry and which is called “commercial creations”.

The industrial property was recognized and used especially by industrialised countries and represents an important instrument of the technological, economic and social development. To protect the benefits of the industrial property, most countries have established laws that are based on two reasons: the first one is the necessity to express statutory the patrimonial and moral rights of the creators over their creations, and the other reason is the necessity to promote a deliberate act of the government policy, the creativity, its dissemination and the applicability of its results, but also to encourage the fair trade, which contributes to the social and economic.

**The industrial property** includes all the rights over the creations of the human genius related to: *inventions*, utility models, designs or industrial models, *trademarks or service marks*, *topographies of integrated circuits*, varieties of plants and animals, *commercial names*, *indications of sources or names of origin*, protection against unfair competition.

The letters patent, the most important branch of the right of industrial property, is the protection title of the invention according to Law no 64/1991 republished and completed, law that regulates the legal regime of the letters patent. According to art. 7 from law no 64/1991 the patent is granted only for an invention that brings something new compared to the known status of technique, at the moment of registering the application for the letters patent, it is based on an innovative activity of its author and it is susceptible of industrial application, if its object can be made or used in at least one of the industrial areas including agriculture.

Patents rights issues, according to art. 3-5 in Law no 64/1991 can be:

- The inventor or his successor in rights;
- The co-author if the invention was created together with other inventors;
- The employee inventor, for the inventions made at job in absence of contrary clauses from the agreement;
- The company where the inventor is employed, for the inventions made by the employee at his job in order to exercise his individual employment contract;
- The institution which ordered the research, for the inventions that result from a research contract, in absence of a contrary clause.

The letters patent is granted by the State Office for Inventions and Trademarks (SOIT) and the patenting procedure follow the following steps:

- 1) The constituting of the national legal filling, this means presenting an application form to SOIT for a letters patent, accompanied by a description of the invention;
- 2) The evaluation of the conditions from the registry application, the application is evaluated by an evaluation committee from SOIT;
- 3) The issue of the letters patent, the issue date is the date to which the statement of the issue is published in the Industrial Property Official Gazette.

The protection period of letters patent is 20 years starting with the date of constituting the national legal filling and cannot be extended.

## **2. THE RECOGNITION AND THE ASSESSMENT OF THE LETTERS PATENT FROM THE INTERNATIONAL ACCOUNTING REFERENTIAL PERSPECTIVE**

The international accounting standard IAS 38 “Intangible assets” controls the treatment of letters patent and presents rules regarding the recognition and the assessment of the intangible assets.

### **2.1. The initial recognition of the letters patent**

The international accounting rules define the assets or the intangible assets as *non-monetary identifiable assets without a physical substance* (IFRS 2009:1992)

IAS 38 standard (IFRS 2009:1986) specifies that in order to be included in the balance sheet, the patent should meet the identification criteria from the definition of intangible assets when:

- a) it is separable (capable of being separated and sold, transferred, licensed, rented, or exchanged, either individually or together with a related contract), with an asset or a debt; or
- b) arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations

The initial assessment of the intangible assets is based on their **cost**, which is calculated according to their source of origin as follows: separate acquisition, internally generated assets, acquisition under a government grant, acquisition in exchange for other assets, and acquisition as part of a business combination.

### **2.2. The separate acquisition of a patent**

IAS 38 specifies that the price an entity pays to acquire separately an intangible asset should reflect the probability that the expected future economic benefits will flow to the entity. The recognition criterion is always considered to be satisfied for intangible assets acquired separately. Also, the cost of the intangible asset

acquired separately can be measured reliably. The cost comprises the purchasing price to which the following costs are added: the direct costs assigned to the purchased asset, wage costs for making the asset functional, professional fees, testing costs. The advertising costs, the general costs and the losses from initial exploit are not included.

**Application no. 1**

*ALFA Company bought from a patent holder from another country a letters patent for a new product for the price of 10.000 lei. The seller of the patent applied a 5% discount to the price of the patent. The customs duty for the import of the patent was 1.000 lei. The evaluation cost of this patent was 6.00 lei. The patent will be accounted at the initial registration in the balance sheet to the following cost:*

$$10.000 - (10.000 * 5\%) + 1.000 + 600 = 11.100 \text{ lei}$$

**The reflection in Romanian financial accounting according to OMFP 3055/2009** for the approval of accounting regulations in accordance with the European directives, of the intangible assets inclusion by acquisition from providers implies the following action:

2051	=	404	11.100
"Concessions, patents, licences, commercial trademarks and other similar rights and values"		"Assets' providers"	lei

**2.3. Internally generated assets**

IAS 38 specifies that sometimes is difficult to say whether an intangible asset meets the necessary conditions to enter into the accounting system or not. For the recognition of an intangible asset that results from the developing stage, supplementary conditions for their recognition were established. The internally generated letters patent is evaluated to the prime cost, represented by direct expenses carried out only after the date when the developing costs are recognized to produce an intangible asset. The direct costs, the staple and services costs, the personnel costs and the costs for registering the intangible asset. The explanation for this accounting treatment is that the only intangible assets internally generated that are recognized as intangible assets are those resulting from a developing project or from the evolution phase of a research-development project provided that the technical and financial feasibility of the project is demonstrated, as well as the existence of technical and financial resources for its completion. It is also explicitly specified that all the research costs should be billed under the direct costs section.

**Application no. 2**

*ALFA Company started a project of research-development for a patent for a new product. The date for finalizing the research-development project is 30.12.2009.*

*The costs associated to this research and development project were the following:*

- 3000 lei, costs for general research between 01.01.2008 and 30.06.2008;

- 4000 lei research costs associated with the research project between 01.07.2008 and 30.12.2008;
- 40.000 development costs, between 01.01.2009 and 31.12.2009 out of which 31.000 lei after the date when the meeting of the simultaneous recognition criteria was demonstrated;
- 3000 lei costs of patenting.

*The application of the patent started on 01.01.2010.*

*The cost of the patent , to which it will be registered in the balance sheet will be 31.000 lei (including the development costs starting with the date when the company can demonstrate the meeting of the 6 simultaneous criteria provided in IAS 38) + 3000 (costs of patenting) = 34000.*

**The reflection in the Romanian financial accounting** of the amortization of the intangible assets implies the following:

6811	=	2805	2.200 lei
” Revenue expenditures regarding the assets amortisation”		” The amortization of the concessions, patents, licences, commercial trademarks and other similar rights and values”	

#### **2.4. Acquisition as part of a business combination**

According to IFRS 3 Business Combinations, if an intangible asset is acquired in a business combination, the cost of intangible asset is its fair value at the acquisition date. The fair value of an intangible asset represents the market expectations that future economic benefits will flow to the entity. The entity estimates to obtain the economic benefits even if the time or the value of the benefits is uncertain. The fair value can be determined easily when for the analyzed good there is an active market.

An active market is that where the traded items are homogeneous and willing buyers and sellers can normally be found at any time and prices are available to the public. In the absence of an active market, the intangible asset should be evaluated to the sum that the entity should pay for this at the acquisition date, when there is a transaction between well-informed parties that act under conditions of normal competition. To determine this amount, the company must take into account the result of the most recent transaction for similar assets (Feleaga & Malciu, 2004, p.181).

#### **2.5. The acquisition of the letters patent in exchange of other assets**

The intangible assets are assessed at their fair value excepting the case when or the exchange transaction doesn't have a commercial character or the fair value of the assets that are traded cannot be reliably quantified. In these conditions, the purchased intangible asset is registered at the accounted value of the transferred asset.

### 3. THE SUBSEQUENT ASSESSMENT OF THE INITIAL ACCOUNTING OF THE LETTERS PATENT

After the initial recognition, an intangible asset should be accounted for to the input value impaired with the cumulated amortisation and the possible cumulated losses of value.

#### 3.1. The amortisation of the letters patent

According to IAS standard after the initial accounting, an intangible asset should be accounted for at its value, impaired with the amortisations and the possible cumulated losses of value. The amortisable amount of an intangible asset should be divided methodically on the estimated time. There is a critical supposition according to which the useful life of an intangible asset cannot be longer than 20 years.

##### *Application no. 3*

*ALFA Company registered in accounting on 31.12.2009 the acquisition of a patent for a purchasing price of 11.100 lei. The company estimates that the patent will have an useful life of 5 years.*

*The annual amortisation will be: 11.100 lei: 5 ani = 2.220 lei*

**The reflection in Romanian financial accounting** of the intangible assets implies the following action:

6811	=	2805	2.200 lei
"Revenue expenditures related to the amortisation of the assets"		" The amortisation of the concessions, patents, licences, commercial trademarks and other rights and similar values"	

#### 3.2. Impairment losses

To determine whether there is an impairment loss of the letters patent, the IAS 36 standard must be applied. This standard specifies that a society should estimate, at least at the end of each fiscal year, the recoverable amount of the intangible assets, even if there is no indication that the asset lost impairment. If there is such an indication, the society should calculate the recoverable amount of the intangible asset. IAS 38 requires an annual depreciation test, even if there is or not, an indication of the depreciation for the intangible assets with indefinite useful life and for those that were not used yet, the good will resulted from a business combination.

##### *Application no. 4*

*A letters patent is included in a cash generating unit and should be tested for impairment in order to determine the recoverable amount of the patent.*

The Assets from the cash generating unity are:

Assets of the cash generating unity	Accounting values 31.12.2005 (lei)
Letters patent	100000
Buildings	1200000
Good will	80000

Other necessary information

- The useful life estimated for a cash generating unity is of 8 years.
- The residual value of the cash generating unity at the end of the 8 years in zero.
- The prevision of the cash flow before the tax was effectuated in two stages:
  - On the basis of the best evaluation of the unity management owner of the cash generating unity, of the cash flow before the tax, for the first 4 years (2006-2009)
  - On the basis of extrapolation the cash flow before the tax, from the previous year, using decreases rates, for the last 4 years (2010-2013)
- The discount rate after the tax, taken from the similar assets market, is 12.6%
- The corporate tax rate is 16%

**Table 1. The determination of the patent depreciation**

Years	Impairment rate	Cash flow before the tax	Discount rate 15%	Discounted cash flow
2006		180,000	0.869	156,420
2007		220,000	0.756	166,320
2008		240,000	0.657	157,680
2009		260,000	0.572	148,720
2010	-10%	234,000	0.497	116,298
2011	-12%	205,920	0.432	88,957
2012	-15%	175,032	0.376	65,812
2013	-20%	140,026	0.327	45,789
<b>Value in use</b>				<b>945,996</b>

- The value in use of the cash generating unity = 945.996 lei
- The recoverable value of the cash generating unity = 945.996 lei
- The accounting value of the cash generating unity = 1.380.000 lei
- The loss of value of the cash generating unity = 434.004 lei (1.380.000 lei – 945.996 lei)

The allocation of the loss of value (impairment) on the three assets of the cash generating unity is the following:

- 80.000 for the good will
- 326.772,92 lei for buildings (92,31% $\times$ (434.004 lei-80.000 lei))
- 27.231,08 lei for the letters patent(7,69% $\times$ (434.004 lei-80.000 lei))

The book value of the patent after the impairment loss of value will be:

$$100.000 \text{ lei} - 27.231,08 \text{ lei} = 72.768,92 \text{ lei}$$

**The reflection in financial Romanian accounting** involves the following action according to OMFP 3055/2009 “The intangible and tangible assets registered in accounting, found to be impaired, are evaluated at their actual value, determined by their useful value and the market price. The amendment of the accounting value of the tangible and intangible assets and their adjustment to the inventory value is made according to the type of impairment by registering an additional amortization if there is an irreversible impairment or by supplementing the adjustments for impairment if there is a reversible impairment.

6813	=	2905	27.231,08 lei
” Revenue expenditures regarding the provisions for assets impairment		” Provisions for concessions, patents, licences , commercial trademarks and other rights or similar values”	

### 3.3. The reassessment of the Letters patent

IAS 38 accepts, as an authorized alternative treatment the reassessment of the intangible assets. The reassessed value is the fair value at the date of the revaluation less any subsequent accumulated amortisation and any subsequent accumulated impairment losses.

The fair value should be calculated by reference to an active market. IAS specifies that for trademarks there is no active market because each trademark is unique. The price paid for an asset does not always provide enough information to determine the fair value of another asset. The letters patent should meet two important conditions (Stan, et al., 2006):

- To have an important contribution in generating economic benefits for the unity
- This contribution can be isolated by the impact of other tangible or intangible assets.

The value of a letters patent is:

- Directly proportional with the contribution of the patent in generating the economic benefits for the unity or with the amount of the paid royalties.
- Directly proportional with their technical-technological advance compared to the competition
- Inversely proportional with their age
- Directly proportional with the nature of the invention and with the force of claiming the patent
- Directly proportional with the area of applicability of the patent

The most common evaluation methods are:

- The Profits method
- The Royalty Exemption Method
- The economy of expenditures method
- The Residual method

#### 4. CONCLUSIONS

The matter of recognition and assessment of patents, for which we tried to spot several characteristic elements, is continuously rising controversies all the more so as, in a society marked by competition and change, the estimation of the future benefits generated by these, depends less on their material or immaterial condition and more on the market characteristics inside of which they operate (the degree of competition, the speed of technological changes). For the moment, the accounting regulations encourage (without forcing) the companies to present in their explanatory notes the categories of investments that have an impact upon the performance for a long term but which are still recognised as assets (according to IAS) in the balance sheet.

While the International Accounting Standard IAS „Impairment of assets” recommends that the recoverable value of an intangible asset be assessed at each reporting date whether there is any indication that an asset may be impaired, the accounting regulations from Romania assess the intangible assets only at the end of each financial year when according to the law, the process of general evaluation takes place whether there is an indication indications of impairment or not.

From a legal point of view we consider that the issue of intellectual property rights is very well regulated, but, as regards their accounting, things are far of being regulated. Therefore, it would be necessary a model of explanatory notes to the balance sheets which would have to contain all the information that a potential investor would be able to use or would help him in consolidating his decisions.

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## **EMERGENCE OF THE SOCIAL CONSUMER- THE IMPACT OF PERSONALISATION, LOCALIZATION AND SOCIAL COLLABORATION ON CONSUMERISM**

**TATJANA PETKOVSKA MIRCHEVSKA,  
SONJA MARKOVA \***

**ABSTRACT:** *Social media affects human behavior and culture through personalization, localization, advocacy, social collaboration. New form of virtual social interaction has emerged: Social Consumerism. Consumer brands are flocking to social networks. Traditional consumer purchase funnel no longer reflects the consumer purchase behavior. A new more sophisticated and more complicated than traditional funnel has emerged. This new approach, called the consumer decision journey, places greater emphasis on loyalty and advocacy and better reflects the dynamics of today's market influenced by social media. As the online world continues to evolve understanding how to merge e-commerce with social media is critical for retail success. "Social commerce" integrates new media, via user generated content platforms and social networking features, directly onto commerce sites. By building vibrant communities that address the passion of retailer's core audience, and spreading passion to larger social web, retailers will attract loyal and engaged customers, and will achieve better business results.*

**KEY WORDS:** *social media; social consumerism; consumer decision journey.*

**JEL CLASSIFICATION:** *M30.*

### **1. INTRODUCTION**

*Social media*, also referred to as *Web 2.0*. at times, is a relatively new phrase in the business vocabulary. It is probably at the same point in its evolution from jargon term to everyday word as the term *e-commerce* was in the mid-1990s. Businesses were

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challenged to understand how to harness the power of e-commerce and there was a discernable fear among the established brick-and-mortar models. Organizations wanted to make sure that they remained relevant and competitive in a world where the rules were changing. As the world of online commerce continues to evolve and adapt to consumer demands, the same phenomenon is happening with social media. But social media encompasses a much broader range of players, activities, and rules than e-commerce ever did. Arguably, e-commerce is a component of social media. In a 2008 survey conducted by Content Connections, 67 percent of the 664 people surveyed did not feel as though they could offer an exact and meaningful definition of social media. Yet, 99 percent of them felt that social media was going to impact their lives and the way we all do business.<sup>i</sup>

Social media combines two familiar words. People are social beings relying upon one's ability to interact with and influence others in order to survive. In traditional sense, media includes such things as newspapers, magazines, and television. The word media also brings up impressions of how the news is delivered: via print, audio, video, and photographs. Each is an important medium used to engage an audience by telling a compelling story or sharing important news. Thus, social media are media for social interaction, using highly accessible and scalable communication techniques. Social media is the use of web-based and mobile technologies to turn communication into interactive dialogue. Andreas Kaplan and Michael Haenlein also define social media as "a group of Internet-based applications that build on the ideological and technological foundations of Web 2.0, which allows the creation and exchange of user-generated content."<sup>ii</sup> Businesses also refer to social media as consumer-generated media (CGM). A common thread running through all definitions of social media is a blending of technology and social interaction for the co-creation of value.

*Consumerism* is a social and economic order that is based on the systematic creation and fostering of a desire to purchase goods or services in even greater amounts.<sup>iii</sup> The term "consumerism" is also used to refer to the consumerist movement or consumer activism, which seeks to protect and inform consumers by requiring such practices as honest packaging and advertising, product guarantees, and improved safety standards. In this sense it is a movement or a set of policies aimed at regulating the products, services, methods, and standards of manufacturers, sellers, and advertisers in the interests of the buyer.<sup>iv</sup> The recent developments in the world consumption through personalization, localization, advocacy, and social collaboration are fostering the emergence of a new form of virtual social interaction: *Social Consumerism*.<sup>v</sup> In its core, social consumerism is about integration, transparency, collaboration, and healthy competition.

## **2. THE IMPACT OF TECHNOLOGY INNOVATION ON CONSUMERISM**

John Doerr, partner at venture capital firm Kleiner Perkins Caufield & Byers, noted "we are on the verge of a third great wave of innovation. The first was the microchip and the personal computer in the early 1980s. The second wave was in 1995: the Internet ... This third wave is social, mobile, new commerce ... We could be

on the verge of reinventing the web. It's people, it's places, it's relationships, it's exciting!"<sup>vi</sup>

From online to offline to online again, social consumers are checking into businesses, fusing online and offline engagement, and influencing behavior and decisions in the process. As technology and the internet affect human behavior and culture, the future of communication and relationships lies in status updates, tweets, "likes", and recommendations that the consumer receive from their circle of trust. Consumer brands are flocking to social networks, some with strategies and others simply experimenting with community building. Social media is fast becoming the most effective approach to boost brand awareness, understand their customers, receive feedback, as well as direct traffic to a company's web site.

Social networks and technology applications that have dramatically changed the way people interact with each other and with brands are:

*Facebook* is a social community giving people the power to share and make the world more open and connected. It has more than 500 million active users, 50 percent of the active users log on to Facebook in any given day, an average user has 130 friends, and people spend over 700 billion minutes per month on Facebook.<sup>vii</sup> *Places* is a Facebook feature that allows users to see where their friends are and share the user's location in the real world. When people use Places, they are able to see if any of their friends are currently checked in nearby and connect with them easily. Places enables Facebook users to experience connecting with people on Facebook in a completely new way.<sup>viii</sup>

*Twitter* is a micro-blogging platform that has become a real-time information network. Twitter has over 140 million registered users who send more than 140 million Tweets a day which adds up to a billion Tweets every 8 days. While it took Twitter about 18 months to sign up the first 500,000 accounts, there are now close to 500,000 accounts created every day.<sup>ix</sup>

*Foursquare* is a location-based mobile platform that makes cities easier to use and more interesting to explore. By "checking in" via a smartphone application or SMS, users share their location with friends while collecting points and virtual badges. Foursquare guides real-world experiences by allowing users to bookmark information about venues that they want to visit and surfacing relevant suggestions about nearby venues. Merchants and brands leverage the foursquare platform by utilizing a wide set of tools to obtain, engage, and retain customers and audiences. Foursquare has over 6.5 million users worldwide.<sup>x</sup>

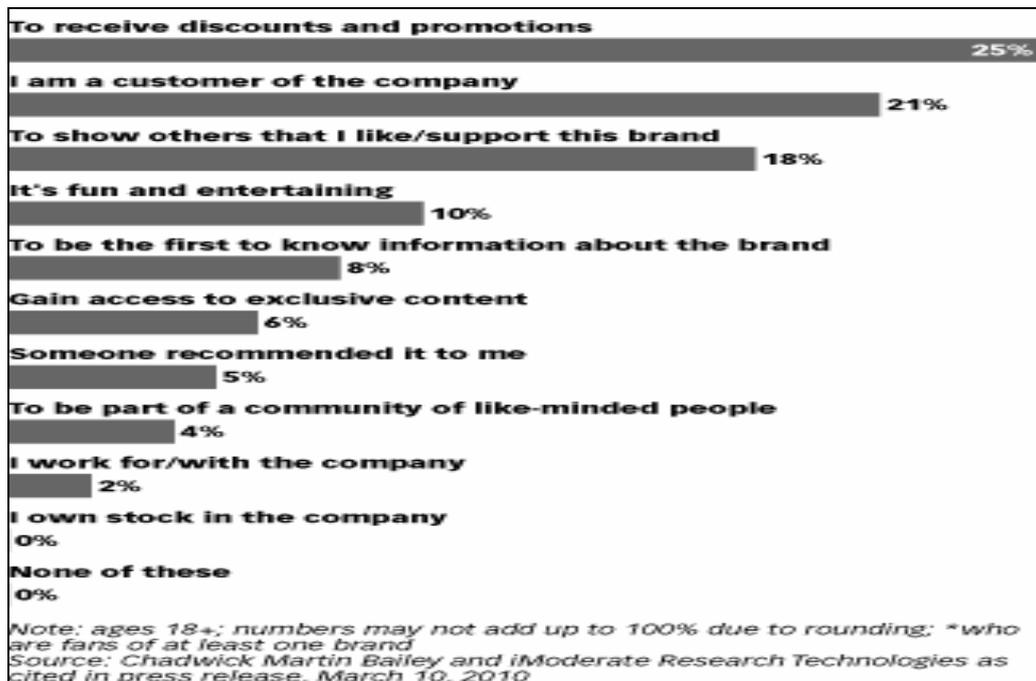
*Yelp* is a user-generated review platform whose purpose is to connect people with great local businesses, like dentists, hair stylists and mechanics. Yelpers have written over 15 million local reviews, 83% of them rating a business 3 stars or higher. In addition to reviews, people can use Yelp to find events, special offers, lists and to talk with other Yelpers. The Weekly Yelp is available in 42 city editions to bring its registered users the latest business openings and other happenings.

*Shopkick* is a mobile application that is bridging the in-store and mobile retail experience. Beyond rewarding users with perks as soon as they enter a store, Shopkick's location-aware smartphone application also guides users through physical retailers, letting them see reviews and multimedia content.<sup>xi</sup>

*Groupon* is integrating web and the real-world shopping experience, changing consumer behavior, democratizing small businesses, and spawning an entire new category. The fastest-growing company in Web history, *Groupon's* flash deal site offers local daily deals for group buying at considerable discounts in more than 500 markets and 44 countries.<sup>xii</sup>

*Gilt Groupe* provides invitation-only access to highly coveted products and experiences at insider prices. Each day, *Gilt* offers its members a curated selection of merchandise, including apparel, accessories and lifestyle items across the women's, men's and children's categories. In addition, *Gilt* provides the best in home decor and entertaining essentials, along with luxury travel packages and fantastic offers on local services and experiences. Most sales start at noon ET and last only 36 hours, making *Gilt.com* an exclusive shopping destination for luxury at up to 60 percent off.<sup>xiii</sup>

According to a recent comScore report<sup>xiv</sup>, 23 percent of Twitter users follow businesses to find special deals, promotions, or sales. 14 percent of Twitter users reported taking to the stream to find and share product reviews and opinions. In March 2010, Chadwick Martin Bailey published a study<sup>xv</sup> that showed 25 percent of consumers connected to brands on Facebook did so to receive discounts (Figure 1). In the same report, comScore found that Facebook and Twitter visitors spend 1.5x more online than average Internet users. Herein lies the opportunity for brands looking to add yet another "C" to the many C's of Community – commerce.

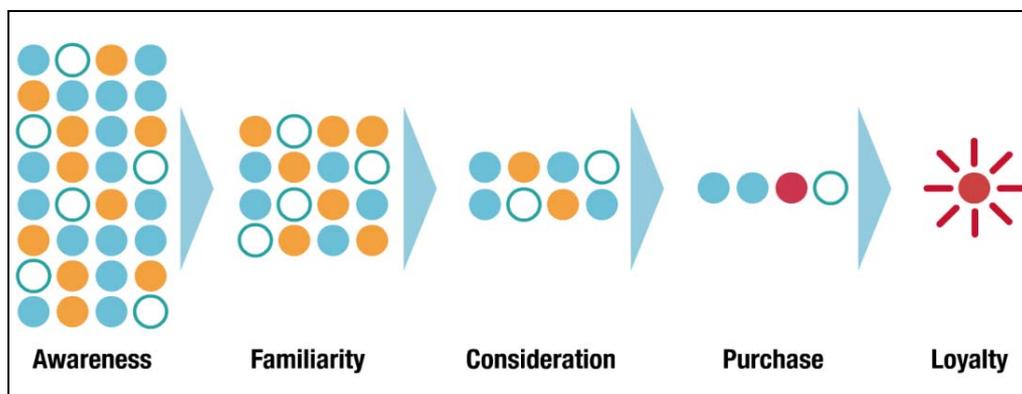


Source: [www.marketer.com](http://www.marketer.com): Figure 112907

**Figure 1. Primary Reason that US Facebook Users\* Are Fans of Brand on Facebook, February 2010**

### 3. THE NEW CONSUMER PURCHASE FUNNEL

The core goal of marketing is to reach customers at the moments that most influence their purchase decisions. Marketing has always sought those moments, or touch points, when consumers are open to influence. For years, touch points have been understood through the metaphor of a “funnel” (Figure 2). Consumers start with a number of potential brands in mind (represented as the wide end of the funnel), marketing is then directed at them as they methodically reduce that number and move through the funnel, and at the end they emerge with the one brand they chose to purchase.<sup>xvi</sup>



Source: “The Consumer Decision Journey”, McKinsey Quarterly 2009 Number 3, page 2

**Figure 2. The Traditional Consumer Purchase Funnel**

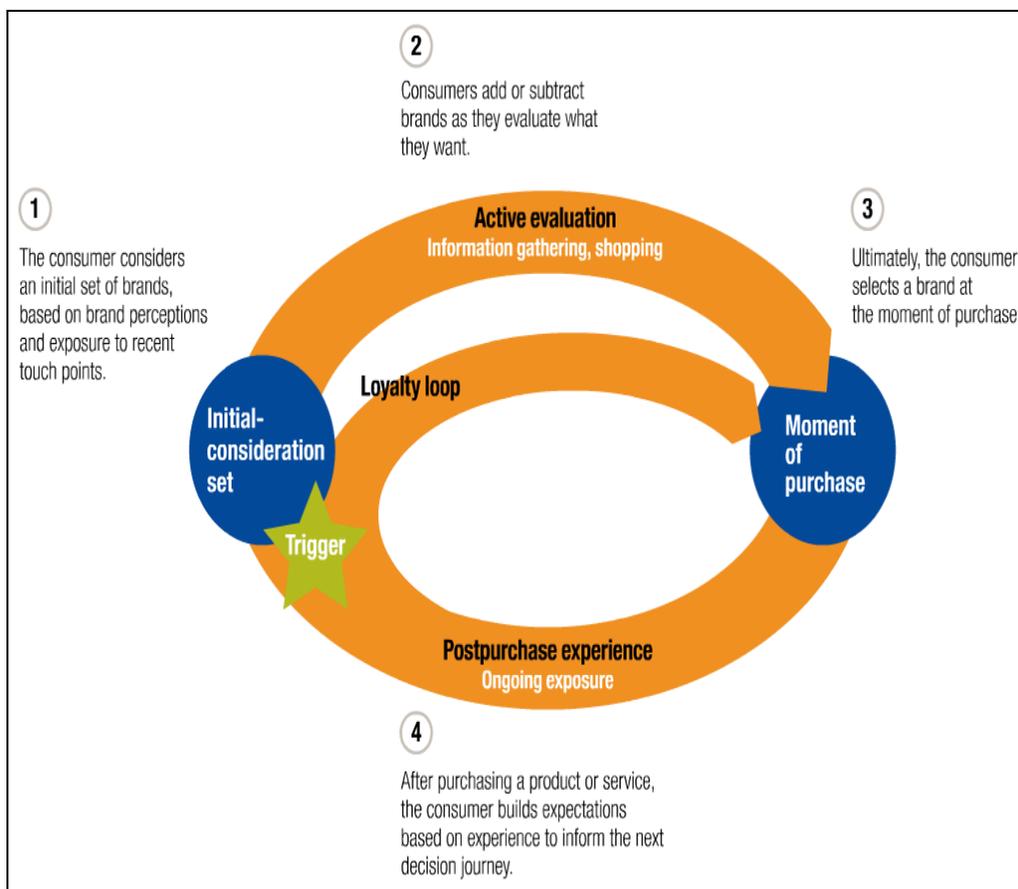
Today, the traditional funnel concept fails to capture all the touch points and key buying factors resulting from the explosion of product choices and digital channels, coupled with the emergence of an increasingly discerning, well-informed consumer. Technology gives consumers more control over the information they see and how they see it.

A compelling argument is to be made for honouring consumer’s limited time and attention. When viewed in the overall context of time – 24 hours per day or 1440 minutes – we begin to understand the tremendous competition for customer’s time. Consumers are spending only about 28 minutes each day researching and buying goods and services – that is less than 3 percent of waking hours. It would seem logical that increasing the available opportunities for consumers to buy would have increased the amount of time consumers spend buying. However, the introduction of around-the-clock e-commerce and 24-hour store schedules has not significantly changed the amount of purchase time. The time spent on shopping and services in the United States have remained relatively steady. Ultimately more and more goods and services are attempting to reach the customer through a small window of time. Meanwhile, the amount of information available on the internet has exploded.<sup>xvii</sup>

Marketing used to be driven by companies; “pushed” on consumers through traditional advertising, direct marketing, sponsorships, and other channels. In today’s

decision journey, consumer-driven marketing is increasingly important as customers seize control of the process and actively “pull” information helpful to them. The touch points during the active-evaluation phase involve consumer-driven marketing activities, such as Internet reviews and word-of-mouth recommendations from friends and family, as well as in-store interactions and recollections of past experiences. Traditional marketing remains important, but the change in the way consumers make decisions means that marketers must move aggressively beyond purely push-style communication and learn to influence consumer-driven touch points, such as word-of-mouth and Internet information sites.

This new approach (Figure 3), called the consumer decision journey, is more sophisticated, less linear, and more complicated than the traditional funnel suggests. It places greater emphasis on loyalty and advocacy and better reflects the dynamics of today’s market influenced by social media.



Source: “The Consumer Decision Journey”, *McKinsey Quarterly* 2009 Number, page 3

**Figure 3. The Consumer Decision Journey**

#### 4. CONCLUSION

To look beyond funnel-inspired push marketing, companies must invest in vehicles that let marketers interact with consumers as they learn about brands. The epicentre of consumer-driven marketing is the Internet, crucial during the active-evaluation phase as consumers seek information, reviews, and recommendations. Retailers today continue to have a great opportunity to leverage social media in a way that's both beneficial and effective for consumers and for themselves. And while it is known that retailers are true pioneers in social media, the fact is that many still struggle with ways to fully integrate it with their e-commerce platforms. To accomplish "social commerce," retailers must be able to integrate social media elements, such as social networking features and user generated content platforms, directly into their commerce environments.

Instead of selling to nameless, faceless shoppers, retailers can build relationships with real customers by enabling them to establish user profiles that pull in data - and relationships - to retailer websites. Customers can then interact with other shoppers, join groups centred around product-related topics, rate and react to product content, contribute project journals and how-to content, and answer each others' questions about products and use cases. The retailer, meanwhile, gains the opportunity to build a long-term relationship - and a "social CRM" practice - around these efforts.

As the online world continues to evolve and become more competitive, understanding how to merge e-commerce with social media is critical for retail success. "Social commerce" integrates new media, via user generated content platforms and social networking features, directly onto commerce sites. By building and maintaining vibrant communities that address the passion of the retailer's core audience, and then spreading that passion to the larger social web, retailers will attract loyal and engaged customers, and will achieve better business results.<sup>xviii</sup>

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<sup>i</sup> Safko, Lon, *The Social Media Bible*

<sup>ii</sup> Kaplan, Andreas M.; Michael Haenlein (2010). "Users of the world, unite! The challenges and opportunities of Social Media". *Business Horizons*, ISSN 0007-6813. Retrieved 2010-09-15

<sup>iii</sup> <http://en.wikipedia.org/wiki/Consumerism>

<sup>iv</sup> <http://www.answers.com/topic/consumerism>

<sup>v</sup> <http://www.briansolis.com/2010/11/the-rise-of-the-social-consumer/>

<sup>vi</sup> <http://techcrunch.com/2010/05/24/tcdisrupt-doerr-rose/>

<sup>vii</sup> <http://www.facebook.com/press/info.php?statistics>

<sup>viii</sup> <http://www.facebook.com/help/?page=18837>

<sup>ix</sup> <http://blog.twitter.com/2011/03/numbers.html>

<sup>x</sup> <http://foursquare.com/about>

<sup>xi</sup> <http://www.fastcompany.com/1738961/the-10-most-innovative-companies-in-retail>

<sup>xii</sup> <http://www.groupon.com/about>

<sup>xiii</sup> <http://www.gilt.com/company/about>

<sup>xiv</sup> [http://www.comscore.com/Press\\_Events/Press\\_Releases/2010/5/comScore\\_Reports\\_Q1\\_2010\\_U.S.\\_E-Commerce\\_Spending\\_Accelerates\\_to\\_a\\_10\\_Percent\\_Growth\\_vs.\\_Year\\_Ago](http://www.comscore.com/Press_Events/Press_Releases/2010/5/comScore_Reports_Q1_2010_U.S._E-Commerce_Spending_Accelerates_to_a_10_Percent_Growth_vs._Year_Ago)

<sup>xv</sup> <http://www.emarketer.com/Article.aspx?R=1007568&AspxAutoDetectCookieSupport=1>

<sup>xvi</sup> McKinsey Quarterly, "The Consumer Decision Journey", Issue 2009 Number 3

<sup>xvii</sup> Ott, Adrian C., *The 24-Hour Customer*

<sup>xviii</sup> <http://www.adotas.com/2010/02/social-media-and-e-commerce-go-hand-in-hand/>

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## **ECONOMICAL AND LIVING STANDARD OF PENSIONERS, AT NATIONAL LEVEL AND IN THE JIU VALLEY AREA**

**ROXANA PLEȘA \***

**ABSTRACT:** *The level of pensions in Romania has been a favourite topic of debate and analysis by experts and the media, since 1990 until now. Aging and reducing the number of jobs produce structural changes in socio-economic terms over the active and inactive population. The growing number of pensioners, which exceeded the number of employees in the economy related to the level of economic and social development of our country, has led to the inability to create a social system for older people able to provide a decent income for them. The phenomenon requires concrete and concerted social action to influence developments in the sense of autonomy and welfare of life of elderly people, for a healthy aging and to ensure a good quality of life.*

**KEYWORDS:** *quality of life; living standard; income and expenditure; poverty.*

**JEL CLASSIFICATION:** *Z10.*

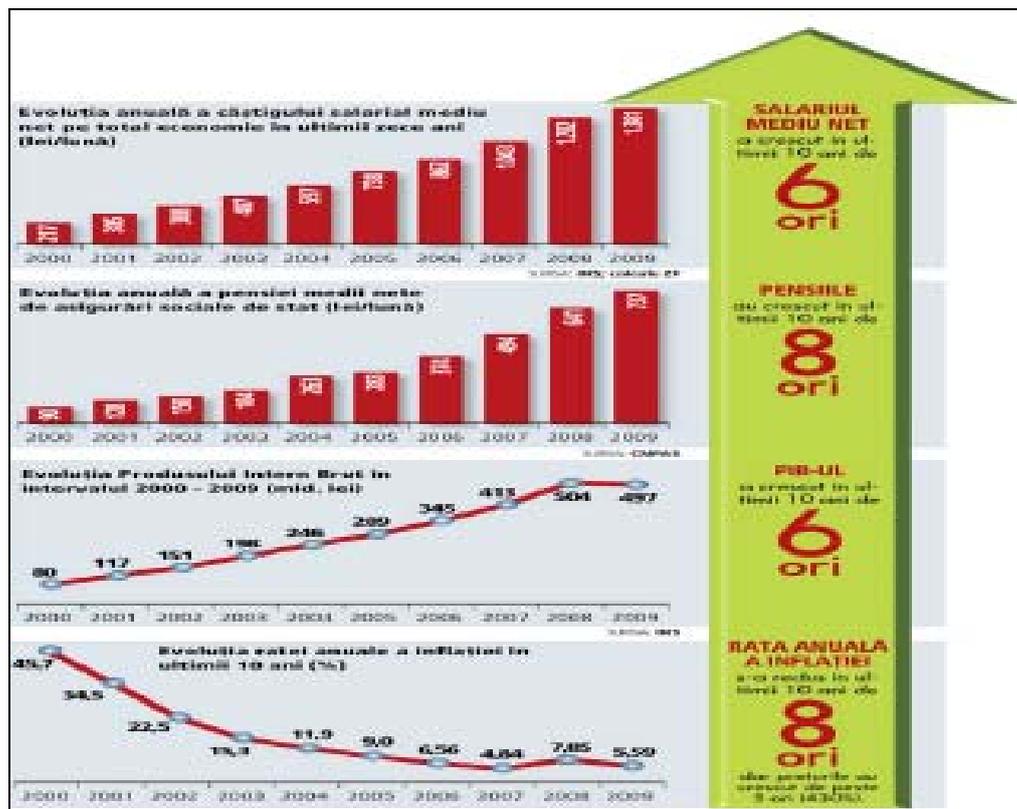
As for most people, the income of elderly persons, in spite of all increases occurred, can be characterized in real terms by the decline, which cannot lead to a decent living. Pensions are small compared to the population's needs, but if their progress is compared to the evolution of wages and GDP in the last 10 years, this shows that pensions increased eight times in the period 2000-2009, while wages and GDP increased only six times, according to INSSE data.

Pensions have increased much faster in recent years compared to wages, taking into consideration that between the '90-2000 period, the pensions had collapsed. A possible explanation of this aspect may have political connotations, if we think that over the past decade, six or seven were election years and the electoral mass of pensioners is a major. Another explanation could be that most of the wages of private sector is not recorded at their fair value so as to avoid paying social contributions for them, because of their high level.

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Budget wages have risen in a few years from 5% of GDP to 9% of GDP. And this aspect connected with labour shortages in some sectors increased wages in the private sector too. According to economists, there was the so-called "demonstration effect". In 2008, Romania recorded an economic growth of 7.1% and in 2006, a growth of 7.9%, while the economic potential was estimated around 5.5 to 6%. The average pension in 2000 represented about 41% of net average wage, while in 2009 reached 53% of net average wage. In developed countries, the average pension is about 70-75% of net average wage.



Source: <http://www.zf.ro/eveniment>

**Figure 1. Annual evolution of average net wage of the total economy, of the average net pension of state social security, of Gross Domestic Product, inflation rate between 2000-2009**

Monthly rate of inflation for the twelve months of 2009, overall and by groups of goods and services is shown in table 1.

Inflation in December 2009 compared to November 2009 was of 0.3%. Prices for food commodities group rose by 0.3%. Price increases were registered for eggs (+4.6%), other vegetables and tinned vegetables (+4.4%), potatoes (+1.2%), honey (+0.7%), fresh fruit (+0.6%), butter (+0.4%), cheese, total cow milk (+0.3%). Price drops were for citrus and other exotic fruit (-3.5%), edible oil (-0.8%), beans and other

legumes (-0.6%). Non-food prices rose by 0.5%. There were observed price increases on tobacco, cigarettes (+3.6%), books, newspapers, magazines (+1.0%), drugs (+0.3%). Prices dropped for cars and spare parts (-0.8%) and fuels (-0.3%). Prices of services decreased by 0.3% due to lower prices for telephone, air transport (-1.4%), rent (-0.2%). Tariffs increased for water, sewerage, sanitation (1.1%), auto subscriptions, and payment of accommodation in hotel units (+ 0.2%).

**Table 1. Evolution of prices of consumer goods and services in all months of 2009**

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.
Total	1.2	0.9	0.5	0.3	0.0	0.2	- 0.1	- 0.2	0.4	0.4	0.7	0.3
Groceries	0.7	0.3	0.4	0.0	- 0.1	- 0.2	- 0.5	- 1.1	- 0.2	0.2	0.4	0.3
Non-food goods	0.8	1.3	0.7	0.8	0.0	0.4	0.1	0.3	0.8	0.5	1.1	0.5
Services	3.3	1.0	0.3	- 0.5	0.1	0.4	0.3	0.3	0.5	0.9	0.1	- 0.3

*\*Products whose prices are regulated: medicines, electricity, gas, heat, rents set by local administration, water, sewerage, sanitation, urban transport, rail transport, water transport, post and courier, fixed phone, radio-TV subscription, issuance of identity cards, driving licenses, passports*

Source: [http://www.insse.ro/cms/files/arhiva\\_buletine2009](http://www.insse.ro/cms/files/arhiva_buletine2009)

The evolution of partial indices, calculated by excluding certain components from the IPC, is shown in the table below:

**Table 2. Evolution of prices of consumer goods and services in December 2009 compared to December 2008**

	December 2009 % compared to December 2008
<b>TOTAL IPC</b>	<b>104,74</b>
Total IPC excluding alcoholic beverages and tobacco	102,95
Total IPC excluding fuels	104,15
Total IPC excluding products whose prices are regulated *	105,05

*\*Products whose prices are regulated: medicines, electricity, gas, heat, rents set by local administration, water, sewerage, sanitation, urban transport, rail transport, water transport, post and courier, fixed phone, radio-TV subscription, issuance of identity cards, driving licenses, passports*

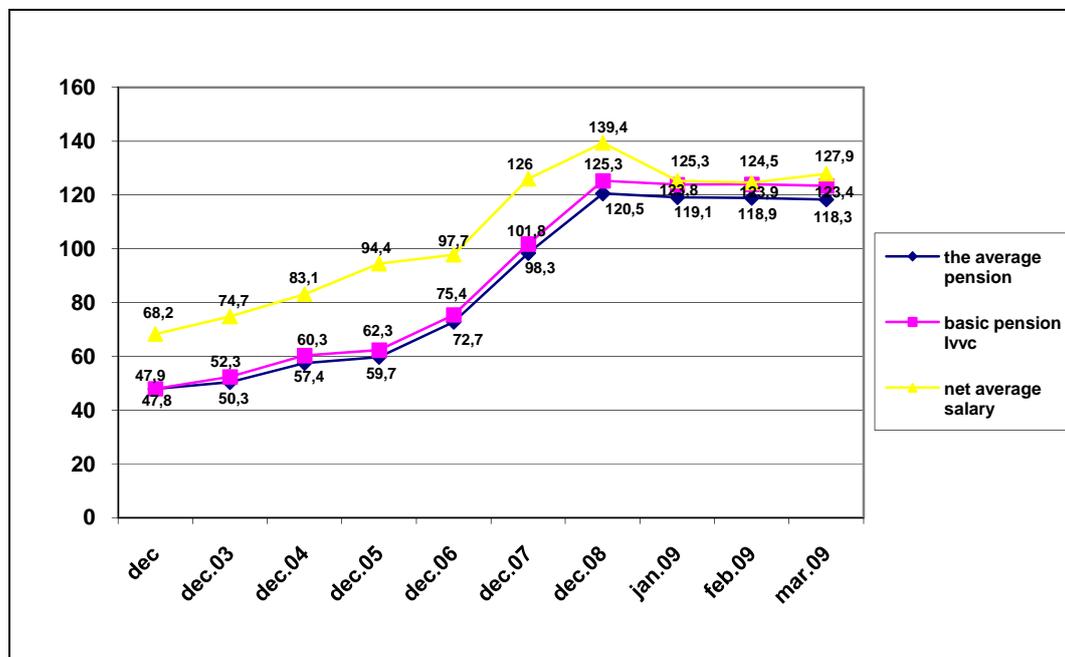
Source: [http://www.insse.ro/cms/files/arhiva\\_buletine2009](http://www.insse.ro/cms/files/arhiva_buletine2009)

In December 2009, the inflation rate compared with same month of 2008 was of 4.7%. Food price increased by 0.4%, the price of non-food goods by 7.7% and service charges increased by 6.9%.

In Romania, the real value of pensions decreased over time, although lately it has seen a revival due to indexing. In November 2007 average base pension (in real terms) was of 98.7% compared to the 1990 average base pension and rose in the months of indexing, respectively in January 2008 - 104.7% and October 2008 to 121.0% and in the months between indexing, this pension had a descending rate. While current retirees are better than five years ago, they are poorer than the ones living in the

early '90s. If we consider the ratio between average pension and average wage, net average pension decreased from 51.1% of the average net salary in October 1990 to 45.8% in December 2008. This process is explained by the fact that indexation as followed to some extent the inflation index, while wages increased faster, by following the logic of the market with other indicators such as productivity, growth, etc. The result is that pensioners have become poorer than other members of society.

Figure No. 2 shows that the purchasing power of pensions increases in the months only when the value of the pension point increases, followed by further decreases immediately due to increased prices for basic food, for non-food products and essential services. In March 2009, the purchasing power of average basic pension in the social security system was 118.33% compared to October 1990, according to the ratio:  $3.940.6$  (increase of average pension of state social insurance between 1.X.1990-30.III.2009)  $\times 100$ ;  $3.330.1$  (increase of price between 1.X.1990-30.III.2009).



Source: National Council of Senior Citizens (2009)

**Figure 2 - Evolution of the purchasing power of average basic pension, of old - age full length type pension and of the average wage in period December 2002-2008, January-March 2009 (%)**

**Ageing of population in Romania in the European context.** It has to be underlined that the purchasing power of average basic pension in March 2009 was only 92.53% of the purchasing power of average wage (compared with October 1990, 127.89% respectively). The ratio between average basic pension and average net wage was in March 2009 of 49.0% and the ratio between old-age pension with full stage of contribution and the average net wage was 67.8% and compared with gross average

wage, the values were 35.8% for the average basic pension and 49.4% for old-age pension with full contribution stage.

The net average salary in March 2009 was of 1402 lei, i.e. 2.04 times higher than the average basic pension (687 lei) and 1.48 times higher than the average old-age pension with full contribution stage (950 lei). In March 2009, while the average net salary in the country increased by 4258.9 times and the average gross salary of 4746.9 times compared to October 1990, pensions have risen less in the same period, as follows: the average pension of state social insurance - the 3940.6 times; the average old-age pension with full contribution stage - of 4110.8 times.

So in the first three months of 2009, pension revenues were insufficient for older people live a decent life, in spite of all increases made to the pension point value, because the purchasing power of pensions records a decreasing dynamics, a situation which requires the application of exceptional measures for immediate recovery of the living standards of the vast majority of pensioners.

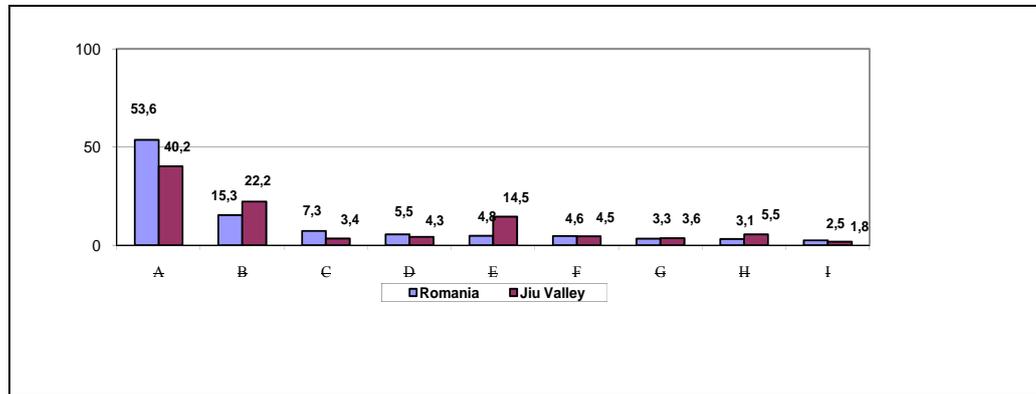
Knowledge of living conditions of the population, its welfare, consumption and the possibilities of meeting the vital needs, the standard of living and lifestyle, of quality of life as a whole, has always been a current concern. Considerable decrease of quality of life compared to the years before the transition originates in the degradation social sphere. Defining the living conditions of any segment of the population can be achieved by knowledge of a large number of parameters; some refer to the existence of economic support, and others to the daily living conditions, health status, the general state of mind, etc. Among all these parameters, the crucial role is played by economic support. Income and consumption are essential components of quality of life and are characterized by low levels, structural imbalances and inequalities.

A sociological survey conducted in 2009, the Jiu Valley area has highlighted aspects of quality of life of retired elderly persons. This research aimed at breaking down the concept of quality of life in many indicators - financial situation, health, relationships with family, neighbours, healthcare, social services, trust in people and institutions involved in social and political life, life satisfaction, etc., but mainly this sociological approach focused on aspects of living standards, income and expenditure budget, the economic equilibrium of the family.

Figure 3 shows the comparison between the monthly expenses for households of pensioners at national level and the expenses made by the families of pensioners living in the Jiu Valley in 2009. Both at national level and in the Jiu Valley, the retirees allocate most of their income for food but there is a significant difference between the two reference systems, the ones living in the Jiu Valley spending with 13.4% less on these products. An assumption in explaining this difference could be a greater pension for those living in the area where our research was done, but most likely is the version their more modest life.

The greatest difference between the pensioners of the Jiu Valley and the ones at national level in the allocation of financial resources of the family from the monthly income is found in health care spending, the pensioners of the Jiu Valley allocating three times more to this purpose (14.5% compared to 4.8%). The explanation for this may consist of very heavy working conditions underground, which can influence health along with age, to which one can add the less favourable impact of weather

conditions in the area. We have to underline that the sample interviewed percentage of people who worked in mining is of 48%.



A - food products and soft drinks; B - home payment; C - transport and communications; D - beverages and tobacco; E - health; F - clothes and footwear; G - recreation, education and culture; H - furniture and home equipment; I - other products and services.

Source: INSSE, *Statistical Yearbook of Romania, 2009* (for the information in Romania), Research carried out by author (for the information in the Jiu Valley)

**Figure 3. Average monthly consumption expenditure in households of pensioners, at national level and Jiu Valley region in 2009 (%)**

In terms of housing maintenance and utilities, the pensioners of the Jiu Valley allocates seven percent more than those at national level; this difference is explained to some extent by higher prices of household utilities in the Jiu Valley compared to other areas of the country. For other destinations, namely clothing and footwear, durable goods, leisure, culture and education, the proportion from household budget is relatively balanced, except for transport and communications, pensioners in the country give them a double rate compared with subjects interviewed.

In an economy that adapts to new laws and mechanisms of operation, there are affected not only revenues and expenditures, consumption in a nutshell. The "Daily Basket" of the consumer is obtained by making a ratio between expenditures and total family income. Basket value means, in fact, a marker of poverty, beyond which individuals remain unable to cover supplies needed for a decent standard living recognized by the society at one moment. Even if it cannot be an enough objective instrument to delimit the poor ones, the minimum standard of living determined by evaluating the basket of consumer for goods and services, it can be a consistent reference for analysis the evolution in time of poverty.

**Minimum of subsistence** requires a person's survival issues, while the **minimum for a decent standard of living** involves calculating the resources needed for current consumption - food, clothing, footwear, housing, services – in addition to a social status component that allows development and participation individual in society.

**Absolute poverty threshold** is calculated by adding up the cost of minimum food basket with a minimum of non-food consumer goods and services, equal to the expenditure of people whose food consumption equals the cost of food basket. **Severe poverty threshold** is calculated by adding up the cost of minimum food basket with minimum non-food consumer goods and services equal to the costs incurred by individuals whose total consumption equals the cost of food basket. (Mihailescu, 2001, p.49).

In 2009, in the paper "*Dimensions of social inclusion in Romania*" produced by the National Institute of Statistics, based on Household Budget Survey shows that pensioners hold a significant percentage of the total population (23.3%) and poor pensioners, 16.4% among the poor persons of 16 years old and over.

Nationally, in 2009, of all pensioners, 3.2% had pension below the severe poverty threshold, 8.5% below the absolute poverty threshold, over a third (35.8%) had pension below the minimum basket of monthly consumption, 43.3% had pensions below the minimum subsistence threshold, while more than half (55.8%) had pension below the minimum of decent living, namely:

**Table 3. Pensioners at national level whose pensions situate under the thresholds of monthly (%)**

<b>Thresholds of monthly income</b>	<b>Maximum reference value (lei)</b>	<b>% of the total number of pensioners</b>
Severe poverty	179	3,2
Absolute poverty	259	8,5
Minimum basket of monthly consumption	482	35,8
Minimum subsistence level	559	43,3
Minimum level of decent living	697	55,8

*Source: National Council of Senior Citizens (2011), Socio-economic situation of older people in Romania and EU countries - present and development perspectives*

In the Jiu Valley, in almost 15% of cases financial resources do not cover basic necessities, and for a third of families, the incomes barely can cover the minimum bare necessities. Just over a third of families manage to lead a decent life, and just over 10% can afford some expenses that are not related to the minimum bare necessities, but with big effort. Thus, we can say that almost 15% of the subjects / families live in absolute poverty, a double proportion is in relative poverty, one third can have a minimum decent life, while just less over 10% can enjoy a generally good living standard, the percentage of those who may say that benefits from resource abundance is insignificant.

**Table 4. Pensioners living in the Jiu Valley under the threshold of monthly income (%)**

Answering options	Threshold of monthly income	% respondents
We cannot even cover basic necessities	Absolute poverty	14,7
We can cover basic necessities	Relative poverty	34,0
We can have a decent living standard, but we cannot afford other expenses.	Decent minimum living standard	34,7
We can afford other expenses but with big effort	Generally good standard of living	12,3
We can manage to have all we need, with no big effort.	Abundance of resources	4,3

Source: Research conducted by the author

**Conclusions.** As a member state of EU-27, Romania has applied the methodology to estimate poverty recommended by Eurostat (relative method), while developing a national system based on estimating absolute poverty method. The difficulties encountered in Europe and worldwide related to social protection in general and of the elderly persons, in particular, here we consider Romania situation, were added to extra problems of economic transition, the inadequacies of the legislative and institutional framework. The segment poor population from amidst the elderly persons has emerged in the process of impoverishment of the majority population. According to social researches, families of pensioners have an intermediate rate of poverty, but lower than average (15.7% to 22.4% in 2009). Usually, the elderly persons (retirees) are not among the beneficiaries of economic growth. Current expenditure, especially for utilities, tends to cause slipping into poverty of more and more elderly persons.

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## **PATRIMONIAL ANALYSIS OF FINANCIAL STABILITY**

**ILIE RĂSCOLEAN,  
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**ABSTRACT:** *Patrimonial analysis of financial stability is realized with the help of some indicator determined on the balance: working capital; required working capital and net treasury. These indicators are determined and presented in evolution at two companies with different situations, and there are given conclusions and suggestions concerning achieving and maintaining the financial equilibrium or initiating corrective measures in time, before the imbalance would take irrecoverable forms.*

**KEY WORDS:** *financial stability; working capital, own working capital; working capital necessary; net treasury; level of liquidity.*

**JEL CLASSIFICATION:** *D50; G32.*

### **1. INTRODUCTION**

The term of financial stability can be presented according to two conceptions of elaboration of the balance: patrimonial and functional. Patrimonial analysis or liquidity-chargeability emphasizes the capacity of the enterprise to pay at the maturity, the bond to the third parties, highlighting the risk of insolvency.

Building the financial balance is realized by defining some objective criteria on which the evaluation of cash and chargeability of the patrimonial elements of the enterprise. The indicators of financial stability are: working capital, working capital necessary and net treasury.

Financial stability has on its basis the fundamental relation of treasury:  $\text{working capital} = \text{working capital requirement} + \text{net treasury}$ . For defining and calculating the indicators of financial stability, assets elements and liabilities elements are grouped on duration criterion of actives and passives. Therefore, assets elements

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are grouped in fixed assets with liquidity of more than one year and assets with a high degree of liquidity, under one year. Internal structure of the balance can be presented based on duration criterion of assets and liabilities. Therefore, assets positions are structured according to liquidity, and liability positions according to chargeability.

Assets can be classified by their level of liquidity that indicates the possibility to be transformed in money, sooner or later under normal terms of use. Some assets are destined to be consumed in a longer period, more than a year, being considered assets or fixed assets, with a lower degree of liquidity. This category consists of tangible assets, intangible assets, financial assets and an intermediate type so called assets in progress.

Tangible assets include land and fixed assets. Lands are divided in two categories: lands and arrangements of lands. Lands are registered at the adding in patrimony, at the acquisition value or as a contribution, and usually are no subject to depreciation, and investments in arrangement of lands are subject to depreciation.

Fixed assets represents singular objects or a complex of objects that fulfil cumulative the following conditions: have a higher value than the limit established by law; have a normal duration of use longer than a year. For objects that are used in batches, sets or form a single body, at their classification in fixed assets are taken into account the value of the entire body, set or batch.

Intangible assets include: trading fund, constitution expenses, concessions, patents, licenses and other intangible assets.

Financial assets include equity securities, fixed receivables of portfolio activities, other fixed receivables long term receivables.

Assets in progress are formed by intangible and tangible assets in progress. In progress intangible assets represents the cost of production, respectively the cost of acquisition afferent to unfinished intangible assets till the end of financial year. Tangible assets in progress represents the unfinished investments made in own account or contracting, which is assessed by production cost, respectively acquisition cost, representing the price estimate of the investment. Tangible assets in progress are in the category of fixed assets after the reception, putting into operation.

Fixed assets are characterized by a low level of liquidity, differentiated according to their nature, capable of depreciation or not, and for those which are according to normal duration of use. The level of liquidity can be influenced by some operations like releasing some fixed assets. They are also named permanent allocation due to slower rotation of capitals invested in them.

A part of the assets are consumed in exploitation, the level of liquidity being less than one year. These assets, out of which cash availability are in the form of money, have a high level of liquidity. In this category are circulating assets, current assets being formed by various categories of stocks: raw materials, production in progress, finished products, goods, debts and cash availability.

Current assets meet the following conditions:

- are accomplished and held for sale or consumption in normal course of exploitation of the enterprise, usually under 12 months;
- are held mainly for trading;
- represents cash or cash equivalent which use is not restricted.

Debts include, firstly, commercial debts and also claims from third parties, individuals or legal entities. Trade receivables represents amounts to collect from clients, to whom have been delivered goods or services, and by contract terms it was accepted to collect the consideration at a later date. Cash availability include money held in own cash desk, availabilities in current accounts opened at credit institutions, banking deposits etc. To be qualified as current assets cash availabilities must be available for current use.

Current assets are also named cyclic allocations or temporary because the recovery of invested capitals in these, are achieved at the end of one exploitation cycle (supply – production - sale). Liabilities can be structured by the level of payment due – it falls due at a certain date. Therefore, every liability corresponds to a bond or pledge but the payment obligations are differentiated by very different due. Also some liabilities don't have any constraints to fall due, in this category being ownership equity.

Ownership equity represents the residual interest in the assets of the enterprise after deduction of all debts, containing net, cumulative result, of all transactions and previous events. In the category of ownership equity are: primary capital, bonuses linked to capital, reserves, re-evaluation reserves, reported result, other ownership equity. Primary capital represents an important element of ownership equity being equal with the nominal value of the shares, respectively with the value of capital contribution, bonuses and reserves incorporated or other operations that lead to a change.

Current regulations compel or give the possibility to enterprises to establish some types of reserves: legal reserves; statutory reserves; re-evaluation reserves; other reserves. Therefore, those that mandatory constitutes, on the basis of some Decisions of General Meeting of Shareholders are non-deductible.

Ownership equity has a low exigibility level and is named permanent sources or stable. Some liabilities, like debts involve a firm obligation to refund, and the level of chargeability is different according to their payment due date.

So these medium and long term debts are also in the permanent or stable sources, their chargeability degree being longer than one year.

Long and medium term debts include credits for financing investments and other debts. According to the source or origin of those who lend, borrowed sources for long term can be categorized in: debenture; loans from specialized public institutions; loans from the state; credits from credit institutions.

Long term credits are various in their nature and object. Short term debts or current debts include exploitation debts and short term credits. They are characterized by a high level of chargeability, also named cyclical or temporary sources, contracted usually for exploitation cycle. Current liabilities fulfil some criteria: are settled in the normal course of exploitation cycle of the enterprise, with payment to fall on 12 months; the firm does not have irrevocable right to postpone the payment after 12 months from balance sheet.

Exploitation liabilities include obligations resulted in exploitation cycle: liabilities to suppliers, to employees, obligations to public budget; liabilities to shareholders; other liabilities. Short term credits represents credits contracted from

credit institutions for cycle exploitation necessities. Liabilities are grouped in permanent capital that include ownership equity and other liabilities with payment to fall more than one year and short term debts with payment to fall in less than one year.

Permanent allocations, in fixed assets are usually covered by permanent sources. If permanent sources are higher than permanent necessities for fund allocation, this surplus issued by financing cycle of investments can be circulated for renewal of stocks and debts; this potential use determined its name – working capital.

## 2. PROBLEM FORMULATION

### 2.1. Working capital

Working capital is the expression of financial balance achievement for long term and its contribution to gain short term financial stability (Stancu, 1997, pp 446). Working capital is determined by the relation:

$$\text{Working capital} = \text{permanent capital} - \text{permanent allocations} = (\text{ownership equity} + \text{long and medium term debts}) - (\text{fixed assets})$$

This determination by calculation of working capital is the most relevant, from the point of view of its mean.

Working capital can also be determined:

$$\text{Working capital} = \text{circulating assets} - \text{short term debts}$$

Working capital determined on the basis of patrimonial balance is named net global working capital. If the working capital is positive that means the permanent sources are overlapping for financing permanent allocations. In the situation where working capital is negative, permanent sources does not assure fully financing of fixed assets, where there is insufficient working capital. So, a positive working capital reveals a state of financial balance because of fixed assets are financed, in a sustainable manner, by using stable sources, mainly ownership equity, and also long and medium term credits.

The negative working capital indicates a state of financial imbalance because the permanent sources are insufficient for financing permanent allocations, and in this situation there is a demand for short term sources, at the expense of exploitation cycle necessities.

In the stage of market economy transition, many enterprises especially those with state capital or privatized with negative working capital due to the end with losses of several financial exercises that lead to diminishing of ownership equity. Under these circumstances they were forced to turn for cyclic sources help for necessities of permanent allocation and mostly these sources were unpaid liabilities to fall due by suppliers and especially to state budget, local budget, state social security budget, special funds. This phenomenon is shown, under some circumstances, but according to market economy mechanisms these enterprises will enter inevitably in bankruptcy procedure.

Working capital can be analyzed according to the structure of permanent capitals, respectively ownership equity and long and medium term debts. This analysis gives us the opportunity to highlight in which measure the financial stability is achieved by ownership equity, respectively the degree of financial autonomy of the enterprise. The indicator that reveals this level of autonomy is named own working capital and highlights the surplus of ownership equity from fixed net assets.

Own working capital (FRP) is determined:

$$FRP = \text{ownership equity} - \text{fixed assets}$$

Likewise can be determined working capital loan (FRI) as a difference between working capital and own working capital.

$$FRI = FR - FRP$$

Working capital loan (foreign) expresses the amount of resources loaned on long term, destined for financing short term fixed assets.

## 2.2. Working capital needs

The financing necessities of exploitation cycle are generally covered from temporary sources also named exploitation debts or liabilities. The financing necessities of exploitation cycle, which are also named cyclic or temporary uses represents short term allocations that the enterprise must do for formation of stocks of raw materials, production in progress, finished products, goods and also to pay different dues to the clients.

Therefore, the enterprise must source with goods to resell if it has trade activities with raw materials for making finished products and also with auxiliary materials for deploying the trading activity, and also to storage these.

Also, in trading relations with the clients we must have some payment deadlines, accumulating debts that generate financing necessities.

In the same time, by deployed activity the enterprise records debts to suppliers from which obtained certain payment deadlines of supplied goods consideration or services from them. Among short term debts there are some enterprise liabilities toward the employees, shareholders, state, etc. Till the due of mentioned liabilities, these represent financing sources or current activities. The difference between necessities of exploitation cycle financing and exploitation liabilities is named necessary working capital (NFR).

$$NFR = \text{cyclic allocations} - \text{cyclic sources} = (\text{stocks} + \text{debts}) - \text{exploitation liabilities}$$

Interpreting the positive or negative values of working capital must also consider the causes that led to these situations. Therefore, if the difference between cyclic allocations and cyclic sources is positive, that means a surplus of necessities of exploitation cycle reported to its formation sources. This situation can be appreciated as normal if is due to growing financing necessities, determined by development of the

activity, or it can be the result of a negative gap between stocks and debts liquidity and chargeability debts.

If the difference between cyclic allocation and cyclic sources is negative, that means a surplus of temporary sources reported to circulating assets needs. This situation can be seen as normal if is due to rotation acceleration of circulating assets and some debts with more relaxed due, otherwise can be the result of some temporary interruption in supplying and renewal of stocks and increasing if exploitation liabilities because unpaid dues.

### 2.3. Net treasury

The components of net treasury are the assets and liabilities of the treasury, where cash availability take a special place. Out of financial assets we mention: investment securities, received commercial effects, bonds. The treasury liabilities represent short term credits: cash credit, current account credit balance, mobilization loans receivable.

The formula of treasury is:

$$\text{Net treasury (TN)} = \text{active treasury} - \text{passive treasury}$$

Treasury can be determined on the basis of equation of financial stability:

$$FR = NFR + TN$$

where:  $T = FR - NFR$

A positive treasury is the result of deploying an efficient activity and reflects a state of financial stability of the enterprise that assures financial autonomy on short term. According to the surplus of treasury there is the problem of efficiently placing in the financial – monetary market. Negative net treasury highlights a potential financial imbalance and translates to a monetary deficit that must be covered by short term credits that have a higher cost and in the same time high level of payment due.

Between profitability and treasury there are inter-conditioning relations. So, deploying profitable activities creates the premises of obtaining positive treasury, and a positive treasury directly influences the possibility to obtain the demanded level of profitability.

A profitable enterprise does not necessary has a positive treasury, this depending on financial necessities variations and also the favourable or unfavourable gap between the dues of collections and the dues of payments.

In an enterprise, the static analysis of financial stability can be realized on three levels:

- long term equilibrium where is used indicator of working capital through which are compared permanent resources with permanent uses;
- short term stability where id used the indicator of working capital necessary by which are compared temporary resources with temporary uses;
- current equilibrium where it follows the level or treasury, by comparing the availabilities with the level of temporary banking credits.

### 3. SOLUTION/CASE STUDY

For the analysis of financial equilibrium in two companies with different situations, assets and liabilities are structured according to liquidity and chargeability level presented, in evolution, in tables 1 and 2.

**Table 1. Assets and liabilities for company 1**

No.	Specification	U.M.	Year		
			2008	2009	2010
1	Fixed assets	lei	1420153	1561420	1580520
2	Stocks	lei	461460	464220	430150
3	Debts	lei	540611	531420	420610
4	Cash availability	lei	251006	236421	260801
5	Ownerships equity	lei	1570121	1620160	1650610
6	Long term credits	lei	240162	220150	180261
7	Exploitation liabilities	lei	640170	620140	610561
8	Short term credits	lei	222777	333031	250649
9	Working capital	lei	390130	278890	250351
10	Own working capital	lei	149968	58740	70090
11	Working capital necessary	lei	361901	375500	240199
12	Net treasury	lei	28229	-96610	10152

**Table 2. Assets and liabilities for company 2**

No.	Specification	U.M.	Year		
			2008	2009	2010
1	Fixed assets	lei	1421667	1405234	1306435
2	Stocks	lei	416315	390134	321543
3	Debts	lei	489017	467123	456732
4	Cash availability	lei	183665	10145	7560
5	Ownerships equity	lei	1405544	1354124	1105780
6	Long term credits	lei	150056	135126	101280
7	Exploitation liabilities	lei	441238	493621	764320
8	Short term credits	lei	513826	289765	120890
9	Working capital	lei	133933	84016	-99375
10	Own working capital	lei	-16123	-51110	-200655
11	Working capital necessary	lei	464094	363636	13955
12	Net treasury	lei	-330161	-279620	-11333

In the analysis of the correlation between working capital and circulating assets can be used a series of rates like:

$$\text{Financing rate of circulating capital} = (\text{working capital} / \text{Circulating assets}) * 100$$

$$\text{Rate of stocks coverage} = (\text{Working capital} / \text{Stocks}) * 100$$

In the next tables are presented the rates determined for the first company

**Table 3. Financing rate of circulating capital**

No.	Specification	U.M.	Analysed period		
			2008	2009	2010
1	Circulating assets	lei	1253077	1232061	1111561
2	Working capital	lei	390130	278890	250351
3	Financing rate of circulating capital	%	31.14	22.64	22.53

This rate reflects the proportion of working capital that covers circulating assets. The normal size of this rate must be over 50%. After calculations we can see that in the analysed period this rate has obtained abnormal lower values.

**Table 4. Rate of stock coverage**

No.	Specification	U.M.	Analysed period		
			2008	2009	2010
1	Stocks	Lei	461460	464220	430150
2	Working capital	Lei	390130	278890	250351
3	Financing rate of circulating capital	%	84,55	60.08	58.20

This rate reflects the proportion of which working capital finance the stocks. After calculations results that the company situation in good, in the sense that indicators are in normal limits. To note the fact that the stocks can be covered mostly by permanent sources.

In the following tables are presented the determined rates for the second company.

**Table 5. Financing rate of circulating capital**

No.	Specification	U.M.	Analysed period		
			2008	2009	2010
1	Circulating assets	lei	1088997	867402	785835
2	Working capital	lei	133933	84016	-99375
3	Financing rate of circulating capital	%	12.3	9.69	-12.65

Here we can see that in the analysed period this rate has obtained very low values, and in 2010 they are negative.

After making the calculations results that the situation of company is not good because the indicators are not in the normal limits.

**Table 6. Rate of stock coverage**

No.	Specification	U.M.	Analysed period		
			2008	2009	2010
1	Stocks	lei	416315	390134	321543
2	Working capital	lei	133933	84016	-99375
3	Financing rate of circulating capital	%	32,18	21,54	-30,91

#### 4. CONCLUSIONS

The situation presented in the table no. 1 reflects a state of financial stability, in a company, realized on the working capital that records positive value for all years taken into study, inclusively at the level of own working capital. Therefore, permanent sources constituted by ownership equity and long term credits, assures the financing totally of allocations in fixed assets, making a surplus that can be used for covering some necessities of exploitation cycle.

The recorded values follow descending trend mainly because of reducing balance of long term credits, as a result of payment of dues, when the company is in a capitalization process, and the profits assigned for development have as an effect the increasing of ownership equity.

Working capital necessary records, as well, positive values, with an increasing trend in 2009 that can be explained by reducing the level of payment due of exploitation liabilities, mainly the debts to suppliers of goods and services.

In 2010 the working capital necessary is reduced by a better correlation between current assets liquidity and exploitation liability chargeability, mainly due to improvement of the gap between medium duration of collection of debts and medium duration of payment of liabilities. We put up the fact that the company does not have any remaining debts.

The fact that the company has an overall profitable activity, recording profit in all analyzed year creates the premises of recording a positive net treasury. Therefore, there are recorded positive values in 2008 and 2010 due to accomplishing a positive advance between current assets liquidity and chargeability of exploitation liabilities especially a positive gap between medium duration of debts collection from clients and medium duration of liability payment to suppliers.

It can be observed, that in 2009, net treasury records negative values because of a unfavourable gap between debts liquidity and chargeability of exploitation liabilities, by increasing the average debt collection from clients – beneficiary of delivered goods.

Situation presented in table 2 reflects, in 2008, a state of financial balance achieved by working capital by contracting some short term credits, for financing some investments, resulting a surplus that can be used for covering some necessities of exploitation cycle. This situation is maintained over the year 2009, even though there is a descending trend, reflected in the negative values of own working capital and because reducing ownership equity by recording losses.

In 2010 are also recorded losses, the process of disinvestment being continued, and the negative values express a state of financial imbalance. Permanent sources do not assure financing anymore to long term assets, and due to the fact that the company cannot access new credit because it records losses, it's constrained to call short term sources.

This situation is observed by following the evolution of working capital necessary, the descending trend is due to the incapacity of the company to pay the debts at due assumed to the third parties. Otherwise this unfavourable evolution is also reflected at the level of net treasury. For improving the financial stability, before it takes irrecoverable forms, there are needed urgent measures, or the company will enter bankruptcy. It is necessary urgent capitalization by increasing the capital, achieved by new contributions of the shareholders and some efficient measure for make it profitable.

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## **CONSIDERATIONS REGARDING THE DESIGN OF SPECIFIC TOURISM PRODUCTS FOR THE TOURISM DESTINATION ROMANIA**

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**ABSTRACT:** *Romania, as tourism destination with its component micro-destinations (Muntenia, Oltenia, Banat - Crișana, Transylvania, Bucovina, Maramureș, Moldavia and Dobrogea), possesses many tourism attractions and at the same time has a real tourism potential. The fact that it is not included among the Europe's „valuable” destinations represents a loss both for its inhabitants and for Europeans in general, too. One of the reasons is the lack of an image consolidated by identity elements or / and simply the lack of image that would represent the starting point for development of appropriate tourism products (developing a strategy). This paper proposes, starting from the image perceived by the inhabitants about their own destination – based on the example of Transylvania – to emphasize the importance and also the role of the destination image in developing the main directions of actions and, especially, in developing the strategy for the specific tourism products.*

**KEY WORDS:** *tourism destination; tourism product; tourism destination image; strategy.*

**JEL CLASSIFICATION:** *M31.*

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## **1. INTRODUCTION**

It is often said that one essential thing for people is not "living", but "travel". Tourism is one of the most dynamic economic sectors in most countries and at the same time, is one of the noblest of human occupations; Tourism is one of the most promising industries of this century (Ahn, 2009).

Thus, in 2010 the travel industry (WTTM) achieved 9.3% of the global GDP and provided about 236 million jobs. For 2010, the same organization predicted for Romania a direct contribution to GDP of this sector of 1.9% and providing jobs to about 267000 (World Tourism Organization UNWTO, 2011). The year 2011 is expected to continue increasing but at a somewhat slower pace. According to the latest barometer of the World Tourism Organization, international tourism continues to grow, in the first two months of 2011 it was recorded an increase of almost 5% in the number of arrivals of foreign tourists (in EEC it was recorded a growth of 12%.) (Daily Business Journal, 2011).

Globalization creates real competition and excellence in business, tourists require complex products and services, consisting of elements provided by different companies as a result of different travel motivations and specific requirements arising there from. In the present context created by the occurrence of new trends in the current business environment (accelerated globalization, high automation, innovation, advanced telecommunications), tourism industry has evolved from a traditional business, to the need for adopting new sources of innovation, collaboration and value creation (Shahbazipour, 2008).

## **2. TOURISM DESTINATION – COMBINATION OF TOURISM SERVICES AND EXPERIENCES**

Tourism destination can be considered as a whole (package) of tangible and intangible components, a combination of travel products and services providing an integrated experience to the tourists. The package of products and services is perceived by the tourists as an experience available at a certain price. Tourism destination includes basically the following components: elements of tourist attraction (natural, cultural, architectural and industrial heritage, social attractions, sports, etc..) facilities and services offered by providers in the hospitality industry (accommodation, food services, transport services, shopping and other services), access routes to their destination (infrastructure, transport equipment, operational factors, government regulations), destination image and the price paid by the tourist (Middleton, et al., 2009).

Companies in the tourism industry are currently facing with increasingly demanding tourists, which basically requires them to offer innovative products and memorable experiences. A truly memorable tourist experience is that which comes from tourism companies showing their concern for visitor / tourist, showing that they "care" about the tourists. Companies in the hospitality industry, delivering products of value to the tourist are those who understand that the tourist is truly the most important

entity of any business. These companies believe that the current tourists are a rare and very valuable resource, not just a source of income.

To provide competitive products, companies from the hospitality industry must consider the success factors for innovation: the establishment / selection of the appropriate target market, but also the analysis / evaluation of the tourism services based on the „tangible” quality, and on the behaviour, commitment and training of personnel (human resources management).

The only sustainable advantage that any organization in the hospitality industry can create is to deliver memorable tourist experience. To achieve this aim, companies in the industry must strive to understand in detail the tourism product purchase decision process in a tourism destination. Also, this effort must be based on deep understanding of customer needs and desires, and on appreciation of how the company defines its value.

Provided products and services must be exactly the solutions that tourist expects. Tourism companies must be able to look beyond the tourist behaviour or the purchase of the product or service. To enhance tourist experience, these companies must take into account the tourist opinion (tourism companies which are not doing this, are losing the chance to increase the number of satisfied and loyal visitors); to act to ensure consistency (companies must ensure that the information received by the traveller during an interaction is not forgotten in the next step); to be open with the tourists (through increased flexibility, extending the working hours, increase transparency for tourists); to customize products and experiences offered to tourists (companies must be careful in assessing customization costs against the benefits from sales, taking into account the long-term value growth by improving the tourist experience); to revise (change) employees' attitudes and behaviour (employees actions are usually the most important actions in the tourist experience); to design the complete tourist experience (organizations must plan and design the complete tourists experience and do not let things go by themselves) (adapted from Rațiu & Zaharia, 2009).

Tourism destination image is not necessarily based on the direct experience of visitors (tourists) but it is always a serious motivation for the acquisition of the tourism product. In the mind of the tourist, tourism destination image is closely linked to his expectations about the experience he expect to have in that specific destination.

Each tourism destination has its own image (most often based on historical events) and a primary goal of the tourism destination marketing is to strengthen the destination image (or, where appropriate, changing or improving it) in order to influence the expectations of potential visitors (tourists).

Visitor's return to a tourism destination (which derives from the satisfaction felt at the end of his visit) largely depends on the expectations that he had at the destination, on the image he previously had about the destination and on how he perceived the performance at the destination (Pike, 2002).

The image of the tourism destination image plays a key role to differentiate the destination in this highly competitive market. Studies conducted by various specialists in tourism shows that the information provided to the tourists is an important means of training and promotion of tourism destination image and, of course, understanding the process of choosing a tourist destination by the potential tourists. Thus, both formal

sources of information (brochures) and informal (relatives and friends) will significantly influence the process of creation the image of the tourism destination and play a special role in the analysis of tourists' purchasing behaviour (Molina et al., 2010). Due to the impact that the tourism destination image has both on the tourism offer (market positioning of the tourism product, product promotion) and on tourism demand (tourist behaviour, process of making the purchase decision), we can conclude that the tourism destination image is an important aspect to be taken into account in developing a competitive strategy of the tourism destination (both from managerial and marketing perspectives).

### **3. ROMANIA: TOURISM DESTINATION, SPECIFIC IMAGES AND TOURISM PRODUCTS**

Developing a competitive strategy in today's global business environment requires delivering of tourism products adequately coordinated for each tourism region. Creating a long term competitive advantage for the tourism destination Romania requires a strategic positioning of the tourism product in order to achieve the strategic objectives and a unique image which is grounded on creating and providing superior value to tourists (Stanković & Dukić, 2009, p. 25). The concept of „value” is not new, it is already known the term (concept) of „value chain” created by Porter in order to identify and explain the activities that create / destroy the value. It should be mentioned specialists' attention to find new methods of value creation and delivery in order to achieve a better positioning of the tourism destination on the target market.

Due to the large number of local stakeholders involved in the production and distribution of the tourism products, designing a competitive strategy for the tourism destination Romania represents an extremely difficult and complex approach, more so as it can be seen, from tourism marketing perspective, as a „sumum” of micro-destinations (brands) (Stăncioiu, Teodorescu, et al., 2011). In this respect, it is necessary to balance the strategic objectives of all parties involved to ensure the sustainability of local resources. A competitive strategy for the tourism destination Romania is able to ensure the optimization of tourism effects and the achievement of strategic objectives for all stakeholders (Buhalis, 2000).

Romania is one of the most attractive tourism destinations in Europe and has a great potential based on both natural resources and human capital. The tourism destination Romania has seven tourism sights listed in the UNESCO world heritage (one less than Austria or Hungary), which represent favourite destinations for the cultural tourism, like the monasteries of Moldavia, the Horezu monastery, the fortified churches of Transylvania, the Dacian fortress from Orăștie, the historical centre of Sighișoara and the wooden churches of Maramureș. Like anywhere in the world, the UNESCO stamp represents a clear indication for the tourism sight attractiveness and maps out precisely the most important tourism routes. (adapted from Purcărea, et al., 2010, pp.67). Analyzing foreign tourists' preferences regarding Romania it can be concluded that American tourists prefer cultural tours, Transylvania and Dracula tours; British tourists prefer cultural tours, Maramureș, Bucovina and the mountain resorts; French, German and Austrian tourists prefer cultural tours and the Black Sea resorts.

All historical regions of contemporary Romania are recognized as regions with an important tourism potential, with many natural, artistic, cultural and historical attractions, providing unique and unforgettable experiences to the visitors who would like to return to the destination.

The results of a study (Stăncioiu, Băltescu, et al., 2011) conducted from October 2010 to January 2011 among residents of the historical regions of Romania (Muntenia, Transylvania, Oltenia, Banat, Crișana, Bucovina, Maramureș, Moldavia and Dobrogea) show that Romania can become a competitive niche tourism destination.

Assuming that the macro-destination Romania and its brand encompasses under its umbrella all the regions as micro-destinations, the aim of this study was to identify the perceptions of the Romanian residents about the tourism products in each micro-destination, and also find out to what extent the perceptions of residents from different regions of Romania regarding each region may help in the construction of the destination image, as the first step in defining the strategy for the destination.

We take as an example the micro-destination Transylvania, the central part of Romania, respectively the inter-Carpathian region, which is geographically confined as follows: by the Southern Carpathians (bordering on Muntenia region), by the Eastern Carpathians (bordering on Moldavia region), by the Western Carpathians – Apuseni Mountains – (bordering on Banat – Crișana region) and by Maramureș region to the North.

The results of the mentioned study highlight that in the micro-destination Transylvania it can be developed two tourism products for the segments of young people aged 20 – 24 years, actual and potential tourists, respectively the *leisure, relaxation and recreation tourism* and the *cultural tourism*.

Taking into consideration the regions of origin of the respondents, the figures look as follows:

1. in case of Muntenia as region of origin: 53.6% of respondents have chosen the *leisure, relaxation and recreation tourism* as the representative form of tourism for the Transylvania region and 27.7% have opted for the *cultural tourism*;
2. in case of Oltenia as region of origin, 52.2% of respondents have chosen the *leisure, relaxation and recreation tourism* and 14.7% have opted for the *cultural tourism*;
3. in case of Banat-Crișana as region of origin, 51.5% of respondents have chosen the *leisure, relaxation and recreation tourism* and 18.8% have opted for the *cultural tourism*;
4. in case of Transylvania as region of origin, 51.4% of respondents have chosen for their own region the *leisure, relaxation and recreation tourism* and 15.6% opted for the *cultural tourism*;
5. in case of Bucovina as region of origin, 48.5% of respondents have chosen the *leisure, relaxation and recreation tourism* and 15.4% have opted for the *cultural tourism*;

6. in case of Moldavia and Maramureș as regions of origin, 48.9% of respondents have chosen the *leisure, relaxation and recreation tourism* and 29.2% have opted for the *cultural tourism*;
7. in case of Dobrogea as region of origin, 52.2% of respondents have chosen the *leisure, relaxation and recreation tourism* and 21.1% have opted for the *cultural tourism*.

The particularly attractive natural environment, created by the Carpathian Mountains, and also the historical artifacts of a great importance and beauty (Bran castle, the Sarmisegetuza Regia sanctuaries, Huniazilor castle, Deva fortress, Sighișoara city, Râșnov fortress, Alba Carolina fortress, Carolina obelisk etc.), but also the urban settlements (Sibiu, Sighișoara, Brașov, Cluj-Napoca, Alba Iulia, Poiana Brașov, Predeal, Târgu Mureș, Covasna, Sovata, Mediaș, Tușnad, Sângeorz Băi, Făgăraș, Miercurea Ciuc, Deva, Ocna Sibiului, Sibiel) with various cultural – artistic institutions (the Black Church, the Cathedral of National Reunion and of Coronation, the Roman Catholic Cathedral, the fortified Churches, the monastery of Sâmbăta de Sus) determined the respondents, regardless of the region of origin, to opt for the *leisure, relaxation and recreation tourism* and for the *cultural tourism*, as representative forms of tourism for the micro-destination Transylvania.

Consequently, Romania as tourism destination may become equally a mass tourism destination, a niche destination or a specialized destination. In this respect, in order to become a successful tourism destination, three points are essential: creating a coherent product aiming to generate profits, achieving a flexible strategy and cooperation between the private sector and the local authorities. Romania could become either a mass destination, which requires more flexibility regarding the prices, either a niche destination, using a very aggressive marketing strategy, or could adopt a specialized tourism scenario (eg. as a destination for young people, for pensioners etc.).

In this respect, for the tourism destination Romania a series of actions should be taken which must be aimed, on the one hand, to identify the key partners that could be engaged in more effective tourism activities, to attract new markets (visitors), and, on the other hand, to prolong sojourn for existing tourist, extend market visibility in terms of product (accommodation, visitor information centres, tourist attractions, etc.) and better train of tourism operators.

Other actions that are aimed to create a strong brand are: the development of programs through cooperation of the central and regional organizations and the tourism businesses, considering both the main markets and the emergent ones (niche markets practicing various forms of tourism: historical tourism, religious tourism, medical tourism, ecotourism, cultural tourism, etc.); market segmentation for the tourism destination Romania (in order to create strong brands - country, region, companies, workers, services or products brands); tourism product development in each region; increasing diversity of high quality tourism experiences, offering a variety of natural attractions, cultural experiences, adventure, and various accommodation possibilities - hotel, motel, hostel, pension, camping etc; achieving an adequate positioning through a strong positive image, developing promotion actions, emphasizing the role of public relations in tourism (adapted from Purcărea, et al., 2010, pp.72-73).

#### 4. CONCLUSIONS

Global competitiveness we are facing today creates many challenges and problems for achieving a sustainable competitive advantage in the hospitality industry (adapted from Stanković & Dukić, 2009, p.23). There are obvious problems regarding the demand management and the creation of a unique image for a tourism destination like Romania. The involvement of a variety of organizations in designing and marketing of tourism products makes it difficult to harmonize the different interests and objectives of these organizations. On the other hand, these companies enter into various types of partnerships in order to achieve individual and common effects. Consequently, the harmonization of strategic objectives of stakeholders and the increase of global economic benefits should be the most important strategic objectives of organizations of tourism, which requires creating value for all interested partners through the development of an integrated strategy to help creating and promoting a unique image of Romania as tourism destination.

A competitive strategy for the tourism destination Romania requires an appropriate management of the tourism destination brand and of the tourist experience, but also the active involvement of internal and external partners in the planning and implementation of the strategy (adapted from Kozak & Baloglu, 2010).

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## **COMPARATIVE ANALYSIS OF THE INSURANCE CONTRACT RULES AND REGULATIONS FROM THE VIEW OF THE PROVISIONS STIPULATED IN THE NEW CIVIL CODE**

**OANA RĂVAȘ, MIRELA MONEA, ADRIAN DAVID \***

**ABSTRACT:** *The insurance contract is an important factor of the present economic life. It has been regulated until now by many laws, in order to establish certain rules to govern this important area, such as the insurance market, which is continuously changing. The new Romanian Civil Code regulates this subject for the first time, including many rules, which currently were regulated only by laws.*

**KEY WORDS:** *insurance; contract; civil code; regulation; law; risk; indemnity; payment; agreement; subrogation.*

**JEL CLASSIFICATION:** *K10; K12.*

The Civil Code is a reflection of a social system. Rules contained respond to specific needs and at the same time, tend to meet the dynamics of social life. Thus, it is a modeller of human relations, granting principles to the individual in relationship with himself and other individuals, in respect to which he can conduct its life in all its aspects - spiritual, material, biological and, especially, social.

The principles governing relations between people are in their essence the same. Therefore, a civil code provides, par excellence, constant law principles, around which any type of society is structured, regardless of time and space.

However, the profound changes of the Romanian society and the European and contemporary realities require the protection of new socio-moral, cultural, economic and scientific-technical values, the fundamental rule of civil law having to respond, equally, to requirements arising from commitments made by Romania during the

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process of European integration and the new status of our country, as EU member state.

Over one hundred pages of the new Civil Code are devoted to various special contracts, not just the contracts are special (because of express regulation in the Code) but as well the way in which the legislator treats and adapts them to modern economic and social conditions - a more gentle expression to illustrate that these conditions have changed significantly since the entry into force of the old Civil Code.

In the Romanian Civil Code, from 1864, still in force, the definition of insurance contract underwent successive improvements. Thus, in accordance with the regulation adopted in 1930, "through the insurance contract, the insurance company undertakes to take a risk on itself in exchange of a premium."

According to rules laid down in 1971 (State Council Decree no. 471/1971 on state insurance), by insurance contract, the insured party is obliged to pay a premium to the State Insurance Administration. The State Insurance Administration takes on itself the risk of a certain even occurrence, undertaking, when a certain risk arises, to pay the insured party or third party, called beneficiary, an indemnity, respectively the reparation or the insured amount, within the limits agreed.

At present moment, by removing the state monopoly in insurance, insurance contracts can be concluded by all insurance companies incorporated under Romanian legislation in the field (Law no. 136/1995 on insurance and reinsurance in Romania, Law no. 32/2000 on the insurance companies and insurance supervision).

According to Law 136/1995, the insurance contract is "the contract by which the insured party undertakes to pay to the insurer a premium and the insurer undertakes, when a certain risk arises, to pay to the insured party or to the beneficiary the reparation or the insured amount, hereinafter called the indemnity, within the convened limits and delay."

The insurance contract is concluded between the insurer and the insured party, for voluntary insurance, which provides the obligation of the insured party to pay a premium and the obligation of the latter to take upon itself the risk of an event, paying the indemnity provided for in this case, to the insured party or beneficiary. The contract also includes other liabilities of the insurer and the insured party:

As some authors consider, the insurance contract has two functions:

- Introduces the risk into a mutuality, in the sense that, although remains individual, the risk is merged into a whole, in symbiosis with other admitted risk;
- Establishes an individual link, by agreement, between the insurance company and risk bearer

Professor George Bistriceanu believes that, "the insurance is a system of economic and social relations, an objectively necessary process of economic and social development, emanating from the action of the objective economic law, which consists of jointly creating, by the population and undertakings threatened by certain risks, of a fund, from which are compensated damages and satisfied other probable, unpredictable financial and economic requirements".

Description of insurance in legal terms:

- the law is the legal form for regulating insurance;

- in legal terms, the insurance contract is an aleatory contract, with strictly bilateral character;

The legislative framework consists of:

- Law no.36/29.12.1995 on insurance and reinsurance in Romania
- Law no.32/10.04.2000 on the insurance companies and insurance supervision

The insurance contract (regulated by Law no.136/1995) – a legal act, by which the insured party undertakes to pay to the insurance company a premium, and the insurance company undertakes, when a certain risk arises, to pay to the beneficiary, who can be the insured party or a third party, an indemnity, within the convened limits.

By adopting, the Law 32/10.04.2000 the following objectives were targeted:

- harmonizing the Romanian legislation with the Community legislation;
- creating the supervision framework regarding the solvency of the insurance companies;
- establishing certain internationally recognized standards in the field of insurances;
- The Insurance Supervisory Commission, the administrative authority which regulates the insurance activity, shall supervise the compliance with law provisions;

The principles underlying insurance contract:

- the principle of indemnity - the insurance contract does not compensate an amount exceeding the losses incurred by the insured party;
- the principle of insurable interest - a person has an insurable interest if the occurrence of an insured event could cause a financial loss or injury to that person;
- the principle of subrogation - applicable when the insurer is bound by the insurance policy to compensate a damage caused by negligence of a third person (substitution, in a legal relationship of a person or thing)

Another principle underlying insurance is the principle of mutuality, in which each insured contributes with a sum of money, called premium, to create the insurance fund, of which the insurer covers damages incurred by the insured.

The insurance transfers the risks and losses of a person to an insurance company offering financial security. Risk transfer through distribution was determined in antiquity by ancient seafarers and carriers of goods by sea, by dividing goods on several ships as a way of protection.

The New Civil Code will regulate, among other things, the main aspects pertaining to insurance contracts. Consequently, most of the provisions under Law no. 136/1995 in this matter will be repealed as from 1 October 2011 (although Law 136/1995 will still regulate, in principle, the compulsory civil liability insurance for damages resulting from car accidents). The New Civil Code regulates insurance contracts in general, as well as various types of insurance, such as insurance of goods, insurance of persons, civil liability insurance, credit and guarantees insurance, financial loss insurance. Some of the main changes made to insurance contracts under the New Civil Code are briefly presented below:

Insurance methods developed simultaneously with existing protection needs at a given moment, for people and their businesses. Thus, businesspersons agreed to use

insurance to reduce risks that may arise in commercial transactions and those related to heritage protection.

The legal approach is common and justified, as insurance has to take the shape of a legal form in order to become efficient, and this form is the first noticeable. Such a form is awarded by “the contract,” which is the “law of parties” and the law itself, emanating from the legislature. Insurance contract and the law on insurance activity, as a source of rights and obligations in terms of security, complement each other.

The insurance expresses mainly a financial protection for the losses incurred by natural or legal persons due to various risks.

Mutual agreement will be the first basic principle that allows a contract to be concluded between the insured and insurer, by means of which the insured benefits of protection for the risks undertaken by the insurer. The insurer through the insurance contract undertakes to pay the indemnification in case one of the risks undertaken arises.

The insurance contract is valid if series of conditions are met:

a. *The parties have the capacity to contract.* Any person may contract, unless declared incompetent by law. The problem is related to the existence of legal competence in natural or legal person. Legal persons obtain legal competence once incorporating and having chosen their management bodies. Legal persons have legal competence at the age of 18 years and are not interdicted. Referring to personal insurance, the minimum age required to conclude the insurance is usually 16 years, except certain accident insurance, where the insured must have at least 14 years, if achieves income from own work.

b. *The existence of consent of the parties.* Consent is valid if it was not given by error, obtained by violence or by fraud. For example, a case of error occurs when concluding an insurance contract as a condition of granting a loan by a bank. If the bank refuses the loan, the insurance contract is cancelled, because of the error of the person which contracted. Also, if the consent of one of the parties is obtained by violence, a situation which occurs rarely in insurances, the contract is considered null. It is considered fraud when one of the parties uses cunning means to determine the other party to contract, so that it is obvious that in the absence of this practice, the other party would not have contracted; in this case, the contract is cancelled.

c. *The existence of a specified or ascertainable object of the insurance contract.* The object of the insurance is specific to each insurance sector: goods, persons, and civil liability. In damage insurance, besides the actual goods, other goods may be covered by the insurance, which although are not destroyed or damaged, are subject to decrease or failure, representing a loss for the insured. Thus, when insuring transported goods, the insurance may cover the earning foreseen, and that would have been obtained if the goods had not been destroyed or damaged; also the insurance may include the loss of income due to the disuse of the property, which is partially or totally destroyed.

d. *The cause of the contract must be lawful and moral.* An insurance contract is valid if it was concluded without breaking the law or the good morals. Therefore, the smuggling activity cannot be insured and insurance contracts shall not be concluded for goods obtained through malfeasance.

A novelty brought by the New Civil Code is that it expressly provides that misrepresentation or nondisclosure made in bad faith by the insured or the insurance contractor, of circumstances that would be decisive for the insurer in assuming the risks covered, shall trigger nullity of the insurance contract. In such a case, the insurer will be entitled to withhold the insurance premiums already received, and require the payment of the premiums due up to the time when the causes of nullity are known. The New Civil Code also lays down regulations for situations when it cannot be established whether misrepresentation or nondisclosure was made in bad faith, in which case the insurance contract will not be invalidated.

The new Civil Code provides the new regulation of the insurance contract, which regulates “Credit insurances and guarantees and insurances for financial losses,” stipulated at Article 2221-2222.

Credit insurances and guarantees may be intended to cover the risks of general insolvency, export credit, instalment sales, mortgage, agricultural credit, direct or indirect guarantees, as well as other risks alike, according to rules adopted by the state, which, under the law, supervises the activity in the field of insurances.

If a direct insurance contract for credits and guarantees covers the risk that a borrower of the insured does not pay a loan that was granted, the insurer cannot condition the payment of the insurance indemnity according to the initiation of the procedure for claiming the reparation of the damages by the insured, against that borrower, including by enforcement of judgment.

Unless otherwise agreed by the insurance contract, the indemnity for the insurance against financial losses must cover the actual damage and loss of earnings, including to and overheads as well as those arising directly or indirectly from the occurrence of the risk insured.

A new rule provides that the insurer may not assign the insurance contract without the written approval of the insured. This rule shall not apply to assignment of portfolios between insurers made according to special regulations.

Furthermore, the new legal text is institutionalized and the notion of “premium reserves,” covered so far only by methodological rules for the application of the insurance law. Thus, Article 2234 provides that in insurances for which premium reserves were established, the insured party could cease the payment of premiums, with the right to maintain the contract in an amount reduced or terminate it, requesting the reimbursement of the reserve established, according to the insurance contract. Any other payment, regardless of the form under which it is performed by the insurer, different from the insurance indemnity, or the amount representing the reimbursement of the reserve, under paragraph (1) cannot be made earlier than six months from the date of concluding the insurance contract.

Article 2169 brings a change of perspective towards the Commercial Law, in that it defines money as a fructuous, meaning that if it is borrow it brings interest; so far, only in commercial law money was regarded as a fructuous good. Hence, a significant but old difference between civil and commercial aspect of the money is vanished. Therewith, the concept of credit facility emerged, which appears to have similarities (probably intentional) with the manner in which operate credit cards and bank line of credits.

Insofar as insurance of goods is concerned, the New Civil Code sets forth that, if not otherwise agreed between the parties, the transfer of ownership of the insured asset shall not trigger the termination of the insurance contract, which will continue to produce effects in respect of the insurer and the acquirer of the asset (under Law no. 136/1995, the sale of an insured asset triggers the termination of the insurance contract if the parties have not otherwise agreed).

Insofar as insurance of persons is concerned, where a risk insurance coverage is taken for an individual, other than the one who signs the insurance contract, such insurance will only be valid if the individual in question has expressed approval in writing.

The idea of legal subrogation of the insurer, in case the event insured under Article 2210 arises, is a good concept, since insurance companies normally have a much higher financial power than the insured, making it possible for a more efficient recovery of the damage produced by the responsible person.

Chapter XVI, "Insurance contract", brings together the life-income contract and the contract of maintenance for life, the latter finding and legislative consecration after a long period in which it was governed by the rules of general obligations and innovations resulted from the practice of Courts.

With respect to personal insurance, Article 2230 indicates the beneficiary of the indemnity, stating the insured's legatees (in case of his death). Because the text fails to qualify legatees (in the sense of legal or testamentary), we assume that the indemnity may be paid only after it becomes clear who will inherit and who not, that is, after all the legal legatees have expressed their hereditary option and legacies were reduced. Although logically, this approximation may become unjust and problematic if there are differences of opinion between potential legatees about the quality of legatee- such processes can last quite long.

Under the applicable legal provisions, if an insurance contract is concluded by another person than the insured one, no consent by the insured is required. It should be noted that under Law no. 71/2011 for the implementation of Law no. 287 of 17 July 2009 on the Civil Code, insurance contracts concluded prior to the enactment of the new code shall continue to be governed by the law in effect at the date of their conclusion. In light of this provision, the New Civil Code will have an impact in particular on the insurance contracts entered into as of 1 October 2011. In this respect, a revision of the general terms and of the standard insurance contracts would be advisable.

Although their systems of contract law are still highly disparate, the States of the European Union have yet to create a uniform system of general contract law. Efforts have been made in that direction. These are reflected in the Principles of European Contract Law, the basic rules of European contract law that were formulated by the Commission on European Contract Law. In their present version, these rules relate to the conclusion of contracts, the authority of agents, substantive validity, interpretation, content, breach of contract and the rights of parties affected by a breach of contract. The work that is still being undertaken relates to rules governing majorities of creditors and debtors, the assignment of claims, the assumption of debts, set-offs, the right to charge compound interest and the statute of limitations.

On closer inspection, however, the situation with regard to the sources of the law governing legal contracts in the Member States is actually highly complex. Although the national legal systems concur in so far as they apply the general provisions of the law of contracts to insurance contracts, these provisions are often overridden in many respects by special laws on insurance contracts, laws which contain numerous preemptory and semi-preemptory rules. The only countries without such special legislation – apart from a few narrowly defined exceptions – are the United Kingdom and Ireland, where the courts try to solve the particular problems of insurance contracts with the instruments of the general law of contracts.

The parties to an insurance contract will normally have been free to decide whether to conclude the contract at all and whether to conclude it with a particular partner. The principle of freedom to contract is not, of course, absolute. In the Member States, for example, there are various numbers of compulsory insurance schemes. In the case of third-party motor insurance, indeed, the obligation to insure is even laid down in Community law. Compulsory insurance does not necessarily imply that insurers are compelled to contract with every applicant. In a competitively organised insurance market, however, there is every reason to assume that all those who are subject to compulsory insurance will find an insurance company that is willing to cover their respective risks, though not always on the same terms and conditions.

There are main differences between the Member States' legal systems in the domain of insurance contracts, differences which have undoubted implications for the marketing of policies in the European single market and which are a huge obstacle to the cross-border provision of services.

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## **THE INFORMATIONAL SYSTEM FOR THE COLLABORATIVE LOGISTICS NETWORKS**

**NAIANA ȚARCĂ, IOAN ȚARCĂ, TEODORA VĂTUIU \***

**ABSTRACT:** *This paper presents an informatic system designed for collaborative logistic networks. The informational system is composed of structured informational modules that can easily be modified in order to facilitate the testing of the different algorithms that are being used. The informational system has two components, in the form of web application modules, which are connected to the user-specific modules (THE CLIENT WEB APPLICATION) and to the server-specific modules (THE SERVER WEB APPLICATION), respectively. These two modules operate the transmission of information, the demands of the client and the offers generated by the server. The designed informational system has been tested in actual operating conditions, by co-optating ten EMSs from the Bihor county area. Some of the elements considered positive by the users, in the testing period, were: usability, the automatic assignment of a motor vehicle according to the characteristics of the product, the automatic route generation, the selection of goods according to the cluster "route" of the system.*

**KEY WORDS:** *collaborative logistics networks; logistic system; informational system; web application modules; the client web application; the server web application; the user interface.*

**JEL CLASSIFICATION:** *M15; R48.*

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## **1. THE STRUCTURE OF THE INFORMATIONAL SYSTEM FOR THE COLLABORATIVE LOGISTIC SYSTEM**

In order to be efficient, a logistic system has to be accessible and user friendly. From the users group, the SMEs is the most important category.

A well designed logistic system:

- can cause a dramatic decrease of the costs of commodity transports, with positive consequences for both operators and clients
- produces added value, in terms of improving the quality levels of the services provided to the end-users, as the punctuality, reliability, sustainability, awareness and transparency are improved, so that the competitiveness of the operators and that of the system users is increased
- brings benefits to society, which positively affects the congestion and pollution levels through an attentive selection of the possible methods of solution, and also through a better use of the available transport capacity. Hence it brings positive contributions not only to efficiency, but also to safety, security, friendly environment and sustainability.

The informational system for the collaborative logistics networks has two components, in the form of web application modules, which are connected to the user-specific modules (THE CLIENT WEB APPLICATION) and to the server-specific modules (THE SERVER WEB APPLICATION), respectively.

The structure of the informational system for collaborative logistic system is represented in *Figure 1*.

The parameters that are monitored in the informational system are the following:

- The load
- The intermodal transportation
- The fleet of vehicles
- The route
- The transporters
- The costs
- The duration.

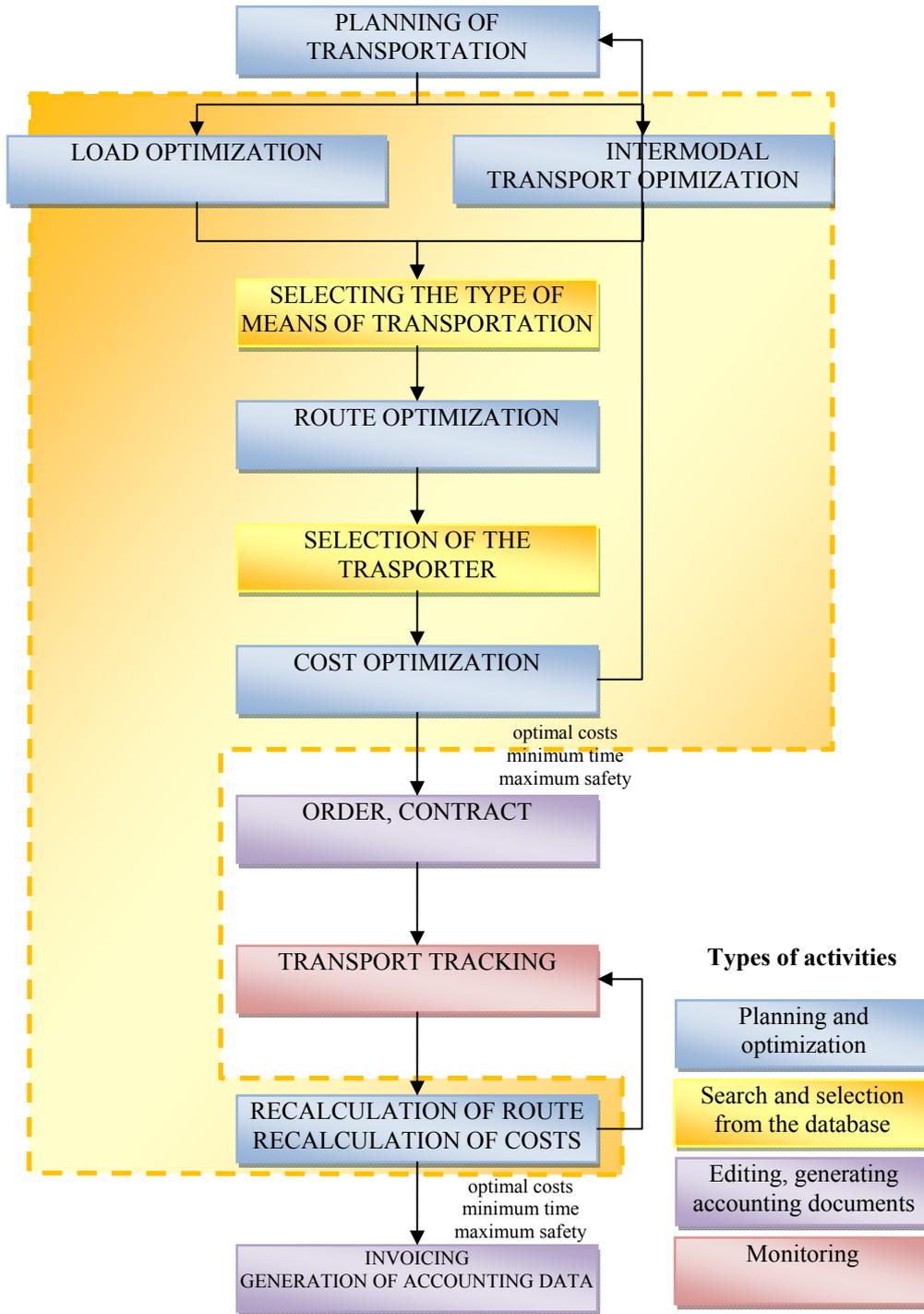
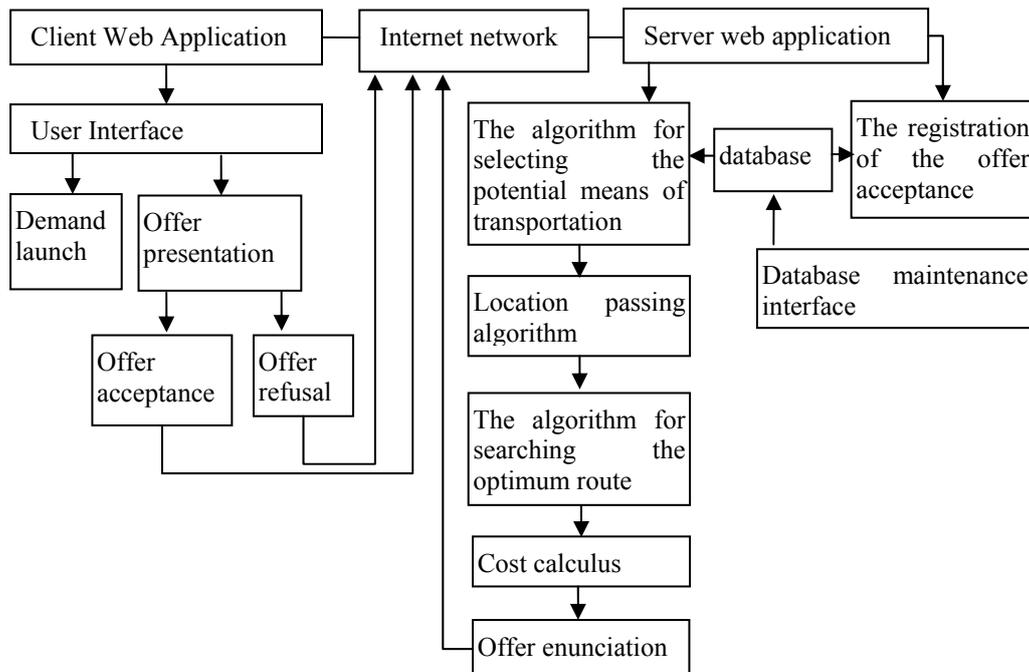


Figure 1. The Structure of the Information System

## 2. THE INFORMATIONAL SYSTEM

The general diagram of the designed informational system is presented in *Figure 2*.



**Figure 2. Schematic diagram of the informational system**

The informational system is composed of structured informational modules that can easily be modified in order to facilitate the testing of the different algorithms that are being used.

The main component of the informational system consists of two web application modules that are to be connected to the user-specific modules (THE CLIENT WEB APPLICATION) and to the server-specific modules (THE SERVER WEB APPLICATION), respectively (Anghel, 2005). These two modules operate the transmission of information, the demands of the client and the offers generated by the server.

On the client branch THE CLIENT WEB APPLICATION manages the performance of the user interface that allows the demand initiation and the submission of offers, respectively. Within the frame of THE USER INTERFACE, the client introduces in the system the parameters of the transport he wishes to apply for:

- the commodity type, weight and volume;
- the locations of forwarding and of destination;
- the time schedule of the transportation.

After entering the data, the client submits the demand online, thus transmitting the parameters of the requested transportation to the server. After he receives the offer that corresponds to the required parameters, which contains the cost details, among other things, the client can analyze the offer and then decide whether or not to accept it.

On the server branch THE SERVER WEB APPLICATION, once the client request is received, the parameters of the requested transport are analyzed with the help of the module for selecting the potential means of transportation (THE ALGORITHM FOR THE SELECTION OF THE POTENTIAL MEANS OF TRANSPORTATION).

This algorithm performs the search inside the system database, which contains the parameters of all the means of transportation registered in the system. From among these are selected those means of transportation which are available in terms of volume, tonnage and time of transport. If the means of transportation is not fully loaded, the route of the transport becomes also a criterion of selection. To this purpose, the program includes cases in which the means of transportation is partially loaded, and the volume and tonnage of the commodity for which the transportation is requested matches the remaining free space inside the means of transportation; in this case, this means of transportation is considered available and will become an option when the offer is generated. For this means of transportation there will be a recalculation of route, optimal itinerary and costs, so as to fit with the new transport and also with the ones already accepted.

The selection of the means of transportation is followed by the selection of the itinerary (THE LOCATION PASSING ALGORITHM). The source code of the selection module, which is also usable when dealing with multiple transports (multiple loads on the same means of transportation), is presented hereinafter.

% Location passing algorithm

```
posib = perms([1 2 3 4 5 6]);
cond1 = [1 2
         2 3
         3 4
         5 6
         4 5];
[ifin,jfin] = size(posib);
[mfin,nfin] = size(cond1);
ind_a_crt = 0;
ind_b_crt = 0;
k = 1;
posib1 = posib;
[u v] = size(posib1);
for m = 1:mfin
    a_crt = cond1(m,1);
    b_crt = cond1(m,2);
    for i = 1:u
        posib1;
```

---

```

    ind_a_crt = find(posib1(i,:) == a_crt);
    ind_b_crt = find(posib1(i,:) == b_crt);
    if ind_a_crt < ind_b_crt
        posib2(i,:) = posib1(i,:);
    end
end
clear posib1;
posib1 = posib2;
clear posib2;
[u v] = size(posib1);
end
for j = 1:u
    if sum(posib1(j,:)) > 0
        posib3(k,:) = posib1(j,:);
        k = k + 1;
    end
end
disp(posib3)

```

% Location passing succession.

Parcursul 1: 1 2

Parcursul 2: 3 2

% The permutation matrix

```

4 3 2 1
4 3 1 2
4 2 3 1
4 2 1 3
4 1 2 3
4 1 3 2
3 4 2 1
3 4 1 2
3 2 4 1
3 2 1 4
3 1 2 4
3 1 4 2
2 3 4 1
2 3 1 4
2 4 3 1
2 4 1 3
2 1 4 3
2 1 3 4
1 3 2 4

```

```

1 3 4 2
1 2 3 4
1 2 4 3
1 4 2 3
1 4 3 2

```

% The corresponding result for the location passing succession

```

4 3 1 2
4 1 3 2
3 4 1 2
3 1 2 4
3 1 4 2
1 3 2 4
1 3 4 2
1 4 3 2

```

In the matrices presented above, each row is represents transited locations numbers. It is to be observed that the result of the algorithm is the selection of those rows from the permutation matrix (all possible cases of disposal) that are in compliance with the requested order of the locations to be transited: 1-2 for transport no. 1, 3-4 for transport no. 2.

The algorithm selects those routes that correspond with the order of loading and discharge (the locations of forwarding and destination) of all possible routes (obtained as a matrix of permutations of the locations numbers).

Once the correct routes are determined, the shortest route is calculated, using search algorithms (THE ALGORITHM FOR THE SEARCH OF THE SHORTEST ROUTE). In the case of the designed informational system, a variant of the A\* algorithm (and Dijkstra algorithm) is used.

In the initial phase, it is used that variant of the program in which the geographical map of the logistic system is assimilated with a graph whose nodes symbolize forwarding and destination locations. The values associated with the edges of the graph represent the actual distances between the nodes of the graph. These values can then be replaced with calculated values, considering the speed limit on the road and the traffic conditions. The implemented A\* algorithm has been tested on various transportation situations, with very good results.

In order to demonstrate the way the algorithm functions, we shall present hereinafter the pseudo code format of the A\* algorithm.

The algorithm goes through different routes, starting from an initial node (which represents a forwarder) and going towards a target node (which represents a receiver). For each scanned  $x$  node, there are three values to be recorded:

- $g$  – the shortest distance between the initial node and the current node;
- $h$  – the linear Euclidean distance between the current node and the target node;
- $f$  – the summation of the two values:  $g$  and  $h$ .

Starting with the initial node, the algorithm stores the nodes that are to be scanned in a  $v$  vector. The highest priority is distributed to the node whose  $f$  value (which represents the distance to the target node) is smallest. At each phase of the algorithm, the node with the smallest  $f$  value is eliminated from the  $v$  vector, the values of the  $f$  and  $h$  functions specific to the adjacent nodes are recalculated, and these adjacent nodes are added to the  $v$  vector. The algorithm runs until the  $f$  value, corresponding to the target node, has a value that is smaller than any other node present in the  $v$  vector. In this case the  $f$  value corresponding to the target node is the minimum distance, because the  $h$  value corresponding to the target node is 0. The covered trajectory, corresponding to the minimum distance, is remade by going through its nodes in reverse.

After finding the optimum route, the costs are calculated with the help of a linear sequential algorithm (COST CALCULUS), after which the offer details are generated: the cost, the itinerary, the period between the forwarding and the reception (OFFER ENUNCIATION), which is issued to the client, with the help of two user-interface web applications. If the user accepts the offer, the latter is registered (OFFER ACCEPTANCE REGISTRATION) in the database. The database is dynamic, in the sense that it is updated with every offer acceptance. This structure is managed with the help of the DATABASE MAINTENANCE INTERFACE module.

### 3. CONCLUSIONS

The designed informational system has been tested in actual operating conditions, by co-optating ten EMSs from the Bihor county area.

The interest for using this system has been high. Some of the elements considered positive by the users, in the testing period, were: usability, the automatic assignment of a motor vehicle, according to the characteristics of the product, which eliminates to a large extent the subjective factor, the automatic route generation, the optimal delivery sequence generation and the selection of goods according to the cluster "route" of the system.

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## **STRATEGIC MODEL TO ATTENUATE THE RURAL INEQUALITIES IN THE SOUTH – WEST REGION**

**EMILIA UNGUREANU, CRISTINA BÂLDAN \***

**ABSTRACT:** *In the achievement of the work „Strategic Model to Attenuate the Rural Inequalities in the South – West Region” we took into consideration the performance of two types of objectives: main and specific ones. Within the general objectives we considered: developing theoretical approach to combat the rural inequalities; strategic plans addressed to combat the rural inequalities and identifying the socio-economic strategic measures dedicated to the promotion of necessary measures in order to combat the social inequalities. And regarding the specific objectives was to establish the SWOT analysis and the elaboration of strategic plans in local profile, based on clusters. The rural space analysis in the South-West region was made at the level of local administrative units, the lowest local level from which is collected and then published statistical information. Using of this local level is a prerequisite for obtaining positive results with a high fidelity degree.*

**KEY WORDS:** *cluster; SWOT analysis; rural environment; investment; social democratic dimension; social infrastructure; economic dimension.*

**JEL CLASSIFICATION:** *Q10; R10.*

### **1. SWOT ANALYSIS – SOUTH – WEST REGION**

Analysis of the rural space in the South – West Oltenia region was conducted at level of local administrative units, known as NUTS 5, the lowest local level from which is collected and then published statistical information. Using of this local level represents a prerequisite in obtaining results with a higher fidelity degree.

The rural area of the region consists from administrative point of view of 408 communes. The South – West Oltenia region is, together with the North East one, one of the “most rural” in Romania. The rural area plays an important role in the economic and social life of the region.

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In terms of criteria and selected indicators for the typology of rural areas, villages in the South – West Oltenia region are significantly different. The results of cluster analysis of data series regarding the rural social – economic inequality led to the division of communes in the South – West Oltenia region in three clusters, as follows:

- cluster I: 46 communes, representing approximately 11.3 %;
- cluster II: 172 communes, representing approximately 42.1 %;
- cluster III: 190 communes, representing approximately 46.6 %.

There is a commune group assigned to cluster I, which is *near the major cities and especially near places with economical potential*. The city proximity gives to residents in the communes employment opportunities and therefore additional sources of income, adequate infrastructure, better social services and even greater opportunities for investment, including public investment.

Another commune group that is identified within the cluster I, we can identify *along major roads*. Transport infrastructure, and therefore its status, is an important and decisive factor on the regarding quality life, but also plays a key role in removing barriers in the development process of regional communities. Infrastructure promotes accessibility and thereby supports business development and increased employment.

Is identified another group of communes included in cluster I in the *SubCarpathian area*. Fruit growing and wine production in the region is significant; the areas for these crops represent a high percentage of agricultural land of the area. Also, pastures and hayfields have a high percentage, Carpathian area having, among others, an important tradition and a real potential for the zootechnic sector. In the analyzed region and the balneary potential has an ample consideration.

Another commune group assigned to cluster I identify it is in *mountain and sub mountain areas*, representing major tourism destinations, particularly for rural tourism and its agro tourism form. Rural tourism has considerable potential in the north, due to favourable natural conditions, picturesque landscape and existing cultural and historical traditions.

Plain counties have lots of communes falling into cluster III. These ones have an agricultural profile and focus on purely plowing crops. Today we can say that there isn't a competitive and efficient agricultural productivity, this aspect being determined both because of inadequate technical equipment and also by the practiced operating mode, thing which makes these communities to have a low level of development.

**Table 1. SWOT analysis – South West region**

<b>Strengths</b>	<b>Weaknesses</b>	<b>Opportunities</b>	<b>Threats</b>
<b>Territory infrastructure</b>			
<ul style="list-style-type: none"> <li>• High housing comfort in rural area from the counties Dolj and Mehedinți</li> </ul>	<ul style="list-style-type: none"> <li>• Housing comfort is reduced in Olt, Gorj and Vâlcea counties</li> </ul>	<ul style="list-style-type: none"> <li>• Development of housing comfort in order to increase the quality of life for people</li> </ul>	<ul style="list-style-type: none"> <li>• Insufficient financial funds on short and medium run, for developing the rural</li> </ul>

<ul style="list-style-type: none"> <li>• Higher technical-urban infrastructure in Gorj county regarding drinking water quantity distributed to house consumers</li> <li>• Higher technical-urban infrastructure in Mehedinți county regarding the length of the water network and in Vâlcea and Mehedinți counties regarding the length of the sewerage pipe</li> <li>• Higher technical-urban infrastructure in Gorj county regarding the simple length of natural gas distribution network</li> </ul>	<ul style="list-style-type: none"> <li>• Technical-urban infrastructure reduced in Olt and Dolj regarding drinking water quantity distributed to house consumers</li> <li>• Technical-urban infrastructure reduced in Dolj and Vâlcea concerning the length of the drinking water distribution and in Dolj and Olt counties regarding the length of the water network</li> <li>• Technical-urban infrastructure reduced in Mehedinți county regarding the length of natural gas distribution network</li> </ul>	<p>from rural space</p> <ul style="list-style-type: none"> <li>• Development of technical-urban infrastructure in rural environment in order to develop the business environment</li> </ul>	<p>infrastructure</p> <ul style="list-style-type: none"> <li>• Disequilibrium deepening between rural and urban environment</li> <li>• Omission of investment orientation in the rural environment, support for business environment development</li> </ul>
<p><b>Demo-social dimension</b></p>			
<ul style="list-style-type: none"> <li>• Traditional value keeping trend (family)</li> <li>• Weak external migration fluxes</li> </ul>	<ul style="list-style-type: none"> <li>• Reduction and/or population aging trend</li> <li>• Reduced social emancipation trend</li> <li>• Relative house instability</li> </ul>	<ul style="list-style-type: none"> <li>• Active population increase by attracting the population from nearby urban centers, affected by the worsening of economic situation</li> </ul>	<ul style="list-style-type: none"> <li>• Rapid rhythm of population decreasing</li> </ul>
<p><b>Social infrastructure</b></p>			
<ul style="list-style-type: none"> <li>• Premises of a good social services quality (education, health)</li> </ul>	<ul style="list-style-type: none"> <li>• Poor penetration of computers</li> </ul>	<ul style="list-style-type: none"> <li>• Keeping of didactic personnel and medics by increasing the quality of equipment</li> </ul>	<ul style="list-style-type: none"> <li>• Leaving of didactic personnel and medics in the context of reducing the demographic basin</li> </ul>
<p><b>Economic dimension</b></p>			
<ul style="list-style-type: none"> <li>• High agricultural surface in total</li> </ul>	<ul style="list-style-type: none"> <li>• Touristic infrastructure</li> </ul>	<ul style="list-style-type: none"> <li>• Investment increasing in</li> </ul>	<ul style="list-style-type: none"> <li>• Impossibility of a real competence</li> </ul>

<p>agricultural one</p> <ul style="list-style-type: none"> <li>• High fertility of arable land</li> <li>• Experience and tradition for hilly communes in the region for vineyards activities</li> <li>• High touristic potential of communes situated in the mountain area of the region or in the climatic spa resorts</li> <li>• The existence of mining rivers in Gorj county</li> </ul>	<p>insufficiency</p> <ul style="list-style-type: none"> <li>• Lack of employment opportunities</li> <li>• Lower ability for promoting rural services complementary to agriculture (especially agro-tourism)</li> </ul>	<p>agricultural exploitations and in tourism activities</p> <ul style="list-style-type: none"> <li>• Economic development of the communes nearby the Danube river once with the intensified efforts to exploit it</li> </ul>	<p>between the inhabitants from rural and urban region (especially on the labor market) and the deepening of differences concerning socio-professional preparation</p> <ul style="list-style-type: none"> <li>• High degree of dependency of rural population concerning the social and agricultural transfers</li> <li>• Young population migration from rural to urban area</li> <li>• Loss of opportunities regarding the tourism potential of the region</li> </ul>
<b>Investment</b>			
<ul style="list-style-type: none"> <li>• Good performances registered at local level in Vâlcea county</li> </ul>	<ul style="list-style-type: none"> <li>• Low interest for real estate investments (houses) in the communes that are outside of influence spheres of urban areas</li> </ul>	<ul style="list-style-type: none"> <li>• Infrastructure and social services development</li> <li>• Increasing the attractiveness of rural area</li> </ul>	<ul style="list-style-type: none"> <li>• insufficient financial sources for infrastructure and services development</li> <li>• Slow development of rural economy</li> <li>• Increase of economic disparities between north and south parts of the region</li> <li>• Disequilibrium deepening in rural communities</li> </ul>

## **2. SOCIAL INEQUITY COMBAT BY DEVELOPING THE TERRITORY EQUIPPING**

### **2.1. Cluster I – analysis**

At the level of South-West Oltenia region, we can observe disequilibrium between rural areas from northern counties (Gorj and Vâlcea) and the southern counties (Dolj and Olt) concerning the cluster classification. Concerning Mehedinți county, we can't map it in the above groups of counties.

The two northern counties include approx. 58.7% from the cluster I (46 communes), the most (16 communes) being situated in Valcea County (34.8% from the total number of region communes are mapped in cluster I, respectively 20.6% from the total number of Valcea communes are in cluster I).

In turn, Gorj county has 11 communes mapped in cluster I (23.9% from the total number of region communes are mapped in cluster I, respectively 20.6% from the total number of county communes). Both countries have a higher share than the average in the region that are mapped under cluster I, but most of them have communes mapped under cluster II (75.7% from Vâlcea county, respectively 57.4% in Gorj county).

At the opposite pole, the counties with preponderant agricultural economy from the region have a reduced number of communes included in cluster I: Dolj (7 communes) and Olt (7 communes).

Concerning Mehedinți county, here we have a reduced share of communes mapped under cluster I) only 8.2% from the total number of communes). Prevails communes mapped under cluster 2 (59%). The share of communes mapped under cluster III (32.8%) is bigger than in Valcea and Gorj counties, but much lower comparing with Olt and Dolj counties.

The share of communes from South-West Oltenia region mapped under cluster I is much lower than the share from national level (11.3% versus 20.5%). In return, the share of communes mapped under cluster III is much bigger in South-West Oltenia region than at national level (46.6% versus 38.8%). It is obvious that the reduced share of cluster I and the increased one for cluster III at the level of the analyzed region comparing with the national level prevails a lower level of development of rural areas in South-West Oltenia comparing with the national average.

South-West Oltenia region has a reduced share of communes mapped under cluster I. We can talk about a concentration of communes that are included in cluster I especially in Valcea and Gorj counties.

The most important commune concentration that is mapped under cluster I we can identify in the sub-mountain area from Valcea and Gorj, Is an area with a varied relief, picturesque places, historical monuments and cultural traditions. The area includes special natural objectives (caves), picturesque landscapes, but also antropic objectives (monasteries) and cultural traditions.

The tourism development in this area had led to new investments for improving the physical infrastructure and brought supplemental revenues for local habitants utilized for the communes' development. Communes like Sălatruțel,

Stoenești, Costești (in Vâlcea) or Polovragi, Lelești, Peștișani (in Gorj) are included in this category.

The mountain region has communes mapped under cluster I. Even if it does not exist a very developed infrastructure, the special natural potential in this area permits a very big touristic activity, with favourable impact for rural areas. This area includes communes in cluster I, like Mahala or Voineasa (in Vâlcea) or Runcu (in Gorj). Voineasa is a recreation resort with national importance, and close by we can find Vidra resort (25 km away) – both being under Voineasa commune functionality.

The presence of those touristic localities have a positive impact for the territory equipping, but also the economic dimension in the respective communes.

We can identify another group of communes mapped under cluster I in the sub-Carpathian region from South-West Oltenia. In this category we include communes developed by putting accent on fruit-growing production, the occupied area with fruit trees having a big share in the total agricultural area. Also, pastures and hayfields have a big share, the sub-Carpathian are having, among other traditions, a big one and a real potential for zoo-technique sector (especially sheep and cattle).

In this category we include communes as Pietrari, Bunești, Păușești or Mihăești (in Vâlcea County), Mătăsari, Cătunele, Peștișani (in Gorj county). Also in the sub-Carpathian area we can find rural localities that have been developed because of the balneal potential, localities as Bala (in Mehedinți county) and Săcelu (in Gorj county) are situated in cluster I. They have important mineral water reserves, but big infrastructure investments are necessary for basic infrastructure, and also for the housing one, for a good development.

A different situation is in Olt county. Most of the communes from Olt which are included in cluster I are situated in *the transition area from hills to plain area* (in the northern part of the region). Communes as Sâmburești, Vitomirești, Dobroteasca, Făgețelu, Spineni have a bigger development degree comparing to the lower parts of the region.

At the level of South-West Oltenia region, the 4 county capitals from Slatina, Târgu-Jiu, Drobeta-Turnu Severin and Râmnicu-Vâlcea have a local relevance, but they are not regional growth poles. Craiova is the only city with transformation potential into economic growth pole for the entire region, representing a decision administrative centre, and also a very important university centre.

However, we can identify communes mapped under cluster I *nearby big cities*. Thus, most of Dolj communes, mapped under cluster I, are grouped near (Coțofeni, Ișalnița, Cârcea, Ghercești). Also, nearby Târgu Jiu we can find a group of communes mapped in cluster I (Fărcășești, Bălteni, Călnic).

**Table 2. Cluster I – swot analysis**

Strengths	Weakness	Opportunities	Threads
<b>Territory infrastructure</b>			
<ul style="list-style-type: none"> <li>• Good access to road and railway</li> </ul>	<ul style="list-style-type: none"> <li>• Presence of the isolation phenomenon of the</li> </ul>	<ul style="list-style-type: none"> <li>• Communes from cluster I are grouped around big</li> </ul>	<ul style="list-style-type: none"> <li>• Restrictions to develop economical</li> </ul>

<p>infrastructure</p> <ul style="list-style-type: none"> <li>• Quick access to European roads</li> <li>• High living confort</li> <li>• The importance of touristic potential from Valcea and Gorj counties</li> </ul>	<p>communes</p> <ul style="list-style-type: none"> <li>• The poor state of many county roads</li> <li>• Areas around south of the region especially those situated along the Danube are traditional under developed</li> </ul>	<p>cities: Craiova and Targu Jiu</p> <ul style="list-style-type: none"> <li>• Existence of a regional growth pole: Craiova</li> <li>• Possibility to access financial funds through European programs</li> <li>• Developing support infrastructure for economic activities</li> </ul>	<p>activities determined by some characteristics of the infrastructure</p> <ul style="list-style-type: none"> <li>• Institutional capacity, relatively weak to access and implement projects</li> <li>• Lack of necessary financial resources to co-finance projects</li> <li>• Extinction growth of economy between north and south of the region</li> </ul>
<b>Demo-social density</b>			
<ul style="list-style-type: none"> <li>• Social emancipation tendencies</li> <li>• The tendency to reduce population aging</li> </ul>	<ul style="list-style-type: none"> <li>• Degradation tendency of traditional values (family)</li> <li>• High mobility of work force</li> </ul>	<ul style="list-style-type: none"> <li>• Growth of active population by attracting population from neighboring urban centres affected by the degradation of the economic situation</li> </ul>	<ul style="list-style-type: none"> <li>• Rapid decrease of population</li> <li>• Accentuation of the social dissolution through perpetuating degradation of traditional values</li> </ul>
<b>Social infrastructure</b>			
<ul style="list-style-type: none"> <li>• A good social infrastructure exists, especially, in the villages situated near big cities, for example Craiova and Targu Jiu</li> </ul>	<ul style="list-style-type: none"> <li>• Weak penetration of calculation technics</li> <li>• There is a tendency to overload the teachers in villages from the mountain areas due to the phenomenon of merging schools</li> </ul>	<ul style="list-style-type: none"> <li>• Attracting teachers and doctors by maintaining a high demographic pool</li> </ul>	<ul style="list-style-type: none"> <li>• Degradation of life conditions due to lowering the access to basic social services</li> </ul>
<b>Economic dimension</b>			
<ul style="list-style-type: none"> <li>• High agricultural potential (especially in the villages from the from south of the region)</li> <li>• Experience and tradition of the communes from the</li> </ul>	<ul style="list-style-type: none"> <li>• Low share of arable land in the agricultural surface</li> <li>• Insufficiency of touristic infrastructure</li> <li>• Low ability</li> </ul>	<ul style="list-style-type: none"> <li>• Increase of investments in agricultural exploitations and tourism activities</li> </ul>	<ul style="list-style-type: none"> <li>• Migration of young population from the rural area to the urban area</li> <li>• Losing the opportunity to profit from the touristic potential of the</li> </ul>

sub-Carpathian area in fruit and wine activities as also a real potential for zootechnics	to promote rural services complementary to agriculture (especially agro-tourism)		region
<ul style="list-style-type: none"> <li>• High touristic potential of villages situated in the mountain area of the region from the counties: Valcea and Gorj</li> <li>• Population access to a paid working place due to the distance between villages and cities with economic potential, for example: Craiova and Targu Jiu</li> </ul>			
<b>Investments</b>			
<ul style="list-style-type: none"> <li>• Good performances regarding finished houses in 2008/1000 existent houses especially in Valcea county</li> </ul>	<ul style="list-style-type: none"> <li>• Low interest for real estate investments (houses) in villages situated outside the influence spheres of the urban areas</li> </ul>	<ul style="list-style-type: none"> <li>• Increase of the attraction degree in rural areas</li> </ul>	<ul style="list-style-type: none"> <li>• Accentuating disparities between communes in the counties situated south of the region and those situated north</li> </ul>

## 2.2. Cluster II – swot analysis

Regarding the fitting of the communes from the South-West region in cluster II, the share registered in regional level is close to the national value (42.1% against 40.7%). Regarding the communes fitted in cluster II, at the level of Oltenia South-West region, they are numerous and dispersed. Most of them are in hill areas from Valcea, Mehedinti and Gorj county, a small number of communes situated in the plains from Gorj and Olt counties are fitted in cluster II.

**Table 3. Cluster II – swot analysis**

Strengths	Weaknesses	Opportunities	Threads
<b>Territory infrastructure</b>			
<ul style="list-style-type: none"> <li>• Location near important</li> </ul>	<ul style="list-style-type: none"> <li>• Deficiencie , especially in the</li> </ul>	<ul style="list-style-type: none"> <li>• Possibilities to access external</li> </ul>	<ul style="list-style-type: none"> <li>• Relatively low capacity to</li> </ul>

<p>cities: Valcea and Slatina</p> <ul style="list-style-type: none"> <li>• Medium to good access at road and railway infrastructure</li> </ul>	<p>quality of communal roads</p> <ul style="list-style-type: none"> <li>• Reduced living comfort</li> <li>• Reduced technical and edilitary infrastructure regarding the quantity of potabale water distributed</li> <li>• Reduced technical urban infrastructure regarding the sewage network and natural gas distribution</li> </ul>	<p>and internal founds</p>	<p>access European founds because of the lack of co-financing</p>
<b>Demo-social dimension</b>			
<ul style="list-style-type: none"> <li>• Social emancipation tendency</li> <li>• Weak external migration fluxes</li> </ul>	<ul style="list-style-type: none"> <li>• Living instability</li> <li>• Tendency to reduce and/or aging the population</li> <li>• Degradation tendency of traditional values (family)</li> </ul>	<ul style="list-style-type: none"> <li>• Growth of active population by attracting population from neighbouring urban centres affected by the degradation of the economic situation</li> </ul>	<ul style="list-style-type: none"> <li>• Rapid decrease of population</li> <li>• Accentuation of the social dissolution through perpetuating degradation of traditional values</li> </ul>
<b>Social infrastructure</b>			
<ul style="list-style-type: none"> <li>• A good social infrastructure exists, especially, in the communes situated near big cities</li> </ul>	<ul style="list-style-type: none"> <li>• Weak penetration of calculation technics</li> <li>• There is a tendency to overload the teachers in villages from the mountain areas due to the phenomenon of merging schools</li> </ul>	<ul style="list-style-type: none"> <li>• Attracting teachers and doctors by maintaining a high demographic pool</li> </ul>	<ul style="list-style-type: none"> <li>• Degradation of life conditions due to lowering the access to basic social services</li> </ul>
<b>Economical dimensions</b>			
<ul style="list-style-type: none"> <li>• High agricultural potential</li> </ul>	<ul style="list-style-type: none"> <li>• Low share of arable land in the agricultural surface</li> <li>• Low experience</li> </ul>	<ul style="list-style-type: none"> <li>• Investment growth in agricultural exploitations and tourism activities</li> </ul>	<ul style="list-style-type: none"> <li>• High degree of dependency of rural population concerning the social and agricultural transfers</li> </ul>

	regarding pomicole and viticole activities <ul style="list-style-type: none"> <li>• Low touristic potential</li> <li>• Poor access of the population to paid working places</li> </ul>		<ul style="list-style-type: none"> <li>• Migration of young population from the rural to urban area</li> <li>• Losing the opportunity to profit from the touristic potential of the region</li> </ul>
<b>Investments</b>			
<ul style="list-style-type: none"> <li>• Existence of medium support infrastructure for real estate investments (houses)</li> </ul>	<ul style="list-style-type: none"> <li>• Low interest for real estate investments (houses) in this communes because of the quality of life from this communes and because the lack of paid working places from this areas</li> </ul>	<ul style="list-style-type: none"> <li>• Increase of the attraction degree in rural areas</li> </ul>	<ul style="list-style-type: none"> <li>• Insufficient financial sources for the development of services and infrastructure</li> </ul>

### 2.3. Cluster III – swot analysis

Oltenia South-West region is marked by it's adiction to agriculture, taking a form of sub-existence, practiced by an aged rural population and by those that were laid off from the urban environment. With a low contribution to the regional internal budget and a low productivity, this economical branch is characterized by the crumbled land and the lack of modern means and methods of production. The very low level of agricultural work productivity is because of low technical equipment, inexistent management make this so most of the communes from the South-West Oltenia region, most of them situated in the plains, to be fitted in cluster III.

In the counties: Dolj and Olt are frequent communes situated in cluster III, most of them (75 communes), being situated in Olt county (39.4% from the total of communes fitted into cluster III, respectively 72.1% from the total of the counties communes) and in Dolj county (67 communes, 64.4% from the total of the counties communes).

**Table 4. Cluster III – swot analysis**

<b>Strengths</b>	<b>Weak spots</b>	<b>Opportunities</b>	<b>Threads</b>
<b>Territory infrastructure</b>			
<ul style="list-style-type: none"> <li>• Good road accessibility</li> </ul>	<ul style="list-style-type: none"> <li>• Weak railway accessibility</li> <li>• Reduced housing comfort</li> </ul>	<ul style="list-style-type: none"> <li>• Developme nt of technical and edilitary infrastructures in the</li> </ul>	<ul style="list-style-type: none"> <li>• Omission of investment orientation in the rural environment,</li> </ul>

	<ul style="list-style-type: none"> <li>• Reduced technical urban infrastructure regarding the quantity of distributed potable water to the consumers</li> <li>• Reduced technical urban infrastructure regarding the sewage network and natural gas distribution</li> </ul>	<p>rural environments in order to develop the business environment</p> <ul style="list-style-type: none"> <li>• Expanding/upgrading the road and railway network</li> </ul>	<p>support for business environment development</p> <ul style="list-style-type: none"> <li>• Insufficient financial resources, for short and medium term, to develop rural infrastructures</li> </ul>
<b>Demo-social dimension</b>			
<ul style="list-style-type: none"> <li>• Tendency to keep traditional values</li> <li>• Relatively stable housing</li> <li>• Tendency to grow and /or rejuvenate the population</li> </ul>	<ul style="list-style-type: none"> <li>• Strong external migration fluxes</li> </ul>	<ul style="list-style-type: none"> <li>• Growth of active population by attracting population from neighbouring urban centres affected by the redundancy</li> </ul>	<ul style="list-style-type: none"> <li>• Migration of young population from the rural area to the urban area</li> </ul>
<b>Social infrastructure</b>			
<ul style="list-style-type: none"> <li>• There is the premise of an adequate human potential that can assure in the future an adequate social infrastructure</li> </ul>	<ul style="list-style-type: none"> <li>• The premises of a weak quality of social services (education, health)</li> <li>• Weak penetration of calculation techniques</li> </ul>	<ul style="list-style-type: none"> <li>• Attracting teachers and doctors by maintaining a high demographic pool</li> <li>• Developing infrastructure and social services</li> </ul>	<ul style="list-style-type: none"> <li>• Degradation of life conditions due to lowering the access to basic social services</li> <li>• Large distance from the developed urban areas</li> </ul>
<b>Economical dimension</b>			
<ul style="list-style-type: none"> <li>• High agricultural potential</li> <li>• High share of arable land in the agricultural surface</li> </ul>	<ul style="list-style-type: none"> <li>• Low access of population to a paid working place</li> </ul>	<ul style="list-style-type: none"> <li>• Increase of investments in agricultural exploitations</li> </ul>	<ul style="list-style-type: none"> <li>• Migration of young population from the rural area to the urban area</li> </ul>
<b>Investments</b>			
	<ul style="list-style-type: none"> <li>• Low interest for real estate investments (houses) in this</li> </ul>	<ul style="list-style-type: none"> <li>• Increase of the attraction degree in rural areas</li> </ul>	<ul style="list-style-type: none"> <li>• Insufficient financial sources for the development of services and</li> </ul>

	communes because of the quality of life from this communes and because the lack of paid working places form this areas		infrastructure
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