

LOCAL DEVELOPMENT, ECONOMIC IMPACTS AND THE 'HIDDEN' TOURISM PHENOMENON

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Abstract

This paper focus on 'hidden' tourism phenomenon, that is the tourist demand that in many Countries eludes the official survey system. Estimation of hidden tourism requires information drawn from tourism demand and supply, using different indicators. Economic value of the phenomenon relies on an estimate of consumption.

Keywords – *carrying capacity, hidden tourism, tourism consumption, indicators, estimate*

1. Foreword

One of the main topics concerning tourism policy is what regards the connection between local development and tourist economic impacts.

By considering that those impacts depend on the tourist demand, studying the demand is the basis of the tourism statistic-economic analysis, in order to identify different market segments and plan action of destination management.

Nevertheless, in many cases official data of tourist demand do not allow to identify really the tourist dimension. In fact in calculating the presence of large number of the tourists should be consider a statistical estimations of what should be called 'hidden' tourism.

Hidden tourism is the tourist demand that in many Countries eludes the official survey system.

This paper focus on a methodological approach on hidden tourism phenomenon and the need of drawing economic-statistical indicators for its estimations.

2. Market Demand and Tourism Policy

The heterogeneous groups of individuals that make up the tourist demand vary from one to another. The socio-economical position (age, income, nationality/region of origin, occupation, composition of the family nucleus/group) and the other variables relating to foreign travel (duration, motivation, means of transport, typology of lodging, expenditure) are considered the basics for economic statistical analysis for identify all possible tourist market segments.

Identification of one the more segments that involves the tourist/consumers demand to a particular territory is strategic for the tour operator to set up the efficient organisation and management of the area.

The end result of such an analysis reveals at clear indication of the competitiveness of the territory, the choice factors that kind adopt for marketing the product, all the necessary information for quality destination management activities (Della Corte, 1999). An overall study of the tourist market is imperative for setting up in all its different phases' process covering all structural and organisational elements of a supply and instruction for the

correct management of the tourist traffic. In other words, a planning project for tourist development of a territory (Scoatariu, 1994).

Segmentation is a strategic way to approach the market, assuming that the consumers behaviour will help to identify homogeneous groups. In this way all available resources allocated, accomplishing the market's objectives (Hsieh, *et al.*, 1992).

Should the demand constitute an improve factor of a competitive of a destination other factors must also be taken into account (variable macro-economies, transport, tourist and political supply), for possible alternative marketing condition (Dolnicar, Weber, 1999). The market supply promotion and various economic enterprises are an instrumental and valid support to all those persons relating systematically to the territory to increase the tourist potential and competitiveness (stakeholders, large interest holders, policy makers, governments and administrations) (Ancarani, 1999).

Good results brought about through strategic marketing activities, including territorial marketing and co-marketing, will become a shared opinion; it is not only an instrument of promotion for the economic growth of a territory but also a means of sustainable and endogenous development.

This approach requires the constant attention of the market and its evolution, an increasing awareness on the part by both the public and private market enterprises for future decision making, such as the WTO Business Council opinion on this matter emphasising the fact that cooperation between the private and public sectors is crucial on an international, national and local level to create tourist competitiveness. Cooperation is most effective in areas leading to the upgrading of the tourist district capacity to attract tourists to the destination, efficient marketing and management of the entire tourist system (WTOBC, 2000).

The analysis of the demand is a key element to discover the tourist consumer behaviour towards a specific destination while all information gathered offers support in terms of policy and governance to the local tourism industry. However, it appears evident the difficulty in calculating the presence of large numbers of tourists, the possible solution lies in considering both official data and statistical estimations.

3. Carrying Capacity and Hidden Tourism

Surveying the carrying capacity of a territory from the physical, social and cultural aspect as well as ganging the maximum endurance levels is important for the planning and management of tourist traffic. It is a well known fact that reaching the limit could cause severe damage to the territory and environment and social conflict transforming tourism from an economic activity generating income through direct or indirect consumption of resources into a compromised activity caused by uncontrolled mass tourism damaging the territory.

The territories resources are the tourist trades main attraction therefore tourist development also depends on an even tourist traffic flow whose quantitative growth should be limited to avoid an excessive exploitation of the territory. This will prejudice the market demand and cause damage to the environment and resources making the territory as an area not worth visiting. If so it is, the growth of the touristic phenomenon more than representing 'a passport for the development', could be understood as really 'misfortune' (de Kadt, 1979).

Significant at this point is the of hidden tourism of the territory. The physical presence of other persons besides the residents and registered tourists are also consumer/tourists. They are a good source of information for the decision makers on matters concerning the organisation of activities connected with tourism. The correct meaning of hidden tourism can be identified if one considers the economic characteristics of this particular market.

4. The Demand and Supply Indicators

Estimation of hidden tourism must take into consideration all information concerning both tourist demand and supply. Information deductible from indicators put together for a detailed analysis of the phenomenon.

Hidden tourism is the tourism demand that eludes the official survey system. Estimation of this phenomenon can be made through a calculation of the consumption generated on the territory (Gambassi, 1997). The result gives an idea of the hidden tourism considered to be the surplus demand as opposed to the officially declared demand and of course the local residents.

This type of tourism will help to generate an organised tourist demand and determine an increase in consumption (electricity, water, refuse matter and cash withdrawal). Hidden tourism does not take into account this phenomenon because it has no interest in self manifestation until it can perceive and except a satisfactory demand in terms of cost and quality services.

Hidden tourism may stimulate the tourist trade to better qualify the supply but not necessarily making it emerge. It is therefore evident that hidden tourism is a quantitative economy for defining the consumption level and subsequently the increase in income of a specific territory, revenues, the use of the territory indicated also by non residents' indication.

The tourist supply can be calculated through the number of accommodation and sleeping facilities. Moreover, ranting holiday houses is only indicative of the territory's potential accommodation facilities and may not always correspond to the demand. Relying only on an estimate of the hidden tourism by calculating the accommodation facilities the result would only be an estimate of the potential hidden tourism and not an estimate of the phenomenon. The information gathered in terms of a tourist development policy would give a negative impression and economic inefficient determining excessive tourist services offered by the territory. An estimate of the demand and consumption help calculate the amount of hidden tourism rather than a valuation on the volume of the supply.

An additional consideration is the use of holiday homes rented out to tourist, the owner being resident elsewhere. The income generated will produce benefits in other territories (Bos, 1995).

Other elements of hidden tourism (sailing, caravanning, and camping) do not permit accommodation estimates of the territory. An idea of the demand is entrusted to specially setup indicators. Again economic value of the phenomenon relies on an estimate of consumption (boat berths and moorings, parking space, food and refuse water).

5. Conclusion

To estimate the phenomenon of hidden tourism one must resort to information specifying demand and supply, which is deductible from both these two sources.

If, on the one hand, the use of full scale information premises the construction of direct or indirect indicators aimed at estimating the quota of hidden tourism, on the other hand it is first necessary to verify the authenticity, validity, utility and availability relating to the phenomenon under observation.

Theoretically, a large quantity could be used as basic elements for the construction of indicators; however the margin between useful or useless information could be quite wide. This may penalise the end results of the estimate and eventually reduce the correct information regarding the hidden phenomenon in terms of tourist development and territorial opportunity for the planning and setting up of the tourist supply in answer to the requirements of the demand.

Careful attention is necessary when surveying the hidden tourist demand. It is however possible to observe, within a short period of time, the fluctuating 'anthropic' presence of a territory, when excluding residents would otherwise indicate the presence of tourist on the territory.

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THE ROMANIAN STRATEGY FOR DEVELOPMENT AND COOPERATION IMM

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Abstract

This paper reveals the Romanian strategy for development and cooperation which has been put into practice by the Romanian Government in order to accelerate the development of the IMM sector.

Having in view this purpose certain general and specific objectives have been set up. A special attention has also been given to the business infrastructure, general and specific objectives being also set up in order to accomplish a successful development.

The consulting services for IMMs, the access to financing by creating adequate instruments have also been given a special attention, these representing other important prizes of the economic development.

Keywords: *objectives, strategy, business, IMM, market.*

The measures provided in this document are based on the nowadays achievements in the development of the IMM sector and their extending, with the purpose of assuring the competitive capacity of IMM to compete successfully on the European market and on the world market, after the moment of adherence.

During the latest years, the Government of Romania has put into practice a series of measures meant to accelerate the IMM sector development, which led to significant results: in 2003, the IMM sector contribution to GIP increased to 60% , the IMM contribution in the total of the engaged workforce attained 54%, and the export value attained 24,4% from the whole.

It is important to underline the fact that the number of enterprises in the small category has continuously decreased lately, while the number of medium sized enterprises active from an economic point of view has increased. This evolution indicates the maturing of the Romania IMM sector. Also, the implying of a greater and greater of IMMs in the production activities show that the IMM sector, on the whole, came to a new development phase.

The opening of the markets will provoke new competition pressures on the enterprises, especially in the traditional industrial sectors, and the IMMs, particularly, will be exposed to numerous changes of the business environment. The objectives and the measures provided are meant to eliminate the recorded constraints and have in view the consolidating of the IMM sectors and the preparing for the competition on the Internal Market.

1. Development strategic objectives for IMM and cooperation

The international competitiveness increasing of IMM by technological modernizing and alignment to European standards.

The objective views the improving of the technological level of the IMM from the productive sectors, by supporting the investments for modernization, the development of its own innovative activities or the adopting of the results from the research-development projects achieved by the profile units, as well as the alignment of the products and services to the quality requirements imposed by the European Union. The increase of the technological capacity of the small enterprises represents one of the main action directions of the European Charter for the small Enterprises adopted by the Europe Council from Feira in 2000 and according to this, a special accent is laid on the dissemination promoting of the technologies among the small enterprises and on the capacity development to identify, select and adapt new technologies.

General Objectives:

The creation of the legislative, fiscal and economic frame by means of which the IMMs are encouraged to develop innovative solutions and concepts.

- ✓ The awaring of the IMMs and of the technological transfer intermediary institutions as to the benefits of the innovation;
- ✓ The effective assuring of the technologies and means necessary for IMM to be successful in finding innovative solutions in business;
- ✓ The improving of the knowledge transfer among the high teaching institutes and the research ones to IMM;
- ✓ The training assuring as to the good practices in the quality management;
- ✓ The awaring and encouraging of the Romanian IMMs with the purpose to use CE marking.

Specific Objectives:

- ✓ The setting up of technological transfer intermediary structures at the level of the universities, research centers and of other applied technology and industrial sources, by means of which the IMM is permitted to have better access to the exploiting of the research products.
- ✓ The encouraging of the students' and young graduates' integration in the innovative IMM.
- ✓ The supporting of the quality systems introducing and of the management certifying system by the Romanian IMMs;
- ✓ The preparing of the Romanian IMMs with the purpose of introducing the certifying, metrology and standardizing system.

Measures:

- ✓ investments for new technology acquisition – licences and know-how;
- ✓ encouraging and the awaring of IMM to obtain author's certificates and rights of author;
- ✓ stimulating of the innovation by exploiting the CD results and own activities of innovation;
- ✓ the conversion of the research institutes into private technological centres;
- ✓ the supporting of the management quality systems introducing and of the quality standards;
- ✓ the encouraging of the Romanian IMMs with the purpose environment management introducing;
- ✓ the promoting and the creating of the technological transfer pilot offices.

2. The business infrastructure development

This objective is meant to follow the development of an adequate business environment for the integration of all geographic zones in the economic circuit and the creation of the

premises for the promoting of the successful investments. The international experience indicates that one of the most efficient means is the creation of technological and trade incubators that cooperate with the universities and research centres.

Given the real situation in Romania, it is indicated that the trade incubators should be set up partnership basis of private/ public type.

One of the essential tendencies of the economic development in the 21-th century is the acceleration of the of IT activity dynamism and the integration of each economic sector in the information activities. From this pont of view it is necessary to promote the development of the most modern production based on knowledge in Romania.

The main advantage is the one to use the internet on a large extent with the purpose of achieving a more rapid and more efficient exchange of data with the clients at lower operating costs, rezulting lower prices for the clients.

General Objectives

The assuring for the new set up IMM of the facilities and of the infrastructure support in a controlled environment, at prices specifically harmonized with the needs of the small enterprises, by assuring of reasonable facilities in adequate locations;

- ✓ The developmeent of the inovative enterprises, high-tech;
- ✓ The modernizing of the Romanian IMM and thje improving of their competitiveness, by a higher degree of using the internet, namely by aplication of 3 e-business type.

Specific Objectives

- ✓ The developing of the trade incubators that function in Romania and the generating of the services that allow the creating of a cooperation at the level of the incubator net;
- ✓ Promoting the assurance of the facilities according to the IMM needs;
- ✓ Promoting the using of the e-business solutions among the Romanian IMM;
- ✓ The accelerating and the facilitating of the type web applications use for raw material and component supplying, selling, new business launching in this domain.

Measures

- ✓ Settinup of trade and technological incubators;
- ✓ Setting up of inovation centers and the conversion of the applied research institutes into private centers of technological transfer.
- ✓ The creating of logistic centers and services- IT nets.
- ✓ The promoting of e- business from the perspective of the cluster development in the less developed regions.

3. The development of the highly qualified consulting services for imm and their orienting to the market

The development of highly qualified consulting services for IMM represents the premise of the entrepreneuring connection to competitiveness and economic increase – strategic domain included in the action Plan “The European Agenda for Entrepreneuring” of the European Comission.

This objective is meant to follow the development of some consulting services, which in the greatest part of the cases are not distinct from assuring information in trade and training, considered to be essential for IMM and entrepreneurs in Romania.

An important factor from this point of view is the assuring of basic services, such as: the consulting and the training as to the management of the enterprise which should be accessible to the IMM sector, and the information should be disseminated at national level, with identical standards, supplied by a support service net.

General Objectives

- ✓ The development of the IMM sector, as part of the Developing National Plan, stipulates a strong increase of the economic dimension of this sector having in view the acceleration of the Romanian economy transformation.
- ✓ The encouraging of a larger participation and of the Romanian IMM's implying in the economic development;
- ✓ The assuring of an equilibrated economic increasing based on a strongly developed IMM sector;

Specific objectives:

- ✓ The assuring of quality services, useful both for the existing IMM's and for the newly set up enterprises.
- ✓ The promoting of the basic services for IMM by private organizations based on profit or by non-profit organizations.

Measures:

- ✓ introducing "voucher" type consulting and training scheme for IMM;
- ✓ introducing the concept of professional consulting services, of quality for IMM's, by launching a training scheme for service suppliers;
- ✓ preparing of the projects for accessing the EU national financing programmes or other funds;
- ✓ assuring consulting services for IMM in order to elaborate trade development plans and strategies, consulting in management and marketing, of the market studies in order to diversify their business in a competition environment which is continuously changing.

4. The facilitating of the access to financing by promoting some financial instruments adequate to the needs of IMM

The IMM's have difficulties in the access to financing on the basis of some favourable to them. Presently, many banks manifest reluctance to the small enterprises because of the high risk degree and of the high cost of the credits.

Consequently, the microenterprises and the small ones have not development possibilities and will not be able to enter the market with competitive products, if they do not take proper measures for improving the access to financing.

That is why, the promoting and the implementing of a package of specific financial instruments is necessary, to improve the capitalization of the IMM's.

General Objectives

- ✓ The strengthening of the institutional, legislative and political frame in order to support the introducing and the development of the financial innovative instruments at national and local level.
- ✓ The institutional capacity increasing of the human resources among the micro-crediting institutions and the intermediary microfinancing institutions.

Specific Objectives:

- ✓ Awaring campaign launching of the IMM's and of the decision factors as to package of innovative financial instruments.

- ✓ Technical assistance scheme launching meant for the new set up IMMs and microenterprises in order to assist them for making up the crediting requests and the necessary documentation.
- ✓ The establishing of a microcrediting scheme for the new set up IMMs and microenterprises.

Measures:

- ✓ The creating of a microcrediting scheme at local level meant for the new set up microenterprises and IMMs.
- ✓ The capitalizing of the local guarantee funds.

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HUMAN CAPITAL AND ROMANIA'S PERSPECTIVE IN THE EU

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Abstract

The source of improving people life standard depends, alongside other factors, on efforts oriented towards education, research, and knowledge enrichment. It is also related to development and dissemination of high performance technology, with knowledge development, skills and abilities, professional training able to realize, disseminate, and use innovation. However, these investments in human capital will lead to good results by extending the active life of skilled workers, by improving the general health status of the population, by preserving the environment, by improving food products quality. All these are the more valid for Romania's economy, the more it needs to be integrated in the Western European area, which is a highly competitive area. Or, relative sub-investment in autochthonous human capital might force our country to develop comparative advantages in border fields from the point of view of productivity, to specialize in fields that intensively use raw materials, to turn into a low paid labour market.

The study of the issues on human capital in România and the correlation with the theory and practice of economic integration has an indisputable importance, not only for understanding present and future realities of the economic system, but also for the development of economic research worldwide.

Despite the fact that goods and services development were attributed to oriented human action, economists considered only later human capacities as part of capital.

The concept of human capital has imposed in modern economy science during the '60s through the works of Theodor Schultz and especially through the contributions of Gary S. Becker. He developed the human capital investments theory linked to the term of human capital rate of return. Research grant have since given an increased importance to human economic accumulation, this concern being represented by a rapid growth of studies under focus for analysis and debate.

Suggestions on the economic performances of human capacities do not entirely stem from the so-called human capital school, but from other areas of election science. Doing his best to discover legitimate attribution of the Government in education, M. Friedman, one of the most influential economists ever, realizes that human capital investments (similar to expenses incurred by improving the outturn of non-human capital) determines an increase of work productivity. Moreover, 1976 Nobel laureate maintains that high profit obtained in education reveal the sub investment in the field. Papers published in this field not only justify the expenses for improving knowledge, abilities, skills or gifts but also offer more solid arguments for human capital valorization.

Apart from a series of other aspects mention must be made that researchers put more attention into the study of human capital in an era in which the issue of scarcity of resources felt closer due to foreseen food crisis, oil crises (years 1970) or raw materials crisis. Continuous growth of population and intense exploitation of resources brought back the debate on the growth limit, challenging the economic theory to new answers or solutions on the future of mankind. Economists realized more than ever that the accent must be shifted not on the aggressive exploitation of natural resources but mostly on their intensive use; or, the new approach implies more intelligence, better skills, abilities, gifts, more precisely the human capital. They understood that this constitutes by far the richest and the handiest exploitable resource. Since then, the process of creating wealth is oriented mainly on human capacities and on improving their efficaciousness. Like in common capital, efficiency in allotting rare resources emerges from investments aimed at obtaining substantial effects, quantitatively and qualitatively improved. Among these, efforts, *education and professional training are the most important investments in human capital* but not the only ones. Obviously, *human investment* can also mean the resource volume needed for a normal alimentation or funds allotted to ensuring a very good health state. By this it is also understood as well the effort to protect the environment and, generally speaking, any activity that may contribute to improving life quality. Yet, at the basis of these all undoubtedly lie the resources invested in education and research.

Numerous studies published during the last decades show, beyond any doubt, the positive correlation existing between increasing wealth and human capital investment. Efforts occasioned by educational levels (elementary, secondary, high school, academic), bring about significant benefits along with extending the timeframe for training and qualification. Statistic data confirm superior income for those that were awarded university diplomas, as compared to those that obtained different qualification degrees. Even the conclusions delivered by analyzing Romania economy demonstrate that there is a positive relation between the level of studies and the scale of income. The same data undoubtedly show that there is the same type of relationship between the degree of labour occupation and the education timeline (that is, the dimension of human capital investment). Analyses

performed on the Romanian labour market show that the most affected by unemployment are less-educated individuals, while the well-educated are the least affected by this phenomenon. Such a remark calls for one of Bekers' conclusions, according to which income differentiation, linked to education investment, manifests itself, regardless the degree of development of economic systems taken into account. It can be backed by a remark by Samuelson that explains the high percent of unemployment among young blacks in the United States, by their low class qualifications. Romanian statistics also highlight the fact that more than half of top management positions in our society are taken by well-educated individuals, the percentage of every formal degree diminishing with lower grade qualifications such as high school, secondary school and so on.

Nowadays, the human capital theories try hard to center stage the idea that, by increasing the production of goods and services able to satisfy the justified needs of humans (the so-called economic growth process) is due to a lesser extent to the volume of natural resources and to a greater extent to new technologies created by human capital investment. Analyzing the 1960 – 2000 period, J. Vandenbussche, P. Aghion and C. Meghir highlighted the fact that highly qualified work has an essential role in technological improvements by innovation [Vandenbussche, Aghion, Meghir; 2006], their paper coming closer to viewpoints maintained by some other specialists in the field that discuss on the relation between technological advance and economic growth. Practically, the argument of researchers in this field of economic research leads to the conclusion, proven empirically, that accumulating competences, skills, knowledge and technology represent factors complementary to the process of increasing utilities volume made available to us by the economic system [Lloyd-Ellis, Roberts; 2002]. The papers that analyze the duality technology – human factor led in many cases towards the conclusion according to which the source of growth in the efficiency by which economic systems spend rare resources is given by the human capital accumulation. This remark can be proven by comparative analyses showing that the technological outfitting cause different income production [Gould, Moav, Weinberg; 2001]. However, what is worthy to notice is the fact that not only specialized training is in direct correlation with technology production, but also general education. Even if they presuppose a long term horizon in recovering the allotted resources, expenses occasioned by general training, basic education, these too represent an important means by which the employed in various economic fields can have access to, manage, and use new technologies [Krueger, Kumar; 2004]. Yet the generally agreed upon opinion (very important for forecasting governmental policies in what concerns education financing) is that investments in specialty education are still decisive in improving individuals material conditions (by processing natural resources through more advanced methods). Such expenses deliver specific knowledge and competencies to workers, determining a more evident social division of work, which is the basis of national wealth. Arthur Fishman and Avi Simhon are only two of the economists that back this plausible hypothesis. There are some other voices [Seamus McGuinness] that consider over-specialization as too expensive both for human capital owners and for companies or the whole economic system. Although the workforce that is low qualified (with modest investments in human capital) is much more affected by unemployment, it still has an advantage given by flexibility, as compared to the hyper-specialized one, which is very productive but lacking mobility in between various types of jobs that rapidly emerge and disappear as a result of high speed propagation of technological changes. Such a fear is present in Klaus F. Zimmermann's studies (pointing directly towards the west-European labour market in which we wish to integrate) and it needs to be taken into account so as to highlight the fact that the theories that sustain investments in general or professional

education simultaneously advocate for an attitude which is balanced, prudent, and even critical.

From what we showed above the conclusion that might arise is that investment in human capital entails only expenses with general or specialized education. However, latest years theories go further than that. To be economically justified, any investment presupposes a period of recovery and clarification of expected profits. From such a perspective, expenses generated by the increase in human capital stock are no exception. The fundamental idea attached to this aspect is that an investment is the more profitable, the more we extend the recovery period. For the possessor of the accumulated knowledge, this fact means an extension of life expectancy, especially of the active life. We therefore touch now the problem of health state, a problem which is absolutely new to the economic science. The things can here be treated from the perspective of improving foods, of bettering the environmental conditions. The analysts studying this issue prove by calculations and statistical parameters that the level of health is a factor explaining the work force productivity, and the conclusion is that differentiated sums allotted to maintaining a healthy organism explain on the whole the differentiated income generated by workers. The human capital theory also deals with the economic performance issue (approached from the point of view of health state of work force) and tries to evaluate the impact of fertility or the decline of mortality on the process of generating utilities.

Not in the least, capital theories analyse the labour market, the advantages of integrating national markets to profitability of human capital expenses, the phenomenon of work force mobility in between various geographical areas. The studies provided by some researchers represent just a small part of the scientific production in the latest five years that deal with this topic. Such papers become extremely interesting for Romanian researchers as they give additional possibilities to understand the phenomenon of Romanian work force migration within the European Union, especially after accession. Moreover, they try to show to countries importing Romanian work force that migration constitute a source of economic development, despite the fact that immigrants possess less professional knowledge than the their nationals natives. There are also specific testimonials that the concern of employed in countries as The Netherlands, The United Kingdom, is not justified as the impact of immigrants entering these countries labour markets show no significant effect on the income decrease of Dutch or British workers.

The problem of human capital investment becomes a problem the more interesting to study, the more it refers to Romanian economy realities. Indigenous work force is in full integration process, in a market in which competition is the fundamental rule. By putting out politic and economic barriers, the local possessor of abilities, knowledge and skills competes directly and fiercely with the human capital in a highly performing area. This is the starting point for many problems in România, problems that lay emphasis on great differences in administering this precious resource. A simple comparison of incomes in România, on the one hand, and in the European Union, on the other, shows hard to live by truths. More exactly, national human capital develops a lower production by comparison to the Occidental one. This situation, in close connection to others, ranks our country, from the point of view of human development indices (*HDI*), on the last place to occupy by a nation candidate to integration in west-European structures. In addition to that, placing România on the 69 position practically puts us outside the European standards from the point of view of life expectancy, of health status, of life quality, and *education level*.

The analysis of *Human development report* (published annually) draws attention to this issue from many viewpoints. Firstly, the remark is that România has the smallest budget allocations for education (3,5% of GDP in 2004) among the European or candidate countries. The same status is shared by research and development expenses (0,4% of GDP). By comparison, Sweden – placed among the first places in *HDI* ranking - allotted 46 times more than Romania. The only comment that should be made here is that the other countries allot at least double. Similar conditions are to be found in what concerns the number of researchers for one million inhabitants. Again we are ranked on the last position with a number of 879 researchers/ one million inhabitants, whereas Sweden has six times more workers in the field, and Iceland – eight times more. Especially worrying is the fact that more than half of the 120.000 national clerks do not possess a university diploma. Mention should also be made of the fact that we have the lower number of students reported to one thousand inhabitants (28) as compared to a European average of 35. These discrepancies are synthesised by the HDI differences (0,778 for România and 0,956 for Norway, a country that tops the yearly ranking of the United Nations). Not going too much into details, it worth mentioning that România has the lowest educational indexes in Europe (Education Index) - 0,88. If we compared the above mentioned parameters to GDP on inhabitant realizing a comparative analysis between countries, we shall understand that the economic performance of a nation (reflected in general quality of life) is in close connection with investment in its human capital. Our country is given the same ranking for health services quality, for the volume of expenses allotted to health care and environment protection.

A summary evaluation of human capital in România reveals the chronic sub-investment in this field and its effects on economic performances or national work force. Obviously, there are also competitive employees, but their number is fairly modest compared to cheap labour, thus generating low productivity. Such a situation is easier to notice to work force exportation towards European Union member states. The majority of co-nationals that migrate to work in western Europe occupy mostly low paid jobs, compared to locals, which clearly delimitates the difference in productivity and investment discrepancies in professional training. A Romanian that uses his work resource abroad usually works in activities that preponderantly use physical capacities, which denotes relative sub-investment in his qualifications and abilities. The structure of Romanian export of goods and services emphasizes the fact that national work force is used in such areas as *lohn*, where remuneration is among lowest levels of salary and productivity.

The situation of autochthonous human capital is not accidental. After half a century of socialist competitions with record productions on hectare and five year plans realized in four and a half years, we now discover that the imminent integration in concurrent economic structures of the European Union places us in a quite difficult position. Forced industrialization and cooperativisation at gunpoint prevented adequate training of work force. Exclusive hiring on public domain destructed work etiquette and the feeling of assuming personal responsibility, it de-motivated the employee and separated him of the fantastic objectives of thriving by socialism. The results can be seen, among others, in public administration performances. Today, the Romanian work force lacks concurrent mentality, flexibility and adapting to changing conditions of economic systems, which justifies the difficulty expressed by many Romanians in taking new jobs. A great part of unemployment rate originates in such realities. Moreover, the most performing part of human capital migrates towards areas (countries) where exploitation of own advantages brings about clearly superior incomes.

The consequences of this analysis should persuade the public opinion, private firms and, not in the least, policy makers, by the necessity of allotting supplementary resources to this vital domain to economic development, because there are a lot of studies (unfortunately very few as absolute number in our country and in the central and eastern Europe area) demonstrating that human attempts to increase material and spiritual wealth depend decisively of the performances of this special type of capital. Increased competition on markets that are more and more integrated apply constraints on people so that they must appeal more often to knowledge; or, getting and using knowledge imply investments in research able to deliver, and in education able to transfer, knowledge to work force and to economic performances. The imperative of our affirmation is the more valid for România the more autochthonous human potential is clearly underused, by neglecting private or public investments in education and research system. Training and exploiting professional knowledge, skills, and abilities, and cultural values, depend by public consciousness on the fact that only prioritized transformation of investments in human capital can lend it the necessary competitiveness in order to meet the new challenges of modern economy dynamics.

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THE RECEPTIVENESS OF MEDIUM-SIZED TOURISM ENTERPRISES (MSTEs) TO ICT ADOPTION

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Abstract

A main area of change and innovation in tourism concerns the use of information and communication technologies (ICT). The wide adoption of ICT in the tourism industry is transforming the function of tourism actors such as travel agents, tour operators, conference organizers, booking agents, etc. ICT systems provide detailed up-to-date information on the availability and prices of products and contribute to increase sales and profits of MSTEs. However, MSTEs face a number of obstacles to the implementation of new information technology, in particular e-business. These include the affordability of information technology and difficulties of implementation.

Keywords: *tourism industry, ICT, MSTE, e-commerce*

Introduction

Tourism is an important contributor to economic growth and accounts for about 25% of international trade in services. It also represents one of the best vehicles for creating income and employment. The growth of tourism, however, cannot be taken for granted. The tourism industry is facing challenging times. Apart from the threat of terrorism and the

impact of the recent economic slowdown, experts say the sector is suffering, globally, from overcapacity, while many services and products no longer match the demands of today's tourists. New destinations are successfully competing against traditional tourism countries, which in many cases have worn out their resources and their potential for competitiveness.

The relentless process of globalization, together with liberalization and the expansion of the international tourism market led to unexpected losses of market share for the developed tourism countries. Tourism policy, therefore, increasingly focuses on the promotion of innovation, although tourism itself is not a business in which innovations have changed the course of history. However, there are specific questions inherent to the tourism industry itself which require innovation-oriented solutions: a) increasing mobility; b) growing role of new information technologies; c) population ageing and d) sustainability issues. Therefore, new tourism products are launched, replacing traditional products, being more innovative, specialized, "greener", customized and experience-oriented.

A main area of change and innovation in tourism concerns the use of information and communication technologies (ICT). The diffusion of ICT in the tourism industry enables consumers to interact directly with tourism providers. A key innovation like the internet has done more than stimulate growth in the field of information technology (IT). Tourism is already one of the most important sectors of e-business today. For the industry, this led to a fall in the transaction costs, as a result of disintermediation. Therefore, tourism enterprises inevitably need to adopt innovative methods to enhance their competitiveness. To take advantage of the ICT revolution, entrepreneurs need to re-engineer the entire marketing process of the industry [2].

IT in tourism

A recent OECD study [7] revealed that the advent of Internet-based electronic commerce offers many opportunities for companies to expand their market. However, MSTEs face a number of obstacles to the implementation of new information technology, in particular e-business. These include the affordability of information technology and difficulties of implementation. Moreover solutions that work for large, stable, internationally-oriented firms are of no use to small, dynamic, locally-based ones. Even so, MSTEs can now have equal Internet access to international tourism markets with the help of innovative Web sites. This implies equal access to telecom infrastructure, as well as to marketing, management and education. According to a UN report [12], "it is not the cost of being there, on the online marketplace, which must be reckoned with, but the cost of not being there." However, the adoption of ICTs is not the only part of the story. Network access costs, training and skill development are all part of the challenge for smaller companies. An e-commerce study by Briggs [1] carried out for Eastern Europe found nonetheless that MSEs are "significant players in business-to-business electronic commerce, which accounts for more than 65% percent of all e-commerce activities".

Methodology

The present research paper is set out to investigate MSTEs opinions about e-commerce, its presumed benefits for tourism, barriers to implementation, and key success factors. A questionnaire inspired from a Korean similar study [3] was designed and distributed to 46 tourism agencies and tour operators from Romania. Face to face and postal interviews were carried out using the opportunity of the Romanian Tourism Fair as a field research location. The data provided an insight into the challenges the industry faces today. It

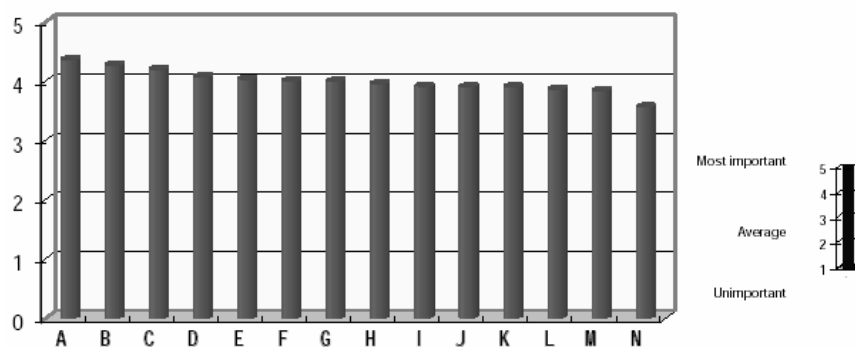
essentially covered Romanian MSTEs, defined as businesses that have 50 or fewer employees and sales revenues less than 500 and more than 100 thousands Euros.

Benefits of e-commerce

The main advantages of e-commerce mentioned are: “providing easy access to information on tourism services”, “providing better information on tourism services”, and “providing convenience for customers”. Respondents seemed less aware of other benefits of e-commerce such as “creating new markets”, “improving customer services”, “establishing interactive relationships with customers”, “reducing operating cost”, “interacting with other business partners”, and “finding new business partners” (see figure 1).

Fig 1. Benefits of E-commerce

A: Providing easy access to information on tourism products and services; **B:** Providing better information on tourism products and services; **C:** Providing convenience for customers; **D:** Expanding choices by customers; **E:** Creating new markets; **F:** Establishing interactive relationship with customers; **G:** Improving customer services; **H:** Improving image and public recognition of the small & medium sized tourism enterprises; **I:** Saving time for providing tourism services; **J:** Providing customized & specialized tourism products & services; **K:** Reducing operating cost; **L:** Simplifying the process business; **M:** Interacting with business partners; **N:** Founding new business partners.



Source: adapted from APEC Tourism Working Group (2002).

E-commerce barriers

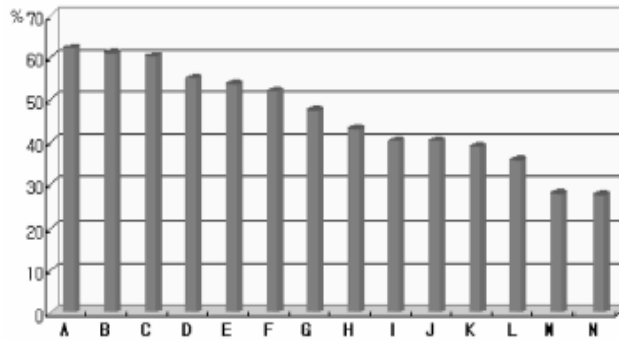
A certain number of barriers discourage MSTEs from adopting e-commerce in Romania. These include: “limited knowledge of available technology”, “lack of awareness”, “cost of initial investment”, “lack of confidence in the benefits of e-commerce”, and “cost of system maintenance”. Other factors are “shortage of skilled human resources” and “resistance to adoption of e-commerce”. Also worth mentioning are “insufficient e-commerce infrastructure” and “small e-commerce market size” (see figure 2).

Figure 2. Barriers to adopting E-Commerce

A: Limited knowledge of available technology; **B:** Lack of awareness of e-commerce; **C:** Cost of initial investment; **D:** Lack of confidence in the benefits of e-commerce; **E:** Cost of system maintenance; **F:** Cost of securing skilled human resources for e-commerce; **G:** Shortage of skilled human resources; **H:** Difficulty with integrating e-commerce & existing system; **I:** Cost of training human resources for e-commerce; **J:** Insufficient e-commerce infrastructure; **K:** Lack of government support; **L:** Relatively small e-commerce market size; **M:** Fear of changes in corporate culture; **N:** Resistance to adoption of e-commerce.

Source: Modified from APEC Tourism Working Group (2002).

Unit %



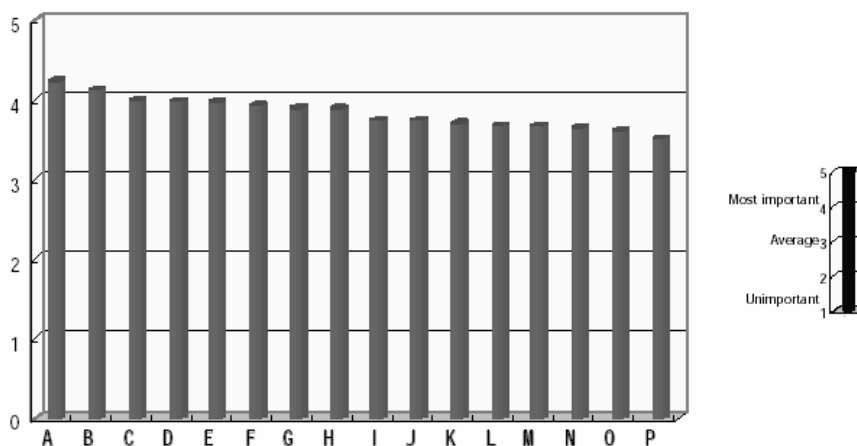
Source: adapted from APEC Tourism Working Group (2002)

Successful e-commerce practices

The two main factors to carry out successful e-commerce are “security of the e-commerce system” and “user-friendly Web interface”. Also judged as important are: “top management support”, “IT infrastructure”, and “customer acceptance”. Few MSTEs recognize the importance of “sharing knowledge and information between MSTEs” and “business partnerships” (see figure 3) as strategies for success.

Figure 3. Factors for Successful E-commerce

A: Security of the e-commerce system; **B:** User-friendly Web interface; **C:** Top management support; **D:** Level of trust between customer and company; **E:** Information technology infrastructure; **F:** Customer acceptance; **G:** Cost of establishing and maintaining e-commerce system; **H:** Skilled human resources; **I:** Market situation; **J:** Integration with the existing corporate system; **K:** Specific tourism products or services for e-commerce; **L:** Corporate knowledge, culture & acceptance; **M:** Relationship with other business partners; **N:** Sharing knowledge and information between the small & medium-sized tourism enterprises; **O:** Internal communication; **P:** Government support.



Source: adapted from APEC Tourism Working Group (2002).

Importance and performance

The study used importance and performance (IP) analysis to examine e-commerce strategies. For “importance”, respondents indicated the importance of each of the 16 proposed factors for a successful implementation of e-commerce. For “performance”, they indicated how well their economy performs regarding e-commerce, related to their response to “importance” (see figure 4). Four IP categories emerge from the analysis:

“keep up the good work” (importance and performance both high); “concentrated efforts” (high importance, low performance); “low priority” (low importance, low performance); “possible overkill” (high performance, low importance).

Keep up the good work: respondents considered the following factors as important: “security of e-commerce”, “user-friendly Web interface”, “IT infrastructure”, “level of trust between customer and company”, “customer acceptance”.

Concentrated efforts: the factors in this category including “top management support” and “skilled human resources” are considered as very important but insufficiently performed. More efforts are needed.

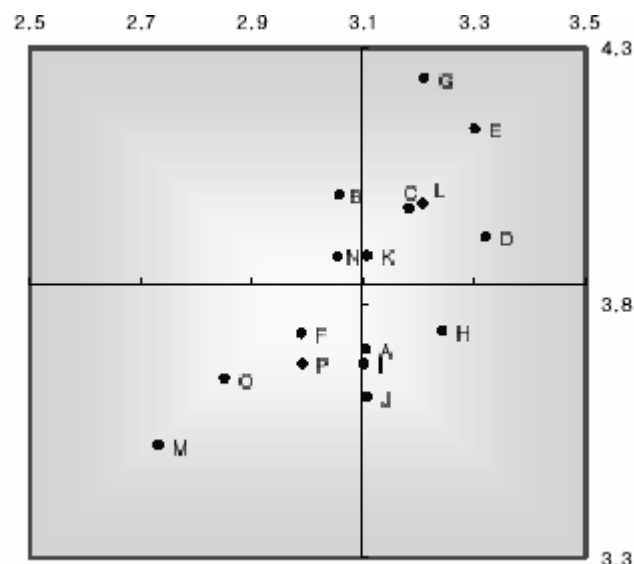
Low priority: “government support”, “sharing knowledge and information between MSTEs”, “integration with the existing corporation”, and “relationship with other business partners” received low marks in importance and performance, despite being critical for successful e-commerce. This implies that managers have limited knowledge and need more information on the importance of these factors.

Possible overkill: “market situation” falls in this category. The results show that managers use the Internet for market analysis (possibly competitor analysis) but do not consider it important. This seems to contradict certain previous findings indicating that MSEs do not often use the Internet for market research.

Remainder: three factors including “specific tourism products or services for e-commerce”, “corporation knowledge, culture, and acceptance”, and “internal communication” fall somewhere between “low Priority” and “possible overkill”. One factor, “cost of establishing and maintaining e-commerce system” is between the “concentrated efforts” and “keep up the good work” categories. The assessment of these factors was fairly similar to that for “low importance” and “middle performance”.

Figure 4. Importance-Performance (I-P) Analysis

A: Specific tourism products or services for e-commerce ; **B:** Top management support ; **C:** Information technology infrastructure ; **D:** Customer acceptance ; **E:** User-friendly Web interface ; **F:** Integration with the existing corporate system; **G:** Security of the e-commerce system ; **H:** Market situation ; **I:** Corporate knowledge, culture and acceptance ; **J:** Internal communication ; **K:** Cost of establishing and maintaining e-commerce system; **L:** Level of trust between customer and company ; **M:** Government support; **N:** Skilled human resources ; **O:** Sharing knowledge and information between the small & medium sized tourism enterprises internal communication ; **P:** Relationship with other business partners



Source: adapted from APEC Tourism Working Group (2002).

Conclusions

For Rayport and Jaworski [9], the implementation of e-commerce strategies requires four critical forces: technology, capital, media, and public policy infrastructures. An infrastructure is defined as the foundation of a system. E-commerce strategies relate to four infrastructures: (1) *technology*: Internet, computer hardware, servers, routers, cables, network technologies, software, and communications technology. Understanding the technology, what it can and cannot do, is essential for the formulation of a viable vision and strategy; (2) *capital*: how to secure funding for an e-business and subsequently value that business; (3) *media*: managers who run online enterprises must learn to manage the staff responsible for design interface, stylistic choices, editorial policies, appropriate content choices. An e-commerce manager is a publisher of digital content on the Web and should be able to make choices about the types of media employed (print, audio, video) and editorial policy (style, content, and look, feel); (4) *public policy*: e-commerce managers should understand current laws and how they may affect their businesses. The best MSTE strategies depend on the company's e-commerce infrastructure and stage of development:

The Internet is a useful tool to reach international markets. E-partnerships between MSTEs or with large firms are important for building an e-community. [10] Strategy should reflect the environment. Linkage to a site of a destination management organization (DMO) is critical to success. Development of an online booking system is the most important technological aspect. Measures should be taken to overcome consumers' lack of trust and confidence, including "about us", "frequently asked questions (FAQs)", and call centre services. Established MSTEs should consider target market segments as well as building trust and confidence.

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INTERNATIONAL ECONOMIC COOPERATION BETWEEN THE GULF COOPERATION COUNCIL AND THE EUROPEAN UNION

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Abstract

Economic cooperation has covered the areas of energy, environment, industry, standards, customs, human resources and investment. These areas are of varied importance to the European Union (EU) and the Gulf Cooperation Council (GCC). Energy cooperation has been of particular interest to the EU, and industrial-cooperation projects serve both sides' interests. The EU benefited from the promotion of joint ventures, thus helping realize the goal of increasing economic interdependence through cross-investments. At the same time, by advertising investment opportunities it catered to the GCC's desire for technology transfer through investment. Standards and customs cooperation helped render the standards of the two blocs more compatible and reduce their roles as non-tariff barriers to trade. Also, by familiarizing each other with the different customs procedures, transaction costs were lowered. Environmental cooperation, on the other hand, mainly benefited the GCC countries, which suffer heavily from environmental problems such as fish deaths and water pollution.

1. Economic reform and economic growth in the GCC

The seconded GCC economic awards recognize economic leaders or organization from the GCC countries who took up challenges in setting up business, industries and agriculture not just to make a profit, but to make contribution. We honour these individuals and organizations for their leading role that they have played in ensuring GCC's diversified economy, which have become our greatest strength in the 21st century.

In the current era of globalization, the GCC has a prominent role to play in the world economy. Recent years have seen many developments in the GCC such as economic reforms, diversified economy, free trade agreements, single currency, customs union, real estate developments foreign ownership, foreign direct investment and much more. People in all parts of the world believe that the region will emerge as a major economic contributor in the near future.

The GCC economic growth has been engineered within a very short span of time. And it has been accomplished by some extraordinary wealth creators and organizations who took up every challenge that came their way and transformed it into great opportunities for themselves, from their business, their country and for this region's economy. Visionary leadership, stability, government support are all favourable factors that made these achievements possible. But the role of businessmen, industrialists, agriculturists and key organizations in building today's GCC economy is invaluable.

The GCC economic awards recognize leading contributors to the GCC region. The awards recognize those individuals and organizations that are the driving force behind the economic growth the GCC region have been experiencing. The award program is the only imitative that judges the contribution of these achievers and organizations that will continue to give strength to the GCC economy for years to come.

The economies of the GCC are experiencing a period of rapid growth. The increase in the price of crude oil is a component and one of the drivers of this boom, but it is not the only driver: in fact the picture is much more promising than it would be if this was just another oil-driven flare-up.

2. A new oil price paradigm

The past years have had a major surprise in store for the member countries of the Gulf Cooperation Council and Iraq and Iran: while all analysts expected that oil prices would decline because of growing competition from non-OPEC producers, prices have actually climbed – at the time of writing. The gain is 60% relative to the beginning of the year. This simple fact is bound to profoundly affect political developments in the region as well as the attitude of outside actors.

The fact that expectations have been proven wrong is especially important, and has profound psychological impact. Until well into the first quarter of 2004 the unanimously held point of view was that OPEC would need to reduce production in order to prevent serious weakness in prices. OPEC did decide to reduce production, although cuts were in fact then never implemented. But - contrary to the expectations and declarations of experts, companies and governments alike - market prices moved higher and higher. The cause of the surprise is on the one hand an increase in demand much more important than expected, especially in the US and China; and, on the other hand, the realization that, although additional reserves might be physically available in several non-OPEC countries, actually bringing additional supplies to the market is a slow and sometimes difficult process.

Progressively, analysts have proposed the notion that the continuing hike in prices is not a short-term phenomenon, but rather a “paradigm change”. Although the consensus vision remains that prices are bound to decline from the levels they have reached in 2004, nevertheless it is now commonly accepted that they will not return to within the target band of \$22-28, which is still the official policy of OPEC.

This contrasts sharply with the previous consensus view, according to which prices were expected to hedge downwards in the second half of the decade, forcing OPEC to surrender some of their market share. The downward pressure on prices was expected to come from non-OPEC production as well as from increased production in Iraq – forcing OPEC to redistribute quotas. The combination of weaker prices and possibly reduced quotas was expected to put pressure on the financial equilibrium of some OPEC countries, notably the GCC member countries – and possibly create tension across the Gulf, as Iran would not have been willing to reduce production to accommodate Iraq.

In fact, throughout 2004 the governments of the industrial countries, including the US, as well as international organizations such as the IMF and the World Bank, have been calling on the GCC countries to increase their production and urgently invest in increasing their capacity in order to contain the rise in prices.

Consequently, the GCC member countries find themselves in a new strategic environment, in which their domestic fiscal sustainability is essentially assured (although they are not all in the same position: Bahrain in particular may face some problems and Oman as well) and prospects for the future are reassuring. It is now almost universally expected that the recovery of Iraqi production will be slow, even in the optimistic scenario that sees the country making rapid progress towards political stabilization and the establishment of a legitimate, democratically elected government. Thus the danger of a squabble on oil quotas again spoiling relations between Saudi Arabia and Iran has faded, and the idea that Saudi Arabia might be marginalized as a global supplier of oil, thanks to increased production in Russia and Iraq, has pretty well disappeared from the screen.

It is important to note that the GCC governments are for the time being not reacting to the increase in oil revenue with an increase in current expenditure. They are, on the other hand, adopting very conservative fiscal policies, essentially setting aside much of the additional revenue to pay outstanding debt or accumulate reserves - in some cases, including in Iran, in formally constituted reserve funds. This means that the additional oil revenue is not presently being pumped into the local economies, and is not the primary cause of the higher rate of growth. For sure, the higher oil revenue has an important psychological impact, and contributes to creating a climate of confidence in the future, and encouraging private investment. But beyond this psychological impact we see very little in the way of expansionary policies, although some new investment projects have been announced. The increased liquidity, which is fuelling the economic and financial boom, is essentially private, and has to do with the reduced desire to hold balances abroad.

3. The new industrialization wave

The process of industrialization is speeding up significantly in the GCC, led by a wave of major projects in petrochemicals and other energy-intensive industries such as aluminium smelting and transformation of minerals.

The main driver of this industrial boom is the increased availability of natural gas. In Qatar, the pace of exploiting the huge North Field has significantly quickened, and the country is simultaneously pursuing major projects in the export of gas as LNG, in its transformation into other liquid fuels (GTL) and into petrochemicals. In Saudi Arabia, after a long and difficult gestation four major concessions for the exploration and production of natural gas were granted to Shell/Total, Eni/Repsol, Lukoil and Sinopec. In addition, Saudi Aramco has itself reaped the benefit of the considerable increase in investment in gas, and

is now able to guarantee the required supplies to all industrial projects in the waiting line. This is creating a wave of investment in which SABIC is no longer the sole protagonist, but numerous other independent private petrochemical products from the GCC have already crossed the 30mn t/y mark. This will increase to 40mn t/y by the end of 2005. 2 For aluminium, GCC production capacity is expected to increase from 1.198 million tons currently to 2.8 million tons by the end of the decade, with new projects being launched in Qatar, Bahrain, Dubai and Oman.

Petrochemicals and aluminium are just two major export-orientated industries: they are especially worth mentioning because of the protectionist attitude taken by the EU, but they are not isolated cases. After two decades of gestation and mixed results, the process of industrialization and economic diversification now appears to have substantially accelerated in practically all GCC countries.

4. The boom of financial markets

In parallel, economic reform is also progressing, more slowly than some people may have expected or wished - but is progressing nevertheless. The cumulative impact of reforms in the past four or five years, together with the expectation that more is in the making, and the feeling of strength that is given by high oil prices, contributes to Saudi companies are also involved.

The GCC states and Iran will thus become the world's largest producer and exporter of petrochemicals and plastics by the year 2005. Cumulative total investments in GCC petrochemical industries stood at \$37bn at the end of 2002. Further investments totalling more than \$40bn were expected by 2010. The Saudi stock market index increased 88% in 2004, after increasing 76% in 2003. This is a sign of abundant liquidity chasing a limited supply of assets, and opens the door to the possibility of further privatization and/or reorganization of private sector ownership patterns. The wealth effect of the stock market increase in the first 11 months of 2004 was alone equivalent to some \$140 billion.

Real growth has not yet sufficiently picked up to materially contribute to reabsorb the unemployment problem, which remains a serious concern and a potential source of instability. Further reform progress is required in order to fully mobilize the potential of the Saudi private sector and achieve real growth rates of the order of 6-7%, but this objective is not impossible to reach.

Elsewhere in the Gulf, the economy is also doing well. The relentless Dubai boom continues apparently unabated, and has a pulling effect on the neighbouring Emirates; the combination of increased oil revenue in Abu Dhabi and the continuing growth machine of Dubai has created a unique equilibrium and "division of labour", which translates into continuing positive results. The UAE stock market rose by 24.2 % in 2003, and 95 percent in 2004. The SHUAA Capital Index for the whole of the GCC rose by 62% in 2004. As mentioned above, the increase in liquidity that is fuelling the economic and financial boom is primarily connected to the desire to rely relatively less on placements abroad for the private sector's balances. While it would be a gross exaggeration to say that Gulf financial investment in the US has been massively reduced following the 9/11 terrorist attacks, it can hardly be disputed that the appetite for US assets has decreased, and the wish to invest within the GCC has increased.

According to Abdul Rahman Al-Jeraisy, chairman of the Council of Saudi Chambers of Commerce and Industry, "Saudi investments abroad are estimated at between \$800 billion and \$1 trillion and most of these funds are concentrated in the United States and Europe". It is easy to see how just simply repatriating the revenue from such huge accumulated holdings might suffice to create a boom in the Saudi economy. "Many Saudis have invested in stocks and real estate as they are the easiest markets," Jeraisy said. "The decision taken by a number of Saudi businessmen to invest their money in the Kingdom has made Saudi Arabia one of the countries with highest liquidity".

When we add the parallel holdings of the private sector from other GCC countries, we come to an estimate exceeding \$ 1.5 trillion. The desire among GCC businessmen to invest more in the GCC itself is evident. In fact the Saudi private sector complains that the slow pace of economic reform is pushing Saudis to invest in Dubai: businessman Abdul Mohsen Al-Hokair, chairman of Al-Hokair Group, said in a recent press statement that more than 2,500 Saudi companies had chosen to establish investment projects in Dubai rather than Saudi Arabia during the past three years. He blamed bureaucracy, complex regulations and slow decision-making process for the massive exodus of capital.

5. The energy sector

In the field of energy, a working group was created that met for the first time in 1992 in Brussels and for the second time in 1993 in Abu Dhabi. It reported directly to the Joint Cooperation Committee. Among other things, it suggested organizing a conference on natural gas, which was held in Doha, November 17-18, 1996 and setting up a conference on advanced oil and gas technologies in Bahrain, October 13-17 1997.

The private sector was involved in the implementation of the energy-related projects, as seen from the example of the Joint EU-GCC symposium on energy policy that took place in Muscat, Oman, April 19-20, 1994. The Ministry of Petroleum and Minerals of Oman organized this event in conjunction with the Directorate General for Energy of the European Commission, and it addressed both governmental representatives and top-level business executives from both regions. The issues it covered in its five sessions included the institutional framework of EU-GCC cooperation, energy developments in blocs, the future of oil, the future of gas, and EU-GCC cooperation in the energy field.

6. The environment sector

In the environment sector, a working group was established as well. It met for the first time in 1992 in Brussels to explore the potential for environmental projects.

One of the most outstanding and often cited projects in this sector was the marine habitat and wildlife sanctuary for the Gulf region, in Jubail, Saudi Arabia. In 1991, in the aftermath of the Gulf War, the European Council asked the European Commission to initiate support for the authorities in the Gulf in clearing the oil spills and combating environmental pollution. In the spring of the same year the Commission decided to install the Jubail project, which aimed at restoring the marine wildlife areas and allocated two million ECUs. The Senckenberg Research Institute, Frankfurt am Main, Germany, was commissioned with the execution of the project in cooperation with the Saudi National Council for Wildlife Conservation and Development. In October 1991, an international, interdisciplinary team of scientists from six EC countries along with Saudi Arabia and Kuwait began its work. The project was repeatedly praised as a success and served as a model for later ventures.

In 1993, the European Community sent an exploratory mission to the Gulf, in the course of which the GCC proposed joint environmental science and technology workshops. As a result, the Joint Cooperation Committee approved proposals for workshops to be held on marine environment, plant protection, material science, management of water resources and desalination. Workshops held in 1998 include a EU-GCC Marine Pollution Workshop November 2-4, 1998, which made recommendations for future cooperation projects, and a workshop on hazardous waste management in Saudi Arabia October 11-13, 1998.

In 1998, the Joint Council supported the creation of a network of marine protected areas in GCC countries, based on the Jubail experience. This follow-up project is currently under preparation by the GCC. And "as far as marine pollution is concerned, the technical phase of the feasibility study on marine port reception facilities in the Gulf is nearing completion." Finally, the ministers expressed their desire to implement activities in the new area of air pollution.

7. The industry sector

As is the case for the energy and the environment sectors, a working group was established on industrial cooperation. It met for the first time in 1992 in Qatar. The most important component of industrial cooperation, and the one which has served the goal of increasing economic interdependence as well as that of technology transfer most immediately, has been the organization of industrial conferences. To date, three of these have been held in: Granada, February 18-22, 1990; in Doha, October 25-27, 1992; in Muscat, October 16-18, 1995. The Joint Council has lauded these industrial conferences, and in a press release pertaining to the Industrial Conference in Doha it noted that more than 180 European business executives as well as about 200 businessmen from the Gulf had registered. The Qatari minister of energy and industry participated as well as Martin Bangemann, European commissioner for the internal market and industrial affairs, and ministers from EU member countries. The conference offered a forum for business leaders "to initiate practical talks on all aspects of doing business." Post-conference site visits to industrial zones in Kuwait, Qatar, Saudi Arabia and the UAE were organized, and another such event is planned for 1999.

Following the recommendation by the conference to extend gas cooperation, the GCC secretariat and the EU Commission decided to launch a joint study to examine the prospects for trade in natural gas. This indicates how seriously these industrial conferences and thus the input of the private sector have been taken. Also, a proposal based on a recommendation by the Muscat conference led the 1996 Joint Council to decide on an increase in the number of business conferences and meetings.

8. The investment

While investment could be subsumed under the broader category of industrial cooperation, it deserves being mentioned independently, for the GCC countries have long criticized the low level of European investment, which they badly need to keep up with their rapid population growth. This led the Joint Cooperation Committee to request a study on reciprocal investment conditions. By October 1998, the consultant in charge had finished the report and presented its results to the Joint Cooperation Committee, which set out to examine its policy recommendations.

Conclusion

The EU consider, a major trade partner of the Gulf Cooperation Council, despite the special relationship the two sides after the signing of a cooperation agreement which is the

appropriate framework for the strengthening of economic relations and make them more profitable. Although held dozens of meetings and conferences since 1988, the two sides failed to sign the partnership agreement and take it out into the light of reasons and excuses succeeded in many European and Gulf countries to resolve exceeded. However, the European side insists on some of the onerous conditions failed to convince the many economic activities and within Europe itself. The economic dialogue open between the European Union and the Cooperation Council for the Arab Gulf states since the mid-1980s, but it did not achieved in the signing of an agreement on strategic partnership between the two parties because some administrative obstacles that led to the emergence of the terms and conditions of countermeasures, in addition to the developments in the security situation since the early 1990s in the Arab Gulf region, where a succession of events played a negative role in the face of strengthening bilateral economic relations Gulf-European. The problem of the growing deficit in the trade balance of the GCC towards the European Union, and the Protectionism policy towards the petrochemical exports from the Arab Gulf countries, and the paucity of the European direct investments in the AGC, considered the main problems and constraints that limit the growth of the economic relationship between the GCC and the EU.

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THE ECONOMY'S GLOBALIZATION – EFFECTS AND LIMITS

Ion Bucur

Keywords: *globalization, regionalization, working force migration, economical growth, the individual marginalization*

The globalization means, in the context of the new economy, a process of deep changes that affect all the sectors of the economical and social life and all the world's regions. It implies the increase of the interdependencies between all the world's people, which makes that an event that took place in one of the globe's areas will affect the population from another geographical area. There isn't a definition of the globalization that is universally accepted. The cause is the fact that the globalization includes a multitude of complex processes form different areas who have a variable dynamics.

The globalization is a modern term used for describing the changes in the world's economy and the human societies, which results from the intensification of the international commerce and the cultural exchanges.

A major contribution at the economy's globalization had the progress registered in the domain of the transports and telecommunications in the past decades of the XXth century. The economic globalization implies four types of flows over the borders which are: material assets and services flows, people flows (immigration), capital and technology flows.

A consequence of the globalization is the erosion of the national sovereignty over the economical sphere. The IMF defines globalization as "the growth in economical interdependency of the countries all over the world trough increasing the volume and the variety of the goods and services transactions over the borders, the flow of a much quicker and free capital but also a larger diffusion of the technology" (FMI World Economic Outlook, May 1997). The World's Bank defines globalization as the "freedom and capacity of the individuals and companies of initiating voluntaries economical transactions with residents of other countries".

In the same time with the globalization is developed the process of regionalization. The globalization expresses the interdependency and connection of everyone (individuals, companies, institutions, organizations, regional and national economies, different human societies and cultures) in a unique activities and values system. The regionalization reflects the political will of the governments of favoring the development of international economical connections with countries situated near them from a geographical point of view, as a result of the negotiations regarding the creation of free exchange areas, custom-houses unions or any other preferential commerce agreement.

Compared to globalization, the regionalization supposes taking some concrete measures so that regional entities to be constituted and developed on the basis of political and social measures. The apparition and expansion of the European Union can be given as an example.

The regionalization is as well a component of the globalization as it is one of its consequences.

This way, the regional integration supports the national economies to become more competitive on the world's market, facilitating the multilateral cooperation on a global scale. Also, the regionalization can be approached as a reaction to the economical rules of the globalization. In essence, the countries of the regional economic blocks have reduced the customs barriers, mainly for their members and less for other countries, which is a discriminatory measure that contravenes to the globalization's characteristics.

The process of globalization is extended and deepened permanently and the governments and companies directing boards are forced to make decisions based on its main results¹. The internationalization of the flows of products, services and capital has as a result the consolidation of the most powerful companies and corporations trough acquisitions and fusions with a higher and higher value. The acquisitions and companies fusions are after the increase of the economical activity's efficiency thanks to the advantages offered by a more extended and diversified activity.

The markets internationalization determines the growth of the competition pressure. The revolution of telecommunications has determined the globalization of the economical competition, the national markets not being able to be protected through high transports costs or through blocking the access of the foreign companies. The globalization of the competition is advantageous for consumers who have the possibility of choosing from a varied range of quality goods. The autochthonous firms are confronted with foreign economical agents, being forced to raise their economical efficiency and quickly adapt to the market's requests in order to survive. Because of this, through the Maastricht Treaty the countries that are aspiring on joining the European Union are requested to have a functional market economy and firms capable of handling the competition pressure and market forces from inside the union.

The competition increase determines a continuous pressure on the producers of reducing their costs, enhancing the products quality and work productivity. Currently two processes are taking place: "outsourcing" (the externalization of entire sectors of activity through companies that are strictly specialized) and "offshoring" (moving units of productions to new areas, potential selling markets with a cheap and qualified working force). In the quest for new markets, with cheap and qualified working force the phenomenon of migrating of the US and Canada's activities towards the south and then from the western Europe to the east, towards the economies being in transition. Currently, the migration sense is facing China and India. China offers a cheap working force as well as an ascending market. Presently, many transnational companies, but also some central-european companies are reorienting to areas with a cheaper working force, moving towards south.

For example, many companies from Serbia moved their production lines in countries like Romania and Bulgaria. The explanation lies in the fact that the minimum wage in Romania is six or seventh times smaller.

The increase of the Romanian companies competition is a stringent need so that the economy can handle the globalization's pressures. The World's Economical Forum publishes annually a Global Competition Report, report in whom Romania is included since 2001. The competition analysis is made based on three indexes: an index of microeconomical competition, who measures the competitiveness of the business environment, an index of macroeconomical competition and an index of the global competitiveness, who displays both indexes summed up.

In the report published at the end of 2005 it was said that Romania made progresses in 2004 compared to 2003 but it's still at the level of countries from South America and behind the east-european countries that had recently joined the EU.

The Internal Brute Product per inhabitant made by Romania in 2005 was around 8200 dollars/inhabitant at the parity of the buying strength, which represents below a third of the EU-25 average, respectively 26900 dollars². Reducing Romania's setbacks from this point of view depends decisively on the acceleration of the economical growth speed, accompanied by an equilibration of the growing factors, including the territorial profile, mainly by majoring the contribution of the brute forming of capital, sustained by the internal savings and EU transfers. Through reaching annual rhythms of 6-7%, sustainable for a long term, the calculations show the possibility that Romania will equal the European PIB/inhabitant average in about two or three decades (in the hypothesis of an annual

growing rate of the economical growth per EU 25 ensemble which won't surpass 2 or 3 percent).

Making an rapid economical growth, that will last on a long term, requires the assuring of political, economical and social politics that will favor:

- accumulating physical and human capital;
- the efficient distribution of resources;
- the continuous enhancement of the technologies.

The economical growth is the fundament factor of human development. It expresses the enhancement of the capacity of an economy of supplying more final goods, in the structure and quality required by the consumers. On the grounds of the economical growth the increase of the economical wealth, the instruction level, the live expectation levels also becomes possible. In return, the human development also becomes a factor that sustains the economical growth. From the results of the economical growth must benefit a greater number of people as possible and not only small groups. For this purpose the simultaneous number of conditions in the process of the economical growth must be satisfied, conditions such as:

- the economical growth must generate working places;
- the people must have access to the educational systems that will allow them to gain the knowledge and abilities required by the new working places;
- the corruption must be reduced;
- the people whom, by various reasons, can't find their place in a competition system must benefit from the state's and social communities protection.

An important problem for Romania is creating an economical growth realized in the conditions of assuring in dynamics of the compatibility of the economical efficiency directly imposed by the market, with those of social and human, ecological efficiency imposed by the need of a permanent creation of conditions for the equality of chances between generations in their succession. The globalization is a complex process that has been received and analysed differently by those who assumed this responsibility. This way, at the extremes the globalization is perceived either as an "universal panacea for eliminating the problems of any sort, either as the source of great troubles for the development".

Some theoreticians of the globalization estimate that the greatest danger that the globalization can imply is the many individuals. It is said that the danger comes from the huge difference that was created trough the rupture between the technological progress and the social one. Thus, it's said that if the technological capacity has made great progresses since the antiquity, the social and ethical-moral component seen from a planetary level has progressed only a bit, if it hasn't even regressed in some aspects.

The globalization can be perceived as an increase, deepening and acceleration of the interconnection at a global scale in all the aspects of the contemporary social life, from culture to criminality, from finances to spiritual life. This interconnection, besides the positive effects, implies some negative consequences too.

The globalization implies some changes in different areas: economy, the way of life, in politics, the diminution of the degree of practicing the control at a local level, in culture,

the depreciation of the collective values. These changes generate either accommodations, either rejections.

The globalization diminishes or reconsiders the sovereignty and autonomy of the state. It doesn't control the process of globalization and its policy. The capacity of the state to govern the internal life of the society had diminished, and other organisms have a greater and greater power, being able of influencing the structure of world's order. More and more, the state itself becomes globalized or internationalized; in other words, its policy, oriented towards its own territory, is changed, the state beginning to operate in the benefit of the regional and global market's forces.

The underestimation of the sovereignty and authority of the state determined his impossibility of controlling the people's migration. The reshuffle of working forces accompany the global economic restructure. In the past decades there have been massive reshuffles of working force from the underdeveloped areas towards the ones developed from an economical point of view. Sometimes, these workers can prove themselves better than the native workers, which can cause tensions. Some states that receive working force (Canada or USA for example) leded politics of attracting highly qualified immigrants, and the process was also accompanied by an illegal migration of semi-qualified or even non-qualified workers. Usually, the politics of immigration include a system of recognition of the professional qualifications, making it easier to enter for the qualified persons and a system of barriers for stopping the flows of non-qualified working force.

For the originating countries, the working force departures represent a loss but also a gain, being able to benefit from the sustaining of the citizens that are working abroad. The migration can produce changes in the habits of the emigrants; some of them can be exposed to prostitution, drugs, can contract AIDS and once returned home they might contribute to the increase of the infection rates in those areas.

The migration can accentuate the marginalization of some geographic areas in the conditions that the countries that are economically developed attract many emigrants who, in their native countries, frequently obtain incomes that only allow them to survive. Often, for the working places in the developed countries are preferred local workers, a fact that hardens the situation of many foreign workers. The departures from the low developed countries are also stimulated by the fact that they confront with high debts, which requires some austerity measures that mainly affect the already vulnerable social classes.

In the context of the globalization, the marginalization means placing people in the situation that the results of their work are lower than the efforts that they make. And for the poor, the individual resources are not enough in order to surpass their social status.

Another consequence of the globalization is the acceleration of the global decline of the environment. The economical growth on a larger scale, begun in the 70's has accelerated the diminishment of the global resources stock and affected the planet's capacity of regeneration, including the balance between the different life forms and the structures that they generate. The explanation is that the decentralization and the liberalization often meant the lowering of the standards regarding the environment. Because of that, the lack of a strict legislation and of some mechanisms of constraining increases the uncertainty referring to the future of the planet.

It's estimated that in the past two centuries the economical activity has consumed natural resources in a rhythm that surpasses the planet's capacity of regenerating itself. In this conditions, the creation of an economical system closer to the needs and aspirations of the people is required.

After the Iron curtain fell and the end of bipolarism of power at a planetary scale, the line of world conflicts isn't between east and west anymore, but between poor and rich. The opening of markets in China, India and in the former Soviet Union made the working force on the globe double, which has contributed to the increase without proportions of the general wealth, who's being unequal distributed. This lack of balance is reflected by numbers this way: 40% of the globe's population, respective 2.7 billion people, live with less than 2 dollars a day, being placed after the criterion of the World's bank in the category of the poorest.

In the report of the United Nations, entitled "The costs of poverty and vulnerability" (United Nations, Doc. ST/ESA/274, New York, 2001), the poverty is defined as the unfulfilling of the basis preferences, and vulnerability is defined as the perspective of falling in poverty or worsening of the actual poverty state. The analysts consider that it is abnormal for 5% of the persons placed in the top of society to earn in just two days as much as the 5% from the bottom of the society during an entire year⁴. The available data shows that a quarter of the developing countries population lives with less than one dollar per day.

The laureate of the Nobel prize for economy Joseph Stiglitz calculated that the European farmers receive from the state and the EU for each cow subventions in value of 2 euro every day. So, he says, "it is better to be a cow in Europe than a poor in an underdeveloped country". In India, a country with 1.2 billion inhabitants, 700 millions survive exclusively out of the products grown on their own small cultivated land. This country has well trained specialists in the domain of the computers and software but in this branch only work around 1.3 million persons.

The contradiction between the poor and the rich became chronic not only in the poor developed countries but also in the rich ones. Thus, every sixth American can not afford to pay for his medical insurance. The economists Emmanuel Saez from the University of California, Berkley and Thomas Piketty from Paris School of Economics have discovered that "in the country of all possibilities" the first richest 10% have obtained 44% out of their incomes before taxing in 2005. The highest earns have been obtained by the first 1% out of the richest, whose ratios before the taxing gradually grow from 8% in 1980 to 17% in 2005.

The causes of the inequality 's deepening are various: the growth of the incomes (profits, salaries) in the context of the globalization that determined: the increase of activity dimensions, the growth of the companies competitiveness trough introducing new technologies, in the conditions of intensifying the market concurrence, the apparition of huge gains.

Up to a certain point, the inequality is unavoidable and desired. The perspective of living well makes people working more and developing new aptitudes and assuming new risks.

A great problem is establishing the “correct contribution” through taxes of the rich at the satisfying of some general needs of the society. In the US, the richest 10% already pay half of the federal taxes (the first 1% pay 25% out of this country’s taxes).

The taxes increase must be done so it won’t diminish the economical stimulants and won’t encourage a great avoidance of the taxing. Also, there can not be solved all the problems tied to the budget through increasing the taxes, and the poverty of some people is not caused by the fact that the rich become richer. Their poverty also reflects their lack of skill and the not efficient working style.

In some developed countries, the lever taxing is used as an instrument of equity and social justice. For this purpose is practiced “the negative income tax” for those who earn too little in order to survive. On another hand, it’s appreciated that those who gain too much should be sanctioned by the fisc. On a global plan are searched solutions for supporting the underdeveloped countries. At the recent G8 summit of Heiligendamm the sum that the eight economically developed countries should pay from 2010 each year so the poverty would be fought in Africa, Asia and South America at 50 billions dollars.

There are also some points of view that consider that this way a beggar mentality is created in the poor countries, making them stop trying to make themselves the effort needed for exiting the deadlocks.

ONU established as an objective for the millennium the reduction at half until 2015 of those who suffer of hunger on the globe, the reduction of the child mortality with two thirds and creating the possibility that all the children will be able to go to school. You can already see that this objective can not be fulfilled. The American politologist Francis Fukuiama considers that the poor countries suffer mainly because the state is too weak, incapable of fighting with the terrorism, diseases, drugs etc. being required the strengthening his force in order to be able to fulfill its social tasks. Franz Joseph Rademacher, professor at the Ulm University considers that the optimal solution would be the initiation of a “global Marshall Plan” in whom the collected funds would be distributed only after each poor country will fulfill certain minimal conditions. This means applying at a global scale of the social economy method applied successfully with the occasion of accepting new members in the EU.

The serious problems that the humanity is facing now impose the understanding of their complexity, finding new concepts, new ways of solving them. The globalization, in order to bring increased social gains for all the states, must be accompanied by modern ways, democratic, of governing. In the actual context of the globalization, sensibly deteriorated by the pollution and the overheating of the Earth, it’s talked about a new concept namely “the economical model of the plante” that must generate some fundamental reactions for the surviving and progress of humanity. In general lines, this means a planetary administration of the energetic resources, of the durable and sustainable development. The accomplishment of this kind of objectives implies:

- practicing some convergent economic politics, by the less developed countries as well as those economically developed;
- making some production processes that will maximize the exits, the utilities and that will minimize all the way to deletion the wastes, pollutions and deterioration of the environment;
- respecting the diversity in culture and economy;

- the free circulation of people, products, capital etc;
- respecting the specific national elements.

The planet's economical model, conceived and applied in the context of the efficient globalization, equitable and global, implies efforts, searches, measures, actions taken by the world's states. This model will be conceived and materialized not outside the national states, by trough the authorities of those states. The problems that must be solved are many, trough them being: the increased growth of the population in the Third World's countries, the drastic reduction of the resources of basic matter and energy, adapting the model of economy with the cultural type of a society and spreading the technological, economical and scientific knowledge.

Conclusions

The globalization reflects changes in the global economy and in the human societies that result from the intensification of the international commerce and cultural exchanges.

Is supposes four types of flows over the borders: flows of material goods and services, flows of people (migration), flows of capital and technology.

In the conditions of the globalization the competition is intensified which is an advantage for the consumers because who now have the possibility of choosing from a wide range of goods. In order to handle the competition, the companies must improve the efficiency of the economical activities.

For Romania, a special problem is accomplishing an economical growth in the conditions of assuring in dynamics the compatibilities of the criterions of the direct economical efficiency imposed by the market, with those of a social, human and ecological efficiency, imposed by the need of a permanent creation of conditions required for the equity of the future generations chances in their succession.

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METHODS OF FINANCING AND IMPLICATIONS OF THE BUDGET DEFICIT

Ion Bucur

Keywords: *budget deficit, budgetary politics, national debt, fiscality, economical growth*

The budgetary expenditures are current governmental expenditures for assets and services, state debts, public power functioning expenditures, expenditures made for education and culture, science, health, social protection etc. They also include the capital investments that are leading to the increase of the public patrimony, including the debt's interests. The governmental expenditures must be financed. The budgetary incomes include cashing in from profit and income taxes, patrimony taxes, house income taxes, wealth, consume taxes, VAT and also non-fiscal resources.

The state budget has a central place in the assembly of the ways that the public power uses in order to act on the economy. State can adopt a positive budgetary politics that implies theoretical fundamentals, measures and actions through whom the cashings and the public expenditures are orientated towards the economical growth, making a high occupation level, decreasing the inflation and other factors that are causing lack of balance.

The incomes that are made from taxes are not equal with the budgetary expenditures in most of the years, but on a long term they present the same trend like the total budgetary expenditures.

The public sector budget deficit is the difference between bigger expenditures and smaller budgetary cashings. The need of the public sector of loaning (which includes the central government, local authorities and institutions that belong to the public property), can be diminished by stock sales like the ones caused by the privatisation of public companies.

In most of the years a budget deficit exists, but there can be years with budgetary excedents. The deficit is determined by the governments fiscal politics but also by the economy's status.

Always, the budgetary expences must be financed. These budgetary expences are financed by taxes; collected incomes and a part of them are postponed. The running cost postpone bond's is the payment of interest's loan. (The debts is a tax liabilities postpone and the interest payment for this money owed is the cost postpone's of debts).

The deficits influence the economical life through their effects that, on a short term, can be either of stabilisation, either of destabilisation of the economy. Another method that allows the deficits to be able to influence the economy refers to the possibility that they affect in a bad way the incomes and the wellbeing on a long term. They can generate, depending on the method of financing, inflation.

Through themselves, the deficits aren't enough to determin the appariton of the inflation. The concern that the persistent deficits may lead to inflation is connected to the presumption that a persistent deficit will determine the Central Bank to increase the monetary offert, which is the necessary condition for a sustained inflation. The monetary emission, as an alternative to cover the budget deficit, was used in our country until the end of the year 1993, when, once with the establishment of the State's Treasury, the automatic funding of

the budget deficit was forbidden. The deficit doesn't generate inflation when it's financed through governmental loans on the capital markets from the private sector. If it's financed through the sale of state titles by the public banks, the bank creates the money to finance the deficit by giving to the government new deposits in exchange of the state titles. A too fast increase through this method will generate inflation.

A second method of covering the budget deficit is covering it with direct funding, without a real coverage in assets or services. It's the case when the coverage is often made by loans either internal or external, which generates though a series of additional costs connected with the instalments pay and the interests. Also, the external loans will generate, outside the specified expenses another cost caused by the currency's depreciation. Using the first two methods to cover the budget deficit demands in the same time finding some ways of cutting the monetary mass in circulation in order not to generate inflation effects. The higher the budget deficit will be the more restrictive the monetary policy must be. We're reaching this way a vicious circle, because an restrictive monetary policy will determine implicitly an increase of the budget deficit by raising the financial services (public debt) and by cutting the fiscal resources caused by activity ceasing. Financing the budget deficit by external loans increases the national debt.

The implications of the national debt on the economical growth are different. The national debt can affect negatively the economical growth on a long term, if the borrowed resources are spent on consume or if they are invested in the public sector, less productive than the private sector. Many economists believe that the use of resources in the public sector is less efficient than in the private sector. This assumption is one of the main reasons the cause the expansion of privatisation.

In an open economy, with flexible exchange rates, the deficits increase the external loans. The payment of the loans and of their interests will be difficult if the efficiency of the public investments made with those loans won't be assuring a higher profit than the interest paid for loans.

The future generations will have to repay the debts and pay for loans that the current generations made. If the present generations would make some savings in order to compensate the deficit, the future generations won't inherit debts and wouldn't be subjected to additional fiscal pressures.

The high fiscality stimulates the underground economy and determines the reduction of the economical agents own financings. The underground economy exists in all the countries, including the developed ones. In the U.S. for example, the underground economy represents about 10-20% out of the National Brute Product because in the conditions of a high taxing many are trying to avoid legally their taxing obligations and to this are added other illegal aspects too (funding defalcation, evasions, not registering incomes)

The short term budget deficit has a stabilisation role and they contribute to the increase of the aggregated demand, by playing an important role in the elimination of the cyclic fluctuations out of the economy. On a long term, causing external loans, they can have negative effects, determining the reduction of the average citizen's future standards. Romania will reach in 2008 a peak of public governmental external debt service, when it will have to return external debts of 2.36 billions euro because of this component. The service of the state's public debt represents instalments payback for loans falling dues,

interests payments, commissions and other due costs to the announced engagements. In 2006 the public external debt service was 1.68 billions euro. Between 2007-2011 the public external debt governmental service will maintain itself at levels between 1.6 and 2.3 billions euro. This way, in 2007, the public external governmental debt service will be 1.87 billion euro, in 2008 – 2.36 billion euro, in 2009 – 1.6 billion euro, in 2010 – 2.18 billion euro and in 2011 – 1.36 billion euro.

From the point of view of the loaning strategy, prudence is recommended in contracting the public external debt on terms below five years in order to avoid the accumulation of falling dues in this period.

The public external debt and public guaranteed has recorded at 31 December 2006 a level of 10.69 billions euro, which represented 38.6% out of the long and middle term external debt (compared to 45.8% at 31 December 2005). At the same date, the long and middle term external debt had reached a level of 27.718 billion euro.

At 31 December 2006, the public governmental external debt was 10.28 billion euro, decreasing with 662.5 millions euro from the end of the year 2005. The public governmental debt controlled directly by the state had represented 62.5% out of the total public external debt, and the public governmental external debt guaranteed by the state, 37.5%; 47.3% out of the debt represented the debt contracted with official creditors (including The International Money Fund). The private creditors, the commercial banks and the debentures emissions represented 52.7 % out of the total.

Based on the composing currency, the greatest share has the euro – 60.7%- followed by the dolar – 29.6%. In 2006, the public external debt represented 10.4% out of the P.I.B. and the public external debt service – 1.8% out of the P.I.B. The levels of Romania's external loans are way below the maximum level admitted by the European Union, which are 60% out of the P.I.B.

It's well known that the budgetary execution from on time or another can be balanced when the expenditures are equal with the foreseen incomes, excedentary when the incomes from that period of time are bigger than the expenditures or deficitary when the expenditures overcome the cashed incomes.

A balanced anual budget is hard to obtain and it's not oportune. It's difficult to obtain, maybe even impossible, because most of the budgetary expenditures oscilate along with the national income, if we have precise taxing rates. It's inoportune because correlating the budgetary expenditures with anual budgetary incomes would force the expenditures to act in the same way as the incomes, which increase in times of boom and decrease in time of crysis. This way, the budgetary expenditures could become a major destabilisation force. This expenditures often act like a stabilising element for the economy when it isn't very sensitive to the cyclic variations of the income. A balanced anual budget would accentuate the oscilations of the national income who comes along with the changes of the autochtonous expenditures fluxes, like investments and exports.

In the period of time between the two world wars was formulated the theory of cyclic budgets according to whom the budget deficit was accepted during the periods of economic recession, but an budgetary excedent was established during the expansion

times; this way, during an economic cycle, the deficits and the annual excedents were supposed to equilibrate themselves.

A well balanced budget along the economical cycle would be easier to accomplish. It wouldn't turn the governmental expenditures into a destabilising force, but it would make some problems. It might just happen that a government would spend in excess compared with its incomes during an year and then lose the elections next year, making the following government to spend less than its current incomes. This sort of method of equilibrating the budget over a certain number of years could be legally imposed through a regulation made by the parliament, but the next parliaments could modify the rules.

A bigger problem is that there have always been arguments about the current state of the economic cycle. The balancing of the budget along an economical cycle could be made only on the basis of a certain prevision about the future economical conditions. The prognosis of the economical activity level implies certain uncertainties and there will always be disagreements between the economists about the stage of the economical cycle in which the economy and the direction where it's heading is included. The difficulties that are caused by these uncertainties imply that the politicians will have a role in the economic prognosis. Those who are in favor of the governmental expenditures increase will tend to say that the current year is an unusual bad one, and the deficits from that year can be compensated by the excedents of the future years, better years. On the other side, some will say that the current year is an unusually good one, good for accumulating excedents for the following difficult times.

Although a balanced budget along an economical cycle combines the stabilisation demand on a short term with the preoccupation for balancing the national economy on a long term, in practice it might not be possible to define exactly the economical cycles, which makes the equilibration objective unoperational.

After the second world war the Keynesian conception had imposed itself, saying that the reestablishment or maintaining of the overall economical balance, throwing out of balance the state budget. This must serve to the fight against the economical recession, increasing, through a relaunching of the consumption and/or the investments, the global request in economy; the other way around, the budgetary excedent, through a restriction of the global request in economy, must combat the over-occupation and the inflation engendering.

Starting from the Keynesian conception, an opinion that the budgetary deficits represent tools of promoting prosperity. In this vision, a budget of acceptable size has a relaunching effect on the economic activity, because it generates a supplementary buying power which, in its turn, starts an extra consumption, leading to the increase of the developing rhythm.

In Romania's case, looking at things retrospectively, in the years before the transition some important excedents were obtained, but not on the basis of the existence of an economical prosperity period but in the conditions of stabilisation of the deficits and diminution of the consumption assets that reached the population. If those funds would have been used for productive investments in economy it would have stimulated the productive activity, including the economy's sales fluxes. Unfortunately, the beginning of the transition had been characterised through an expansionist fiscal and budgetary policy, by spending all the budgetary excedents obtained in the past years, in order to sustain firms that weren't

performant and the population by giving back the “social parts” and by increasing the real salary.

This politics, combined with the liberalisation of the the commerce and the begging of the prices liberalisations, have cancelled the currency deposits by reducing the exports and increasing the imports and determined an inflation of great proportions. In the same time the delays were accentuated, in the conditions of the avoidance of the crediting restrictions by the economical agents, and the companies losses were covered with budgetary resources. In the year 1993 the I.C.M. was replaced with the V.A.T. and it went to the transparent financing of the budget deficit. In the following years the positive effects of this measure weren't used for restructuring the real sector. An economic increase took place in the terms of increasing the deficit of the external payment balance, amplification of the financial blockage and the diminution of the valutory stocks.

In the years 1994-1995 the restrictive financial politics supposed the increase in price of fiscality, the economical relaunching being done with the credit financing. More to come, the fiscal pressure encouraged the perpetuation of the fiscal evasion phenomenons and the apparition of the cvasi-fiscal deficits.

Some theoreticians consider that the cvasi-budgetary deficit is a way of budgetary relaunching, which should have led to the lowering of the waging pressures and the unemployment, in the terms of combining it with an restrictive monetary politics. Also, the cvasi-budgetary deficit determines an enhanced increasement of currency needed for the relaunching, which demands high interests rates. The bigger the budget deficit is the more restrictive the monetary politics must be. The restrictive monetary politics determined an accentuation of the budgetary deficits in our country through the growth of the public debt and the financial resources reduction.

The budget deficits stimulates an increased demand for currency needed for the covering of and when the currency is created there must be found solutions that won't strengthen the inflationists pressures and stimulate the economical relaunching. In the economical theory it's estimated that, on a precise assembled economisation, the high budget deficits will also come with either an external commercial deficit, either an increasement of the internal investition. In the years of transition of our country, the budget deficits didn't stimulate in an absolute mode the economical growth.

According to a report made by the World's Bank analysts, the average annual growth of Romania was negative during 1990-2000, 0.6%, and positive, 5.8%, during 2000-2005. At a global level, in the two analysed periods of time, the progress was one of 2.9% respectively 2.8%. The agricol sector of Romania and the industry recorded in the first 10 years after 1990 negative rythms of 1.9% respectively 1.2%, in order to reverse the tendence after the year 2000 and obtain progresses of 8.8% respectively 5.6%. The services had a constant growth after 1990 though, until the year 2000, when the medium progress was one of 0.9%, in order to increase to 5.5% in the next five years.

Between the years 1990 and 2005, Romania recorded decreases of the GDP. share of agriculture (from 24% to 10%), industry (from 50% to 35%) and production (from 34% to 24%). The income share went from 26% to 55%. When we speak about production we include the alimentary sector, the chemical sector, the textile industry and also the cars and transport equipaments. Compared with the global situation, the agriculture, industry and

production shares in Romania's GDP still remain high, the situation being the other way around when we speak about services. This way, at a global level, the agriculture will have in 2005 a share of 4%, the industry 28% and the services 69%.

Based on the value of the current account deficit, in the year 2005, at a global level, Romania occupied the 12th place, in the first 15 places also being Hungaria and Poland, according to the same World's Bank report. The current account deficit of Romania was one of 8.5% billion dollars, the equivalent of 8.6% out of the GDP, according to the International Financial Institution research, which analyses a series of development indicators. Hungaria had in 2005 a current account deficit of 8.1 billion dollars (7.4% out of the GDP) and occupied the 13th position in the Bank's charts. The first position belonged to the United States with a deficit of 791.5 billion dollars, the equivalent of 6.4% out of the GDP. The United States were followed by Spain (83.1 billion dollars), Great Britain (49.5 billion dollars) and Australia (43.2 billion dollars). In the top also entered France, Italy, Turkey, Greece, Portugal, New Zealand, South Africa and Ireland. The National Prognosis Comitee anticipates for this year a current account deficit of 10.5% out of the GDP, estimated to reach 8.4% in 2013.

When it comes to commercial balance, the most important component of the current account, for 2007 it's estimated a deficit (the difference between F.O.B. exports and C.I.F. imports) of 18.45 billion euros. The imports are going to grow this year with 19.5% and the exports with 17%. The World's Bank realised a chart based on the states current account excedent. The first place was taken by Japan (165.8 billion dollars), followed by China (160.8 billion dollars) and Germany (116 billion dollars). For the year 2005, compared with the year 1990, Romania's exports grew in the analysed period over five times, from 6.4 billion dollars to 32.7 billion dollars. The imports advanced from 9.9 billion dollars to 42.8 billion dollars.

The improvement of the commercial balance must be determined by a greater dynamic of the exports and not by restricting the imports. In the case of restricted imports it's possible that a diminution of the private investments is registered. Also, it must be held onto account that the national currency depreciation must not determine a great improvement of the commercial balance.

For our country to eliminate the obvious economical gap between it and the "older" members of the European Union, it must make average annual rythms of 6-7% for 20-30 years (in the hypothesis of an average annual instalment of the economical growth on the whole, E.U. 25 demands not to overcome 2-3%). The GDP per inhabitant, by that fact that it sums the result of the value added from all the activity sectors, including the balances of the relations with the foreigners, reported at the number of the population is frequently used in the international comparisons.

In what concerns Romania, the 8200 dollars/inhabitant level of GDP by the parity of the buying power in 2005 represents below one third of the E.U. average, which is 26900 dollars. The development gaps shown by this indicator remain significant, also compared with the most advanced members of the E.U. (1/8 compared to Luxemburg, 1/5 compared to Ireland, 1/4 compared to Austria, Denmark and Holland, 1/3.5 compared to France and Germany etc.), but also compared with some states from the Central and Eastern Europe (1/1.25 compared to Slovenia and the Czech republic, 1/2 compared to Hungaria, 1/1.5 compared to Poland and the Baltic countries).

The reduction of Romania's gaps from this point of view and also as regional differences depends decisively by the acceleration of the economical growth speed, accompanied by an equilibration of the economical growth factors, also in the territorial profile, mainly by increasing the brute contribution to the capital sustained by the internal savings and the E.U. transfers.

In conclusion, the financing of the budget deficit is a seriously delicate problem, who requires an increased attention from the politicians, because of the effects that it has on the real economy and the population. The budget deficits must be for our country too a way of impulsing the economical activity, which cannot be made through increasing the fiscality. A viable solution is to redirect the financial funds of the state to the productive sector, because this way the budget deficits sustain the economical activity.

The budget deficits have favourable effects if they aren't persistent and if they are included in reasonable limits which are based on the reasonable level of the governmental debt. Because the debts represent postponed fiscal obligations, when the dynamics of the debts is bigger than the dynamics of the GDP., the contribuables capacity of financing the higher and higher interests can be surpassed. In this situation, it's loaning other sums of money is stopped and there must be taken measures for the expenditures reduction and the increasement of the taxes.

Conclusions

The budget policy has a important place among all macroeconomics policy's state. Alway, the growth of public expenditures, the consumption, the investments, the improvement of the national economy are conditional upon in a large measure for the budget's state.

The budgetary policy is materialized in budget of state, that is a principal means which forming the publics incomes and to perform the public expenditures. In conclusion, the budgetary policy is the same with policy's expenditure and policy's incomes.

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RISKS AND CHALLENGES OF FARMING AND AGROMARKETING ACTIVITIES IN ASSURING THE FOOD AND HEALTH SECURITY OF THE ROMANIAN PEOPLE

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Abstract

One of the main human competitions was and still is the food acquirement, needed to support life. The food acquirement is stricken by the alimentary products supply, by the prices, by the distribution arrangement and the cost of it; all of those taken together and in part are risks in the manufacturing, buying and consumption.

Keywords: *Food security, Power and nutrition cost, Food cost, the prices scissors, Indexes of consumption prices, Indexes of the net income, the degree of the food security assurance.*

The people’s need for food consumption

Today’s society is the knowledge one – knowledge society – is a fascinating society, with challenges and threats. Everything is a competition, a given thing of the exterior environment to the man that is put in competition without his will. The competition is an interior feature of human being, something that defines his personality under the record of his genetic dowry and gain by experience and qualification behavior.

The competition is universal and expresses the practical manifestation of the tension between the human being’s interior environment and his exterior one. The first and the main human competition were and still is the food fight. The right to eat is the first and it is equal with the right to be born and live.

The human being in his history acquired multiple victories in unbinding the nature’s secrets, but he remained humiliated in front of the capacity to gain the daily food. The human history is full of narrations about periods of starvation when millions of people died. Homer said:”Any type of death is horrible for mortals, but the most distressing death is the one by starvation.”

When even today $\frac{1}{4}$ of the planet’s population is starving (according to FAO about 2 billions of people suffers of malnutrition) , we are in front of a paradox ; the interest for resolving the food problem , the starvation problem , in low from the International Community , the right to eat is in second plan , giving priority to other human rights . “The number of publications that approach the starving phenomenon today , in any language is amazingly low” Josue de Castro said in his famous book “The starving geography ” – comparing to lots of publications with obviously secondary themes and comparing to the explosion of the human degradation literature.

The starvation asks for examination from different points of view: biologic, economic, social and moral. Even if the man in different stages of his development slips in same way to the biologic laws within the famous expression “*homo homeni lupus*”, he engage

himself in the fight assessed by economic and social laws that adjust the products demand and offer . The quantitative and qualitative growth of the food resources actualized in time on the plant cultivation and animal keeping base, the appearance of agriculture being one of the main human discoveries that gave his existence meaning on earth. The issue of the food security, of resolving the starving problem was and still is a double problem; it belongs to either the agricultural and alimentary production and to its apportionment in both the interiors of countries and in international exchanges and the people access to it.

Alimentary typologies and their cost

The economic development leaded to the diversification of human needs. In countries with long time social peace and economic progress , the consumption of base , strict necessity products (meaning food) , have curves that are in an limit line of the demand ; at the same time the secondary products (meaning non-food) , remain in growth , and services (tertiary products) have a demand curve powerfully stimulated without signs of slowing anywhere in the world .

Resolving the food security issue both in the world and Romania , compel to an economic policy based on the knowledge of the consumption needs and on the necessity of rising the population solvent demands for alimentary products (rising their incomes). The goal of the alimentary security is to assure for all people, anytime, a real access to products that they need to a reasonable cost. So, it's about the power and nutrition cost of food until the phase of final consumption. Is known that agriculture is the branch with the lower artificial energy consumption, because it consumes a large quantity of photosynthetic energy.

Though, in the alimentary chain the quantity of consumed energy for manufacture, preparation, packing, transport, storage and distribution of food is greater than the production itself. All the activities in connection with the nourishment cost – according to lots of scientists – have the following structure:

Table 1. The structure of the nourishment cost

Nr.	The economic field	Rate
1	Agriculture	18,0%
2	Industrial processing	33,0%
3	Selling	16,0%
4	Transport , storage	3,0%
5	Domestic processing	30,0%
6	TOTAL	100,0%

Source – Mircea Bulgaru – The right to eat, Economic Publishing House, 1996

It can be seen that the larger weight in the alimentary cost, in this phase, it's not agriculture but all the other activities, about 73% in total cost of the product. From this point , we can form the idea that the issue of assuring the food security at country-level and global too , it's not a problem of farming , but one of other activities costs repartition , so this is a problem that demands settlement on fair bases of the internal and international agro alimentary trade , between advanced and lower advanced countries and maintain under control the prices scissors between manufactured products and agricultural ones .

The exterior trade – risk factor for the food security

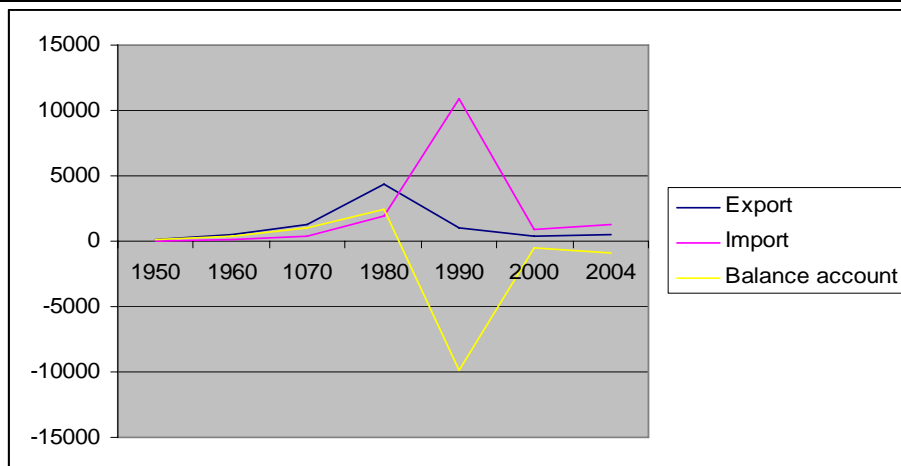
The external commercial relationships are supported by interests. The friendship and co-operation relationships between states are not forever, but the interests are and those are assessed by the powerful, influential states to low advanced states and to those state that are incapable to maintain social peace for long time period. Of course, the external trade can have an bivalent character, it can be at the same time a progress factor and a regress one, an equilibrium factor or a lack of balance one, when are applied unjust prices in international exchanges.

The export of food in Romania, can be framed in two periods: a growth period 1960 – 1980 and an decline period 1985 – 1989. The decline was even larger after 1990. Between 1950 – 1989, there was an integration inclination of the Romanian agriculture in international exchange economy, meaning that the export rhythm was larger that the agricultural manufacture increase. Though, it's notable that between 1985 and 1989 at main farming products were only: 6% of fresh fruits and vegetables, 8% of production of cereals, 8% of production of meat, 8% - 10% of production of eggs; 1/3 of production of butter and oil, the rest of the production was for the industrial manufacture, growing the production and internal consumption.

The import of farming products in Romania in post-war period was orientated to assuring some products that were not available in Romania (cacao, coffee, olives, citrus fruits etc.). The period after 1990, the external trade became free of agro alimentary products, and that was a disaster for the Romanian agriculture. Only in the first four years, 1990-1993 were imported farming products having a value of 4,5 billions dollars, products which could have been found in Romania or could have been produced by the Romanian agriculture. This fact brought sever damage to the national economy by blocking the internal agro alimentary production, destroying the number of domestic animals, the growth of prices, the allowance of the rural people and population in general incomes. The evolution of the exterior alimentary merchandise and drinks trade developed between 1950 and 2004 as it follows:

Table 2. The balance of the exterior trade of the agro alimentary products between 1950 and 2004

	1950	1960	1970	1980	1990	2000	2004
Export	180,7	518,3	1342,7	4344,4	1023,5	386,0	464,0
Import	4,9	98,8	357,6	1880,7	10833,5	949,0	1299,0
Balance account	+175,8	+419,5	+985,1	+2463,7	-9810,0	-563,0	-835,0

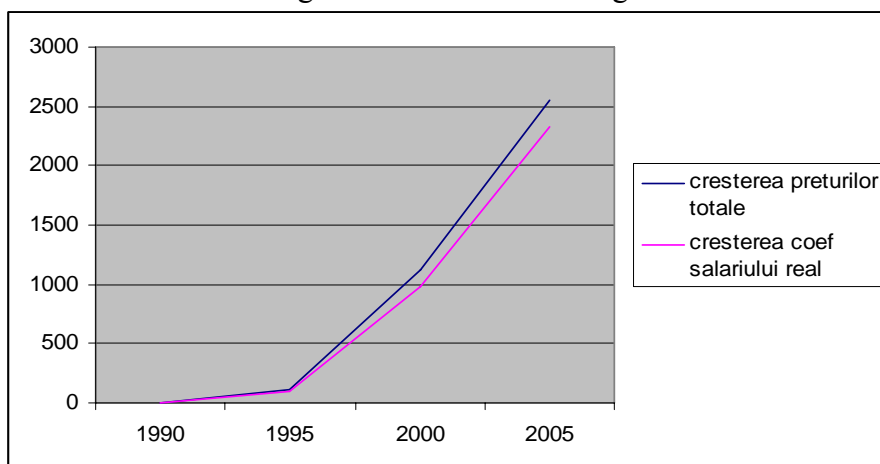


In the costs policy there were paradoxical and ridicule situations. In the period that followed 1990, only on cereals (that exists abundantly in our country), there were important quantities imported, with prices sometimes double comparing to the ones of natives sellers. This situation caused damages to the native producers, and even to the entire national economy. The growth of prices, that had a stronger dynamics comparing to the population incomes dynamics, leded to the allowance of living level and people's state of health. The indexes of the costs of consumption , of the net incomes growth coefficient and the real incomes growth coefficient, had between 1990 and 2005, the following evolution :

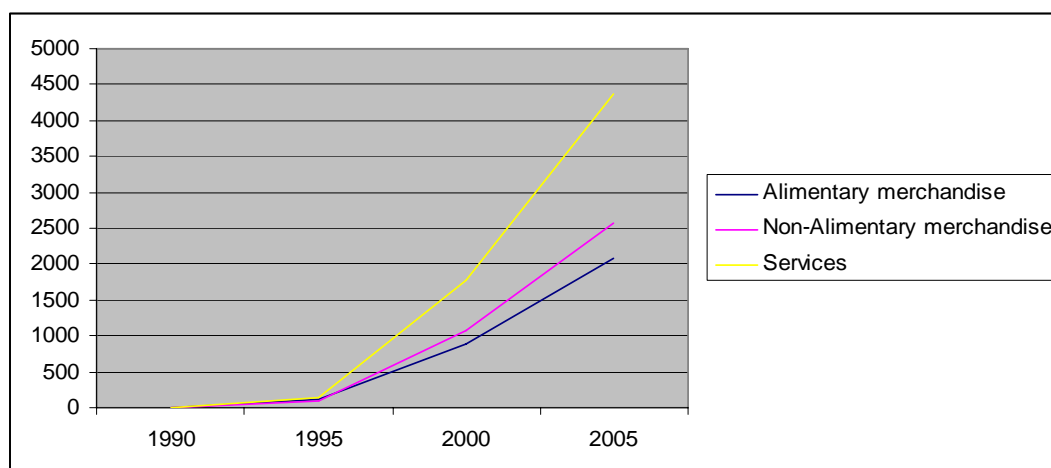
Table 3. The indexes of the costs of consumption , of the net incomes growth coefficient and the real incomes growth coefficient between 1990-2005

Indexes category	1990	1995	2000	2005
Total	1,0	108,9	1117,6	2549,1
Alimentary merchandise	1,0	120,1	878,7	2087,8
Non-alimentary merchandise	1,0	101,9	1083,3	2578,5
Services	1,0	150,3	1778,8	4357,9
Index of net income growth	1,0	95,9	986,3	2328,9
Index of real income	1,0	66,5	59,4	78,3

The evolution of indexes of costs growth and net incomes growth coefficient



The evolution of indexes of the costs of consumption, for alimentary, non-alimentary and services



The evolution of the alimentary consumption

The situation of assuring the alimentary consumption for the population in the last 60 years, must be analyzed in the real historic conditions in which the economic and social development evolve : the nature status , the existing technologies , the pay of debts for the East and West war (over 2 billions dollars) , the destruction of the national fortune in two periods : in the war and in the unjustified events in 1989 and after 1990 , the payments to the Soviet army for more than a decade , the terrible drought between 1945 and 1946 , the cooperate system of production .

The rate of the alimentary security assurance for the population , is presented as the actual consumption of agro alimentary merchandise for every inhabitant , using the physical units (calories) and pecuniary units under the aspect of their prices .

The evolution of the alimentary consumption can show the reality better if it is analyzed using short periods , that because the global environments may be wrong if the period used is large .

The period taken in this case for the alimentary consumption for the main alimentary merchandise was cut in three smaller periods : pre-war , post-war and after the 1989's events .

Table 3. The evolution of the physical annual consumption for every inhabitant for the main agro alimentary products

The product	U/M	1938	1945-1950	1950-1960	1960-1980	1980-1989	1990-2005
Meat	Kg.	21,1	16,7	26,7	62,8	50,2	48,5
Milk	Lt.	109,0	107,6	123,0	162,9	135,9	205,5
Eggs	Nm.	73,0	59,0	109,0	232,0	229,0	230,0
Sugar	Kg.	5,3	6,9	11,0	28,2	24,7	22,5
Cereals	Kg.	230,0	130,5	202,3	167,3	172,7	198,0
Vegetables	Kg.	44,0	65,6	91,0	135,6	121,4	160,5
Fruits	Kg.	40,0	20,7	30,3	53,0	47,5	45,8

It can be seen that in the entire analyzed period the alimentary consumption had an ascending evolution from the native production, with one exception : the period after the second World War . Substantial growth took place between 1960 and 1980. After this period, there was a lax decrease but the alimentary consumption still was above the other periods.

After 1990, the consumption remains relatively invariable but was based on large imported quantities. In 2005 over 70% of the agro alimentary consumption, with a value of over 2 billions Euros, was from imports. This means that the supply from the native agro alimentary manufacture was low and also that the population and the national economy was (and still is) loaded. This is a risk to unexpected events for the next generation.

Conclusions

Obtaining food was and remains one of the main priorities for man and state that he lives in. Between man and his nourishment there is a dynamic relationship. Assuring food

remains a subject with wide economic and social implications. The hunger and its speculation by interests groups are the base for massive social disturbances.

In Romania the alimentary consumption was stricken over time by natural and social events but it had an continuous ascending curve. The agro alimentary merchandise internal market is influenced by activities from the upstream and downstream of the aboriginal farming product, but also by politic conjunctures and external market.

THE LISBON STRATEGY AND THE ECONOMIC GROWTH

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Abstract

In March 2000, the European leaders pledged themselves that the EU would become until 2010 the world's most competitive and dynamic economy, capable of a sustainable economic growth accompanied by a quantitative and qualitative improvement of employment and by a higher social cohesion.

Keywords: *the Lisbon agenda, economic growth, GDP, productivity, competitiveness, cohesion.*

Introduction

Twenty years have passed since the moment of the relaunching and rethinking of the unique European market and six years since the elaboration of the document called *The Lisbon Strategy*, years during which integration results have been waited. There were, obviously, positive results, but not as spectacular as predictions had forecast. The economic growth is the big issue of Europe compared to the United States and more recently to the Asian countries.

For the fifth time in a row (2005), the year ended with an increase of the GDP (Gross Domestic Product) lower than 2% in the Euro area. It is also the fifth time when the predicted figures were not reached. No one in Europe is satisfied with the economic achievements and there is no consensus about the remedies. Some incriminate the orthodox attitude of the Central Bank and the constraints of the Pacts of Stability and Growth. Others accuse the slowness of reforms on the labour, assets and capitals markets. The result is a dialogue of the deaf, which is unproductive and incoherent.

The break-through from this blockage supposes the admission of the fact that the Euro area needs more active reforms and policies. The example of certain countries, such as Great Britain, Sweden, Norway, Australia, which have built mixed strategies combining the stimulation of the supply with the management of demand, is eloquent. The complementarity of these policies led to outstanding economic results.

An active macroeconomic policy favours the long-term growth allowing the companies to develop lower-risk investment projects. The credit policy is more anaemic in the Euro area

than in other zones of the world, zones with a more powerful development. The response of the credit market to the variations of the interest rate is slower and weaker in Germany and France, and the correction of this inertia can be done only with a more efficient monetary policy.

According to Fitoussi (1998), the involvement of politics in economy has been constant in the Euro area, to such an extent that it could lead to the bizarre monetary arithmetic described by Sargent and Wallace: a too restrictive monetary policy can lead to inflation's expectations, and by slowing down the economic growth it can lead to the immense increase of the public deficit. The rates of the real short-term interest increased at a moment when there was no clear sign of inflation acceleration. The slowing down of the growth rate had a negative impact on cyclic deficits at a moment when it was difficult for governments to deliberately reduce the structural deficits in view of reducing unemployment. This situation should have put into motion two corrective mechanisms: a decrease of the real interest rate due to the decrease of the growing rate of money demand at the expense of the slowing down of activity and a real depreciation of most European exchange rates. Things did not occur in the above manner. The rates of the real interest continued to grow in order to prevent the depreciation of the European exchange rates. The private demand decreased considering that the restrictiveness of the monetary policy and the external demand was discouraged because of the real appreciation of exchange rates. The fact that the year when a negative growth rate was registered – 1993, the rate of the short-term real interest was of 4,6% for EU15 will remain in the history of world economy.

The Lisbon strategy

The European Union needs, more than ever, a programme of growth and jobs creation. It should find its place within the world economy, its own legitimisation. The weak economic performances of the union lead to the questioning of the entire strategy rendering integration the main vector of growth. These things led to the adoption of the Lisbon programme. When they adopted this programme, in 2000, the heads of states and governments set a 10-year deadline for the transformation of European economy and for turning it into a leader of world technology.

The European Union set, through the *Lisbon Strategy*, a very ambitious goal for the following years: to become the most competitive and dynamic economy of the world, an economy founded on knowledge. This strategy implies a series of structural reforms meant to promote, develop, adopt and use new technologies through massive and efficient investments in knowledge, public policies aiming at stimulating the technology transformation and increase of productivity, support for the technologic research and development, human capital training, development of a legal framework favouring innovations and electronic transactions, the deregulation and promotion of competition and competence.

The rebirth of interest for the factors triggering economic growth through the new theories of growth led to a new understanding of fundamental factors of long-term economic prosperity. Due to the new perspectives brought by these theories there appears the possibility of a new period of possible interaction between the political theory and the economic one.

The surveys performed in order to examine the factual evolution of the increase of GDP per capita in the developed countries retained the following: the use of labour and the

accumulation of capital, the investments in the information and communication technology and in human capital accompanied by a higher efficiency as well as the innovations in the production of goods and services played a decisive role in the difference registered in the process of economic growth among countries after the beginning of the 90s. The economy of developed countries has witnessed a continuous growth during the last decades, even during certain recession periods. There are nevertheless great differences in the process of growth. Ireland, one of the poorest countries 10 years ago, had an accelerated growth pace. The growth of the American economy in the 90s was accompanied by the reduction of the unemployment rate and inflation rate. It was the case of other states too, that grew fast (Spain, Portugal), and of others which stagnated (France, Germany).

The technologic transformation depends on the amplitude of the resources dedicated to this process, the technologic progress is directly proportional with the quantity of resources allotted to the innovative activity. A proposal alternative to the one previously presented would be that the technologic change is connected not to the resources dedicated to the process, but to the level of the knowledge acquired. The increase of the number of individuals having access to high-level knowledge and of the information stocking means are meant to improve the process of transmitting the existing knowledge and of accelerating the technologic progress.

Here are some of the objectives of the *Lisbon Strategy*:

The goals set in the field of employment were the following:

- A global employment rate of 70% in 2010 (67% in 2005);
- A women employment rate of 60% in 2010 (57% in 2005);
- An aged people employment rate of 50% in 2010;
- A 5-year increase of the average retirement age until 2010.

The goals set in the domain of innovation:

- allotting 3% of the GDP for expenses regarding research – development for 2010;
- creating programmes of national research based on volunteering;
- creating a favourable framework for private investments in research and for partnerships in research – development and support for the new companies specialised in advanced technologies;
- exploiting avant-garde technologies;
- eliminating the obstacles standing in the way of researchers' mobility;
- introducing a community licence / patent in optimum cost-efficiency balance.

In the field of education and professional training the priorities are:

- substantial increase of investments in human resources;
- promotion of long-life education and training;
- improvement of the qualifications recognition;
- introduction of a European dimension in education and training.

The goals set in the field of social cohesion:

- Reduction of the number of young people leaving school prematurely;
- Efforts in view of reducing the number of persons exposed to the risk of poverty.

At the middle of the road, it is clear that the Lisbon strategy is today a failure.

These ambitious goals can no longer be reached at the proposed deadline, which led to the reformulation of the programme in 2005. Europe's losing the battle of competitiveness in favour of the United States and China has become a motive of concern. Europe must not only face the competition with the great traditional industrial powers but also the competition with the emerging countries, which have the advantage of more reduced costs. Its deficit compared to its growth is accentuated, delocation of European companies is amplified.

All economic indicators evolve negatively: economic growth, level of productive investments and demand, employment, public deficit. To these are added the exodus of researchers to competition areas as well as the increase of the social security cost accompanied by the population ageing and mass unemployment.

The Kok report, drawn up at the request of the heads of states and governments, makes this explicit finding of facts: halfway to the set deadline, the year 2010, the ensemble image is very temperate and shortly Lisbon risks to become a synonym of too ambitious goals and unfulfilled promises. The Lisbon strategy suffers from four main errors.

The first flaw is the lack of realism of its central goal, to overcome the United States at the technological level until 2010. The second error is connected to the method. The strategy comprises a list of more than one hundred criteria of variable importance that are not very clearly linked to the central goal. The third error has to do with the pressure put on equality. The powerful countries, less sensitive to the egalitarian pressure, ignore the documents of the programmes, although they need reforms most. The fourth error is to have set goals for the ensemble of the union, although the countries are in different situations.

According to the Kok Report (2004), if Europe wishes to increase the quality of its citizens' life, it should stimulate the economic growth, employment and productivity by structural reforms accompanied by a macroeconomic framework favouring growth, demand and employment. Firms actions are necessary in five domains:

1. Society of knowledge: Europe should become more attractive for researcher and scientists, it should turn research - development (R-D) into a first-plan priority and promote the use of information and communication technologies (ICT);
2. The internal market: to promote the opening of the internal market in the sense of the free circulation of goods and capitals and to render functional a unique market of services;
3. The business environment: improvement of legislation, facilitating new businesses creation, establishment of an environment more favourable to companies;
4. The labour market: elaborating strategies for permanent education and training, supporting partnerships in favour of the employment increase;
5. Sustainable development: disseminating eco-innovations and making eco-industry a priority, the sustainable improvement of productivity grace to eco-efficiency.

According to the Kok report, an explanation of the Lisbon agenda failure is constituted by its very philosophy: the attempts to conciliate partially contradictory goals (growth, employment, sustainable development, social model preservation).

In the recent reformulation of the Lisbon programme by the European Commission (2005), there are ten goals:

1. Development and consolidation of the unique market;
2. Guaranteeing the open and competitive markets in Europe and in the exterior;
3. Improvement of the European and national regulations;
4. Expansion and improvement of the European infrastructure;
5. Increase of investments in research - development (R-D);
6. Facilitating innovation, adopting ITCs and sustainably using resources;
7. Creating a solid European industrial basis;
8. Attracting an increasingly higher number of person to the labour market and modernising the social security systems;
9. Improving the adapting capacity of employees and companies and increasing the labour market flexibility;
10. Investments in human capital for the improvement of education and competencies.

In order to stimulate Europe's growth potential it is necessary, besides the reforms on the side of the supply, to also implement a framework of macroeconomic policies sufficiently flexible (mainly monetary and fiscal policies that are considered «growth supports»). Similarly, the Sapir report highlights the need to combine macroeconomic reforms with a revision of the macroeconomic political framework, especially considering the increased heterogeneous character of the EU after the integration of the new members, which supposes more flexible rules in order to limit the potential adverse implications of the policies. The challenge is represented by the attempts to find a balance between discipline and flexibility.

It is necessary to implement a sensible reform of the Pact of Stability and Growth as fast as possible. A sensible reform of the Pact of Stability and Growth, combined with firm and realistic goals for the medium-term fiscal consolidation may also create a new basis for a certain type of *policies mix* for the co-operation between the European Central Bank and the European Council (the so-called euro group). The monetary policy should be symmetrical along all the business cycle, providing an equal weight to beginning and end risks as regards the prices stability and the economic growth. It becomes more important, given the general orientation of fiscal policies towards ambitious targets as regards the fiscal consolidation, which will be more easily achieved in a context of sustained economic growth.

The performances of the European economy

The mediocrity of the European economic performances is not contested by anybody. The figures show that the GDP per capita in the EU has stagnated for thirty years at 70% of the United States one. In the dispute on the topic of economic performances, one briefly presents four theses supported by researches in the last period.

The first thesis claims that Europe is not as ill as it seems and that the European performance is a simple effect of the preference for leisure time in the detriment of labour (Blanchard, 2004): the Europeans do not suffer from a retard of productivity, but form an insufficient appetite for labour.

The second thesis lays the stress on the macroeconomic policies (Fitoussi, 1995 and Fitoussi and Le Cacheux, 2005). According to these analyses, the European economic

growth is subjected to policies that are excessively and sustainably restrictive, and which end by blocking the economic system.

The dominant thesis today explains the delay of the European economic growth by the combination between an inadequate integration with incomplete structural reforms (Sapir and *al.*, 2004).

The last thesis shifts the issue: we are not confronted with a European recession, but with a recession of the German, Italian and French economy. The internal diversity of the Union and the contrasting performances of its member states explain a phenomenon improperly described as a European recession (Wyplosz, 2005).

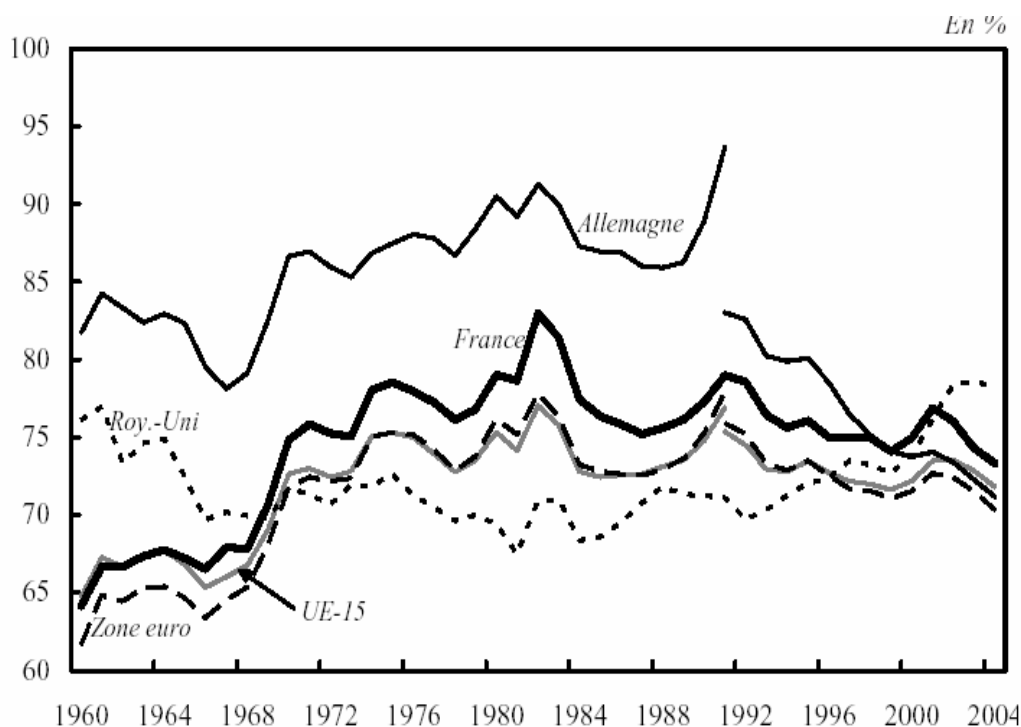
The thesis of a Europe losing ground in front of a vigorous America and of a rising Asia has become the dominant thesis of the debates about Europe.

In comparison with the United States, two features characterise the European macroeconomic performance and particularly that of the euro area:

- A tendency of degradation of the per-capita GDP increase, which contrasts with the American stability;
- An absence of the tendency in the matter of macroeconomic volatility which comes in contrast with the American progress.

The evolution of the GDP per capita in the EU and in percentages of the GDP per capita in the USA in the period 1960 – 2004 is presented in graph no. 1.

Graph no. 1. GDP per capita in the EU in percentages of the GDP per capita in the USA, 1960 – 2004



Source: Aghion, Cohen and Ferry (2006)

The Euro-pessimists often cite the above data according to which the GDP per capita in the euro zone, measured in the parity of the purchasing power (PPC) is 70% of the GDP per capita in the United States. These figures suggest the idea of a Europe blocked at a living standard sensibly inferior to that in the United States and incapable of recovery..

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ASPECTS OF ROMANIA'S EDUCATIONAL SYSTEM

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Abstract

The adhesion to the European Union has determined a series of dramatic changes on the Romanian educational system level. These changes are based on certain objectives set by the European Commission in 2002 within the European Council from Barcelona, as well as by the decisions taken on the European level within the Bologna process.

Key words: *educational system, compulsory education, regions of development, continuous vocational training, zonal operational program*

The issue of educational system restructuring and the revising of the human resources management strategies have become urgent on all levels.

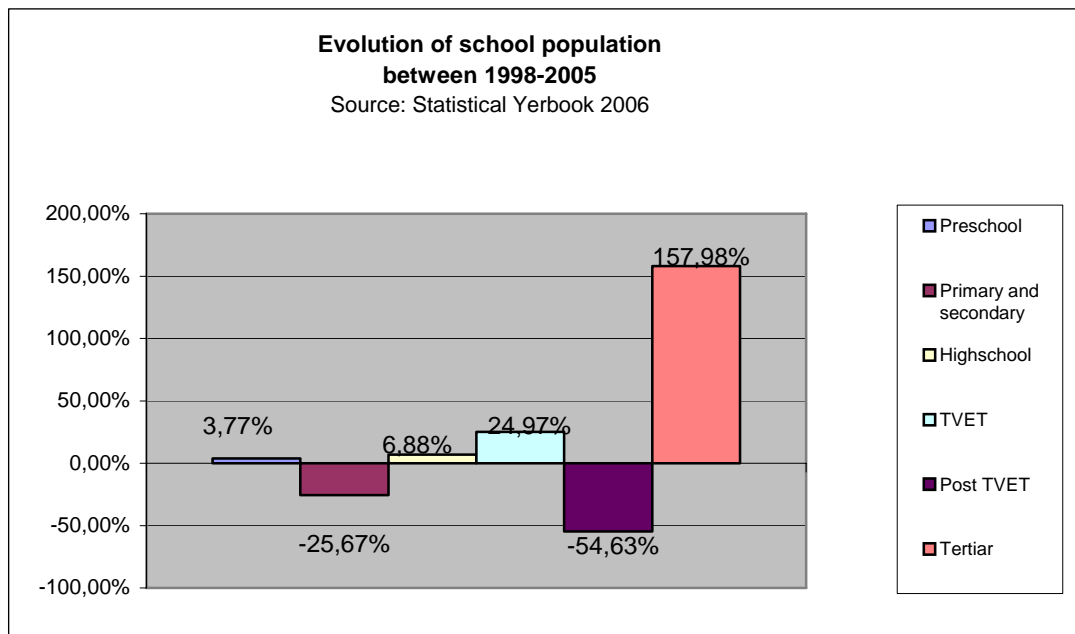
According to some research, in Romania, the people's involvement in education and training has been and still is maintain on a low level, aspect which has been pointed out for all age categories. Moreover, the labor market has been strongly influenced by the educational system as well as of the labor market occupational agencies' incapacity to adjust to the continuously changing requirements of the market. Besides, according to the statistical studies, the school aged population will register an approximately 20% decrease in 2005 – 2013.

During the '90s Romania registered a fall in the birth rate, followed by a slight increase at the beginning of the year 2000 (and thus of the school age population). For various reasons (according to some studies – the poverty rate limiting access and participation in education and higher educational attainments and the young people desire to help their families by taking up jobs as unskilled workers, greater work opportunities offered by the underground

economy, occasional incomes etc.), there has been registered a significant decrease in pupils' enrolment during the period of 1990-2005 (5,066,031 in 1990 to 4,360,831 in 2005). By levels of education, the evolution in the pupils' number oscillates: between 1990 – 1998 massive decreases, except for the university level, and after 1999 an increase, except for the post high school level.

The average participation rate to education of the population aged between 15-24 (ISCED 1-6 – primary to post university education) is 46.1%, the lowest in Europe compared to the 59.0% EU average.

The number of pupils in primary and gymnasium education constantly decreased during the past years, but the number of primary and gymnasium school units decreased more rapidly (with 48% less in 2005, compared to 2002). At regional level, except for Bucharest Ilfov Region in which the units decreased with only 19%, in all the other Regions the reduction was between 30% (North East) and 56% (North West). The prognosis foresees an increase in the number of the pupils that will lead to an increased demand of the school infrastructure.



The chart illustrates the evolution of students, by levels of education, in Romania between 1998-2005.

At high school level, the number of pupils increased in all regions between 1998 and 2005, with different percentages (between 1.27% in Bucharest-Ilfov Region and 14.63% in North-East), unlike the number of units that didn't vary significantly, leading to overcrowding.

The same trend applies to vocational apprenticeship, the most significant increase being registered in South-West (38.5%) and North-East Regions (29.27%). This situation could be the result of an increased awareness of the school aged population on the importance of the educational level on the labour market and that specialized knowledge ensures better positions and better wages. The measures adopted by the MERY also contributed to the increase in the attractiveness of this type of education.

The compulsory education in Romania rose from 8 to 10 years in 2003. In order to graduate compulsory education the students can choose to enroll in a theoretical high-school, technological high-school (as part of the direct vocational route) or in an art and craft school (as part of progressive vocational route).

The gross enrolment rate in the compulsory education is 95.8% for the 2005/2006 school year. But this figure is over-dimensioned due to the fact that in 2003 the Law for education provided the opportunity for enrolment in the first grade at the age of 6, one year less than before (in 2002). Therefore, if the gross enrolment rate in the compulsory education is currently of 95.8%, less than in the school year 2002/2003 (when it was 98%).

At the tertiary educational level the situation seems to be more or less stable due to simultaneous increase of infrastructure and enrolment of students. Since 1990 the number of students increased with 371% from 192,810 (1990) to 716.464 in school year 2005/2006. Still, in two Regions the increase between 1990 – 2000 is outstanding: the number of students in Centre Region increased more than 4 times and in South Region, where the number of students was 6 times higher than in 1990. The high increase is explained through the growing appearance of private university institutions and to the awareness of the population regarding the benefits from a higher education degree.

The number of higher education institutions increased to 107, out of which 49 public institutions. Currently, these institutions have 770 faculties in their structure. The highest number of higher education institutions and faculties is registered in Bucharest-Ilfov (almost one third of the total). In the North-East, West, North-West, Centre Regions the number of superior education institutions and faculties is balanced developed (varying between 12 and 15 percentage points).

Starting with 2000, except for Centre and Bucharest-Ilfov regions (of 42% and 47%), the increase in the number of students varied between 20-30 percentages per school year. The average rate of graduate students was of 30.1% in university year 2004/2005. As regards the number of tertiary education graduates per education discipline, the current distribution (2005) is of an average of 22% graduates in technical disciplines, 28% in economics, 33% in human sciences and 10% juridical graduates.

The raising evolution of the birth rate in the past years, correlated with the availability of the compulsory education will determine, in the following period an increased pressure on the related infrastructure on the compulsory education infrastructure

From the technical and utilities point of view, in the worst situation are the schools from the rural area where 43 units still function without electricity and 2805 without any water sources. The equipment with school furniture in rural area is also in a bad situation, only 28% being in an adequate condition. The level of teaching material equipment is low and the percentages vary between 5-10% for preschool, primary, gymnasium and vocational levels, and between 15-20% for high-schools. Over 70% of the pre-university schools need to be rehabilitated. The highest needs are in North-East Region (90.8%) compared to Bucharest-Ilfov Region that needs only 32.92%. In the case of specialised laboratories, there is need for the endowment with the necessary equipment as to achieve professional standards.

The number of schools in rural areas is very high, and usually they function below standards. The situation is affecting thus the quality of the education process as well as the health of students and teachers.

The basic equipments level for the development of a learning system based also on IT is very low – 3 PCs / 100 gymnasium pupils (39,983 PCs for 1,229,449 pupils) and 5 PCs / high-school students (34,396 PCs for 697,919 students). A percentage of 57% of schools are connected to the Internet, the average is of 1PC connected to Internet / 100 gymnasium students and 3.5 PCs connected / 100 high-school students.

In 2001 the Informatics Education System (IES) has been launched, as part of the Romanian Government Strategy regarding the informatisation and the computer assisted education. The programme has been developed in three stages, and the fourth one is foreseen for the 2005-2008 period. Up to 2004, from the IT endowments point of view, 37,150 PCs and 1,510 servers have been allocated and there have been created 1,510 IT networks and 600 schools connected.

It is estimated that during the last phase of the IES, 3,228 laboratories will be equipped, which represents an additional number of approximately 80,000 PCs (3,228 laboratories x 25 workstations). 55.26% of them will be located in the rural areas and 44.74% in urban areas.

Taking into account that in the European Union the average IT equipment is of 10.8 PCs/100 lower secondary pupils and 12.5 PCs/100 upper secondary pupils and 10 PCs connected to Internet/100 students (primary, secondary and vocational education) and that 93% of the schools are connected to the Internet, it is necessary that the endowment with IT infrastructure of the pre-university schools continues.

Schools and equipment status, by Regions¹, in 2005

-No of schools-

Region	Total schools ²	Out of which		Necessary to be rehabilitated	Necessary class furniture	Lack of modern heating system	Necessary equipment for workshops	PC Rooms	Necessary workshop furniture	Necessary laboratory equipments
		Rural	Urban							
NE	2,198	1,769	429	1,996	2,037	1,932	533	753	949	959
SE	1,745	1,262	483	1,383	1,441	1,259	197	602	733	736
S	1,934	1,463	471	1,573	1,733	1,495	390	607	959	970
SW	2,052	1,500	552	1,449	1,764	1,603	299	323	835	724
W	1,884	1,285	609	1,370	1,540	1,400	340	485	630	692
NW	2,739	2,109	630	2,228	2,308	2,253	544	845	1,160	1,172
C	1,551	1,551	592	1,057	1,238	945	307	517	626	634
BI	738	198	540	243	280	357	169	287	301	324
Total	14,841	11,13	4306	11,299	12,341	11,244	2,779	4,419	6,193	6,211

Source: Ministry of Education, Research and Youth, 2005

¹ Ministry of Education and Research, Survey 2004. County School Inspectorates provided data on the number of schools in different ways: some provided data on all schools, some only on the ones that needed rehabilitation or have other problems, therefore the data are available only as estimation (80% of the total schools). The actual patrimony is around 18000 schools. Out of these 2800 schools were rehabilitated through other projects and around 250-350 are new schools

² The number of school refers to the ones where technical and vocational education is followed

Educational campuses - preuniversity campuses

In 2003, compulsory education has been extended from 8 to 10 years. In this context, pupils living in rural areas have difficulties in continuing their studies because schools in rural areas cover teaching only up to the eighth grade.

In order to counteract this phenomenon, MERY initiated a project for creating of school campuses by grouping the educational activities scholar centres to provide for a larger area. These campuses are conceived as a means to integrate in the same area all activities related to the educational process (teaching, practice bases, social activities, leisure activities, etc.) by concentrating the educational buildings and services (grouping educational and support activities in certain areas). Thus a campus includes: the school, accommodation facilities, canteen, library, and special workshops for developing practical capacities, sport rooms. These facilities could be used for both initial and continuous formation and can be adapted to meet local needs.

The aim of the campuses set up is to facilitate the access of students from the rural area to education and training, as well as to ensure equal access to education. From the moment the campus status will be awarded, the market qualification needs will be taken into account and the school units will be equipped according to the specific needs of the area and to the demand on the labour market. A total number of 458 preuniversity campuses has been identified. These will be rehabilitated / built using different financing sources: state budget, external loans, ROP. The estimated necessary by development regions is as follows:

Estimation of needed preuniversity school campuses by Regions (2005)

Region	The need of school campuses		
	Total	Out of which	
		Urban	Rural
North-East	83	55	28
South-East	51	33	18
South	75	46	29
South-West	40	36	4
West	58	55	3
North-West	83	57	26
Centre	59	49	10
Bucharest-Ilfov	9	2	7
Total	458	333	125

Source: Ministry of Education, Research and Youth

In order to respond to the need of integration on the labour market, the preuniversity campuses supported by ROP will focus on the VET education. The VET enrolment capacity increased from 844 schools in school year 2002/2003 (out of which 518 located in rural area) to 1367 (out of which 611 located in rural area) in school year 2006/2007. Even if the number of these units increased, their level of equipment is inadequate to function in good conditions and standards. A number of 325 VET units benefited from Phare assistance, these functioning at standards. Considering the experience gained so far in the pre-accession programmes, the direct link of this educational sector with the labour market

as well as the rehabilitation need of these school units, it has been agreed that it would be the most appropriate to support this area under ROP.

University campuses

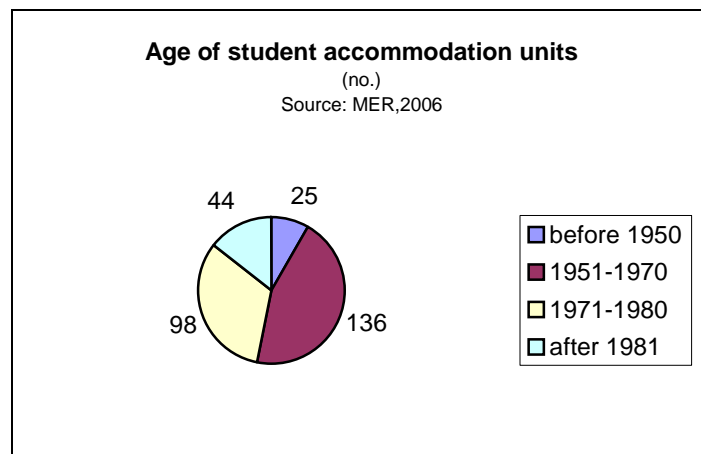
Romania agreed to respect the Bologna convention provisions. Therefore, starting with school year 2004/2005 the university education is organised on three study cycles.

As shown earlier in the analysis, the number of faculties increased, but their quality did not follow the same path, affecting thus the educational process. The documentation pool from the libraries or the laboratory equipments is insufficiently developed in most of the universities. The living and learning conditions for students are not at a high qualitative level.

The 49 higher education institutions manage 333 student accommodation spaces, out of which they own 303. The living standards cannot be ensured due to the age of buildings, lack of appropriate utilities, high level of use. The overwhelming majority of these buildings is more than 35 years old, outdating the normal functioning period. Their maintenance costs are very high and the energy efficiency is very reduced.

Regarding the utilities, 65% of the student accommodation units do not have separate sanitary facilities. 40% ensure their heating by the thermic plants nearby, increasing thus the heating costs, as the pipelines are old and therefore energy is lost.

Considering that after 1981 only 44 new student accommodation units were built, correlated with the increasing number of students the capacity of the accommodation units is overrun. The number of students in a room usually exceeds the normal number. Due both to the lack of space and adequate accommodation conditions in the university hostels, in the university year 2005/2006 above one third of accommodation requests from the students were rejected.



Source: Ministry of Education, Research and Youth

The university libraries are an important component in the educational system. They have to respond to the learning and study needs of students and teachers, as they contribute to their overall development. The funds allocated to equipping libraries were insufficient, most of the book stock being out of date, and the information is not any more relevant to the current times.

Although important funds were attracted for investments in the universities, both from state budget and external sources, the rehabilitation need was not covered. Many institutions need rehabilitation works, IT equipments, books, and documentation.

Continuous vocational training

In 2004, Romania registered the lowest participation rate to continuous vocational activities, of 1.5% compared with the EU 25 average of 10.6% (for the population of 25-64 years). The formation cost and the insufficient number of offer at local level can be mentioned among the reasons for this low participation. Regional Centres of the National Agency for Employment are few and the 1200 school units that provide both education and vocational training services are not sufficiently involved in adult training.

By the end of 2005, the NAE adult vocational training centres network comprised 20 vocational training centres subordinated to the county agencies (in 19 counties) and 6 regional centres for adult vocational training in the direct management of NAE. These centres operate both in rented spaces and in spaces under own administration or undertaken by contract. The public vocational training centres network has at its disposal 178 classrooms, 132 workshops/laboratories (on a total surface of 28,325 sqm).

The authorized centres³ provide vocational training services for 98 qualifications which, although currently prove themselves to be the most requested on the labor market, seem to be insufficient in order to contribute to the increase of the mobility and (re)integration of the unemployed on the labour market.

Qualifications provided by authorized Centers for Adult Continuous Vocational Training

Centre /Region	Qualifications provided by centres	Centre	Qualifications provided by centres
RCAPF Braşov / C	14	CPF Caraş Severin/SW	12
RCAPF Călăraşi/ S	27	CPF Dâmboviţa/S	14
RCAPF Cluj/ NW	23	CPF Hunedoara –Deva/W	14
RCAPF Dolj/SW	26	CPF Hunedoara – Petroşani/W	8
RCAPF Teleorman/S	15	CPF Iaşi/NE	27
RCAPF Vâlcea/SW	24	CPF Neamţ/NE	20
CPF Alba*/C	0	CPF Maramureş/NW	23
CPF Arges/S	16	CPF Mehedinţi/SW	6
CPF Bacău/NE	13	CPF Olt/SW	8
CPF Bistriţa Năsăud/NV	9	CPF Prahova/S	25
CPF Brăila /SE	5	CPF Suceava/NE	9
CPF Buzău/SE	2	CPF Sibiu/C	2
CPF Botoşani/NE	11	CPF Timiş/W	5

**Note: At present, the vocational training center is not operational*

The insufficient development of the occupations segment for which the NAE own centres hold authorization, is also reflected on the number of course attendants for year 2005. From the total of 42,996 persons benefiting from the vocational training services financed

³ There are 6 authorised centres (RCAPF) under the responsibility of National Agency for Employment and 20 (CPF) under the responsibility of the County Agencies for Employment

by NAE in 2005, only 18,582 (43.2%) attended the courses organized by the centers, as it follows:

- 11,514 persons have attended the 614 courses organized by the vocational training centres belonging to the county agencies for employment (the most requested courses: commerce worker, waiter, mason, data operator, chef);
- 7,068 persons attended the 418 courses organized by the regional centres for adult vocational training (the most requested courses: mason, data operator, chef, waiter, carpenter).

Currently, the public vocational training infrastructure is not sufficiently developed to allow the increase of number of persons attaining vocational training courses and the extent/diversification of type of courses for more beneficiaries. The low number of authorized vocational training providers also justifies the need for NAE own centres. There have been authorized 1214 vocational training providers, as follows: North-East: 152, South-East: 143, South: 120, South-West: 115, West: 122, North-West: 157, Centre: 182 and Bucharest-Ilfov: 202. The private providers are located especially in the cities, therefore the access of the unemployed to their services involves transport expenditures and in some cases accommodation.

The adult vocational training centers network is still underdeveloped in terms of territorial distribution, infrastructure and equipments, as well as the number of qualifications provided. This area should become a field of intervention, in order to develop the necessary space for the adults continuous training, to ensure the equipping and modernization of the existing centers, increase and diversify the professional skills of persons looking for a job, training them in new qualifications, corresponding to the market demand, in line with EGO No 129/2000, republished, regarding adult vocational training.

For the 2007 – 2013 period, the educational system will be supported directly or indirectly by investments in structural funds, by three financing programmes.

The first one is the Human Resources Developing Sector Operational Program – HRDSOP - run by the Management Authority as part of the Minister of Labour, Social Solidarity and Family. Within HRDSOP, only the two first most important branches are dedicated to education and to initial and continuous professional training; these two branches together hold approximately 50% of the volume of funds allocated to the programme – about 2 milliard euros, from which 1,7 milliard are allocated from the structural funds.

The eligible beneficiaries for these funds are schools, high-schools, universities, inspectorates, etc. These above-mentioned institutions can take advantage of the European funds both to update the education and professional formation offers and to ensure quality, teachers' training, increasing access to education and professional training.

Within HRDSOP, the priority branch 1 – namely education and professional formation to support the economic increase and society development based on knowledge – aims at developing some flexible lifetime learning modalities, increasing access to the initial and continuous, modern and qualitative education, including here the higher system of education and research. The finances will be ensured by the European Social Fund (ESF) and HRDSOP will target mainly the preuniversity system and its suppliers, the ethnic educational system and the initial one, the higher educational system and continuous professional formation.

Moreover, the priority branch 2 – connecting the lifetime learning to the labour market requirements – has as a main objective to make the access to education easier, occupational increase and of the human resources educational level, in a lifetime type approach. Currently, the access to the continuous professional formation is not levelled in Romania. Employers still prefer the in-house training for young or high-qualified workers and not the workers that are old or have low competences, the full-time employees rather than the part-time ones. Moreover minorities, the unemployed, the disabled people and the rural-dwelling population have also reduced access to professional formation.

The second variant of financing is the Regional Operational Program (ROP) through which the educational units can benefit indirectly of the funds to rehabilitate the educational infrastructure.

In this case, the applicants are the local communities. The educational system will thus benefit of endowments and modern infrastructure as a consequence of the financing applications submitted and endorsed for financing by the local communities.

The third program, the Economic Competitiveness Increase Operational Program (ECIOP) targets especially to the higher educational system, by the activities of research and education it finances.

Eligibility conditions: educational institutions, NGOs or companies that intend to initiate projects financed through the structural funds must take into consideration that the suggested projects should rely on a real requirement, which can be identified on a zonal or regional level. Likewise the applicant must prove the ability to administrate and guarantee the quality of the products and the results of the projects.

To apply for these projects involves knowledge in the domain, particular knowledge that does not exist on the preuniversity network level. As far as the higher education is concerned, it will be easier to apply for funds since universities have already applied for the preadhesion funds.

We shall see on what extent we shall succeed to benefit of the new European funds, taking into account the experiences that our neighbours Poland and Hungary had to undergo.

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GENERAL CONSIDERATIONS REGARDING REGIONAL DEVELOPMENT

THE INSTITUTIONAL AND LEGAL FRAME FOR THE REGIONAL DEVELOPMENT IN ROMANIA

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Abstract

General Considerations Regarding Regional Development - The Institutional and Legal Frame for the Regional Development in Romania is an topical and important issue in the context of the integration of Romania in the European Union. The regional development policy of the European Union is a policy of solidarity. Its purpose is to create jobs and to increase the level of competitiveness offering support to the states situated in less developed regions as well as to those confronting with structural difficulties.

Keywords: *regional development, Inter-community Development Association, metropolitan development, sustainable development, regional, regional operator.*

The regional development policy promoted by the Romanian government complies with the European policy for economic and social cohesion. The European Union is one the most thriving economical areas in the world, but the differences among the Member States are striking.

Thus, not all Europeans have the same advantages and chances for success against the challenges generated by the phenomenon of globalization. Everything depends on the area they live in, whether this area is situated in a prosperous or poor region, in a dynamic or declining area, in the city or in the countryside.

The solidarity among the peoples within the European Union, the economic and social program and an increasing cohesion are mentioned in the foreword of the European Community Treaty. Therefore, the member states apply an European regional policy financed by European Funds (The Structural Funds and the cohesion funds).

The regional development policy of the European Union is a policy of solidarity. Its purpose is to create jobs and to increase the level of competitiveness offering support to the states situated in less developed regions as well as to those confronting with structural difficulties.⁴

The general objective of the regional development is to reduce the social and economic gaps among the different regions and areas as well as to support the lasting development of all the country regions.

The regional development should be based on the reinforcement of a system of regional poles and metropolitan areas, a system of infrastructures that ensures the development of companies, labor force market and investments, the transfer of technology, the

⁴ Js – the Chief of the European Commission Delegation in Romania in the brochure “ For the support of the regions’

development of small and medium enterprises sector, of the surrounding environment quality, the rural development and the development of the services, healthcare, education and culture sectors.

In Romania the concept of regional development was established by Law no. 151 /1998 regarding regional development.

The Law 151 establishes the objectives of the regional development, the institutional frame for the formation of the development regions and of the national and territorial institutional structures for the regional development and also the competences and tools specific for the regional development policy⁵.

According to the Methodological Norms for the application of the Law 151/1998, the regional development is defined as “the totality of the policies of the local and central public administration authorities, provided for the improvement of the economic performances of some geographic areas representing Development Regions, and benefiting from the support of the Government, of the European Union and the support of other national and international authorities and institutions interested”.

As the Law 151/1998 stipulated there were created 8 regions for development as a result of the conventions signed by the Departmental Council officials and approved by the government.

We want to point out that the 8 development regions are not territorial administrative circumscriptions and do not have legal status.

These development regions are:

- Development region of **North-East** (made up of the following counties: Bacău, Botoșani, Iași, Neamț and Vaslui)
- Development region of **South-East** (made up of the following counties: Brăila, Buzău, Constanța, Galați, Tulcea and Vrancea)
- Development region of **South Muntenia** (made up of the following counties: Argeș, Călărași, Dâmbovița, Giurgiu, Ialomița, Prahova and Teleorman)
- Development region of **South-West** (made up of the following counties : Dolj, Gorj, Mehedinți and Vâlcea)
- Development region of **North–West** (made up of the following counties: Bistrița Năsăud, Bihor, Cluj, Maramureș, Satu Mare, and Sălaj)
- Development region of **West** (made up of the following counties : Arad, Caraș, Severin, Hunedoara and Timiș)
- Development region of **Center** made up of the following counties : Alba, Brașov, Covasna, Harghita, Mureș
- Development region of **Bucharest and Ilfov** (made up of Bucharest and the county Ilfov)

Among the eight development regions mentioned there are already gaps regarding the level of development and even within these regions there are disparities regarding the development level of the counties.⁶

⁵ Law no 151/1998 was adjusted by G.O. no 268/2000, G.O. 27/2003 and by Law 256/ 2003

⁶ Mosteanu

The development regions created and developed their own institutional structures according to the law. The law 151/1998 established the most important institutions necessary to the implementation of the regional development policy in Romania on both a territorial and a central level.

On a national level, was created the National Council for Regional Development (NCRD) as a supreme deliberate forum being composed by the presidents and vice-presidents of the regions development (16 officials) and other 16 Government representatives assigned by Government Decision.

The main objective of the National Council for Regional Development is the agreement of the national strategy for regional development and the national program for regional development. On the national level as well, was created the National Agency for Regional Development, having as purpose to improve and to lead the policy of development and funds administration (funds allocated to Romania from the European Funds for the Regional Development).

The National Council for Regional Development, as well as the National Agency for Regional Development stopped their activity in 2001, when the prerogatives and the responsibilities were taken over by the Ministry of Development and Prognosis, ministry dissolved in 2003. Henceforth, the prerogatives of these institutions were taken over by the Ministry of the European Integration.

On the territorial level, there were created the Councils for Regional Development (CRD), one for each development region, as well as the Agency for Regional Development.

The Council for Regional Development is a deliberative body formed of the presidents of the county councils and of a representative from the local, municipal, town and communal councils.

The Agencies for Regional Development are nongovernmental, non-profit, public utility bodies, with judicial personality that act in the field of the regional development.

The main responsibility of this agency is to elaborate the regional development strategy, the regional development programs and the plans for the funds administration.

The legal framework of regional development was correlated to the other fields, as:

- Local Public Administration (Law 215/2001, republished)
- Territorial Management and Urbanism (Law 350/2001)
- Public Acquisitions (GO 34/2006 and G.D. 926/2006)
- The disadvantaged zones, zones of economic development, and industrial parks (Law 621/2001, GO 65/2001, Law 84/1992

This legal frame is filled in with the “Memorandum of Understanding”, signed in 1998 by the Government of Romania and the European Commission regarding the creation of the National Fund and Payments and Contracting PHARE Office (OPCP) and through the Financing Memorandum (MF) which is signed every year by Government of Romania and the European Commission which established the way in which the European funds are assigned for different geographical areas or fields.

The regionalization process began also in Romania in Oradea and Iasi municipalities and in the villages surrounding them which had initiated partnerships in keeping with the metropolitan development.

Galati as well, together with others municipalities (Constanta, Timisoara, Cluj Napoca, Baia Mare, Targu Mures) is preparing for the development of some partnerships relating to the implementation of a metropolitan zone and an inter-community association.

Galati town will form the Inter-community Development Association (IDA) with the local councils from the county of Galati for the implementation of an institutional frame adequate to water supply services and sewerage for this area and the mutual usage of these services. The main institutional elements will be:

- the formation of the Inter-community Development Association
- The assignment of the regional operator (ROC)
- The conclusion of the agreement for the delegation of services

Inter-community Development Association represents an inter-community cooperation body with public utility status, which, according to law 215/2001 of the law 51/2006 regarding community services, to law 241/ 2006 concerning water supply and sewerage services, to law 273/2006 regarding local public finances and G.O. 26/2000 regarding associations and organizations, delegates the administration of public water supply and sewerage utility services to a regional operator.

We underline that, without the creation of this adequate institutional frame, the access to the European Union structural funds directed to water and used waters is not possible and no applications for subventions within POS MEDIU are eligible. As we can see, the European Union, through its regional policy, does not limit only to financial contributions but it is also expressing its own vision on development activities planned at the local level.

The European Fund for Regional Development finances the infrastructure, the investments that create jobs, local development projects and assistance services for small companies. Experience shows that regional policies can be successful only if they focus on a limited number of major fields. The money coming from the taxes paid by the citizens of the European Union, allocated from the Structural Funds and the Cohesion Funds, must be efficiently, transparently and impartially administrated.

Providing information to the potential beneficiaries and citizens represents a permanent task during the carrying out of a project that benefit from structural funds.

The technological revolution and the informational society impose companies and European citizens to quickly adapt to situations that are continuously changing. The inhabitants of these regions need to have access to the highest know-how by communication networks, innovations and high-quality professional training.

Moreover, the local authorities from Braila and Galati municipalities intend to create a metropolitan area. Metropolitan areas play an important role in regional development. These ones are defined by Law 215/2001, Law 350/2001, Law 351/2001 and G.O. 53/2002 regarding the status framework of the administrative-territorial units considering the maintenance of the administrative and political autonomy of each county from the metropolitan zone, as being 'established by association, further to a voluntary partnership agreement, between urban and rural localities, between which collaboration relations have

been established on a multiple basis". Metropolitan zone is defined by the law 350/2001 as the surface surrounding a large urban centre up to a distance of 30 km, linked by mutual relationships in different fields such as: means of communications, economical, social, cultural and municipal infrastructure.

The main mutual cooperation goals of the metropolitan partners are: the increase of the access to resources, the increase in the economic competitiveness of the localities from the metropolitan area as compared to the neighbouring regions, the improvement of the quality of life, the development and reinforcement of the identity and local values, the elimination of the disparities between localities. We must take into consideration that sustainable economical and social development is sustained only by an adequate local, regional and metropolitan development, that globalization process is nowadays one of the key factors in the development planning in E.U., and that Romania should do the same.

Regional and metropolitan development doesn't mean to change the boundaries, but to redefine the markets and the cooperation areas, the flexibilization of the regulations, to redefine the partnerships, the development objectives.

Having at hand not only the necessary legal frame, but also the institutional one, the local authorities must have much more initiative in the development of several projects. They have to catch the partners' attention and to create partnerships which imply creativity, active flexibility, long - term and medium - term development projects. Among these partners, universities can not be absent, as these ones represent a promotion factor of development through its objective functions of innovation, dissemination in society, the economic and political function of education.

The attraction of the business environment through the creation of public-private partnerships also leads to the development of important objectives regarding municipalities and regions.

The Galatz Local Council and The Galatz Townhall have been performing for the economic innovative development in Galatz, creating a sustainable development strategy, implementing major projects according to the ISPA 2004/RO/PE/005 measure, enforcing the water and sewerage systems and the creation of a purification station in Galatz municipality" over 60 millions euro, according to the ISPA/Ro/16/PE/027 regarding "the management integrate system of Solid Wastes in Galatz municipality and the surrounding region" the project value being estimated at 23 millions euro. Industrial Park, Soft Park, Environment projects "the Integrate Supervising of the Environment Factors (air, water, soil) in the Law Danube Euro- Region (Galatz-Cahul area)"-over 300,000 euro- the CRISE project " For the creation of an innovation centre in the South-Est Romania Region, over 6.3 millions euro.

Galatz Local council has also applied for other major projects aiming through all these at the economical development, the creation of new jobs and the improvement of citizens' life.

In conclusion, the institutions that will administrate the regional policy will need to prove a high professionalism, due to the increasing competition among E.U regions, in order to access to the Structural and Cohesion Funds.

The new generation of cohesion policies should be enforced through a simplified and decentralization management system to facilitate a sustainable development strategy.

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CHARACTERISTICS OF PRICES ASSESSMENT AND ECONOMIC EFFICIENCY IN AGRICULTURE

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Abstract

The prices of the marketable agricultural products will always have the tendency to align with those with the international market, especially when commercial barriers are being reduced and the globalization process is intensified.

The increase of the economic efficiency in agriculture based upon the rational usage of the factors by performing a high agricultural productivity for each used factor and for all the totality of them.

Keywords: *economic efficiency; price; profitability; productivity*

The economic efficiency agricultural activity is obvious when the best allocation of the limited resources is performed. This allocation is performed differently according to the product, the agricultural zone and the year period. Unlike industry where similar technologies can be applied irrespective time and place, in agriculture the technological particularities and the influence of the natural and biological factors led to different efficiency levels of the used factors and, ultimately, different levels of economic efficiency.

The environment restrictions have an increasing impact upon the agricultural efficiency because the efficiency on a hectare and animal depend upon the volume and the structure of the allocated factors. The expansion of the biological agriculture cause lower efficiency level on hectare and animal, whereas the cost do not decrease proportionally because certain agricultural activities are made regardless the projected efficiency levels. On the other hand the prices of the agricultural products obtained during environmental restrictions are not high enough to compensate the decrease of the efficiency levels and they can not maintain the costs of the same level. Therefore, the global efficiency decreases, especially because of the products, which are obtained with lower efficiency

levels; even if there is market demand, the prices of these products do not get higher at the same rate with efficiency levels reduction.

The farmers are interested to produce that amount of products for which the marginal cost equals the market cost caused by demand and offer. At this production level, the farm will obtain the added value or the maximum profit.

It can be said that the price of an agricultural product is influenced by the demand-offer ratio and this can be relative. The demand, at its turn, depends upon the price of the agricultural product, respectively the price level of the other goods, needed by the peasant, as well as other conditions. The market offer of an agricultural product depends upon the inputs prices as well as the prices of other agricultural products. Therefore, the prices of agricultural products are part of the aggregate price system.

The prices of the agricultural product, which have an important role in providing economic efficiency, are formed according to the market evolution. There are some interventions in order to assure the balance of the market for some agricultural products. Intervention prices are used in order to correct the negative effects of natural and biological factors.

The prices assessment of agricultural products have the function to create the basis of the reference prices which used at the negotiations of representative farmers bodies with economic companies placed before or after them on the economic chain. Different calculation methods can be used:

- Price assessment by the margin added to the variable costs. The used formula is

$$P = (1+rm) \times CVM$$

in which:

P = sell price (offer);

rm = the level of the gross profit margin;

CVM = the average variable cost

This method is used especially for the agricultural products which have a high weight of the variable costs part of the total production costs.

- Price assessment on the basis of the total costs. The used calculation formula is

$$P = (1+r) \times CTM$$

in which:

P = sell price (offer);

rm = the level of the gross profit margin;

CTM = the total average cost

This method provides the possibility to measure the effects caused by the change of the production volume upon each element of the price, and it allows the analyses of the price-cost-production-profit ratio.

- The method of the used capital efficiency. The used calculation formula is

$$P = CVU + CF/Q + rk/Q$$

in which:

P = sell price (offer);

CVU = the unitary variable cost

CF = fixed cost

Q = production level

r = the anticipated profit level

k = the used capital

This method is used in order to create the prices of those products whose productions required great capital investments. The price reflects the average cost and the net margin of the unitary profit.

- The critical point is a calculation method, which allows the comparison between production and selling expenses, with the income obtained from selling of the agricultural products, starting from a level when they are equal. The profitability of a farm starts from this critical point, named profitability threshold.

The level of the critical point can be calculated in ratio with the volume of the sold production (NPCQ) and/or the obtained level from products selling, as it follows:

$$\text{NPCQ} = \frac{\text{CF}}{\text{P} - \text{CVM}}$$

in which:

P-CVM

NPCQ – the level of the production critical point

CF – the total fixed cost

CVM – the average variable cost

P – the unitary selling price

From the costs perspective, the production volume at the critical point (Q) is the one which provides covering of all fixed and variable costs at a certain selling price.

The following formula is used to establish the level of the critical point according to the income obtained from selling of the agricultural products:

$$\text{NPCV} = \frac{\text{CF}}{\text{P} - \text{CVM}}$$

in which:

NPCV – the level of the value critical point of the production

CF – the total fixed price

MBP – the profit gross margin

The total gross profit equals the economic profit plus the fixed costs.

The profit gross margin is calculated as percentage from the selling price of the agricultural product unit, using the following formula:

$$\text{MBP} = \frac{\text{P} - \text{CV}}{\text{P}} \times 100.$$

Such methods should be used for orientation purposes, when reference prices are settled and during the prices negotiations between economic agents, although there are some

disadvantages, like: difficulties in book keeping the allotment of fixed costs on products, in assessment the request and the competition effects upon products price and upon agricultural inputs, in establishing a convenient profit margin, etc.

The criterion of production costs is mostly used in agricultural prices making in most of the countries. The importance of prices making upon the production costs in agriculture comes from the facts they have a great influence upon production level and structure. This criterion has some disadvantages, like: settling of stimulating prices do not provide a production increase rhythm, because other prices apart from pries are not considered (for example, adequate agricultural infrastructures).

If the stabilization of the agricultural prices is pursued, the costs criterion does not provide results in establishing the prices correct level. The production costs criterion can justify prices not compatible with the market exigencies. This comes from the fact that in order to justify them the arbitrary assessment of the agricultural inputs and the weight of the exploitation costs or of the complex activities from a farm are necessary.

According to the opinion of most of the organizations and professional associations of the agricultural producers, this criterion is considered to have the most positive impact. It is easy to use, it allows continuity in prices policy, it is an important dialogue or negotiation basis in order to harmonize the farmers' interests with the one of the consumers and processors.

The criterion of world prices is frequently used in order to asses the agricultural products prices. This criterion relies upon the global economic efficiency unlike the criterion of the production costs which relies on private efficiency and incomes.

It is mandatory to consider the world market prices irrespective the usage of other assessment criteria for prices. The main disadvantage of this criterion is the strong instability of the world market prices, especially caused by the great harvest variation in different areas of the world. Moreover, this criterion has the disadvantage that the international prices of many agricultural products are part of a residual market made from exportable surpluses, some of them strongly subsidized or which reflect the predominant position of one country or of small number of countries. Despite these shortcomings, the prices of the agricultural products have the tendency of aligning to the international prices in most countries.⁷

Actually, the higher development economic level of a country is, respectively the global efficiency, the less important is the objective in maintaining the agro-food products al a low level, but it increases the importance of supporting the agricultural incomes. Thus, it can be explained that the reforms of the Commune Agricultural Policy starting with the nineties and between 2007 and 2013 aimed to reduction and elimination of intervention prices and of other types ob subsidies and agricultural prices alignment to world prices.

The alignment tendency of relative prices of agricultural products in developed countries, though obvious, their level is higher than the one in underdeveloped countries.

⁷ Timer C.P., *Getting Prices Right. The Scop and Limits of Agricultural Price Policy*, New York, Cornell University Press, 1986

The increase level of prices is higher in a small open economy which can not influence the international market because the productivity increases are not reflected in the decrease of the internal prices.

The prices of the marketable agricultural products will always have the tendency to align with those with the international market, especially when commercial barriers are being reduced and the globalization process is intensified. The prices of the non-marketable agricultural products can have superior increase levels during the natural prices alignment process (within a country, as it is Romania after adhesion).

The wheat price in Romania deviates significantly from the international prices both in absolute and in relative values. Considering the level of the correlation coefficients, it shows that the prices dynamic in Hungary and Poland is more connected with the prices evolution from Germany.

The ratio between the prices of marketable agricultural products and the non-marketable ones reveals the allotment method of the inputs between areas opened to competition with other countries and other areas which remain closed.

It must be also considered that the change level of the relative prices is influenced by the level of the nominal decrease (increase), as well as by the level of the internal and the external inflation. Therefore, in order to stabilize the relative prices – important objective in functioning of the agricultural market – the currency of a country with an inflation level higher than the one in world areas with which relations exist, will have to be depreciated. The relation between the depreciation (appreciation) of the national currency and the inflation difference represent the relative parity of the purchased power. This refers to the marketable products prices and not to that part of the self consumption. The stabilization of the exchange rate provides the correct basis for the farmers' decisions concerning production, investments and consumption because these depend upon the prices level.

As a conclusion, the increase of the economic efficiency in agriculture based upon the rational usage of the factors by performing a high agricultural productivity for each used factor and for all the totality of them.

The increase of economic efficiency in the context of the European integration must be correlated with measures to increase the agricultural competitiveness. The competitiveness of the agricultural products is crucial for Romania, considering that the agriculture participation ratio to PNB reflects a 1:6 gap compared to the one from UE 15.

Romania has to perform great steps in order to reduce the productivity gaps compared to the old member states, even compared to some new member states.

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HARBOUR COMPETITIVITY IN THE CONDITIONS OF TRANSITION TO MARKET ECONOMY

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Abstract

Firms are competing for power on the market whose market are not totally known, but which impose that each firm wishing to survive should develop some form of uniqueness. Ultimately, the only factor of durable competitiveness is the ability to innovate, which in turn depends on the quality of the human resources and management.

One condition for the success of the firm is that those deciding its fate should look towards the future, not the past.

Keywords: *competition; competitiveness; harbour services.*

The evolution of the transition process brings about significant changes in the structure of the economy-generating mechanisms, and in their turn, they lead to reorganizing the strategy of the economic agents. Within the present economic context, it is imperative that the economic agents pass from survival strategies to action in order to create and maintain the competitive advantage.

Today's business world is at an unprecedented competitive level. But, in the harsh, hostile environment in which entrepreneurs act, it is absolutely necessary to evince the nodal points of the transition to market economy, which necessarily requires a coherent managerial vision from a macroeconomic point of view, able to potentiate the action of economic agents with the power necessary to acknowledge and predict the changes in the business world.

Competition is a natural, objective phenomenon, always present in the environment; it does not characterize only economic life, but it is also manifest in the sphere including the economic phenomenon: the social sphere.

In other words, competition has an all-encompassing scope, viz. there is no area or aspect in the life of economic agents or means to which they might resort in their approach that can be situated outside competition.

Competition is the essential, determining factor in the success or failure of companies. It determines the opportunity of the activities of a company which may contribute to its performance, such as innovations, a unitary culture or proper implementation.

On the other hand, competition constitutes the framework of competitiveness validation. The fundamental requirement ensuring economic effectiveness, competitiveness is based on information that it transforms into strategic instruments.

There are a series of principles of competition that generate, within the present economic context, competitiveness such as:

- The need for rules – in the sense that restrictions should be manifested in a transparent, regulated form, by norms and rules, and not anarchic and spontaneous;

- The need of freedom within the framework – anything that is not forbidden by law, is allowed;
- The need for dynamism within the framework of freedom – anything allowed as far as competition is concerned should be analyzed in theory, tested in experimental simulation and eventually in the practice of competition;
- The need to dynamically and timely adapt rules – no rule should outlive its timeliness period;
- The need for moral rules – anything not forbidden by law and moral is allowed.

The setup of these general “rules” and clarifications of the approach of the defining processes of real competition are generated by the complexity of real economy, the dynamism of the market structure, and the confusions that may appear in treating the economic legitimacy of the behaviour of economic agents.

Competitiveness resources are to be found within the company that is granted the primary role of their activation in the unstable outer environment, specific to the transition period. Mastering the competitiveness stake is an extremely complex process, consisting of establishing the key factors of competitiveness and examining the way in which companies, on the basis of the strategies they set and apply, “endow” themselves with these factors, organizing and coordinating them, thus developing the competitiveness abilities with a view to improving economic performance.

The term competitiveness related to a company suggests efficiency, quality, better products/ services and optimal costs, high productivity, safety, adaptability, modern management, or in other words, success.

Harbour industry, like any industry, has its own rules of competition and hierarchy of the factors contributing more or less to the competitive position or advantage.

The study and analysis of the competitive company evince common characteristics, but they found their success in business on certain competences. The performance criteria ensuring a high degree of competitiveness at a microeconomic level include labour productivity, labour cost, product/ service quality, the degree of meeting the customers’ requirements etc.

Harbours are directly or indirectly “caught” in a competitive market. In this sense, there are many factors that influence competitiveness; a harbour may modify its competitive position as compared to other harbours, and to a certain harbour user, by improving one or more factors. In this context, harbours aiming at being competitive for a certain merchandise or category of goods, should know exactly which factors have to be improved and extended as well as the intended results.

Harbour specialization bears upon the manner of approaching competitiveness. Thus, an important aspect for harbours is constituted by the minimization of distribution costs, according to which harbours should devise an active policy in order to improve competitiveness.

Taking into account their competitive nature, when analyzing competitiveness or marketing strategies for a certain route or sailing line, harbours should make a series of calculations which they model with the necessary adjustments, according to their own criteria. On the

other hand, all the factors that affect harbour competitiveness are to a certain extent dependent on one of the three basic elements: cost, time and risk.

The managerial approach of harbour activity has evinced that harbours may be considered and analyzed as complex agents, providers of specific services, which determine their role and place within the system of business organization.

Among the most important factors of harbour competitiveness, one may mention:

- Geographic localization – represents an intrinsic harbour condition, i.e. the harbour has a certain advantage, when it is strategically placed;
- The link with inland transportation – considered a natural factor of the harbour, taking into account that the harbour is more and more involved in achieving projects of access on railroads and roads towards harbours;
- Harbour services – regarding the aspect of availability and effectiveness;
- The price of harbour services – as a factor, even if it is not comparatively important in hierarchising customer' preferences, it allows the comparative analysis of harbours.

At the same time, in order to obtain the competitive edge, a harbour should mainly focus on all the elements that contribute to the implementation of the price policy and the differentiation of the services provided. In keeping with that, specific strategies are drawn up, divided into objectives with quantitative targets, such as:

1. improving operational effectiveness – increasing the handling effectiveness, reducing the total operating time, reducing operational costs, inflicting fines or bonuses related to merchandise storage;
2. investments in granting facilities and equipment – high-productivity reducing total costs and transport and operation time;
3. market-oriented price policies – strategies based on tariffs under the circumstances of market-orientation improve the competitive edge by cutting tariffs to their user value;
4. promoting various harbour services – marketing activities are of strategic importance in order to popularize among potential customers the competition advantages of the harbour, especially in the situations in which a harbour attempts to set out, by providing specialized services and in a large range of logistic services.

In principle, the structure of tariffs and their level partly reflects legal regulations, and partly the limitations and objectives identified by harbour management through the perspective of the competitive environment.

Starting from the premise that the output, productivity and motivation necessary for the smooth running of activities within the company is achieved only when there is a balance between the necessity of fulfilling the obligations and respecting the personality of the employees propose an evaluation grid of the productivity-generating factors, which can also be perfectly modeled for the analysis of the competitiveness of harbour companies

The grid envisages three dimensions: managerial, organizational and communicational, which converge, in all the actions of the company, towards achieving the optimal balance between the organizational and individual requirements, reducing the number of conflicts and inadaptation causes, and ultimately allowing a strong identification of individuals and work groups with the organization itself.

Each grid contains a set of ten assertions, whose degree of truthfulness is assessed by the subjects, on a scale of three steps (1 = to a small extent; 2 = to a certain extent; 3 = to a very great extent). Data may be processed according to answer distribution by the score method.

EVALUATION GRID FOR BUSINESS COMPETITIVITY

MANAGERIAL DIMENSION				
NO.	EVALUATION FACTORS	GIVEN VALUES		
		1	2	3
1.	The managerial style is adapted according to the concrete requirements of business development			
2.	The most important aspects of professional activity are positive thinking and gaining the others' trust.			
3.	Taking risks is indispensable for the business's success.			
4.	Getting the competitive edge for the business means consolidating the „power triangle”, viz. shareholders– manager – employees (unions)			
5.	Employees work more and better in a participative context.			
6.	Accepting own mistakes is a test of virtue and power.			
7.	Systematic control of employees is a must of efficient management.			
8.	I admire original thinking if it has practical applications.			
9.	For activity planning and time administration, planning documents and responsibility delegation are used.			
10.	Spontaneously initiated brainstorming meetings with partners, to devise future business plans should be the permanent state of the business.			
ORGANISATIONAL DIMENSION				
NO.	EVALUATION FACTORS	GIVEN VALUES		
		1	2	3
1.	The business disposes of an efficient system of market research.			
2.	The business's need for development is closely linked to the employees' aspirations.			
3.	Quantifying perceptions regarding the business and the products/ services it provides from the perspective of the end-users.			
4.	The business's notoriety and image are supported by its presence o foreign markets.			
5.	For smooth running of operations, the business resorts to the services of expert groups.			
6.	Changes in the external environment of the business are perceived more as opportunities and less as hindrances.			
7.	Important efforts are made to maintain the network of relations and contacts, in view of strengthening the links with the most important buyers, in order to get to know their requirements and preferences.			
8.	The business promotes an efficient price/ tariff policy.			
9.	The professional level of the employees is assessed from the following points of view: working climate within the business; objectivity of evaluation and employee promotion; level of the workforce costs; employees' acceptance of the business's personnel policies, etc.			
10.	Promotional actions adopted and promoted by means of promotional strategies express the measure in which they have managed to create a favorable image of the business and its products/ services, and to ensure customer loyalty.			

COMMUNICATIONAL DIMENSION				
NO.	EVALUATION FACTORS	GIVEN VALUES		
		1	2	3
1.	By mutual trust, the needs of individuals and organizational requirements can be integrated.			
2.	Ideas of change should also come from outside the organization.			
3.	Discussing plans and projects is the most efficient means of involving and motivating the employees.			
4.	Interminable unproductive meetings, official hierarchic relations are irritating and hinder the normal activity of the company.			
5.	Each employee knows exactly his obligations and personal contribution to fulfilling the objectives.			
6.	Rules are made to be observed.			
7.	Professional issues should be solved in such a way that their solution should be reflected in the cohesion of the workgroup.			
8.	The degree of transparency in relations with the public opinion is appreciated.			
9.	Group decisions should be rationally made, but also with affective participation.			
10.	Promoting ampler internal relations for better communication above all.			

The pressure exerted by an environment in which "only the fittest survive" is increasingly forcing harbours to examine, restructure and redirect their actions in order to obtain the competitive edge.

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ROMANIA'S HIGHER EDUCATION VERSUS EUROPEAN UNION

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Abstract

The present paper aims at performing a comparative analysis of the education evolution both in Romania and in the European Union. We intend to present the main decisions that have influenced education, decisions which were adopted both by the European Union and Romania as well, statistical data recorded in 2000 – 2004, followed by a closer look on the higher education and the public expenses for it in Romania and in European Union.

Keywords: *education, program, knowledge-based economy, technologies, European Union*

The main events that have influenced Romanian and European education

Education plays an important part in the social, economic, scientific and political development of the society as well as in the personal development of every beneficiary of education. After 1989, Romania has undergone a series of dramatic changes on all levels, including the education level. Nevertheless the 90's education reform was a rather limited one in some areas which were considered relevant at that time. There have been omitted important aspects like the world perspective, the international cooperation program, etc.

Once Romania was integrated in the European Union, the necessity of adopting certain measures to level the Romanian education to the European Union has emerged. Its main purpose was to accomplish a standardized education in Europe.

One of Romanian's main objectives is its involvement as full partner in the European Space of Higher Education and in the European Space of the Scientific Research, these two programs being considered as the main guideposts of the knowledge - based society. However, not only Romania needed serious changes in the education compartment. Other countries which are members of the European Union have engaged in dramatic changes once they realized that the European higher education is not as competitive as compared with the north American one.

In the Bologna declaration, adopted in 1999 by the ministries of education both in countries that were members on the European Union and the associated ones, Romania included, it was mentioned the necessity of the competitiveness increase in the European higher education on the world level and of adoption certain changes that will have such an impact. As a consequence, the so-called Bologna Process has emerged which is a reforming and pan-European process, expected to trigger the European space of the higher education by 2010, meaning a space which is more unitary and more competitive on the world level.

Scholars in Great Britain have been debating the so-called *white book* of the government suggested in 2003 called *the future of the higher education*. In this respect Austria,

Denmark, Holland and Spain passed laws in 2001 and 2002 that promoted dramatic changes both in the managerial systems and in the running systems of the universities.

Later on, the ministers of education from the European countries met at the conference that took place in Berlin on the 19th of September 2003 and reassured the decision of the governments they represented to accomplish the objectives of the European Space of the Higher Education program. This particular program has the role of influencing the accomplishment of the European Union's main objective, namely that of making Europe the world's most competitive and dynamic economy based on knowledge, capable of a substantial economic growth and which will provide better work places and a better social cohesion.

European union's knowledge-based economy

To take advantage of the benefits of the so-called knowledge-based economy, to achieve a greater economic increase, to create more work places and a better social cohesion, the European Union has set as a main objective to become the most competitive and dynamic economy based on knowledge. The accomplishment of this objective implies massive investments both in knowledge and in people.

The strategy involves a 70% increase of the European Union's job occupation rate and a 3% annual economic increase. Its main compartments are:



- large scale access to communication: an extensive, safe and cheap infrastructure benefiting of a extensive transmission band (the internet connection allowing a rapid transmission of great volume of information) is essential for the development and service providing like e-Business (electronic trade), e-Governing (online governmental services) and e-Education (learning through internet);
- e-Business (electronic trade and business on the internet) includes both the selling and buying using internet connections as well as the ensuring that the business environment takes the maximum advantage of the possibilities granted by the new computer science technologies. There will be a great impact on all aspects of the European economy and on the way people will perform their activity in the 21st century, providing new opportunities and new issuing challenges.
- E-Governing provides better and more efficient services and has as a main objective the improvement of the relationship between people and government's employees.
- E-Health aims at improving the traditional health systems by supplying a better information in the health department for all citizens, for patients, medical staff, doctors, experts and politicians.
- E-Education makes use of new technologies to improve the quality of education. To take advantage of the e-Europe initiative, citizens need a modern education as well as competencies.
- E-Inclusion: the e-Europe initiative supports the ambitious project of accomplishing a society of information for all of us. This aspect implies the overcoming of the social and geographical barriers and the ensuring of a total IT society.
- Security: on the extent that the IT society becomes more and more important for the business environment as well as for the social assembly in general, the ensuring of a security both on the infrastructure level and on the informational content level represents an essential objective of the European Union.
- Informational and communication technologies should be closer to the citizens' requirements to grant the possibility of being involved in a more efficient way in the different virtual communities which generate culture and social fulfillment.

- The women's access to the new technologies and to their use continues to be reduced compared with that of men's. To prevent this aspect, new special programs of professional training and of learning will be initiated for new students, jobless single mothers for whom the access is rather low.

**Scholar population by level of education
thousands persons**

Table nr.1

States	2000	2001	2002	2003	2004
Total (UE-15)	90521	90747	92053	91838	92742
Total (UE-25)	74340	74400	75674	75518	76463
Total (UE-27)	79659	61502	80888	80707	81614
Euro Area	56293	56226	56107	56286	56664
 Belgium	2235	2304	2333	2373	2333
 Czech Republic	1906	1932	1935	1928	1934
 Denmark	1003	1029	1046	1069	1127
 Germany	14549	14515	14511	14525	14583
 Estonia	303	306	304	298	293
 Greece	1884	1906	1975	1961	1983
 Spain	7769	7597	7461	7382	7509
 France	11934	11849	11791	11884	11903
 Ireland	990	987	992	1001	1033
 Italy	9049	9144	9199	9266	9380
 Cypru	138	140	142	146	148
 Latvia	499	510	510	506	502
 Lithuania	767	787	797	807	811
 Luxembourg	69	70	72	73	71
 Hungary	1906	1924	1946	1968	1988
 Malta	78	78	77	79	81
 Benelux	3171	3217	3208	3239	3264
 Austria	14591459	14641464	1422	1429	1452
 Poland	9074	9153	9153	9077	9004
 Portugal	2032	403	1964	1962	1945
 Slovenia	389	1114	407	408	411
 Slovakia	1123	1172	1109	1104	1108
 Finland	11521152	1172	1179	1193	1206
 Sweden	2090	2107	2115	2119	2123
 United Kingdom	14955	15038	16407	16043	16550

States	2000	2001	2002	2003	2004
 Bulgaria	1357	1322	1275	1274	1250
 Romania	3962	3954	3839	3915	3901

Sources: www.eurostat.ec.europa.eu

Conclusions regarding the higher education

During the last 10 years, universities from Romania have undergone a profound changing process. However, the reform has not been yet completed. The transition to the knowledge economy, the new cultural (post) modernity, the digital era having its technologic specific character, the entire civic and political transition, the pressure of the increasing number of people to have access to higher education determine the universities to face new requirements. Moreover within the academic European and world space new universities are being developed – virtual, transnational, profit making or non-profit making private universities that compete with the traditional ones in a way that is incomparable with what existed 10 years ago. The consequences of this competition can already be seen in the Romanian education department.

As a result of this comparative analysis between the European higher education and the Romanian one, the following conclusions can be drawn:

- there are important discrepancies between the qualifications required by the labor market and those provided by universities.
- Compared with other European states, particularly with those aspiring to the European Union integration, we invest too little in the higher education compartment.
- Universities do not benefit of proper financial incentives for the recruitment and preserving the young university-graduated specialists. The average age for retirement for the university-graduated staff reaches 55 in some institutions or even more. The university-graduated staff deficit of the entire system of higher education is approximately of 40% although it may vary between 20 to 60% in some universities.
- The quality of the teaching process, of the documentation basis from the libraries or of equipment from laboratories is unsatisfactory in most universities, including the most representative ones, not to mention the recently set up private or public universities, aspect which is associated with both students' and university-graduated staff's feeling of professional dissatisfaction.
- The current system of education is accused of being a much too theory-oriented one without concentrating enough on accomplishing practical professional abilities. To be more briefly, the academic quality management is not efficient yet.
- The number of students in Romania is still low compared with that of other European countries, including the countries which are still on transition. The rate of participation corresponding to those aging 18-30 is in Romania much below 30%, whereas in France it works out at 50% and in Poland it reaches 35% or even more.
- The top research is insufficiently stimulated in the most powerful Romanian universities and in others it is an activity regarded as a secondary one. The university research underfinancing has become critical.
- Romania disposes of many public or private universities too small and too little competitive, with a traditional management and insufficient development resources. The top 10 biggest and classical universities are comparable regarding their products and resources with the other approximately 50 ones, whereas the administrative and managerial expenses of those are substantial. The recently set up public universities contribute insufficiently to the economic and cultural development of the communities







in which they are situated. Some private universities have extended their logistical infrastructure and the number of students without having a proper university-graduated staff. They are still relying on that of the already existing public universities.

- Between the current legislative base and potential or the required one for the higher education development has emerged a substantial discrepancy. Many of the current legal provisions rather prevent the development, they do not provide enough space for those who have initiative.
- The students' life and learning conditions are not ensured on an adequate level, government subventions and grants are still channeled according to insufficiently substantiated criteria to support those who really need them.

Students number by higher education thousands persons

Table nr. 2

States	2000	2001	2002	2003	2004
Total (UE-15)	12563	12820	13191	13590	13860
Total (UE-25)	15207	15737	16329	16887	17319
Total (UE-27)	15921	16517	17139	17762	18234
Euro Area	10003	10204	10372	10685	10966
 Belgium	356	359	367	375	386
 Czech Republic	254	260	285	287	319
 Denmark	189	191	195	202	217
 Germany	2055	2084	2160	2242	2331
 Estonia	54	58	61	64	66
 Greece	422	478	529	562	597
 Spain	1829	1834	1833	1841	1840
 France	2015	2032	2029	2119	2160
 Ireland	161	167	176	182	188
 Italy	1770	1812	1854	1913	1987
 Cypru	10	12	14	18	21
 Latvia	91	103	111	119	128
 Lithuania	122	136	149	168	183
 Luxembourg	2	3	3	3	:
 Hungary	307	331	354	391	422
 Malta	6	7	7	9	8
 Benelux	488	504	517	527	543
 Austria	261	265	224	230	239
 Poland	1580	1775	1906	1983	2044
 Portugal	374	388	397	401	395
 Slovenia	84	92	99	102	104

States	2000	2001	2002	2003	2004
 Slovakia	136	144	152	158	165
 Finland	270	280	284	292	300
 Sweden	347	358	383	415	430
 United Kingdom	2024	2067	2241	2288	2247
 Bulgaria	261	247	228	231	229
 Romania	453	533	582	644	686

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THE LABOR MARKET ASPECT AND THE NECESSITY OF REGULATION

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Abstract

The labor market that represents a certain type among other markets should be more regulated than others. The labor market management implies the control and administration of the negative phenomena brought about by the labor force surplus. It must also ensure the incentives applying different hiring methods, the protection of the unemployed, decentralizing, partnership, transparency, quality and social efficiency. Experts make use of different models of analyzing the correspondence between a job and the personality the current or potential employee.

Keywords: *labor market, job, human capital, personality-environment, people*

According to the Nobel Prize winner Paul A. Samuelson, choosing one's profession is the most important economic decision that one should take.

Nevertheless, our future does not depend only on personal qualities but also depends on economic factors, phenomena and processes that influence directly the labor market. This is the reason why this particular market is a constant source of social conflicts, political effervescence and disputes. The last century witnessed a series of dramatic conflicts among the labor force owners.

The labor market that represents a certain type among other markets should be more regulated than others. The economic, educational, formative and social dimensions of this

market are more difficult to reconcile in the absence of some adequate opinions, strategies and politics, which encompass all factors relevant to the labor market run, having a reduced capacity of self-regulating, with economic and social destructuring effects. Thus it is obvious the need of rules and regulations.

Generally speaking, the job offers or to be more accurate, the people looking for a job represent the weakest chain on the labor market. Due to this aspect, a third party should intervene (the State, specialized governmental or non-governmental public or private institutions) to establish and regulate the general frame and the rules, complying with the requirements of the economy having a competitive market.

The labor market management implies the control and administration of the negative phenomena brought about by the labor force surplus. It must also ensure the incentives applying different hiring methods, the protection of the unemployed, decentralizing, partnership, transparency, quality and social efficiency. For instance, the inadequate reform of education in general, and that of the professional in particular, can trigger a labor force surplus among young people regarding certain types of jobs as well as a dramatic lack of labor force concerning other jobs. The administration of these discrepancies between supply and demand as a result of the economic crisis and the intervention in favor of those who want a job but are unable to find one, require a substantial effort that involves not only the Minister of Labor and Social Solidarity but also the Minister of Education and Research, the National Agency of Labor Force Occupation and some other ministers that are interested in this matter.

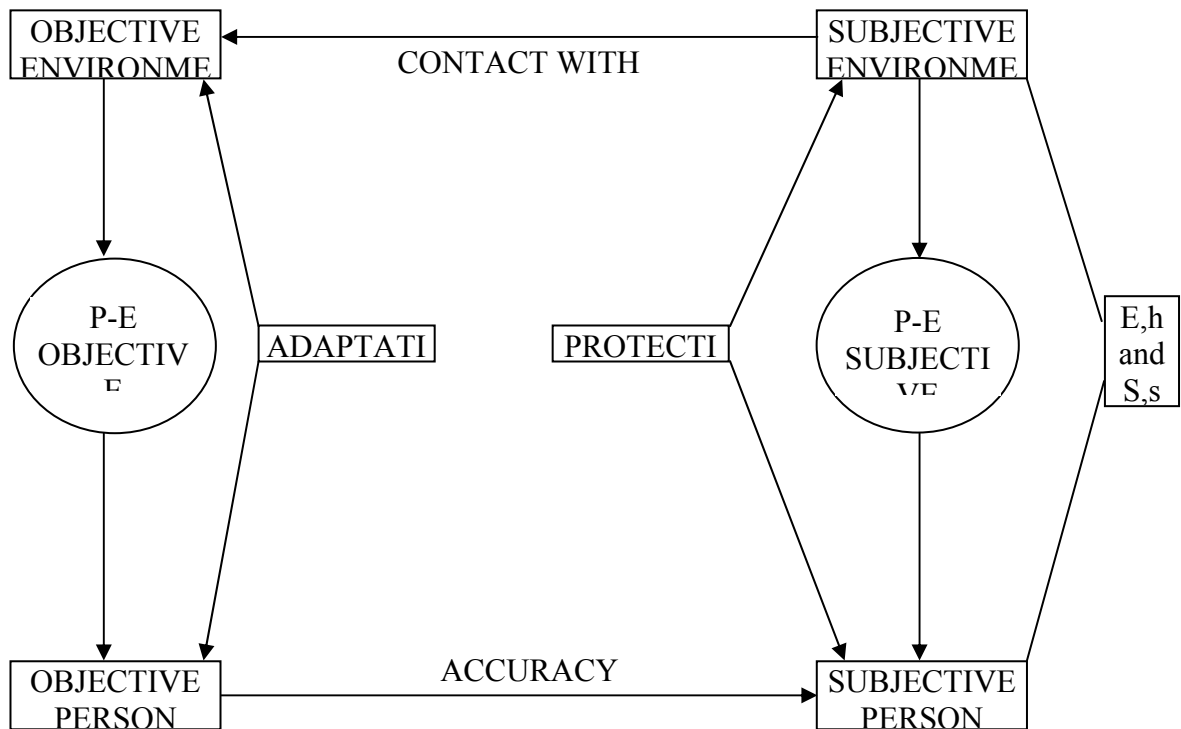
However, the investment in the human capital has been and still remains the most important investment. The quality of labor resources is improving in all respects: level of training, education, and professional training. We can even speak about private and public benefits of the investments in education as well as in the human capital. The professional training that a person receives has significant impact on the current or in the future work place. Jacob Mincer mentions in his book “Studies of the Human Capital” that the trained employees have at least two advantages compared with those which are less trained, namely bigger salaries and a greater work place stability.

Another aspect that should be mentioned and that is closely connected with the training level is the quality of life. The continuously changing process of the labor force offers regarding the employed labor force is a complicated one. Intricate aspects occur in the relationship of correspondence between the complex personality of a person who is looking for a job and the characteristics that are required by a certain job as well as the general environment in which that person is performing his/her activity to finally reach the so-called concept suggested by the specialists “the quality of the work place”. Actually the personality of a person looking for a job is being referred to and the way this personality can meet the requirements of a certain job and a certain work environment (characterized by a salary, number of superiors and subordinates, promotion possibilities, specific conditions of performing the activity). The State hires experts in the system of labor market regulation or organizes auctions for projects regarding the support of the organizations specialized in the labor market study, in the unemployed assistance, in assisting other groups of disadvantaged people (housewives, people with disabilities), in professional selection.

Experts make use of different models of analyzing the correspondence between a job and the personality the current or potential employee.

A model that can be applied, checked and suggested in the conclusions of a labor market study is the model of “P-E correspondence” (personality – work environment).

P-E Model (Personality – Environment)



Source: Robert Kahn, page 106

E, S = employment and satisfaction
 h, s = health and sickness

The issue of matching according to the P-E model is that of supply and demand type, the work place meeting the demands or not of the person who wants to take that job.

The subjective matching means a job that meets the person’s requirements. Moreover the environment of the company and requirements of the employer determine the employee to agree with some activities that were not known from the very beginning.

The objective matching assesses the person’s qualifications so that they meet work place requirements.

Adaptation regarding the job requirements, the practice that the person undergoes and the environment are the two sides that checks the matching of the self esteem with the impression of the person who hires.

The accuracy of the personality-environment matching ensures the compatibility between the complexity of the personality and the objective environment established by the conditions of the interview, those from the personnel recruiting companies and labor force agencies.

The most important aspects of the current reality of the labor market often prevent even the work place that it will take.

The involvement of the school in the requirements of the economic agents may become a direct, efficient way to rise the level of the person integration in the competitive type work environment on the labor market.

Specialists suggest a new study of the strategies and concrete assessments of development (particularly the local development), implementation and estimation of the effects on the level of work force occupation, learning the efficiency of the developing agencies, of the local partnerships and of the mutual support in formation networks. Identification and estimation of the economic aspects and providing solutions to the institutions that support the programs will facilitate an investigation as accurate as possible of the unemployed and regarding a better use of labor force.

The following aspects should be taken into consideration:

- (non-formal) learning validation acquired previously;
- use of the public-private partnerships to improve efficiency;
- use of incentives to stimulate private investments;
- use of indicators to monitor performance;
- providing the tools for increasing the quality of the educational systems;
- a better orientation of the pupils, students to comply with the requirements of the work demands;
- providing a special support to the disadvantaged groups.

In organizing the occupational development strategies, a series of key factors occur, factors that are considered either as opportunities or as weaknesses or risks:

- labor force: variable volume and composition, active and inactive population;
- competence and education: work force qualification, administration competence, infrastructure of education ;
- attitudes and influences: on the part of the public authorities, owners, population and some other local organizations;
- coordination and management: action coordination, disputes, experience in economic development and work place creation, quality of management, competence in applying human resources, political planning and supporting of the local industry and regional strategies;
- localizing: in the world, European, national, regional and adjacent areas context, transport and communication;
- quality of life: the costs and prices of life, poverty/welfare, education, environment, social and cultural life;
- financing and administration: investments in the private sector, the use of incentives;
- work image: how is the place considered by the population and the outside people;
- land and buildings: available land, areas for small and medium companies and for companies using state-of-the-art technology, deliveries, companies' registered offices.

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LIFE HEALTH – A RISK FACTOR IN THE CONTEMPORARY SOCIETY AND A BASIC ELEMENT OF THE QUALITY OF LIFE

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Abstract

The health condition of the population has become an important component of the human resources which, in their turn, produce a powerful impact both on the quality of the labour resources and people's welfare, and in respect to the efficiency of the social-economic activities. For the countries which are behind from the social and economic point of view, the interdependency between health and economy turns into a vicious circle: the precarious condition of life and health condition leads to the insignificant progress of economy, and this perpetuates the social-economic conditions of human life and human health condition.

Keywords: *Life health, quality of life, social revelator, social health.*

People's health may be considered to be a state which is, by definition, a component of the normality of the existence of individuals, which stands for the preservation of the structural balance of a person (in the bodily-biological plan and psychically aware) both from the internal perspective (of the mutual relation of subsystems in accordance with the synthesis of the ensemble, with the conformity of the system states in comparison with the general norms of the species, of age, of sex) and from an external perspective, of the adaptive balance between the individual and his concrete environment.

The World Health Organization defines the health condition as being “a full state of welfare from a psychological, mental and social perspective and not necessarily in the absence of pain”. This definition is the acknowledgement of the fact that the health condition represents more than the absence of pain.

Nevertheless, there are problems related to the way in which the word “health” is defined. Pope Joan Paul II used to say: “health is not an absolute commodity, (...) especially when it is perceived simply as physical welfare, and it goes as far as to either restrict or become too important, being a possible reason to refuse a life that wishes to come into existence.

This is what happens with the so-called reproduction health. How could we not acknowledge in it a reductive and deviated health concept?”. The Pope used to say that health “may be sacrificed only in order to reach nobler purposes, as it sometimes happens in the service of God, of the family, of the people or of the society as a whole.” In the same context, Bishop Elio Sgreccia, the president of the Pontifical Academy for Life, would say: “even if health does not represent the ultimate welfare for a person, it is nevertheless an important matter, which imposes the moral duty of its preservation, its support, its restoration. This value (health) has become utopian and mythical, and sometimes it includes criminal meanings. An example in this respect is the legalization of abortion starting from women’s health (...). How far can we push the right to being healthy? Is there a right to health at any cost? ”

Beyond these differences, people universally accept the golden rule according to which human health is the most important thing of living individually and socially, for which the responsibilities of individuals and collectivities as a whole are complementary and not replaceable. Being finite, due to the individual time of development, natural, due to the natural bases that support it, social, by the components which it assimilates from the co-existence environment, human health is the most important element of life, the only law that matters. Human health can be perceived both as a vital consumer good – for the individual, because it represents a premise for the joy of life, and as capital good – for the society, economic organization, representing the premise of the production factor called “work”, with the most powerful effect of involvement in the world we work in order to have a better life.

The health condition of the population has become an important component of the human resources which, in their turn, produce a powerful impact both on the quality of the labour resources and people’s welfare, and in respect to the efficiency of the social-economic activities. For the countries which are behind from the social and economic point of view, the interdependency between health and economy turns into a vicious circle: the precarious condition of life and health condition leads to the insignificant progress of economy, and this perpetuates the social-economic conditions of human life and human health condition.

In the research made by some poll specialized firms, the question “What is the most important element that defines the quality of life?” was answered by more than 70% of the polled by placing health first. The term “health related quality of life” includes domains such as physical, psychical and social health, perceived as distinct areas, influenced by personal experiences, beliefs, expectations and perceptions. Each of these domains has an objective component and a subjective one, both with the same level of importance: on the one hand, it is our own evaluation grid, and on the other hand it is the objective one, established by the doctor, in compliance with the professional standards. More than often, according to the professional standards (frequency and seriousness of the symptoms, the results of the lab tests, the result of imagistic investigations etc.), health condition is defined using the same terms for two different patients, but their perception on their own quality of life is deeply different.

The predominant percentage of the people who consider that health is the most important element of the quality of life may be attributed to the fact that the health condition of the population, and the perception of the individuals about their own health condition implicitly, has deteriorated in the last century.

Among the factors that have determined this matter of fact, the first is the evolution of diseases. The progress of the contemporary civilization previous to the computerized society which is in evolution in advanced countries, was not accompanied by the decreasing number of diseases and sick persons, but, on the contrary, by the increase and intensification of their intensity. The factors which caused the unfavorable correlation between the evolution of civilization and the evolution of diseases are, undoubtedly, the rapid shift from the rural economy to the industrial economy, the increasing urbanization and environment pollution. When lacking the supervision of systematization and normal urban equipments, the rapid gathering of population in cities and industrial zones generates serious issues of personal and collective hygiene (drinking water supply, utility services, waste disposal, waste collection etc.), as well as of psycho-social adjustment (the number of neurosis and psychoses rises, as well as alcoholism, drug addiction, suicides). Moreover, air pollution, the pollution of the soil and water with various chemical agents, radiation, sonic waves etc. require that the health services should find new solutions to protect the individuals and human collectivities against the disorders that the civilization based on industrialization causes to their health.

Secondly, the evolution of the demographic processes as a whole, especially the process of population ageing and its migratory movement, influences the medical assistance services. Not only does the increase of the average life period multiply the need for social assistance, of medical assistance, because it is synonymous with the increase of the population number but it also emphasizes the diseases typical of old age (chronic and degenerative), with a long-term evolution and with increased needs for medical services (frequent hospitalization, extra-hospital medical assistance, rehabilitation of persons with chronic diseases), which involves a greater number of medical-sanitary personnel, a greater and more expensive volume of medication, hospital and ambulatory equipment. The intensification of the migratory movement of the population is achieved both inside every country and between countries, the flows starting especially from the underdeveloped countries towards the developed ones. The population flows generate extremely complex sanitary problems, especially in the domain of contagious, epidemic, parasitic diseases, personal and family hygiene, the hygiene of the dwelling and of the food.

Thirdly, the intensification of road, air, railroad and ship traffic, apart from the benefits it has brought to the improvement of the living and working conditions of the population, has also caused, as side effect, the increasing number of accidents and catastrophes. Traffic accidents come in addition to those caused by the mechanization of industry, agriculture and household activities, including those determined by the frequent use of chemical products. The increasing number of accidents forces the society to develop and improve the emergency services, to provide them with the necessary medical-sanitary personnel and with modern technical means.

The altering of food content represents another social phenomenon which has consequences upon the health condition of the population. The shift from natural food, easy to protect against germs and parasites, to sophisticated food (prepared, semi-prepared, industrialized), "enriched" in its numerous processing stages with preservatives, aromas, dyes etc., makes the public health problems even more complicated. There are many cases when food additives are used incorrectly, not to mention hygiene deficiencies in the process of food industrialization, its storage and handling, which transform food into noxious factors for the health of the population. The increase of food industrialization, together with the development of common food units (restaurants, canteens, eating houses,

kiosks etc.) imposes the sanitary control of the food, the extension of the services in the domain of food hygiene, the improvement of the investigation techniques and of the level of training and turning responsible of the sanitary personnel who work in the domain.

The consequences of the above-mentioned social phenomena and factors upon health services have shaped, all over the world, the long-term tendency to increase the costs of medical assistance services, their rates exceeding the rates of the costs of living (for the last four decades).

There should not be omitted the fact that the social health of the population is, more often than not, the condition for the somatic health. By acting in isolation, neglecting or ignoring certain aspects of social pathology inherent to a society (unemployment, poverty, high crime rate, various family malfunctions, alcoholism etc.), any health strategy shall only partially reach its major objective: guaranteeing the health condition of the population. Public health should become the subject of permanent research of the balance between the field of social life, where the difficulties of social inclusion and the forms of exclusion coexist with the assimilation of knowledge and skills of pro-health behaviors, of the spirit of solidarity, with individual and collective involvement of the population in any activity whose purpose is that of promoting health and some quality medical services.

As a consequence, health is multidimensional and can only be achieved by means of the effort, in all sectors, of the society, of the state, of the local communities and of each and every individual. Health is not a purpose in itself, but a condition of the quality of life and a means by which people may take part in the economic and social development on one hand, and personal and collective development on the other hand. In its turn, development depends on the health of those who participate in the production process and in the social-cultural life. In this respect, specialized literature considers health, more and more often, to be *a social revelator*.

The purpose of this approach is to eliminate the dichotomies, very often reductionist, which set health against disease. There has been developed, more and more acutely, the idea of approaching health as a central social phenomenon. Some authors consider that, from this point of view, health tends to become a political stake, taking into account some permanent and bidirectional negotiations, but especially democratic ones, between the political persons who are responsible for the decisions regarding the development of health policies and the users, taking into consideration their points of view. From this perspective, health shall not be reduced to medical care only, in the sense of treatment or prevention, but shall shift from knowledge production to norm issuance.

A democratic society, essentially pluralist, needs at the same time open and evolutionary ethics, as long as the full freedom of man brings about the full responsibility for his own deeds and makes what is ethical to be also legal and the other way round. *Bioethics* plays such a role within the sciences of life, as a permanent improvement and implementation of ethics to the progress and new social conditions of practicing medicine.

Bioethics is the science which, using an interdisciplinary methodology, has as its main object the systematic analysis of human behaviour in the domain of life sciences and health, analyzed from the perspective of moral values and principles. Ethical reflection consists in two fundamental principles: respect for life and respect for the self-determination of persons, on the grounds of human autonomy and freedom. Bioethics has

proved the fact that the technical evolution in medicine and especially in genetics has disregarded the personality of the patient, who also possesses a soul, not only tissues.

Bioethics nowadays needs to give an answer to the problems that health has to deal with: equal access to medical care, quality of medical services, rationalization of the resources of the medical service, appropriate evaluation of the medical technology costs. Bioethics emphasizes the need for higher competition in the domain of medical sciences, also pointing out the social role of medicine.

Granting by the Constitution the right to health from which there results the person's right for medical services also involves his right to benefit from today's scientific breakthrough and the right to have a living standard which is in compliance with this breakthrough.

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THE TOURISM MARKETING ENVIRONMENT

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Abstract:

Planners should be attention about the certainty with which they predict (or are listening to others specialists in economically predictions) the future. A much more appropriate approach is that of scenario generation. The planners considers what might happen if certain situations were to occur (for example, increasing the terrorist activities or floods dangerous).

The tourism organizations must know and analyze carefully both of the components of the external environment and its own resources, meaning the components of the internal environment.

Keywords: *Environment, tourism, marketing.*

The tourism organizations act under certain concrete conditions, offered by their external environment. In order to adapt more easily to the environment's evolution, these organizations must know and analyze carefully both the components of the external environment and its own resources, meaning the components of the internal environment. Knowing these environmental components' evolution, marketers could take more appropriate decisions and make more realistic marketing plans.

A. The internal environment of a tourism organization

For an easier adaptation to the external environment, the management of a firm must evaluate and know its potential, meaning that it has to know and analyze the internal environment, which is composed by all the elements which participate in accomplishing the firm's object of activity. Knowing the internal environment, the quantity and the quality of internal resources of an organization (material, financial, humane, informational), encourages a more flexible adaptation to the evolution of the external environment. Any tourism firm possesses, at a certain moment, certain resources, whose structure may be analyzed taking into account different criteria.

From a physical point of view, one can mention: possessions (buildings, equipments, technologies, infrastructure, etc.), the fields and other natural resources used in the activity process, financial and human resources (like in any other services activity, the human resources are more important in tourism activities) on whose quality depend the activity of the firm.

From the point of view of the category of the resources the firm uses, its potential may be structured in such way (Balaure, etal, 2000, pp.75-77):

- Technique capacity (productive potential; this one expresses the firm's capacity of making those products or services required by the market, in certain terms of quality and quantity);
- Commercial capacity (commercial potential; this one is about the quantity and the quality of products or services offered on the market, the market percentage obtained, the price policy, distribution and promotion, the degree of satisfying the demands etc.);
- Financial capacity (financial stability, capital cost, the cash flow); Organizational capacity (the management quality, the capacity of mobilizing and orienting, the flexibility of the organization).

B. The external environment of a tourism organization

In a broader approach, the external environment of a tourism organization contains a group of factors with a complex and heterogeneous structure, which acts directly upon the results of the firm's activities, the firm which, in a macro economic vision, takes part she herself in this environment. Depending on these factors and on the nature of their effects, the external environment can be expressed by one of the following (Florescu, etal, 1992, pp. 49):

- Stable environment, which can be less and less found in this domain, is characterized by a slow evolution of the economic phenomena, easily foreseeable (harder and harder to meet in contemporary life);
- Instable environment, represented by the regular environment, where the firms develop their activities, is characterized by many modifications of its components and whose tendencies can be knew and anticipated, allowing in this way the adaptation of the firm's activities to its changes;
- Turbulent environment, hostile to the firm, is characterized by sudden modifications of its components and the rapport between them, leading sometimes to the modification of its physiognomy, being extremely difficult or even impossible to foresee, making the survival of the firm look like a problem (caused by some unwished events, like terrorism actions, natural catastrophes like tsunamis, earthquakes, floods etc.).

Not all the components of the external environment of the tourism firm act in the same way and with the same intensity. The firm has certain direct relations with some of those components, relations which are determined by the necessity of accomplishing its object of activity, and which are characterized by reciprocity. In the case of other components, the

relations are not that close connected, and the influences, in general, are manifested indirectly. For this reason, it is considered that the external environment of a firm is made out of two important categories of components: the microenvironment and the macro environment of the firm.

a. The microenvironment of a tourism organization

The microenvironment of the firm is made of some components which act directly upon the firm and which the firm itself can influence.

These components are (Balaure, etal, 2005, pp. 24-26):

- The goods, services and working force suppliers, meaning the representatives of some economic organizations or physical persons that, based on some buy-sell relations, can provide for the firm the needed resources for its activities. For the material resources suppliers (raw materials, materials, equipments, machineries), he firm must have certain information referring to: who important they are, about where they are placed, the size, their rhythm of work and the quality of the offer, the commercial and price policy, the internal environment, etc. In the same time, for some services suppliers (electrical energy, water distribution, natural gases suppliers etc.) the tourism organizations must identify the prices, the commercial policies etc. The human resources suppliers are those environmental agents who supply the activity of the firm with human resources; here can be mentioned the high-schools or universities, those institutions included in the system of continuous formation, the training and hiring agencies or different persons looking for a job etc.).
- Services providers, meaning firms or physical persons who offer a series of necessary services for the accomplishment of the object of activity of the firm. For tour-operators, can be mentioned the following:
 - The agents who based on their marketing channel positions can handle the retail distribution (tourism agencies)
 - The independent services suppliers (hotels, food&beverage suppliers, transporters);
 - Other specific services suppliers like financial intermediaries, the insurances persons, marketing services providers etc.
- Clients, meaning (going from the marketing channel position, tour-operators, travel agencies or services suppliers) other tourism firms, institutions, individual tourists towards whom the offer is directed. All these categories represent the central theme of marketing studies, because it is necessary to know the needs, the request, the buying and consuming perception etc. For a good marketing plan, knowing the following elements is very important: defining the target – client (or the group responsible for the decisions), the advantages of the target – client, buying behavior etc.
- Competition, microenvironment agents that fight for the same category of clients or for the same providing source. In tourism, the competitors can be similar economic organizations (tour-operators, travel agencies, tourism services' suppliers) or individual households, which offers host-services (Muhcina, 2002, pp. 26). In the tourism case, the competitive advantage is necessary to be determined, a process which supposes the implementation of a set of benefits superior to those offered by the competition. These benefits must be as important as the target – clients need them to be (in other words, the offer of a superior alternative comparing to that of the competition.
- Public organisms, meaning the microenvironment agents who are interested directly or indirectly in the firm it self, or who influence the capability of a firm of accomplishing its objectives: interest groups, professional associations, consumers association, mass-media etc. A special position has the interest groups, which work outside the political system and can be categorized from different criteria as (Pender, 1999, pp. 45) *permanent* groups (which exists all the time, and typically fight for a general cause) or

temporary groups (which are set up to achieve specific objectives) going from there permanence action and *sectional* groups (which fight for the common interests of their members, over a wide range of issues (like the unions from airlines industry) or *promotional* groups (which are concerned about a specific cause).

b. The macro environment of the tourism organization

The macro environment of a firm is composed of environmental factors, which have a general and exogenous character in what concerns the agents who are part of the microenvironment. These ones act on long term and the firm cannot control them in a direct way. The components of the macro environment are determined in the following way:

1. The demographic environment, meaning the population situated in the area of activity of the firm, whose significance is determined by some pieces of information such as: population size, age distribution, density, population location (urban – rural), sex, occupation, education, family size etc. The role of this environmental agent is more important in tourism activities because it forms the organization' market and, on the other hand, is a human resources generator.
2. The (physical) environment, which means natural environment or, in some opinion (Pender, 1999, pp. 46), can be split into the natural environment and the built environment. The natural environment refers to weather, climate, geology and geography, fauna and flora resources, elements that have a very significant influence on tourism activity. The built environment can be split, on its turn, into habitation (such as accommodation) and infrastructure (such as roads, airports, rail etc.). This kind of approach is connected to the tourism attraction nature (natural or as a human action result), basic element in tourism product assembling process.
3. The economic environment, all the elements which represent the economic life of the activity space where the firm develops its activity, characterized by a series of indicators (national income, per capita income, income distribution, disposable income, discretionary income –the money an individual or a household has to spend after the essentials of life, household income and expenditure, business expenditure, other factors like credit availability, propensity to save, inflation, interest rates etc.). This environment is directly or indirectly reflected in the situation of the market (the volume and the structure of the offer, the dimension of the request of products, prices, the competition etc.).
4. The technological environment, all the components through which it is explained the way in which the firm obtains the products or the services it uses at a given moment. This branch is one of the most important components of the macro environment and it implies for the firm a feed - back relation between the beneficiary and the provider. The evolution of this environment can be expressed by some specific elements such as: inventions and innovations, research expenses size, policies and adjustments regarding the elimination of the polluting technologies etc.
5. The socio-cultural environment, all the elements referring to the values system, customs, traditions, beliefs, rules which impose people's status in the society. This environment is the base of the following: the needs that form the request, the attitude towards buying and consuming, the delimitation of the market and the types of buyers. The culture and the social class are important elements that determined the tourism products consumption.
6. The politic environment elements like political system, structure of governance and mechanics of political decision-making, political forces and the relations between them, the stability of the politic climate, etc., all these can influence the market activity of tourism firms.
7. The legal environment, the law, the jurisdictional rules assembly that influence – directly or indirectly – the market activity of a firm. Among these one can mention the

rules voted by internal or international organisms in what concerns the harmonization of commercial practices, the free circulation of people, the custom proceedings, conventions, etc. - especially when talking about different activities such as transportation, insurances, etc.

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THE EFFICIENCY OF INPUTS IN THE AGRICULTURAL PRODUCTION PROCESS

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Abstract:

The purpose of this paper is to introduce a modification of a standard four input production process where energy is used in an inefficient way due to partly unnecessary waste of energy. The changes in production efficiency investigated using stochastic frontier methods, show declining technical efficiency in livestock production and especially low marginal contribution of labor inputs. The number of workers, size of farm, and distance from nearest city are related to efficiency in agricultural production. It is well known that results from an environmental policy in response to global climate change are quite sensitive to the assumption on the rate of energy efficiency improvements. However, technical progress is traditionally considered as a non-economic variable in economic policy models. It is exogenous in most policy evaluations as well as in the theory of environmental economics.

Keyword: *agriculture resources, agriculture management, financial instrument for agriculture production process, technical efficiency, frontier production function*

1. Introduction

Inputs for agricultural production can be distinguished by their cost relevance and their infrastructural requirements. Some inputs like grain seeds or granular mineral fertilizer in bags have lower requirements and are fairly easy to handle, others like liquid chemical pesticides have higher requirements particularly in terms of handling and user knowledge in order to avoid environmental and safety hazards.

Agricultural equipment, implements and machinery are among the most demanding of agricultural inputs. Mechanization inputs usually represent a fairly high share of investment capital of a farm, their correct use can be complicated and requiring high level of knowledge and abilities and they usually need a complex infrastructure to be operated in a sustainable way. This infrastructure includes repair facilities, spare and wear part supply as well as a supply of other inputs for their operation like fuel and lubricants.¹

2. Agricultural input in production process

Capital consists of all the equipment, structure, and machinery used for production. Capital represents outcomes of previous production activities that are embodied in some assets relating to present production activities. Generally, capital is utilized with viable inputs, labor, energy and fertilizers, that are consumed by the production process. Producers may purchase services of capital goods or they may own capital assets that would be evaluated differently in their accounting documents. Capital is measured by the value of the assets that are used as capital goods. In each period there is a cost associated with the use of capital goods. First, it includes the cost of physical depreciation as well as the periodical costs for the resources that were used in the capital investment (interest costs).²

One difficulty in measuring labor comes from the differences in quality between different individuals. Generally, there can be different wage rates according to the quality of labor services provided. An important concept is human capital. Knowledge acquired through training and education in the past is a determinant of productivity in the present. Compensation for workers combines payment for the raw labor services as well as a return for their human capital.

As labor, land is not a homogeneous input. Land quality varies depending on location, physical characteristics, etc. There are different mechanisms for payment of land services including rental fee, sharecropping, etc. Moreover, quality of land may affect the effectiveness of new technologies.³

Pesticides are damage control agents. Their productivity depends on the environment, the pest situation, and the product.

The value of water depends on its use, quality, and location. Each input has unique features that may be essential in modeling behavior at the farm level. As the analysis become more aggregated, generic modeling is more relevant.

The modeling analyze problems of water and pesticides will demonstrate how some of the basic biological or physical properties of water and pest control affect the specifics of the modeling of the production process, the nature of choices that are applied, and the type of outcome that we will observe.

The new approach really starts after the need for agricultural mechanization input supply in a country has been identified, in quantitative and qualitative terms assessed and a donor has agreed upon the amount of money. In the recipient country then persons or structures are identified that qualify as commercial distribution channels for the required inputs. Important is that they have a long term interest and commitment as well as the infra-structural, economical, technical and personal characteristics to successfully initiate and run the operation of an agricultural machinery dealer including the after sales service.

3. The economics of land-quality augmenting input

The model use following symbols:

y = output per ha;

x = effective input per ha;

a = applied input per acre;

i = application technology indicator;

i = 0 for traditional technology;

$i = 1$ for modern technology

f = land quality

$0 < f < 1$

f measures input use efficiency of traditional technology on soil

$y = f(x)$ is production function, with $f'(x) > 0$ and $f''(x) < 0$.

h = input efficiency function;

h = fraction of input consumed by crop with technology i and land quality f .

P = output price

A = water price

K_i = per ha cost of technology i with $k_1 > k_0$

The optimization problem faced by a farmer when choosing the technology, is:

$$\text{Max}_i \sum_{i=0}^1 (P f(h x_i) - A x_i - K_i)$$

4. The economics of pesticides

Pesticides are chemicals used in controlling agricultural pests. There are three major classes of pesticides: insecticides, fungicides, and herbicides. The use of pesticides in agriculture presents some interesting aspects to be considered:

- they need to be chemically updated over time as pests build resistance;
- there are adverse human and animal health effects associated with pesticide use, as well.

The adverse human health effects of different types of pesticides depend on the similarity between human or animal biology and the biology of the target pest; insecticides, for example, are generally worse for human health than fungicides.⁴

Herbicides: from 1965 to 1980, growth in the relative price of labor increased the use of herbicide as a factor of production. This occurred because herbicide use is a substitute for labor. During the 1980s, lower agricultural commodity prices and reduced crop acreage led to an overall reduction in herbicide use.

Insecticides: During the 1970's, an increase in energy prices led to a reduction in insecticide use.

Fungicides: Fungicide use has remained relatively stable over the past 30 years, although recent legislation banning the use of carcinogenic chemicals in the Delaney Clause will soon outlaw many fungicides (and several popular insecticides and herbicides).

Obviously, there are costs associated with pesticide application. If the total damage from pests is less than the social cost associated with a single application of a pesticide to a field (including Marginal External Cost MEC), then the welfare maximizing level of pesticide use is zero. Note that this implies toleration of some pests in the field as well as toleration of the associated pest damage, such as less visibly appealing fruits and vegetables.

When the level of pest damage rises above the social cost of one pesticide application, then it is welfare maximizing to apply the pesticide. Profit maximization in the private market will determine the economic threshold, ffn_0 as the pest population level at which it becomes profit maximizing to apply the pesticide.⁵

Experience in the past has shown that the traditional approach of a centralized procurement and supply of agricultural mechanization inputs has proven not to be sustainable. It often has led to undesirable side effects in social structures and is counter-productive for the development of independent sustainable supply structures. Economical losses for the countries and farmers were often a consequence and were counterbalancing the obvious savings achieved by tendering large quantities of similar items.⁶

The problem of optimization production function :

$$\begin{aligned} & \max_x f(x); \\ & x \geq 0, \text{ when } f \text{ is concave.} \end{aligned}$$

Optimal value, x_1 of function f , is $f'(x_1)=0$. Maximum is global in condition $f''(0)<0$.⁷

$$\begin{aligned} & \max_x f(x), \\ & \text{in initial restriction condition } g(x) \leq b; \\ & x \geq 0. \\ & g(x)+z=b, \Rightarrow z=b-g(x), \text{ unde } z \geq 0. \end{aligned}$$

Optimization of function f became:

$$L = \max_{x,z,\lambda} f(x) + \lambda [b - z - g(x)]$$

The simulation of production structures is realize with “Matlab” program. The program have a following content.

```
%realizează fundamentarea planului de producție al unei ferme vegetale
clear;clc;
%cla reset,axis off;
format bank;
disp('          INTRODUCERE DATE');
disp('          *****');
disp(' Pentru introducerea vectorilor se folosesc parantezele pătrate')
disp(' [la începutul și sfârșitul fiecărei astfel de operații].')
s=input('Introduceți numărul de variante de plan: ');
nv=s;
s=input('Introduceți suprafața de teren aflată la dispoziție, ha: ');
nh=s;
disp(' ');
disp('Indicatorii tehnico-economici aferenți culturilor din plan sunt:');
disp('*****');
disp('Porumb Grâu Orz');
%disp('Prod. medie princ., to/ha: 5,200 3,900 3,900');
prp=[5.2 3.9 3.9];
```



```

exp=['Prod. medie princ., to/ha: ' num2str(prp(1)) ' ' num2str(prp(2)) " num2str(prp(3))];
disp(exp);
%disp('Prod. medie sec., to/ha: 3,380 1,950 1,950');
prs=[3.38 1.95 1.95];
exp=['Prod. medie sec., to/ha: ' num2str(prs(1)) ' ' num2str(prs(2)) " num2str(prs(3))];
disp(exp);
%disp('Chelt. la ha, mil. lei: 8,900 5,750 5,600');
ch=[8.9 5.75 5.6];
exp=['Chelt. la ha, mil. lei: ' num2str(ch(1)) ' ' num2str(ch(2)) " num2str(ch(3))];
disp(exp);
%disp('Preț prod. princ., mil./t.: 3,000 3,200 2,800');
pp=[3.000 3.200 2.800];
exp=['Preț prod. princ., mil./to: ' num2str(pp(1)) " num2str(pp(2)) " num2str(pp(3))];
disp(exp);
%disp('Preț prod. sec., mil./t.: 0,700 0,500 0,500');
ps=[0.700 0.500 0.500];
exp=['Preț prod. sec., mil./t.: ' num2str(ps(1)) ' ' num2str(ps(2)) " num2str(ps(3))];
disp(exp);
%disp('Zile-om cons. la ha: 12 2,5 2,5 ');
zh=[12 2.5 2.5];
exp=['Zile-om cons. la ha: ' num2str(zh(1)) ' ' num2str(zh(2)) " num2str(zh(3))];
disp(exp);
for j=1:length(prp),
vph(j)=prp(j)*pp(j);vsh(j)=prs(j)*ps(j);vth(j)=vph(j)+vsh(j);
cu(j)=ch(j)/(prp(j)+prs(j));
rfh(j)=vth(j)-ch(j);
end;
exp=['Venit la ha mil. lei: ' num2str(vth(1)) ' ' num2str(vth(2)) " num2str(vth(3))];
disp(exp);
exp=['Benef. la ha, mil. lei: ' num2str(rfh(1)) ' ' num2str(rfh(2)) " num2str(rfh(3))];
disp(exp);
exp=['Cost unitar mil. lei/to.: ' num2str(cu(1)) ' ' num2str(cu(2)) " num2str(cu(3))];
disp(exp);
i=0;
while i<nv,

```

```

i=i+1;
disp(' ');
exp=['Varianta v' int2str(i) ':'];
disp(exp);
disp(' ');
disp('Introduceți vectorul repartiției suprafeței arabile pe culturi,');
exp=['[Porumb Grâu Orz]:'];
disp(exp);
s=input("");
%b=sscanf(s,'%f');
if sum(s)~=nh,
disp('EROARE: Suprafața repartizată este diferită de cea existentă. ');
i=i-1;
else,
exp=['s' int2str(i) '= s;'];
eval(exp);
end;
end;
disp(' ');
disp(' ');
disp('
                Rezultatele variantelor de plan sunt:');
disp('
                *****');
for i=1:nv,
t1=[];ppt=[];pst=[];cht=[];vt=[];rft=[];zht=[];
disp(' ');
exp=['Varianta v' int2str(i) ':'];
disp(exp);
disp('Porumb Grâu Orz Total');
exp=['t=s' int2str(i) ':'];
eval(exp);
t1=[t sum(t)];
exp=['Suprafața arabilă:
                ' num2str(t1(1)) " num2str(t1(2)) " num2str(t1(3)) "
                num2str(t1(4))'];
disp(exp);
for j=1:length(t),

```

```

ppt(j)=prp(j)*t(j);
pst(j)=prs(j)*t(j);
cht(j)=ch(j)*t(j);
vp(j)=vph(j)*t(j);vs(j)=vsh(j)*t(j);vt(j)=vp(j)+vs(j);
zht(j)=zh(j)*t(j);
prd(j)=ppt(j)/zht(j);
rft(j)=vt(j)-cht(j);
bzo(j)=rft(j)/zht(j);
rr(j)=rft(j)/cht(j)*100;
end;
%format bank;
ppt=[ppt sum(ppt)];
exp=["Producția princ. to:  ' num2str(ppt(1)) " num2str(ppt(2)) " num2str(ppt(3)) "
num2str(ppt(4))];
disp(exp);
pst=[pst sum(pst)];
exp=["Producția sec. to:  ' num2str(pst(1)) " num2str(pst(2)) " num2str(pst(3)) "
num2str(pst(4))];
disp(exp);
cht=[cht sum(cht)];
exp=["Chelt. totale mil. lei: ' num2str(cht(1)) " num2str(cht(2)) " num2str(cht(3)) "
sprintf('%6.2f',cht(4))];
disp(exp);
vt=[vt sum(vt)];
%exp=["Venit. totale mil. lei: ' num2str(vt(1)) "num2str(vt(2))      %'num2str(vt(3))      "
sprintf('%6.2f',vt(4))];
%disp(exp);
sprintf('Venit. totale mil. lei: %6.2f\t %6.2f\t\t %6.2f\t\t %6.2f',vt);
rft=[rft sum(rft)];
exp=["Benef. totale mil. lei: ' num2str(rft(1)) " num2str(rft(2)) " num2str(rft(3)) "
num2str(rft(4))];
disp(exp);
exp=["Rata rentabilității, %: ' num2str(rr(1)) " num2str(rr(2)) " num2str(rr(3)) "
num2str(rft(4)/cht(4)*100)];
disp(exp);
zht=[zht sum(zht)];

```

```

exp=['Total zile-om cons.: ' num2str(zht(1)) " num2str(zht(2)) " num2str(zht(3)) "
sprintf('%6.2f,zht(4))];
disp(exp);
exp=['Productivit. to/zi-om: ' num2str(prd(1)) " num2str(prd(2)) " num2str(prd(3)) "
sprintf('%4.2f,sum(prp.*t)/sum(zh.*t)*100)];
disp(exp);
exp=['Productivit. mil./zi-om: ' num2str(bzo(1)) " num2str(bzo(2)) " num2str(bzo(3)) "
sprintf('%6.2f,sum(rft(1:3).*t)/sum(zh.*t)*100)];
disp(exp);
end;
if nv>1,
disp(' ');
disp(' ');
disp('
                Analiza rezultatelor variantelor de plan:');
disp('
                *****');
disp(' ');
disp(' Porumb  Grâu  Orz  Total');
disp(' ');
disp('Suprafața:');
disp(' ');
exp=['t=s' int2str(1) ''];
eval(exp);
g=t;
for i=2:nv,
exp=['tt=s' int2str(i) ''];
eval(exp);
rt=tt-t;
rtp=rt./t*100;
exp=['Diferența V' int2str(i) '-V1, ha: ' sprintf('%6.2f,rt(1)) ' ' sprintf('%6.2f,rt(2)) '
' sprintf('%6.2f,rt(3)) ' ' sprintf('%6.2f,sum(rt))'];
disp(exp);
exp=['Diferența (V' int2str(i) '-V1)/V1, %: ' sprintf('%6.2f,rtp(1)) ' '
sprintf('%6.2f,rtp(2)) ' ' sprintf('%6.2f,rtp(3))'];
disp(exp);
g=[g;tt];
end;
%subplot(221);

```

```

clf;
bar(g);grid;
title('Evoluția suprafețelor');
xlabel('Varianta');
ylabel('Suprafețele, ha');
disp('                Apăsați o tastă pentru a continua!');
pause;
format bank;
disp(' ');
disp(' ');
disp(' Porumb  Grâu  Orz  Total');
disp(' ');
disp('Producția principală:');
disp(' ');
exp=['t=s' int2str(1) ''];
eval(exp);
g=prp.*t;
for i=2:nv,
exp=['tt=s' int2str(i) ''];
eval(exp);
rt=prp.*(tt-t);
rtp=rt./(prp.*t)*100;
exp=['Diferența V' int2str(i) '-V1, to:   ' sprintf('%6.2f',rt(1)) '   ' sprintf('%6.2f',rt(2)) '
' sprintf('%6.2f',rt(3)) '   ' sprintf('%6.2f',sum(rt))];
disp(exp);
exp=['Diferența (V' int2str(i) '-V1)/V1, %: ' sprintf('%6.2f',rtp(1)) '   '
sprintf('%6.2f',rtp(2)) '   ' sprintf('%6.2f',rtp(3))];
disp(exp);
g=[g; prp.*tt];
end;
clf;
bar(g);grid;
title('Evoluția producției principale');
xlabel('Varianta');
ylabel('Producția principală, to');
disp('                Apasați o tastă pentru a continua!');

```

```

pause;
disp(' ');
disp(' ');
disp(' Porumb Grâu Orz Total');
disp(' ');
disp('Cheltuieli totale:');
disp(' ');
exp=['t=s' int2str(1) ':'];
eval(exp);
g=ch.*t;
for i=2:nv,
exp=['tt=s' int2str(i) ':'];
eval(exp);
rt=ch.*(tt-t);
rtp=rt./(ch.*t)*100;
exp=['Diferența V' int2str(i) '-V1, mil: ' sprintf('%6.2f',rt(1)) ' ' sprintf('%6.2f',rt(2))
' ' sprintf('%6.2f',rt(3)) ' ' sprintf('%6.2f',sum(rt))];
disp(exp);
exp=['Diferența (V' int2str(i) '-V1)/V1, %: ' sprintf('%6.2f',rtp(1)) ' '
sprintf('%6.2f',rtp(2)) ' ' sprintf('%6.2f',rtp(3))];
disp(exp);
g=[g; ch.*tt];
end;
clf;
bar(g);grid;
title('Evoluția cheltuielilor totale');
xlabel('Varianta');
ylabel('Cheltuieli totale, mil. lei');
disp(' ' Apăsați o tastă pentru a continua!');
pause;
disp(' ');
disp(' ');
disp(' Porumb Grâu Orz Total');
disp(' ');
disp('Venituri totale:');
disp(' ');

```

```

exp=['t=s' int2str(1) ''];
eval(exp);
vnt=prp.*pp+prs.*ps;
g=vnt.*t;
for i=2:nv,
exp=['tt=s' int2str(i) ''];
eval(exp);
rt=vnt.*(tt-t);
rtp=rt./(vnt.*t)*100;
exp=['Diferența V' int2str(i) '-V1, mil: ' sprintf('%6.2f,rt(1)) ' ' sprintf('%6.2f,rt(2))
' ' sprintf('%6.2f,rt(3)) ' ' sprintf('%6.2f,sum(rt))'];
disp(exp);
exp=['Diferența (V' int2str(i) '-V1)/V1, %: ' sprintf('%6.2f,rtp(1)) ' '
sprintf('%6.2f,rtp(2)) ' ' sprintf('%6.2f,rtp(3))'];
disp(exp);
g=[g; vnt.*tt];
end;
clf;
bar(g);grid;
title('Evoluția veniturilor totale');
xlabel('Varianta');
ylabel('Venituri totale, mil. lei');
disp('          Apăsați o tastă pentru a continua!');
pause;
disp(' ');
disp(' ');
disp(' Porumb  Grâu  Orz  Total');
disp(' ');
disp('Profituri totale:');
disp(' ');
exp=['t=s' int2str(1) ''];
eval(exp);
vnt=prp.*pp+prs.*ps;
g=(vnt-ch).*t;
for i=2:nv,
exp=['tt=s' int2str(i) ''];

```

```

eval(exp);
rt=(vnt-ch).*(tt-t);
rtp=rt./((vnt-ch).*t)*100;
exp=['Diferența V' int2str(i) '-V1, mil: ' sprintf('%6.2f,rt(1)) ' ' sprintf('%6.2f,rt(2))
' ' sprintf('%6.2f,rt(3)) ' ' sprintf('%6.2f,sum(rt))];
disp(exp);
exp=['Diferența (V' int2str(i) '-V1)/V1, %: ' sprintf('%6.2f,rtp(1)) ' '
sprintf('%6.2f,rtp(2)) ' ' sprintf('%6.2f,rtp(3))];
disp(exp);
g=[g; (vnt-ch).*tt];
end;
clf;
bar(g);grid;
title('Evoluția profiturilor totale');
xlabel('Varianta');
ylabel('Profituri totale, mil. lei');
disp(' ' Apăsăți o tastă pentru a continua!');
pause;
disp(' ');
disp(' ');
disp(' Total');
disp(' ');
disp('Rata rentabilității, %:');
disp(' ');
exp=['t=s' int2str(1) ''];
eval(exp);
%vnt=prp.*pp+prs.*ps;
prf=vnt-ch;
g1=sum(prf.*t)/sum(ch.*t)*100;
g=g1;
for i=2:nv,
exp=['tt=s' int2str(i) ''];
eval(exp);
rt=sum(prf.*tt)/sum(ch.*tt)*100-sum(prf.*t)/sum(ch.*t)*100;
rtp=rt./g1*100;
exp=['Diferența V' int2str(i) '-V1, %: ' sprintf('%6.2f,rt)];

```



```

disp(exp);
exp=['Diferența (V' int2str(i) '-V1)/V1, %: ' sprintf('%6.2f,rtp)];
disp(exp);
g=[g; sum(prf.*tt)/sum(ch.*tt)*100];
end;
clf;
bar(g);grid;
title('Evoluția ratei rentabilității');
xlabel('Varianta');
ylabel('Rata rentabilității, %');
disp('
                Apăsați o tastă pentru a continua!');
pause;
disp(' ');
disp(' ');
disp(' Porumb  Grâu  Orz  Total');
disp(' ');
disp('Zile-om consumate:');
disp(' ');
exp=['t=s' int2str(1) ''];
eval(exp);
g=zh.*t;
for i=2:nv,
exp=['tt=s' int2str(i) ''];
eval(exp);
rt=zh.*(tt-t);
rtp=rt./(zh.*t)*100;
exp=['Diferența V' int2str(i) '-V1, zi-om: ' sprintf('%6.2f,rt(1)) '
sprintf('%6.2f,rt(2)) '      ' sprintf('%6.2f,rt(3)) '      ' sprintf('%6.2f,sum(rt))];
disp(exp);
exp=['Diferența (V' int2str(i) '-V1)/V1, %: ' sprintf('%6.2f,rtp(1)) '
sprintf('%6.2f,rtp(2)) '      ' sprintf('%6.2f,rtp(3))];
disp(exp);
g=[g; zh.*tt];
end;
clf;
bar(g);grid;

```

```

title('Repartiția de zile-om consumate');
xlabel('Varianta');
ylabel('Zile-om consumate');
disp('          Apăsați o tastă pentru a continua!');
pause;

disp(' ');
disp(' ');
disp(' Total');
disp(' ');
disp('Productivitatea muncii (to/zi-om):');
disp(' ');
exp=['t=s' int2str(1) ''];
eval(exp);
g1=sum(prp.*t)/sum(zh.*t)*100;
g=g1;
for i=2:nv,
exp=['tt=s' int2str(i) ''];
eval(exp);
rt=sum(prp.*tt)/sum(zh.*tt)*100-sum(prp.*t)/sum(zh.*t)*100;
rtp=rt./g1*100;
exp=['Diferența V' int2str(i) '-V1, %:      ' sprintf('%6.2f',rt)];
disp(exp);
exp=['Diferența (V' int2str(i) '-V1)/V1, %: ' sprintf('%6.2f',rtp)];
disp(exp);
g=[g; sum(prp.*tt)/sum(zh.*tt)*100];
end;
clf;
bar(g);grid;
title('Evoluția productivității');
xlabel('Varianta');
ylabel('Productivitatea, to/zi-om');
disp('          Apăsați o tasta pentru a continua!');
pause;
disp(' ');

```

```

disp(' ');
disp(' Total');
disp(' ');
disp('Productivitatea muncii (mil./zi-om):');
disp(' ');
exp=['t=s' int2str(1) ''];
eval(exp);
%vnt=prp.*pp+prs.*ps;
prf=vnt-ch;
g1=sum(prf.*t)/sum(zh.*t)*100;
g=g1;
for i=2:nv,
exp=['tt=s' int2str(i) ''];
eval(exp);
rt=sum(prf.*tt)/sum(zh.*tt)*100-sum(prf.*t)/sum(zh.*t)*100;
rtp=rt./g1*100;
exp=['Diferența V' int2str(i) '-V1, %: ' sprintf('%6.2f',rt)];
disp(exp);
exp=['Diferența (V' int2str(i) '-V1)/V1, %: ' sprintf('%6.2f',rtp)];
disp(exp);
g=[g; sum(prf.*tt)/sum(zh.*tt)*100];
end;
clf;
bar(g);grid;
title('Evoluția productivității');
xlabel('Varianta');
ylabel('Productivitatea, mil./zi-om');
disp('                Apăsați o tastă pentru a continua!');
pause;
end;
disp('Pauză, pentru a copia figura; apăsați o tastă pentru a continua. ');
pause;
disp('Pauză, apăsați "Enter" pentru a șterge figura și termina programul. ');
return;

```

Am utilizat programul de mai sus pentru a simula o variantă de plan și pentru a o compara cu varianta de bază (varianta 1), obținând următoarele rezultate:

INTRODUCERE DATE

Pentru introducerea vectorilor se folosesc parantezele pătrate, [...], la începutul și sfârșitul fiecărei astfel de operații].

Introduceți numărul de variante de plan: 2;

Introduceți suprafața de teren aflată la dispoziție, ha: 1554;

Indicatorii tehnico-economici aferenți culturilor din plan sunt:

	Porumb	Grâu	Orz
Prod. medie princ., to/ha:	5.2	3.9	3.9
Prod. medie sec., to/ha:	3.38	1.95	1.95
Chelt. la ha, mil. lei:	8.9	5.75	5.6
Preț prod. princ., mil./to:	3	3.2	2.8
Preț prod. sec., mil./to:	0.7	0.5	0.5
Zile-om cons la ha:	12	2.5	2.5
Venit la ha mil. lei:	17.97	13.46	11.9
Benef. la ha, mil. lei:	9.066	7.705	6.295
Cost unitar mil. lei/to:	1.037	0.9829	0.9573

Varianta V₁:

Introduceți vectorul repartiției suprafeței arabile pe culturi,

[Porumb Grâu Orz]:

[717 692 145]

Varianta V₂:

Introduceți vectorul repartiției suprafeței arabile pe culturi,

[Porumb Grâu Orz]:

[667 750 137]

Rezultatele variantelor de plan sunt:

Varianta V₁:

	Porumb	Grâu	Orz	Total
Suprafața arabilă:	717	692	145	1554
Producția princ. to:	3728	2699	565.5	6993
Producția sec. to:	2423	1349	282.8	4056
Chelt. totale mil. lei:	6381	3979	812	11172.30
Benef. totale mil. lei:	6500.32	5331.86	912.78	12744.96
Rata rentabilității, %:	101.9	134	112.4	114.1
Total zile-om cons.:	8604	1730	362.5	10696.50
Productiv. to/zi-om:	0.4333	1.56	1.56	65.37
Productiv. mil/zi-om:	0.7555	3.082	2.518	79303.79

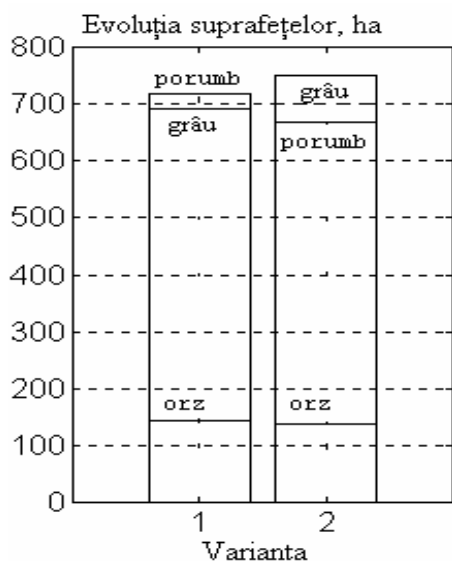
Varianta V₂:

	Porumb	Griu	Orz	Total
Suprafața arabilă:	667	750	137	1554
Producția princ. to:	3468	2925	534.3	6928
Producția sec. to:	2254	1463	267.2	3984
Chelt. totale mil. lei:	5936	4313	767.2	11016.00
Benef. totale mil. lei:	6047.02	5778.75		862.42 12688.19
Rata rentabilității, %:	101.9 134	112.4	115.2	
Total zile-om cons.:	8004 1875	342.5	10221.50	
Productiv. to/zi-om:	0.4333	1.56	1.56	67.78
Productiv. mil./zi-om:	0.7555	3.082	2.518	83016.94

Analiza rezultatelor variantelor de plan:

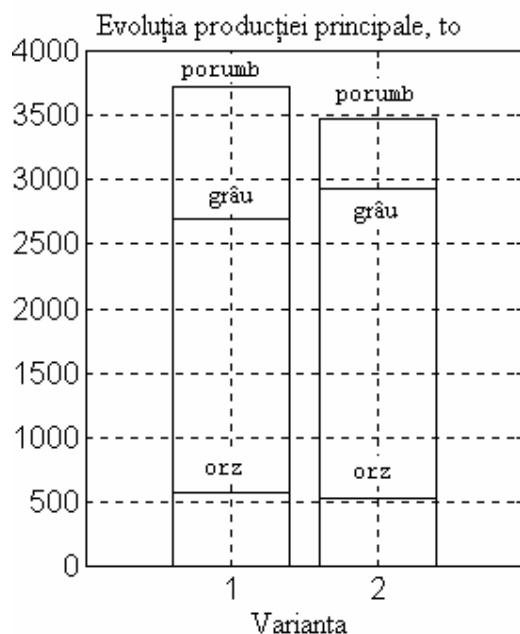
	Porumb	Grâu	Orz	Total
Suprafața:				
Diferența V2-V1, ha:	-50.00	8.00	-8.00	0.00
Diferența (V2-V1)/V1, %:	-6.97	8.38	-5.52	

Apăsați o tastă pentru a continua!



	Porumb	Grâu	Orz	Total
Producția principală:				
Diferența V2-V1, to:	-260.00	226.20	-31.20	-65.00
Diferența (V2-V1)/V1, %:	-6.97	8.38	-5.52	

Apăsați o tastă pentru a continua!



	Porumb	Grâu	Orz	Total
Cheltuieli totale:				
Diferența V2-V1, mil:	-445.00	333.50	-44.80	-156.30
Diferența (V2-V1)/V1, %:	-6.97	8.38	-5.52	

Apăsați o tastă pentru a continua!

	Porumb	Grâu	Orz	Total
Venituri totale:				
Diferența V2-V1, mil:	-898.30	780.39	-95.16	-213.07
Diferența (V2-V1)/V1, %:	-6.97	8.38	-5.52	

	Porumb	Grâu	Orz	Total
Profituri totale:				
Diferența V2-V1, mil:	-453.30	446.89	-50.36	-56.77
Diferența (V2-V1)/V1, %:	-6.97	8.38	-5.52	

Apăsați o tastă pentru a continua!

Rata rentabilitatii, %:	Total
Diferența V2-V1, %:	1.10
Diferența (V2-V1)/V1, %:	0.97.

Apasati o tasta pentru a continua!

	Porumb	Grâu	Orz	Total
Zile-om consumate:				
Diferența V2-V1, zi-om:	-600.00	145.00	20.00	-475.00
Diferența (V2-V1)/V1, %:	-6.97	8.38	-5.52	

Productivitatea muncii (to/zi-om):	Total
Diferența V2-V1, %:	2.40
Diferența (V2-V1)/V1, %:	3.67.

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FISHERIES AND AQUACULTURE RESOURCE MANAGEMENT

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Abstract

Fisheries management efforts are increasingly complicated by the impacts of a diversity of other activities – such as urbanization, shipping, tourism, deforestation and industrial wastes – on the heavily interdependent elements of the aquatic environment. The need to implement ecosystem-based fisheries management is also being emphasized. The purpose of this paper is to introduce a modification of a standard four input production process where energy is used in an inefficient way due to partly unnecessary waste of energy.

Keyword: *aquaculture resources, aquaculture management, financial instrument for aquaculture production process, technical efficiency.*

In both inland and marine fisheries, the pressures of intensified use, combined with other sectors' intensified use of areas in which fisheries occur, are slowly but surely refocusing fisheries management on ways of allocating limited fisheries resources among growing numbers of stakeholders. There is growing recognition that principles, policies and mechanisms for identifying and prioritizing the uses of aquatic areas must be put in place so that the impacts of other sectors' activities on fisheries can be addressed.

There is growing recognition that overfished resources cannot serve as social security nets or food sources without creating civil strife over who can gain access to, and consume, the remaining fish and that overfished resources cannot be used as a platform from which to promote the ongoing support of profitable industrial fleets. Conflicts and conflict management are becoming key elements of fisheries legislation and management rapidly expands to accommodate social, economic and environmental considerations.

In short, the demands of fisheries management has grown beyond the need to address purely biological issues, and must now address and attempt to resolve an array of social

concerns and multiple-use issues. As a result, there is an urgent need to reconsider the use of many of the management approaches that have been used to date.

Current management is a steadily growing collective will in the international community of politicians and civil society to recognize and support the key role that fisheries play in economic development, food security, poverty alleviation and human health.

The changes in production efficiency investigated using stochastic frontier methods, show declining technical efficiency production and especially low marginal contribution of labor inputs. The number of workers, size of farm, and distance from nearest city are related to efficiency in aquaculture production. It is well known that results from an environmental policy in response to global climate change are quite sensitive to the assumption on the rate of energy efficiency improvements. However, technical progress is traditionally considered as a non-economic variable in economic policy models. It is exogenous in most policy evaluations as well as in the theory of environmental economics.

Natural hazards such as cyclones, floods, typhoons, sea surges, tidal waves, earthquakes and landslides can have a devastating effect on fishing communities – destroying fishing boats and equipment, or sweeping away their houses.

When, following a disaster, fishing communities are no longer able to meet their basic survival needs and/or when there is a threat to their life and well-being, as in the case of armed conflicts, they face an emergency situation. Developing countries, especially the poorest, suffer disproportionately from emergencies because they lack the means to prepare for them and to deal with their aftermath. In view of the importance of fisheries in developing states (in terms of production, protein intake, employment and foreign exchange), there is a need to review the role that fisheries interventions can play in emergency relief operations.

In situations of emergency, fisheries interventions may be critical to help restore production and/or as a source of immediate income and food. Data gathered in the Sudan (northern sector) over a one-year cycle have shown that whatever the season and the location, fish commodities (mainly sun-dried fish) form the cheapest and most accessible source of animal proteins for the displaced and poor sections of the communities. Furthermore, sun-dried fish plays a crucial role in ensuring people's food security during the period between the first rains and first harvest (the "hunger gap") and during the active

World review of fisheries and aquaculture agricultural planting season, when it is used to supplement wild A distinction between aquaculture and capture fisheries should be made here. The raising of fish through aquaculture requires both time and money. As a consequence, relief efforts should focus on restarting production where aquaculture operations had already been established and where the necessary skills are available. By contrast, the capture of wild fish can provide immediate income and food (animal proteins) as soon as the means of production are renewed. This can be crucial in times of conflict or acute crises. Furthermore, in the case of capture fisheries, entrance into the sector and access to the fishing ground are generally non-discriminatory. Fishing equipment such as nets and hooks are easy to transport, unlike livestock. Some fishing activities, such as the use of hooks and lines, do not require high levels of skills to be developed, and can thus provide children and women, who are the most vulnerable, with proteins soon after displacement. Moreover, fisheries interventions offer multiple side activities and job

opportunities such as net repair, boatbuilding, fish processing, trade and basket-making. Fisheries interventions can contribute to promoting the role of women through training in improved fish-processing and preservation techniques.

In spite of the significant role fisheries can and should play in relief and rehabilitation efforts, fisheries interventions do not always receive adequate attention in emergency operations. Until this situation is addressed and the potential impact of fisheries interventions is realized, the costs will continue to be borne by fishers and their communities.

Developing countries are continuing their efforts to clarify the linkage between development activities and sustainable resource use. Both population and economic growth are putting enormous additional pressures on inland and marine fisheries resources as contributors to food security and providers of a social safety net. At the same time, the use of domestic fisheries to generate foreign exchange is exacerbating allocation issues between artisan and industrial fleets. The challenges facing developing countries, together with the need for capacity building, are making management a difficult task, but there are growing signs that these efforts will have an enduring positive effect on civil and economic development.

In many industrialized countries, notably Japan and European countries, employment in fishing – and, as a consequence, in associated land-based professions – has been declining for several years. This is the result of several factors combined, including lower catches, programmes to reduce fishing capacity and the increased productivity brought about by technical progress. In the European Union (EU) the decline in the number of fishers in recent years averaged about 2 percent per year. In Norway, employment in fishing has been decreasing for several years. In 2006, about 18 650 people were employed in fishing (excluding fish farming), representing a decline of 8 percent compared with 2000 and almost 20 percent compared with five years before. The largest decline has occurred in fishing as a main occupation, which accounts for more than 75 percent of the total. In Iceland, average employment in fisheries was fairly stable in the five years to 2006, although there were seasonal variations; however, the share of fishing and fish processing – where the majority of workers are women – as a source of employment, dropped to 8 percent in 2006 from 10 percent five years earlier. In Japan, the numbers of marine fishery workers

In developed countries, legislated principles of sustainability are driving fisheries management efforts to reserve the effects of previous overfishing, and efforts to address overcapacity are receiving considerable attentions, although progress is slow. However, as developed countries focus on reducing overcapacity, increasingly intricate technical and social issues are complicating the efforts of fisheries managers. The impact of displacement and redeployment – of both people and vessels – are becoming the most important, difficult and contentious elements of fisheries management.

Technical measures (gear, time and area restrictions) continue to dominate fisheries management efforts as methods for achieving the conservation of fish stocks. Such measures are globally recognized as having the potential to be effective, particularly in fisheries where overcapitalization is not a problem. However, there is also an increasing awareness that there are issues of overcapitalization in many fisheries and that, in such cases, these types of fisheries management measures have either failed to result in the

conservation or sustainable use of fish stocks, or have only succeeded at considerably cost to society.

Furthermore, as resources become scarcer and are shared by increasing numbers of users, there is a growing awareness that the escalating economic and social costs arising from the use of technical measures need to be compensated for. Thus, as civil society is demanding both stock sustainability and an accounting of economic and social costs of managing fisheries resources, there is inevitable pressure on managers to consider new or, at the very least different approaches.

The use of incentives that affect fishers' behavior and create opportunities for both conservation and economic efficiency is gradually drawing more attention. Despite the inherent benefits of such incentive-based quotas, territorial use rights and transferable quota systems, their uptake and application in the fisheries arena are not rapid. One possible alternative to the use of win-win approaches is the consistent and persistent growth of market-based business strategies, such as ecolabelling schemes, which aim to harness market forces and create financial rewards for people working in fisheries and satisfying sustainability and various criteria.

In many instances, discussions regarding the adoption of incentive-based systems tend to be dominated by concerns relating to initial allocation formulas, consolidation and the exit and entry of participants – all of which can be accommodated in the design process. These concerns understandable because such management strategies create very strong market incentives and tend to be implemented as a last resort when fisheries stocks are under pressure, overcapitalization is present and participants are unlikely to be in a position to alter their investment strategies. Unfortunately, however, discussions also tend to ignore the many lessons to be learned from the numerous worldwide for coping with just such design concerns.

At present, in part because the incentives generated by many regulatory controls are not being considerate, fisheries management efforts regarding overcapacity are primarily concentrating on measuring, coping with and reducing it. Although such efforts are much needed, more emphasis should be placed on management strategies that prevent the initial development of overcapacity, thus avoiding the difficult and socially disruptive consequences of trying to reduce it.

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THE EFFECTS OF THE CLIMATIC CHANGES IN THE AGRICULTURE

Dr.eng. Dima Floricel Maricel

Abstract

The agriculture is the sector on which the climatic changes have important effects with major consequences as we speak about the safety. The extended dryness phenomenon in the last years affected seriously the cultures, the life of animals, of people and finally the economy. These changes modify the characteristics of some regions reducing the potential areas for agriculture, imposing changes into the system for the operation of the plants culture technologies and of animals. In accordance with the results of research, the farmers will adopt their activities to the new conditions with the target of optimizing the relation quality – price – selling.

In the last years, there are much being spoken about the global warming up phenomenon, about the decreasing of the ozone layer, about the green house effect, about the catastrophic consequences that these perturbations have on the nature and man.

The main consequences of the global warming up are the increase of the planetary ocean as well as the extreme meteorological events (heat waves, dryness, floods, tornadoes) that will have as major effects disappearing of some species of plants and animals, increasing of risk regarding the health of people and inevitably the demographic changes. The change of the climate brings modifications of flora and fauna specific to the different region of the planet with impact on the resources of food and raw material of humankind.

The green house effect is a phenomenon recognized by the international community and its causes as well:

- The gas emissions into atmosphere, caused by the massive industrialization with the huge consumption of fossil combustible (petrol, natural gases and coal) is the most important reason of the serious degradation of the quality at the worldwide level.

By firing these combustible in factories and plants, the emissions of gasses, chiefly the carbon dioxide emissions that retain into atmosphere the large quantities of high radiations;

- The alarming demographic explosion without precedent in the history of the humankind;
- The large deforestation that has as a negative effect the fact that the forests have an essential role in the absorption of CO₂ from atmosphere by the process of photosynthesis intervening directly in diminishing the toxic gases and implicitly in avoiding the green house effect.

The installation of the global warming up process and its complex effects (heating waves, floods, strong winds, tornadoes, dryness, aridity, desertification) drive serious threatening regarding the biodiversity, reduction and degradation of the soil resources relevant for agriculture, of the drinking water resources, of the power supply resources.

All these extreme phenomena result from the atmosphere disequilibria generated by the human activities and that is why the intensification of the frequency of this type of extreme phenomena is to be taken into account.

In order to prevent the devastating effects that are foreseen as a result of the global warming up phenomenon, the specialist recommend to:

- Reduce the emissions of CO₂,
- Reduce the energy consumptions based on fossil combustibles and implementation of the conventional energy resources (sun, wind, water, biologic mass);
- Replant the destroyed forests and protecting the existing ones;
- Recycle the paper waste, remaking of the arrangements to irrigate the agricultural cultures, regularization of the water streams.

The global warming up phenomenon became a preoccupation of the whole population of the globe; the first formal review of the situation was made during the United Nation Conference regarding the climatic changes held at Montreal in 1987. Due to the lack of strong measures, the phenomenon intensified so that, in the last decennium, there were recorded the annual average highest temperatures in all the times.

In 1997, by the protocol from Kioto (Japan), the most powerful industrialized states made the first attempt to reduce the polluting emissions from the atmosphere with effects in tripping the green house effect.

At the European level, the Common Agricultural Policy includes the obligation for the member countries that the granting of the subventions in the agriculture to be conditioned in performing some criteria relating to the soil protection, preventing the soil from erosion, humus loss, compacting and nitrates pollution.

The farmers from Romania may appeal to the Code of the Farm Best Practice, drawn up by I.C.P.A. from where the most adequate measures for fighting against the soil erosion, optimization of the soil system working and effectiveness of the water use in the environment protection conditions can be selected.

The agriculture is most important sector, on which the climatic changes have important effects with major consequences, as it involves the food sources of the human kind.

At the global level, we observe the effects of the desertification as a consequence of the dryness period, and a decrease of the vegetal production as a consequence of the fertile surfaces decrease.

In Romania, the most vulnerable areas at the dryness phenomenon are those from the south east and south especially in Dobrogea, Bărăgan, in the south of Oltenia, Muntenia of Moldova.

The agriculture is the production branch that produces the vegetal and animal products that satisfy our immediate necessities or are processed further by industry.

The agriculture attends the economy growth by providing the raw material to develop the processing industries as well as by creating the production means of services and consumption goods.

The productivity of the crops presents fluctuations from an year to another being influenced significantly by the variability of the climatic conditions especially by the occurring of the extreme climatic events.

The lack of water, wind, heat, evaporation, exercises negative influences on the soil, the lack of water on the sudden vegetation, on the pastures, hays, plantations of vine yards and of trees forests, but chiefly on the harvests of cultivated plants.

The water resources from soil get exhausted by the plants consumption and by evaporation, soil dryness provokes occurring of cracks on various deepness that contribute to its degradation. The lack of precipitation associated with the abnormal temperature leads to decrease of the natural resources represented by the phreatic water and that of working surface that affects the ecosystems from the respective areas.

The crop plants react differently to drought the most vulnerable cultivated species are particularly the yearly crops of corn and weeding. The plants exposed to drought speeds their vegetative cycle in disfavor of increase, while the harvest are much diminished. Within species, the endurance degree to drought varies depending on sorts and hybrids. In this respect it imposes the significant diversification of land crops structure based on the promotion and extension of sorts and hybrids more tolerable to drought.

In conditions of drought, the plants use less nourishing elements manifesting lack of azotes or other different nutrients. The plants reaction changes due to harmful animals/insects; the largest problems are created by weeds which being more resistant to drought, invade the crops becoming large competitors for the water reserves from soil.

The drought has a determinant effect on the composition on the floristic composition of the lawns having in view the superficial rooting of the forage species. In these conditions the floristic compositions of the lawns and of hayfields are changed, reducing the plant species with nutritive qualities favoring the growth of green weeds. A more favorable situation in what regards the adaptation of the lawns at drought is recorded by using these in regime of hayfield. The horticultural species present different behaviors; the vegetable cultures being usually irrigated are less affected by drought.

The fruit-trees and vine present large variation of resistance depending on sort and hybrid, the fruits and wines quality being depreciated. The persistence of effects aridity led, besides these negative economic effects as well as the partial or total loss of yield of grapes or fruits, to the premature aging of plantations. The seriousness of hydria stress for viticulture and fruit growing is emphasized due to the fact that the water deficit exhibits in deepness, in the area of maximum extension of the radicular system.

The forests represent that category which from physiological point of view manifest the strongest resistance to drought; the main risk being the fires appearance, and thus the role of re-circulating the water, of protection against winds, of shelter and feed of some categories of animals decreases. In these conditions, the creation of the curtains of protection mainly in the strong affected area becomes a necessity. The vulnerability of farm animals' species to the drought effects is different. Less affected there are the species that eat concentrated food, as this type of forage is well preserved and can be procured from the areas unaffected by drought.

The most affected animals are the herbivores that use a more abundant vegetative mass, and the conservation and the transport of this is more difficulty. In what regards the provision of the herbivores with food, the drought determines, besides the quantitative reduction of the forage resources, a modification of the nutritive value related to their digestibility, to the content of protein and chiefly to the content of vitamin fact that leads to the decrease of the productive capacity, to the deregulation of the metabolic processes in organism and to the breeding troubles. The external environment from the drought periods

affect the microclimate from the breeding shelters of animals (mainly pigs and birds) as the facilities to maintain and to provide the temperature, the humidity and the chemical mixture of air are disturbed. The draughts speed can grow much and provokes illness to the young animals. For the externally fed animals, the sunstroke too strong or relative humidity of air can provoke illness.

From sanitary-veterinary point of view, the drought long periods, of high temperatures, can lead to the diseases transmissible to the man as anthrax, tetanus and rabies, or acuting some chronic respiratory diseases. Also the increase of intoxication on the lawn due to the change of the floristic composition change is being found out. By the impact on the agricultural production, the dryness represent the risk factor in reducing the potential of producing the food.

In the extremely drought years, the agricultural running practice recommends the choice of sorts and hybrids at the beginning of each agricultural year, and also of suitable technology depending on the water reserve of soil to be sown. The cultivation of a larger number of varieties/ genotypes, with period of different vegetation will lead to a better reevaluation of climatic conditions, mainly of moisture behavior regime, and the significant losses of harvest can be prevented.

On long term, the specialists recommend measures to prevent and diminish the effects of the climatic changes that include the program of reforestation, reducing the pollution and modernization of the anti-erosion works, as well as the extension of those for arrangements and amelioration of the sandy soil. At the same time, the instruction and increase of the population awareness regarding the environment protection are major requirements in the adaptive strategies to the climatic changes.

Though the agriculture is the most affected sector of these changes, it represents at the same the solution to improve the situation. The increase of gases concentration with greenhouse effect is determined basically by the transmissions of CO₂ resulted after the firing of fossil combustibles.

The agriculture is a source of alternative combustibles, of bio- combustibles that can be produced from corn, Soya, sun-flower, tallow, plant oils wastes which are biodegradable and un-pollutant, and through the process of combustion it does not emanate dangerous noxa. By using them, the gas emissions with greenhouse effect can be reduced, and new markets for the agricultural production will be open.

The water drought and deficit does not affects only the agriculture, but also the inter sectors segments, with a distinct impact on the all social economic activities. Therefore the national strategy aim is to decrease the drought effects, to combat the degradation of the lands and desertification, to decrease the vulnerability of the local communities, of the natural ecosystems and of the socio-economic activities and to diminish the effects of social, economic and environment order of these.

The approaching of the problems relating to the climatic changes impact requires data and scientific analyses of specialty, the risk management in the agriculture including basically the actions regarding the environmental resources management and conservation of the environment resources as well as taking of some correct prospect decisions. The population from the rural environment, depending on the agriculture activity but also the great farmers, will be bound to show their availability towards changes in what regards the way of approaching the activity in the new conditions.

Analyzing the statistical data from the period 1990-2004, we observe that the crops from Romania had a fluctuating action in tight connections with the climatic variation, with the cultivated surfaces and with the agricultural policies. The cultivated surfaces weight is detained by cereals where the cultivated surfaces and yields per hectare show large oscillations due to the influence of a complex of factors: climatic, material and market organization. As regards the production of vegetables, it has been found some annual sensitive variations, while for the fruits and grapes the prolonged drought led to the output decrease.

As regards the live stock sector, negative tendencies took place manifested through the decrease of animals and of productions as an effect of the climatic conditions which determined the decrease of animals in the years with low harvest. As for the food consumption, the following trends are shown: the consumption of cereals, vegetables, potatoes has grown; the consumption of sugar, plant oils, wine being constant, as well as the consumption of milk and meat, but the consumption of fruits oscillates. As for the agricultural products, there were manifested annual variations of prices depending on the climatic conditions.

The excessive growth of the prices material: machinery, fertilizers, and combustibles, made impossible the purchase of these material by the large mass of the farmers. As a consequence, the level of the productions and incomes decreased. Per assembly of the agriculture in the comparison with the evolution of the national economy, we observe the same trends: the indices of the consumption prices leaving behind the indices of the agricultural product prices. The most advantageous economic sectors that are less affected by the effects of the global warming up phenomena are the food industry and services.

In the Galati County, the excessive drought phenomena affected large agricultural lands in 1996, 1997, 2001, 2003, 2007 and lead to the declaration of the natural calamity state and to the approved damage compensation for the agricultural farmers according to the Laws 116/1997 and 381/2002.

Only in 2007, the crops sown in the autumn, the spring crops, the plantations of vineyards and fruit trees were affected. 15,3% out of the surface sown with wheat, 100% was calamite and 57% was partially calamite. At the grain of maize of 36% out of the surface cultivated, 100% was calamite and 11,5% at sun-flowers.

In accordance with the Provisions of Government Decision 923/2007, regarding the approval of the program of measures to elaborate the National Strategy to reduce the effects of the drought in long, middle and short term, the strategy at the county level has the main objectives:

- The rehabilitation of the existing irrigating arrangements and realization of the new ones by investments of rehabilitating the arrangements from the administration of the ANIF and extension of the irrigation surfaces in the area of rivers pastures (Prut and Siret) that involves small consumptions of electric power as well as remaking of the anti erosion plantations that have the role of fixing and protecting the lands affected by the surface erosion and of limiting the soil losses in case of torrential rains.

- The reforestation and screening through identification actions of the degraded land holders and their inclusion in the perimeters of amelioration to perform the forestation works in the next 5 years, the arrangement of seeding nursery and production of necessary seedlings for forestation on 18120 hectares. Through the realization of these actions in the next 5 years, the stock of wood of Galati county will represent 13% from the county surface.

- The use of seeds sorts and of seed tree material with increased resistance to drought. The agricultures producers made annually appreciations/evaluations with regard to

resistance against drought of sorts and hybrids, the territorial inspectorate specialists for seeds and planting material quality made for the seed tree material lots and the County office of agricultural consultancy made for demonstrative lots.

- The creation of crops depending on the forecast for the agricultural year. At the beginning of each agricultural year, the agricultural producers dispose of information or cautions regarding the forecast about the (pedological and atmospheric) drought to take suitable decisions with regard to the usage of seeds from the sorts resistant to drought or to the implementation of specific technologies.

- The use of the working technologies of the soil suitable to the arid areas. The execution of the mechanical works on the arid lands impose the renewal of the Tractors Park and agricultural machines with performance machinery (with reduced consumption of diesel) to perform the mechanical works of the soil with few passages on surfaces.

- The protection and the durable use of the soil. For the protection and durable use of the soil, in Galati county there are required annually the studies for monitoring the soil quality made by the Pedological and Agrochemical Studies – Field Specialty Institution.

All these strategies can be put into practice only by a tight collaboration between decisional factors and population that became aware of the fact that the decreases of animal and vegetal production resulted after the phenomenon of excessive drought do not affect only the individual farms by decreasing the wealth fare, but the good way of the whole society.

Conclusions

The agriculture is the sector on which the climatic changes have important effects with major consequences, as it speaks about the food safety of the population. The prolonged drought phenomenon from the last years affects seriously the crops, the animals and people finally the economy. These changes modify the characteristics of some regions restraining the favorable areas for agriculture, imposing changes in the system of exploitation of the animals and technologies of plants. The implementation of the new agricultural practices, based on the advanced knowledge in the field of advanced technologies is a major requirement of the durable agricultural promotion. The farmers need a scientific and technical knowledge to be well learned and then implemented correctly, and to contribute both to the procurement of some superior qualitative and to the quantity productions as well as to the environment conservation, with the ecological un-favorable issues limitation at the national, regional and local level.

The farmers will practically adapt themselves at the new conditions by selecting the sorts and hybrids at the beginning of every agricultural year, the corresponding technology depending on the water reserves of soil, the cultivation of a high number of varieties / genotypes with different vegetation period. In the long term, the specialist recommend measures for preventing and diminishing the climatic effects that include the programs of forestation, reducing of pollution, remaking and modernization of the anti erosion works as well as the extension of the arrangement works and amelioration of the sand soils. The awareness and instruction of the population regarding the surrounding environment protection are the major requirements in elaborating the strategies of adapting to the climatic changes.

BALNEARY TOURISM AND SUSTAINABLE DEVELOPMENT ON THE ROMANIAN TERRITORY

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Abstract

The movements and evolution trends of the balneary tourism, which appeared on international level show the directions of development for this type of tourism in Romania. The splendour and diversity of natural therapeutic factors that can be transformed according to the requests of the European Community Standards are the main favourable elements for the Romanian watering places development. The penetration on new markets, the extension of the touristic treatment offer for the people with low income and the perpetuation of the „Tourism for Health” programme are the main strategic actions which aims at the revival of the balneary tourism.

Keywords: *balneary potential, therapeutic minerals, natural cure factors, reception structures, treatment basis, touristic offer, balneary tourism revival, privatization and investment programmes, return of the country within the echelon of the European democracy.*

A.) Existing national balneary fund – starting basis for a higher economic level

The existence of a rich and various natural balneary potential, exploited ever since the Antiquity, seems to have generated the oldest and most specific type of tourism practiced within the carpathian-danubiano-pontic region.

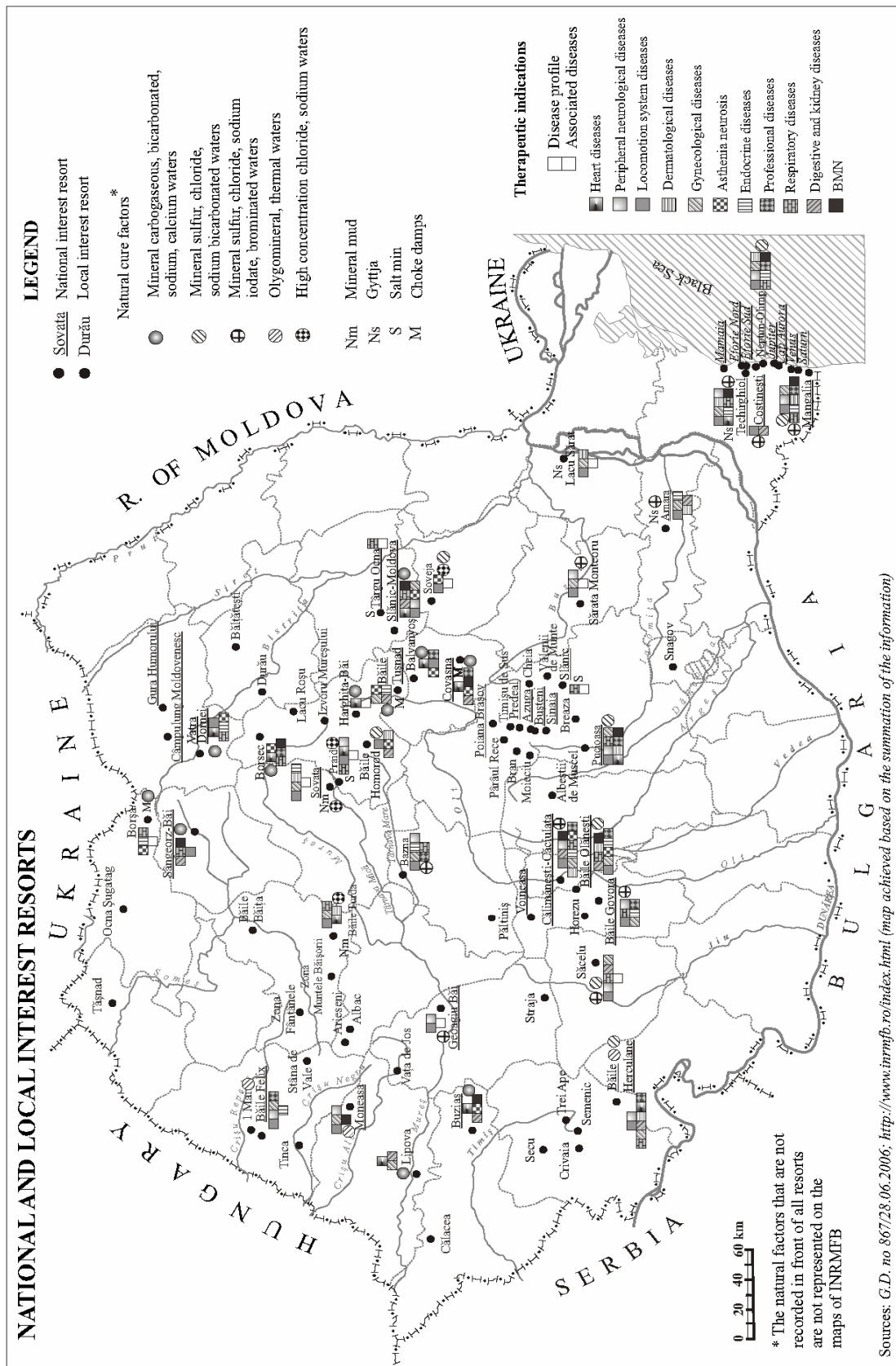
In what concerns the balneary potential, Romania possesses certain particularities of great touristic interest:

- The presence of all types of resources comprised in the category of the therapeutic minerals: non-thermal and thermal waters, therapeutic oozes and gases, the water of salty lakes and the sea, the saline climate of the subterraneous voids (see the attached map);

- The existence of the therapeutic minerals considered exceptions of nature. There stand out the choke damp gases whose high therapeutic value determined by large specialty research render them specific items of great interest to the Romanian balneology. In the case of the choke damp gases it has been specified that there are few resorts in the world where the natural factors (choke damp associated with mineral waters) meet the qualities required for the treatment of such a diversified range of diseases, especially of the cardiovascular ones. One may also include in this group the water of the therapeutic lakes and peloids that are present in few places in Europe, yet whose curative value has been internationally acknowledged since the 19th century, along with the use, for the first time in our country, of such substances in balneary purpose (at Balta Alba). One may also add to this group the therapeutic salt mines, less spread over Europe, but highly efficient in treating some respiratory diseases.

- The existence of the geological reserves of therapeutic minerals, which allows a large capitalization of the same;

- The high curative value of the balneary minerals.



The natural cure factors, with a non-uniform distribution yet having a high coverage degree of the Romanian territory, have contributed to the specialization of the resorts on categories of affections, and their diversity manages to cover a large range of human body dysfunctions.

We conclude by mentioning that Romania is the country of origin of the balneary tourism attested by the documents of the time, by using the natural cure factors in the existing resort of Băile Herculane (settlement lasting since approximately 154 A.D.), receiving the fame, grace and also through the presence of the most outstanding representatives of the Romanian gerontology, the name of “country of youth without ageing”, a fame she has to maintain. To this fulfilment of Romania also contribute the subsequent occurrence of other resorts (Vatra Dornei, Băile Felix, Călimănești-Căciulata, Borsec, Mangalia, Covasna, Băile Tușnad etc.), which, through the curative virtues of the mineral waters or other curative factors, have written their names along Băile Herculane. The presence of tourism structures with relatively high reception functions is a relevant argument is supporting this type of tourism. Inherited from the period before December, it greatly constitutes into a vigorous basis of departure that, subject to selection and metamorphosis, begins to have a positive effect, with the polarising of an increasing number of tourists (and foreigners). Starting with 1994, when the activity of the Patronage Organization of the Balneary Tourism of Romania (O.P.T.B.R.) started having shape, the existing lodging capacity in the balneary area was ranked second (50484 places; 294479 places – total destinations) within the touristic destinations/areas (balneary, seaside, mountain, Danube Delta, county residence cities, other places), established by the National Statistics Institute Bucharest and, ranked fourth according to the reception structures with lodging functions, dominating the large reception capacities.

Monitoring the situation of the balneary touristic reception structure capacity in the period 1994-2004 (see. attached graph) one may notice an accentuated reduction of the lodging function reception structures in the balneary tourism and a slight regression of the lodging capacity. Yet, by judging according the value of the lodging capacity by the name of the touristic destinations, we can easily deduce that true value serves a higher balneary purpose, the same seeming to be distributed in variable proportions to most of the touristic destinations (seaside, mountains, cities, county residence cities and other places).

For 2004, an analysis on touristic areas of the net utilisation index of the capacity in operation (see. attached graph) and of the KPI's regarding the lodging capacity in operation, bedding of foreign tourists and their reception (see. attached graphs) announce advantageous positions for the balneary area. It is worth mentioning that in 2004, the balneary area was best concentrating the foreign tourist flows from 5 countries (to which add, according to the table, Austria and Italy), holding together 74.93% of the market, a percentage much higher than the country's average. Therefore, it had a primary emitting market Hungary, with a quota of 26.98%, a traditionally emitting country for this area (rank 4 in the period 1994-1999 and 2001, 3rd in 2000 and period 2002-2003); the second is Germany with 19.96%; the 3rd Israel, with 18.82%, experiencing a quota loss since in the period 1994-1995, 1998-2001 was ranked first, and between 1996-1997 and 2002-2003 second; surprisingly, the fourth came Austria, with 5.13%, a country never in the top until now; the fifth is Italy with a quota of 4.03%.

Indicator distribution – lodging capacity in operation and of bedding of foreign tourists – on touristic areas, in 2004

Name of the touristic area	Lodging capacity in operation (%)	Bedding of foreign tourists (%)
Other places	14,2	7,6
County residence cities	27,2	60,1

Name of the touristic area	Lodging capacity in operation (%)	Bedding of foreign tourists (%)
Danube Delta	0,8	0,9
Mountain	16,9	8,1
Balneary	19,2	5,5
Seaside	21,2	17,8

Source: <http://www.mturism.ro>, la 06.11.2005, of a study regarding the substantiation of the tourism development strategy in Romania after the accession to the European Union, Phase I – Tourism in Romania – analysis of the existing condition, Bucharest, September 2005.

Main tourist emitting countries for Romania on touristic areas in 2004

Touristic area name	First emitting country		Second emitting country		Third emitting country	
	Country	%	Country	%	Country	%
Seaside	Germany	27,22	Russian Federation	11,17	France	6,90
Balneary	Hungary	26,98	Germany	19,96	Israel	18,82
Mountain	Israel	19,31	Germany	8,83	U.K.	7,92
Danube Delta	Germany	19,98	Italy	17,54	France	7,21
County residence	Italy	16,38	Germany	13,10	France	8,57
Romania	Germany	15,76	Italy	12,63	France	7,50

Note: Data based on the number of bedding in the lodging units.

Source: <http://www.mturism.ro> (according to the data offered by the National Statistics Institute) of a study regarding the substantiation of the tourism development strategy in Romania after the accession to the European Union, Phase I – Tourism in Romania – analysis of the existing condition, Bucharest, September 2005.

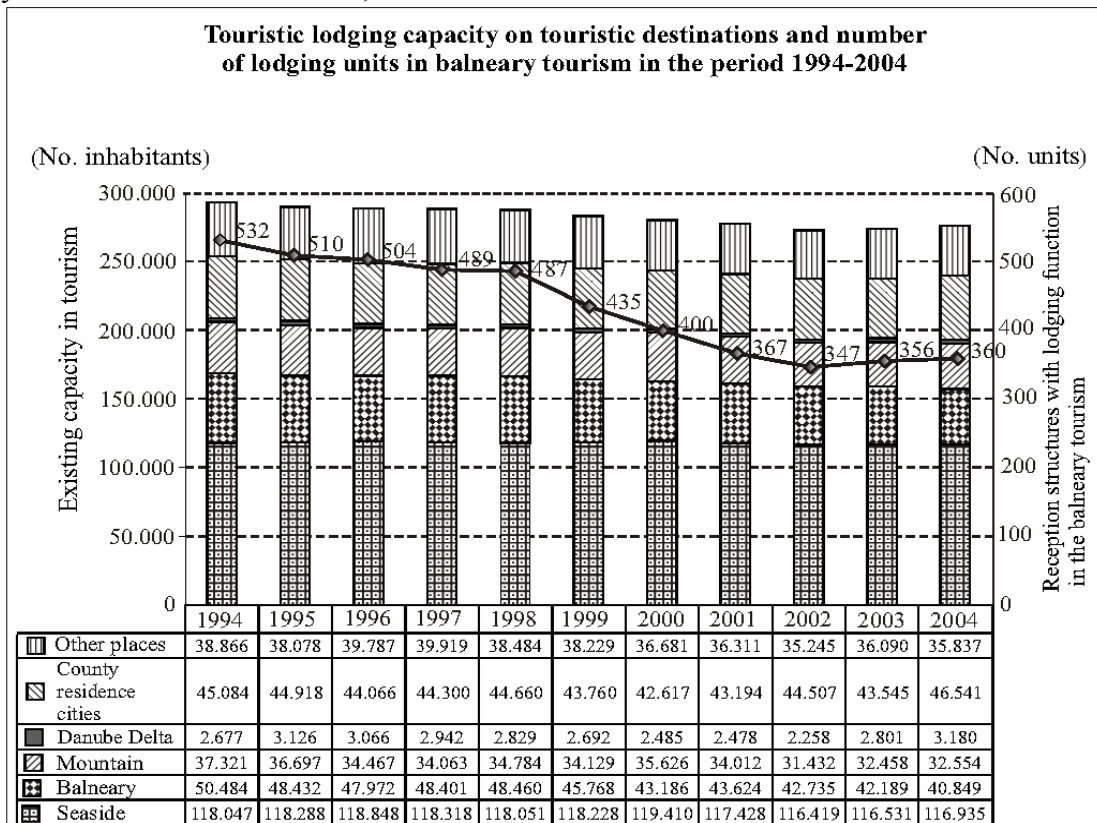
The existing treatment basis in the resorts, part of the balneary touristic fund, has been creating and still creates optimum conditions for the complex utilisation of the natural curative factors, especially after taking it out of the precarious operating condition based on the revamping and development process, re-launching it on the orbit of the international touristic demand and offer. The number of procedures/day in some treatment bases proves a generous offer. For example, some tourism operators in the eve of the 3rd millennia (2003) were recording the following indicators: S.C. Călimănești-Căciulata S.A - 1831 lodging places, 5296 procedures/day, 43042469 thousand lei investments; S.C Covasna S.A – 703 lodging places, 2500 procedures/day, 8000000 thousand lei investments; S.C. Traian S.A – 390 lodging places, 800 procedures/day, 8.267.400 thousand lei investments.

B. Opportunities – certain variants of advantage

The connection of the Romanian balneary tourism to the new concepts and orientations on the international balneary market targets:

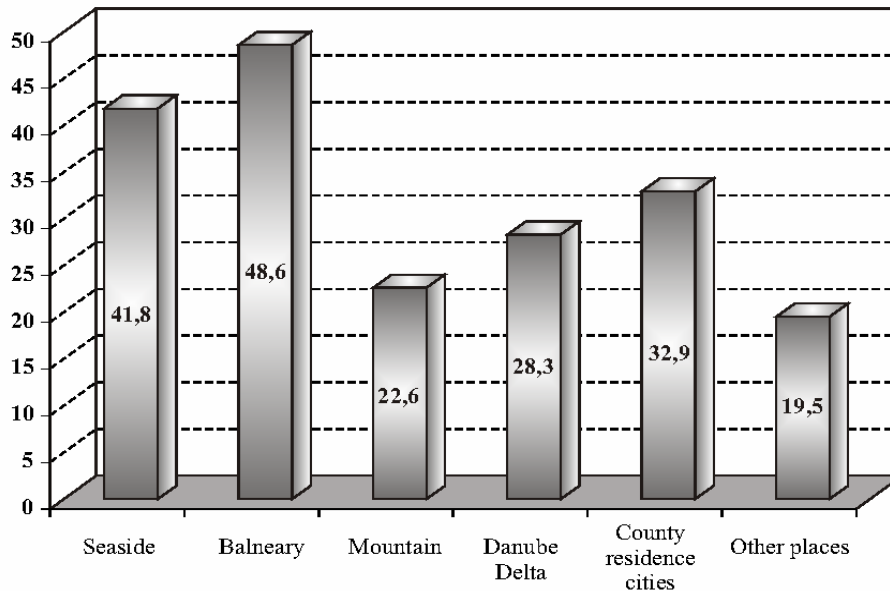
- The promotion of the principle according to which “health is a state of welfare”, which shall confer resorts a new dimension;

– Moving away from the traditional medical cures and getting closer to a good physical and mental condition ;



Data source: Statistic directory of Romania, 2002, Statistic directory of Romania, 2005

Net utilisation index of the operating capacity of the touristic areas of Romania in 2004



Data source: Statistic directory of Romania, 2005

Integration of the balneary resorts into the medical assistance system according to the principle of doctor H. Pratzel, chairman of the International Balneology and Climatology Society, who proposes that the recuperating treatment of the chronic patients be mostly done in the resorts, while hospitals should undertake the treatment of the patients suffering from acute diseases, more of economic reasons and methodological possibilities;

— Adaptation of the structure and infrastructure in order to ensure simultaneously more types of activity: prophylactic cures for young and adult persons, recuperation cures for persons of all ages with functional deficits.

Privatisation represented the exit expedient from a profound crisis of the balneary sector along with the removal of the communism and return of the country to the echelon of European democracy. The new orientation targeted the decentralization of the touristic patrimony, yet remaining an important segment of the patrimony into a centralized structure such as SIND ROMANIA, the largest tourism operator. SIND ROMANIA operates with a number of 15,000 lodging places in the own reception structures represented by 24 hotels (with rooms for conferences or workshops, hippodromes and cultural events houses), 25 villas and a youth camp in the most important tourism resorts in the country: Amara, Căciulata, Covasna, Eforie Nord, Băile Felix, Băile Govora, Băile Olănești, Băile Herculane, Năvodari (where the youth camp is), Ocna Șugatag, Predeal, Sângeorz Băi, Slănic Moldova, Soveja, Vatra Doenei, Voineasa and Vidra. Moreover, another important part of the touristic patrimony belongs to the Patronage Organization of Balneary Tourism of Romania (O.P.T.B.R), founded in 1993 upon the initiative of some representatives of the main balneary resorts, eager to put this sector to a well-deserved position within the tourism industry and to represent their interests in the relations with the authorities, various institutions, both internally and abroad. At present, the 58 members represent almost all balneary resorts in the country. There are resorts recording a fragmentation of the patrimony that is disputed by more tourism operators.

The investment process started pursuant to the re-arrangement system of the new patronage, noticing a general tendency of growth of the annual investments amount, an amount showing the effort put up by the companies in order to modernize the balneary tourism structures, especially at the beginning of the new millennia.

The installation over the last years of a large revamping process of the treatment bases and their endowment with specific devices for balneary treatments ensures the transgression of the names of the resorts beyond the national borders. The attraction some balneary resorts started enjoying reflects the capacity of changing the view of the tourists, the adhesion to the idea of prophylaxis by balneoclimatology and not calling for it after the disease has already installed.

The partial modernization of the patrimony in most of the resorts pursuant to the privatization and partial investments made by O.P.T.B.R and SIND ROMANIA by upgrading to the level 3-4 star hotels of some old units, by building new hotels with treatment bases and not only in many resorts, represent clues announcing a possible reinvigoration of the balneary tourism; almost all resorts underwent improvements, either complete, either to one hotel, or only the treatment bases or the hotels in operation, function of the specific conjunctural factors, money and interests. The investments most of the resorts benefited from have been directed to the renovation of hotels in Covasna (Căprioara hotel), in Sovata (Brădet, Făget, Sovata), to the building of new lodging capacities in Felix (Nufărul hotel, a multifunctional complex with a conference room), in

Tușnad (Fortuna – small capacity), to the treatment bases in Călimănești-Căciulata, to the renovation and arrangement of boarding houses, as well as to other resorts such as Băile Herculane, Bazna, Govora, Mangalia, Saturn, Predeal, Slănic Moldova, Balványos etc.

The situation at the level of the resorts concerning the built fund indicates the cohabitation of two hotel models, the old one having large dimensions and the new one with reduced dimensions regarding room number (below 40 rooms – like apartments, double or single rooms), appearing as a conglomerate of services in the context of the new orientations (treatment and maintenance structures – kineto-therapy, electrotherapy, massage, sauna, fitness room; public food structures, leisure structures – tennis, basketball fields, open swimming pool). By the space-organizing manner, by the variety and quality of services, sojourn tourism, which is addressed to family, is also encouraged. Hotels must become attractive and viable both for the population of Romania as well as for foreigners, always seeking solutions and formulae in the tendency to reintegrate Romanian balneoclimatic resorts in the international tourism circuits.

It would be desirable for us too that in the countries with tradition, to maintain the atmosphere of the balneary cities having specific architecture, and the new constructions to be accepted to the extent they are really necessary and if they match the existing architectural style. It seems that resorts such as Vatra Dornei, Olănești and Băile Herculane lost of the old charm, appearing as a sort of kitsch.

The implementation of some reception structures as a result of the reiteration of an older initiative from the beginning of the 20th century regarding the preoccupation for the human segment, mainly of employees, by the autonomous administrations (ex Renel, Petrom), Savings Bank etc. (who rebuilt on the initially held locations, villas with a capacities of app. 10-30 places and all the necessary domestic utilities), revives and renews the architectural fund of the resorts; orients the employee flow, thus increasing the number of tourists and beneficiaries of the offerers.

The progress of special programmes starting with 2003, having a positive impact in the development of tourism, especially with the purpose of increasing the number of tourists and profits in this field, targets the entire touristic domain, addressable implicitly to the balneary domain. The example to follow is based on the survey of the already started programmes, common to many types and forms of tourism or strictly on the balneary tourism: “A week of recuperation” which took out on the market offers at quite low prices to the loss of the providing companies (conceived together with the Ministry of Transports, Constructions and Tourism); the “Low income tourist” programme (belongs to the category of social programmes addressed to the pensioners and tourists having low incomes), „Romania, simply surprising” (promotional programme with a very favourable impact for the touristic market from Germany, Netherlands, Austria or the Scandinavian countries), „Info-tourism Programme” (channelled on the broadcasting of touristic information on the domestic tourism market), “the Blue Flag” (introduced as a symbol of international acknowledgement of the quality of Romanian resorts has found applicability in six resorts, from Mamaia to Neptun).

The creation of the development regions in the territorial structures has offered the possibility to some programmes and strategies through which tourists hold an increased role in highlighting national valences.

The application of the measures on short and medium term issued by the authorized entities targeting the revival of the balneary tourism shall ensure a significant increase of the demand for this type of tourism both internally and internationally. We mention some of them: arrangement and equipping to European touristic standards of some pilot resorts representative for the Romanian offer - Băile Herculane, Băile Felix, Covasna, Slănic Moldova, Olănești, Sovata, Mangalia et al.; reintroduction in the domestic touristic circuit of some local interest resorts, along with their revamping and development; technological renewal of the treatment bases, revamping and increase of the degree of comfort of the reception structures; extension of the arrangements and specific and general leisure endowments; diversification of the prophylactic cures and treatment procedures based on the natural factors in the main balneo-touristic resorts and the extension of the maintenance treatments (antistress, fitness, coming back to shape, embellishment, banting etc.).

C. Dysfunctionalities – aspects to be eliminated

The international fame of certain resorts in treating a range of diseases and affections is not supported by many of the treatment bases who are in a precarious operating condition, as they suffered from the lack of investments over the past 17 years.

The investment process oriented to the treatment bases is not sufficiently supported by economic legislative initiatives (accelerated amortization, exemption of customs taxes, reduction of profit taxes), discouraging the medical equipment offerers.

The inadaptability of the structure and infrastructure to the various types of demands (prophylactic cure, recuperation cures for persons with functional deficiencies), the lack of a good quality environmental context correlated with the reduced entertainment possibilities and the poor promotion of this type of tourism abroad, represent adverse aspects in the life of the balneary resorts and of the places with balneary touristic functions, true obstacles in the touristic offer. Most of the tourists choosing this type of tourism are attracted by the various types of union subventions, supported by the health houses or pension houses, providing 70% of the total demand of balneary tourism, the rest coming via other forms of tourism or through agencies, paying the full price of the package.

This is how one may explain the small number of foreign tourists on the balneary destination and remain, for the moment, classical destinations for those paying in full their ticket; Covasna, Eforie, Neptun, Mangalia, Herculane, Băile Felix are better promoted abroad.

Conclusions:

It is a known fact that balneary tourism may become the tramp card of Romanian economy by ensuring the stagnation premise of the decline from the beginning of the late decade of the 20th century and by the evolving revival under new concepts and orientations, on the basis of the richness and diversity of natural therapeutic factors. The natural, rich and various balneary potential, complemented by the improvement of the political and economic context optimum and necessary, may maintain Romania's prestige as to this aspect.

Probably the accession of Romania to the EU shall change the image of the county, implicitly as a touristic destination and shall be a guarantee and option for those outside the borders of Romania.

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ASPECTS OF COUNTRY RISK FOR SOME COUNTRIES RECENTLY ADHERENT TO EUROPEAN UNION

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Abstract

The country risk is one of the main orientative indicators for the investment decision. In the study made we examine ex-socialist countries from the Centre and South-East of Europe, on the period 2005-2008. The study presents some common aspects like: budgetary deficit, fiscal deficit and current account deficit and the amelioration politics; national particularities increase for the stimulation of capital investments; a relative inclination towards the inflation growth.

Key words *Country risk, political risk, economic risk, business environment risk*

The county risk (in a pleasant acceptance for most of the authors) is that generated by the cumulative effect of some political economic and social factors, which affects a foreign business in a certain country. Between the events circumscribed by these factors there are mentioned: governmental stability, political changes (political regime, ideological orientation of the political factions, the parliament structure in rapport with political factions), the characteristics of economic evolution, the economic cycle, strikes, social convulsions, belligerence, natural cataclysm.

The country risk is related to a measured risk exposure through the losses which can appear in a business with a foreign partner. The losses are caused by specific events which can happen in the foreign partner's country and these events are at least partially under the control of the government of this country. The evaluation of the country risk is made every time when a event from the mentioned classes could generate lower exposures of losses (in this case the country rating is improved) or bigger exposures of losses (in this case the country rating is getting worse).

In this study we examined, for the year 2007 and for six socialists countries from the Centre and the South-East of Europe, three classes of events for the country risk characterization:

- The political ones, which generate the political risk;
- The macroeconomic ones, which generate the economic risk;
- The ones concerning the business development, which generate the risk of the business environment.

These are risk categories used basically by the international agencies of rating, as well as by the economic analysts of some publications with a great impact in the economic sphere — The Economist, Business Environment Risk Intelligence, Euromoney, Institutional Investor, Standard & Poor, Moody's and others. The rating is expressed by a synthetic indicator score type (a number of points between 0 and 100) whose value increased indicates a lowering risk (Table 1).

Table 1

Risk characterization	Score interval (points)	The synthetic characterization of the country situation
low	70-100	Favourable and stable situation
moderate	55-69	The possibility of an unfavourable evolution which could affect the stability on short term
high	40-54	The possibility of an unfavourable evolution on medium and long term
unacceptable	Under 40	The advice of not develop economic activities in that certain country

For the group of countries and the interval of time mentioned above the primary risk events are synthesized in the tables 2, 3 and 4.

Table 2

Risk type	Romania	Bulgaria	Czech Republic	Poland
Political risk	a) high corruption b) the refusal to grant Romanian citizenship at the request of the citizen from Moldova Republic c) minority government	a) fluctuating fiscal politics b) the possible changing of parliament majority	a) the stability of the diminution politics concerning the fiscal/ budgetary deficit b) persistence in the government coalition of the controversy upon the diminution means of the budgetary/fiscal deficit	a) tension in the government coalition after the governmental re from July
Rating	70,2 Lowering with 1,4 points	70,2 stationary	70,6 stationary	71,5 stationary
	Slovenia		Slovakia	Hungary
Political risk	a) the government initiative for the solving the border problems with Croat Republic b) the diminution of the vote intention (with 2-3 points) for the two biggest parties from the governmental arch		a) a powerful governmental coalition b) the democratic stable politics for the most numerous ethnic minority c) the diminution politics of the governmental deficit	a) the budgetary rectification from the summer is not congruent with the diminution of the budgetary deficit b) the vote intention of the population puts one of the governmental coalition party under the limit of the electoral threshold
Rating	86,7 stationary		87,1 Growing with 1,7 points	81,0 stationary

Note: the rating variations refers to October 2007 versus June 2007; the same in the tables 3 and 4

The rating modification for Romania (table 2), is generated by the lack of the signals concerning the solving/ improving the events producing the risk. For the a) event it is estimated to 1,4 billion EURO the value of some supposing prejudices; the aggravate

component is constituted by the lack of progress in the anticorruption legislation. For the b) event the risk is connected with the solving (positive or not) of the greater part from the 31.000 files put with complete documentation (only about 1100), by the great number of applicants (about 750.000) who have files with incomplete documentation, as well as the tension appeared concerning this theme between the two countries.

For Bulgaria, Czech Republic, Poland and Hungary the risk is generated by the realisation incertitude of the diminution intentions of the fiscal/budgetary deficit, as a result of different attitudes of the parties which forms the governmental coalitions. In the first three countries the misunderstandings are about the way of the diminution of the taxes for the corporations and the diminution of the income taxes, a measure of divergent nature in rapport with the exposed intention of the diminution of the budgetary/fiscal deficit. The expression “powerful governmental coalition” used for Slovakia means the stability of the political institutions and consensus in the convergence of the promoted politics. The rating of 87,1 is the third after Estonia and Lithuania, between 29 European countries (27 from European Union and 2 from the so called UE zone, Sweden and Switzerland).

Table 3

Risk type	Romania	Bulgaria	Czech Republic	Poland
Economic risk	a) the deficit of the commercial balance b) the growing of the assurances sector	a) the low level of the internal gross product per capital b) the current account deficit c) the oscillation of the fiscal sol of the budget	a) the growing tendency of the inflation rate b) the uncoordination of the inflation with the dob rate c) the diminution tendency of the rate of the growing of the intern gross product real per capital on the fund of the development of a social politics	a) rhythm sustained by the economic growth b) fiscal deficit
Rating	71,5 stationary	67,1 stationary	72,9 stationary	67,1 Growing with 0,8 points
	Slovenia		Slovakia	Hungary
Economic risk	a) the tendency of inflation growth		a) the establishment of the currency on a powerful economic growth fund b) the deficit reduction of the current account c) the inflation rate in drop	a) the foreign investment reflux b) giving up to the diminution of the fiscal deficit for the achieving of the governmental spending projects
Rating	72,1 Lowering with 0,6 points		69,6 stationary	50,4 stationary

The stability of the economic rating for Romania (table 3) is a result of the gathering of two events with opposite effects in financial plan: the growth of the deficit of the commercial balance and respectively the powerful growth of the assurance sector. The growth tendency of the commercial balance deficit is given by the modification on the

period 2005-2008 of the growing rhythm of the imports (24,2%) versus the rhythm of the exportation (21,7%). As a result, the moderation of the gross internal product of the deficit of the commercial balance could grow from 9,8% (2005) to 11,4% (2008). The deficit of the current account is just 4-5% from the internal gross product — about half from what represents the deficit of the commercial balance — because their other one components contribution (others than the commercial balance) is favourable. These “other components” (the invisible commerce, the incomes realised in foreign countries by the Romanian residences and others) are like a brake in the side-slip of the commercial balance, with favourable and diminish effects for the current account evolution. On the other hand it is already discovered a capital influx as a result of the function of the II and III pylons (private pens) in the system of the social assurances.

For Bulgaria, Czech Republic, Poland and Hungary appears as a common risk event the deficit instability or even its growth.

For Bulgaria this risk is generated by the low level of the real internal gross product per capital, just a quarter from the medium level EU-27, and it is expressed in the growing of the rate in the gross intern product of the current account deficit from 12% (2005) to 17-18% (2008). Plus, the other components of the current account deficit, others than the commercial balance, have agravatte effects upon the evolution of its surplus stock.

In what concerns Poland, the fiscal deficit is well compensate by the high rate of growth of the real gross intern product per capital: 3,5% (2005); 6,3% (2006); 6,6% (2007); 5,5% (2008), growth based on a solid internal growth and upon private powerful investments.

For Slovenia the economic risk is generated by one unfavourable macroeconomic event: the growth of the inflation – 4 % (2005); 5,2% (2006); 4,7% (2007); 4,2% (2008).

For Slovakia the events which generated the economic risk shows an improvement tendency: the establishment of the currency; the economic growth 8,3% (2006) and 8,5% (2007) and 7% (2008) versus 6% (2005); the reduction of the rate in the internal gross product of the current account deficit from 8,6% (2005) to 8,3% (2006) and 4,2% (2007) and 2,8% (2008); the inflation rate lowering from 4% (2005 and 2006) to 2% (2007 and 2008).

Table 4

Risk type	Romania	Bulgaria	Czech Republic	Poland
The business environment	a) the salary growth as well as the work cost growth of the commercial associations b) capital infusion towards the investment funds and towards the automobiles industry	a) big investments of capital in telecommunication s and nuclear energy	a) major potential of the IT market b) the growth of the foreign direct investments	a) the volatility of the internal market b) the consolidation of the internal locations as a production basis in the automobiles industry
Rating	52,4 stationary	56,9 stationary	64,8 Growing with 4,8 points	64,8 stationary
	Slovenia		Slovakia	Hungary

Risk type	Romania	Bulgaria	Czech Republic	Poland
The business environment	a) the growth of the investments in the detailed commerce b) gross development of huge fixe capital through private investments		a) a new law of the investments which can release the direct foreign investments b) the USA-EU accord to extend to the adherent states in 2004 the access in USA applicable to the citizen EU-15	a) financial tension on the pharmaceutical market b) the low harvest of maïse
Rating	63,7 stationary		60,0 stationary	62,8 stationary

The risk of the business environment (table 4) appears most as stationary, except Czech Republic where the IT market remains with a great potential in the situation in which it is the most developed market from the region Central, South-East and Baltic Europe with a volume of 3,6 billion EURO in growth till 5,7 billion EURO (2011). Plus, after a recoil in 2006' the direct foreign investments have grown substantially in 2007: 34,6 billion TCK (2005); 28,3 billion TCK (2006); 48,0 billion TCK (2007).

The common event of the studied countries is the preoccupation of each one of them for the investments stimulation (internal or external). It's obvious the diversity of the most attractive economic branches: automobiles in Romania (Ford) and Poland (where is expected in ten years productions of 250.000 units per year through investments of the companies Fiat, General Motors and Intrall); telecommunications and nuclear energy in Bulgaria (investments of 4 billion EURO in programs of 6-8 years of the companies E.ON (Germany) and EDF (France)); IT in Czech Republic; the detailed commerce in Slovenia.

For the countries studied, in the first half of 2007, the risk of business environment it is constituted also from events with a big unfavourable character. So for Romania is specific the growing of the work cost of the commercial companies as a result of the salary growth. The growth rate on the total 2007 is estimated at 25% versus 16% in Bulgaria and a med of 3,7% on total UE. For Poland, is obvious the high volatility of the internal market versus the international markets, with possible effects in the recoil of direct foreign investments. For Hungary is obvious the tension on the pharmaceutical market determined by the drastic reduction of the compensation of the spending with the drugs which denotes major miss functionalities in the health system and creates unpleasant situations to the foreign companies of pharmaceutical products which exports in Hungary.

A synthesis of the country risk (June 2007) for the ex-socialists states from Europe and adherent to European Union in 2004 shows favourable ratings, often growing and of high level, based especially on the parliament convergence in the promoting and the sustaining of economic and social programs, as well as on the results of economic growth and of the financial-monetary politics.

Table 5

The country	FITCH	Moody's	Standard & Poor
Czech Republic	A stationary	A1 growing	A- growing
Estonia	A growing	A1 growing	A lowering
Leetonia	A- lowering	A2 growing	BBB+ lowering
Lithuania	A stationary	A2 stationary	A lowering
Poland	A- stationary	A2 stationary	A- stationary
Slovakia	A growing	A1 stationary	A stationary
Slovenia	A growing	A1 growing	A- stationary
Hungary	BBB+ stationary	A2 stationary	BBB+ stationary

Note : the variation is determined in rapport with the rating from December 2006

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COLLECTING FISCAL CLAIMS

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Abstract

By fiscal claims collecting one should simply understand extinguishing the fiscal claims. Fiscal claims are however collected on the basis of a claim title – which is an act that establishes and individualizes the fiscal claim, made by the fiscal organisms – either on the basis of an executor title, which can be a court decision, an authentic deed, an arbitral decision or other decisions and certain deeds mentioned by the law as capable of being invested with an executor formula so that it becomes an executor title.

The court or arbitral decisions must be definitive and, as a rule, invested with an executory formula.

When facing the need to ensure a normal economic life, the balance of the budget becomes an imperative and drastic condition which cannot be fulfilled unless collecting the state income, of any nature and origin, as they were meant in the budget.

Keywords: *fiscal claim, budgetary claim title, fiscal executor identification card*

1. Nevertheless, the daily implementation of the fiscal laws, meant to lead to the collection (extinction) of the debts towards the state, illustrates (under the conditions of transition) that the extinction of the fiscal claims cannot be ensured only by the goodwill of the

debtors, by compensation or reimbursement. In this case, the extinction of fiscal claims by enforcement becomes a stringent necessity.

The first post revolution normative act that regulated the enforcement of the budgetary debts dates from 1996, was republished in 2002 and again in 2003. However, a somehow similar procedure existed before 1996 under the conditions of a 1960 normative act annulled by GO no. 11/1996.

Nowadays the Collection of the fiscal claims is regulated by The code of fiscal procedure adopted by GO no. 92/2003, republished in the OM of 24.06.2004, with the modifications and supplements brought by GO no. 20/2005, approved by Law no. 210/2005 (OM no. 580/2005).

It is worth remembering that, due to the executory nature of the budgetary claim title, the enforcement procedure applied by the fiscal bodies is not preceded by any other procedure of juridical nature. Moreover, due to the fact that the object of taxes and duties payment obligation is represented by a sum of money, the enforcement of the fiscal obligations will always be done in kind and not through equivalents. In short, the enforcement bodies will enforce the debtor without previously asking for clearance from a court of law and, in absolutely all cases, , the enforcement will be done in kind and not through equivalents. Even in cases of sequestration, the enforcement is done in kind and not through equivalents.

Finally, as a general observation, it is worth knowing that in order to proceed to the enforcement of a budgetary claim it is necessary for the following conditions to be fulfilled:

a) there should exist a budgetary claim title which in fact represents the juridical act through which the debtor's obligation to pay a certain amount of money to the state is established and individualized; this budgetary claim title is made or confirmed by the financial bodies of the state that have fiscal attributions;

b) the budgetary claim should be certain, liquid and exigible; it is *certain* when it results from the claim deed itself or from other deeds, even unauthentic ones, generated by debtors or recognized by them; it is *liquid* when its size is determined by the claim deed itself or when it is determined by means of this deed, as well as by means of other unauthentic deeds, generated by debtors or only recognized by them; finally, the claim is *exigible* when the fiscal obligation reached its maturity uninfluenced by other terms or conditions;

c) the state right to start the enforcement should not be prescribed (5 years from January 1st of the following year).

The enforcement of the fiscal (budgetary) obligation takes places between the state – through the financial bodies, and the debtor (the tax payer), - to which, under certain conditions clearly stipulated by the law, the court of law may be added.

2. In the code of fiscal procedure, the matter regarding the enforcement is regulated under Title VIII, chapters I – XI, art. 107 – 170.

For the paper in case only chapters VIII and IX entitled “Extinction of fiscal claims by enforcement” and “Disputing the enforcement”, respectively, are of interest.

Art. 132 stipulates that “In case the debtor does not pay willingly his due fiscal obligations, the competent fiscal bodies ... will move to enforcement, according to the present code”.

The enforcement of the budgetary (fiscal) obligations is done by means of fiscal executors, empowered by the fiscal executor identification card and delegation issued by the competent enforcement body.

The fiscal executors fulfill a function that implies the *exercise of state authority* and have thoroughly established rights:

- a) to enter any business location of the debtor’s, legal person, in order to identify the goods or values that can be enforced;
- b) to enter all rooms containing goods or values of the indebted legal persons;
- c) to ask and analyze any document that might become evidence for determining exactly the goods that belong to the debtor only (for instance, those goods that are borrowed or rented, etc. are not taken into consideration);
- d) to ask for the presence of the police and witnesses in case the debtor denies access to rooms or other locations that might contain goods which could be enforced;
- e) to establish the order of preference if there are more debtors and to distribute the sums resulting from capitalizing the enforced goods in that order of preference, proportionally to each one’s claim and only after 15 days from the date when the sum was deposited in a special account.

We limit ourselves to just enumerating these rights that we consider of a particular interest for this limited paper regarding the enforcement, a matter which could make the object of a much ample and complex treaty (if the case be).

The fact should be noticed that in terms of the enforcement of the state fiscal claims, the present regulation in the Code of fiscal procedure represents the common law in this matter as well as when referring to taxes, duties, fines or other sums representing public financial resources, according to the Law of public finances.

It should also be mentioned that the budgetary obligations, called budgetary claims, others than those in case of which the enforcement is done by the bodies of the Ministry of Finances, are enforced by the own commissioners (own executors) of the Ministry of Labour and Social Protection, of the local public administration bodies, or of other central or local public institutions specifically mentioned by the law.

As for the object of enforcement, it should be remembered that the enforcement covers all debtor’s goods and income that could be traced according to the law.

The sums representing pecuniary income of the debtor’s, legal person, generated by his own activity (salaries, premiums, indemnities), pensions of any kind, aids or certain funds with special destination are subject to penal investigation only in the cases and within the limits stipulated by special legal provisions, on the one hand, or stipulated in the very code of civil procedure (the part regarding the enforcement), on the other hand.

In the present Code of fiscal procedure such a regulation is represented by art. 137 entitled: “Rules regarding the enforcement” where it is shown that “*The enforcement may cover all debtor’s income and own goods, traceable according to the law, and their capitalization is*

done only to the extent necessary to acquire the fiscal claims and the enforcement expenses”.

3. The technical and operational part of the enforcement procedure. The enforcement forms and procedure.

Ⓐ. The enforcement starts by communicating a summons. Provided the debt is not extinct within 15 days from the date of summons, the enforcement is carried on as it is stipulated in art. 140 of the code of fiscal procedure

In all cases, the summons is accompanied by a copy of the *executory title*, which, in fact, is nothing else but the *title of fiscal claim* that reached its maturity by surpassing the time interval in which the debt could have been paid on term, either a term established by the law, or a term established by the very competent fiscal body.

To be more precise, the claim title becomes executory title when the fiscal claim (the budgetary obligation) becomes exigible (i.e. it reaches maturity). *The budgetary claims administered by the Ministry of Finances, being income that constitutes resources of the state budget or of the local budgets, are enforced in the interest of the entire society.*

Therefore, “*the enforcement starts within 15 days from notice*”, which means strictly from the date of the summons.

This (the payment notice/summons) represents at the same time the first preceding act of the budgetary enforcement procedure, under the conditions of the code of fiscal procedure.

In order to be fulfilled it is necessary for the executory title to contain accurate data regarding the name of the fiscal body, the name of the debtor, the issuing date, as well as the date when it becomes effective, the *de facto* reasons and *de jure* grounds, the signature and the stamp of the issuing fiscal body, the possibility of appealing and the term of appeal, mentions regarding the hearing of the tax payer, the quantum of sums and their nature, and any other identification data.

A mention is in order. The claim title which has become executory title by simply reaching the maturity, is a fiscal administrative act through its juridical nature, and this mention also influences the manner in which the fiscal administrative act is communicated: the debtor goes to the headquarters of the fiscal issuer to take it against his signature; by remittance of persons empowered under signature; by mail via registered letter with receiving confirmation; by fax; by advertising.

Communication through advertising is done by posting the act the issuer’s headquarters and on the web page of NAFA (National Agency of Fiscal Administration), and it is considered communicated only after 15 days since the date of posting. Having this nature of administrative act, the claim title and the above explained fiscal title, being therefore included in the notion of fiscal administrative acts, according to art. 46 of the fiscal procedure code, it can be modified or annulled by the issuer according to the code form case to case.

Going back to the payment summons, it should be known that it is compulsory for this to indicate:

- the number of the enforcement file;
- the sum for which the enforcement is initiated;
- the time interval within which the summoned should pay that sum and, finally,
- the consequences of not observing the summons.

B. The enforcement once started, if not suspended or interrupted under the terms of the law, goes on until the complete extinction of the fiscal claims registered in the executory title, including the interests, the delay penalties or other sums such as enforcement expenses etc.

The suspension or the interruption of the enforcement are institutions of fiscal law, precisely regulated in the code of fiscal procedure.

Thus:

a) the suspension of fiscal enforcement, according to art. 143 par. (2) and (3) of code of fiscal procedure, takes place when it is order by the creditor (the state through the bodies of the MF) or by the court of law; when facilities of payment are approved; when the creditor accepts that the payment should be made from the income of the premises under prosecution; in other situations stipulated by the law (par. 2).

b) the interruption of fiscal enforcement takes place when the debtor's state of insolvency is declared and when the law could provide a special case of interruption.

Before capitalizing the goods/assets, they are placed under distraint.

Here are the ways of enforcement: the sequestration, the prosecution of the circulating assets and the enforced prosecution of the fixed assets, but also the enforcement of the unharvested fruit and of the rooted crops.

Enforcement by sequestration applies to any sum representing income and pecuniary reserves in lei and other currency, to bonds and other non-substantial circulating assets, owned or owed, under any title, to the debtor by third parties or those that will be owned or owed in the future on the basis of juridical relations already existing at the date of sequestration.

C. The enforcement by sequestration, in case it is already initiated, does not apply to any kind of sums representing unredeemable credits or funding received from international institutions or organizations in order to run some programmes or projects in the country.

The sequestration is set by the enforcement body (the fiscal executor) through an official notice, which will be sent to the sequestered third party via a registered letter with receiving confirmation, along with a copy of the executory title and, at the same time, the debtor will also be advised about the setting of the sequestration.

The fiscal sequestration does not need validation. If the sequestration has been set as an ensuring measure, it becomes executory through the mere communication of the certified copy of the executory title towards the sequestered third party and by advising the debtor about this communication towards the third party.

The sequestration is considered set on the date when the third party receives the address, the latter having the obligation to register both the date and the hour of receiving the address regarding the setting of the sequestration.

The third party has the obligation to pay the fiscal body the withheld sum of money that is owed to the state immediately after the setting and also to make unavailable, if the case be, the non-substantial sequestered circulating assets, advising the enforcement fiscal body about this.

In the case of multiple sequestrations, the sequestered third party will distribute the owed amounts of money to the debtor in an order of preference established by the law, as follows:

- a) expenses regarding the pursuit and preservation of the circulating non-substantial assets;
- b) salaries, pensions, unemployment benefits etc., granted as part of the social care, compensations for the damage caused by death or severe body injuries;
- c) children allowance and care obligations;
- d) fiscal claims (taxes, duties etc.) owed to the state, to the state treasury budget, to the state social insurance budget, to the local budgets, as well as to special funds;
- e) state granted credits;
- f) compensations for the damage caused to public property by illegal deeds;
- g) bank loans, the equivalent value of delivering goods, services or construction works, rents or fines;
- h) fines destined for the state budget or for the local budgets;
- i) other claims.

If multiple claims have the same order of preference, and the law does not stipulate otherwise, the sequestered amount is distributed among the creditors proportionally to each one's claim.

D. The debtors that hold bank accounts will know that not only the amounts existing in the account at the date of receiving the sequestration notice will be sequestered, but also the daily returns in lei or other currency, excluding from settlement any other payment document and excluding from payments made from the account any request of the debtor, except for the amounts necessary for the payment of the salaries, under the sanction of absolute nullity of banking operations and of joint liability of the sequestered third party (the bank) with the debtor, within the limits of the amounts withheld from unavailability; the liability is, of course, established by the decision of the fiscal enforcement body with no need to sue.

Provided the debtor pays the amount in the title in due time, the fiscal executor will advise the bank at once in order not to affect anymore the daily returns and the settlements with the business partners.

It is important from the procedure viewpoint that in the case that the sequestered third party states in writing that he does not owe amounts of money to the debtor under pursuit or, even if he does, for various reasons he cannot comply with the sequestration, the fiscal enforcement body will ask a court of law, based on evidence, to decide the maintaining or the annulment of the sequestration. If the sequestration is maintained, the decision becomes executory title and the enforcement body can start the enforcement of the sequestered third party, provided it also pursues the debtor.

The enforcement of the circulating assets is perhaps the most interesting manner of fiscal enforcement mentioned above. This is done by sequestrating and capitalizing the circulating assets even if they are at a third party.

The *distrain* is set by an official report made by the fiscal executor and it will include the data specified by the code of fiscal procedure. A copy will be given to the debtor under signature, with the mention that the assets are in custody, unless the custody is given to a different person designated by the fiscal enforcement body. If the distrained assets to be capitalize happen to be also the object of a previous distrain (or distrains), those assets previously distrained will be considered distrained in the case of the new enforcement as well. The foreign custodian will be paid, the debtor custodian will not.

4. The enforcement of the fixed assets has procedural similarities as compared to the enforcement of the circulating assets but is much more complex and brings forth special problems of fiscal procedure as compared to the rest of enforcement manners.

Firstly, if the debtor owns assets joint property with other persons, the enforcement will cover only the assets attributed to the debtor as a result of a judiciary partition, i.e. the debtor's *share*. The enforcement of a building also covers the accessories, the way they are determined by the Civil Code (art. 482 civil code).

Then, contrary to the enforcement of the circulating assets, in which case the custody of the assets is essential, the real estate distrain represents a legal mortgage for which the fiscal executor immediately asks the Office of Land Registrar for a mortgage inscription.

Thirdly, another difference is that the fiscal executor may designate a distrain-administrator, if necessary, to administer the rent, the lease or other income, as well as to defend that particular building in case of litigation; the position of distrain-administrator can be taken by the very creditor, the debtor or any other natural or legal person according to the importance of the building.

In case the enforcement body decides, on the debtor's request, that the payment of the claims can be made from the income generated by the asset under pursuit or from any other debtor's income, for at most 6 months, the enforcement is suspended.

The unharvested fruit or the rooted crops, which belong to the debtor, are executed with the same procedure as the building itself. The harvested fruit and the crops that are not rooted anymore are executed with the procedure for circulating assets. (If not harvested – like the fixed assets. If harvested – like the circulating ones)

If the claim is not extinct within 15 days from the official distrain report, the capitalization of the sequestrated assets, whether fixed or circulating, will be made without any other formality, by direct sale, by auction, by sale in consignment (for the circulating ones) or by settlement among the parties or other ways permitted by the law (auction houses, real estate agencies, broker houses etc.).

The sequestrated assets may be sold on condition that they are not sold to those who have unpaid fiscal obligations, no matter the quantum, here being included the allowances and spread out payments and even the mere deferred payments.

The *sale by settlement of the parties* is that manner of capitalizing through which the debtor finds a buyer and the enforcement body approves the signing of a buying-selling contract.

The *direct sale* can be made only in the case of perishable assets when, if not sold by auction, somebody comes and offers at least the evaluation price or when the sale takes place before the initiation of the auction procedure, provided the fiscal claim is recovered in its entirety. (In this case, the official report recording the direct sale operation constitutes a title of property)

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THE INVESTMENT POLICY – KEY ELEMENT FOR THE DEVELOPMENT AND INTEGRATION OF ROMANIA INTO THE EU

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Abstract

The present paper presents some elements for evaluation of the level of certain macroeconomic indices for Romania in the last years, and more precisely the index for inflation, the deficit of the current account, the GPD structure, with the aim of identifying certain efficient policies and strategies in order to ensure the continuity of the country's economic development. The charts show the way in which the annual inflation has evolved, the annual deficit of the current account and foreign investments in Romania.

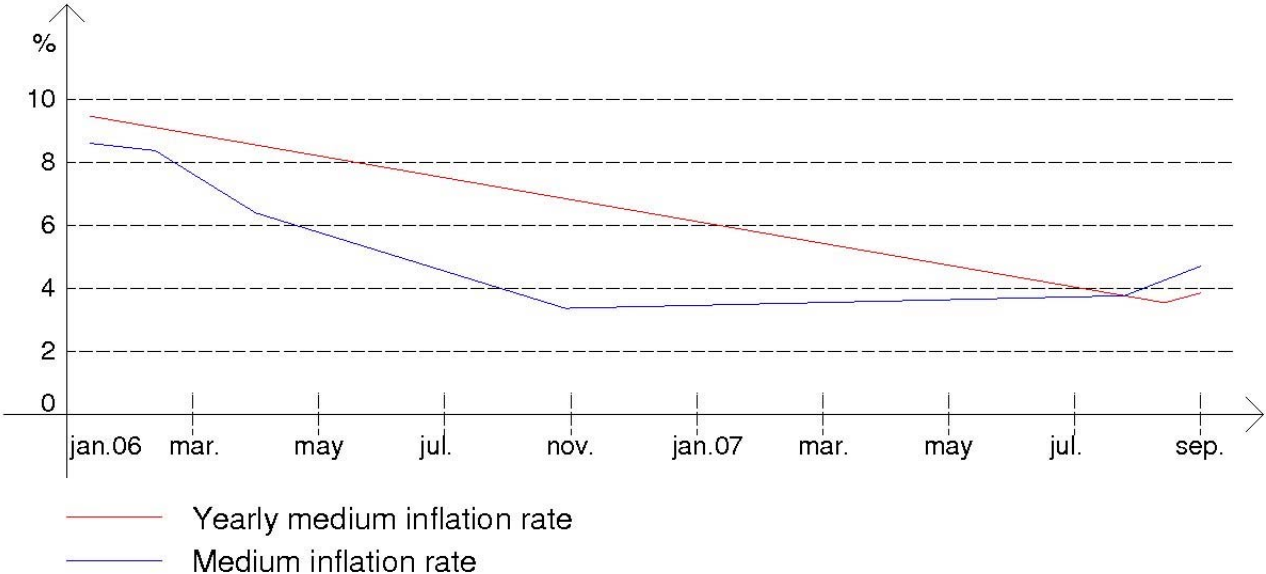
Last years' governmental policies for macrostabilization and economic growth are identified, and we propose to go on with allocating investment funds, especially in infrastructure.

Key words and terms: *annual inflation, GPD, current account deficit, investments, infrastructure*

1. The European integration process of Romania also involved the creation and maintenance of certain macroeconomic indices to allow for the existence of macroeconomic stability, as well as for an on-going economic development.

The economic stability and economic growth have manifested during the last years as permanent tendencies, becoming a constant of the Romanian economy. The best example to illustrate the above mentioned argument is the fluctuation of the index for inflation which, expressed through the annual inflation, decreased continuously. Starting with the year 2000, the average annual rate gradually decreased yearly, from 45.7% (year 2000) to 9.0% in 2005, then to 6.6% in 2004 and it reached 4.3% in September 2007. Thus we are confronted with a process of disinflation, at least until September 2007:

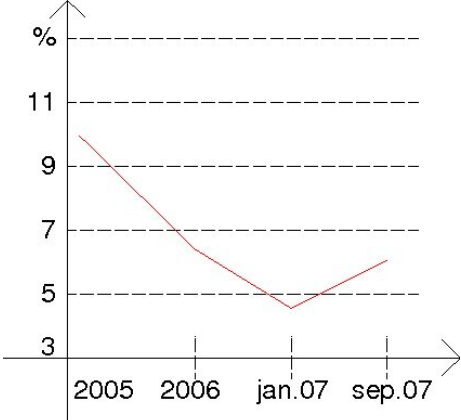
Chart 1 - Evolution of disinflation process (source: National Bank of Romania)



We can observe the tendency of constant decrease of inflation until August 2007, when we perceive a release period that might lead to another inflation trend.

According to last forecasts made by the National Bank of Romania, the annual inflation rate shall reach around 6.56% in 2007, percentage close to that of the year 2006. The situation of the annual inflation on the last three years is presented in

Chart 2 (source: National Bank of Romania)



The decreasing trend of annual inflation can be explained through a lower exchange rate leu/euro, which boosted imports and therefore the internal consumption. The overvaluation

of leu, in comparison with the euro/dollar became an obstacle for exporters, still it imposed the achievement of certain economic performances equal to similar products in the EU.

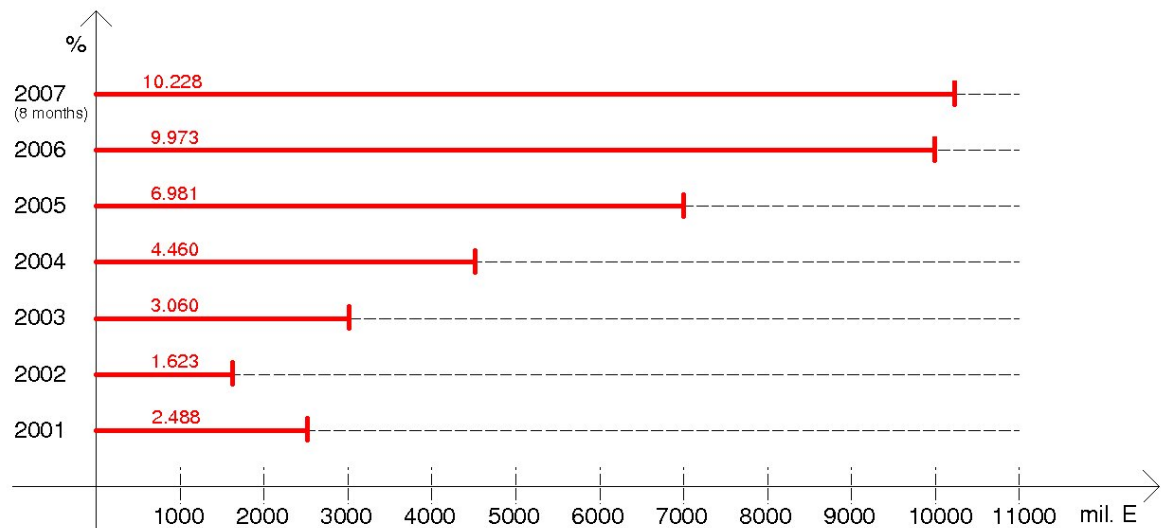
There are at least two reasons for a potential reverse in the trend of disinflation from September 2007:

- severe drought during this year's summertime;
- an increase in the national trade deficit.

The external deficit reached alarming quotas, such as the 1.77 bn euros, the level in August, raising by 32% in comparison with the same period in 2006, according to the National Statistics Commission.

The evolution of the deficit in terms of current accounts (in million euros), according to the National Bank of Romania is as follows:

Chart 3

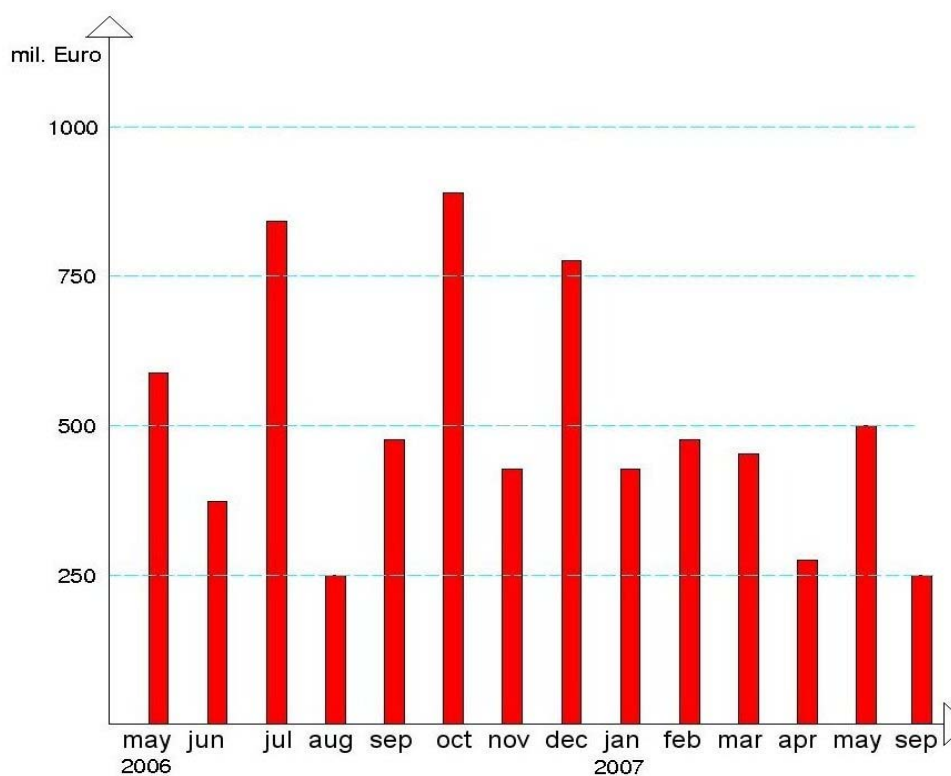


We can observe a permanent increase in the external deficit which had an ascending trend starting with 2004. According to official estimations, by the end of this year we will have reached a deficit of 14% of the GDP, in comparison with last year's figure (2006), of only 10.3%.

We believe that the contradictory evolution of the two indicators, meaning the tendency to reduce inflation and to increase the current account deficit, do call for an appropriate strategy which would allow us to get closer to the levels imposed by the EU, through the evolution of these indices.

2. Another worrying reason which draws attention upon is covering this deficit through investments and through contracting external debt. This reached the level of 43.6 bn euros at the date of September the 1st, 2007, meaning that it actually reached a double amount in comparison with the year 2004. This means that the main string for cutting down the current account deficit is through the creation of a complex financing process, especially targeted at infrastructure.

The dynamics of direct foreign investments in Romanian economy:



Credits: BNR

Chart 4 (source: National Bank of Romania)

We can observe a lower rate of foreign investments in Romania in 2007, compared to 2006. This issue was also pinpointed by the Romanian Government which, in the state budget draft for 2008 tries to find efficient formulas regarding the attraction of foreign investments in our country. Moreover, in the last three years there was an increase in the allocation of investment funds, especially the Ministry of Transport which manages all means of transportation in Romania, the volume of these funds varying from one year to another.

The allocation of funds for the first five ministries was done as follows (in bn lei)

2005		2006		2007		Draft 2008	
Min.of Transport	6,2	Min.of Transport	7,9	Min. of Education	13,4	Min. of Education	16,6
Min. of Defence	5,8	Min. of Labour	7,4	Min. of Labour	10,1	Min. of Labour	14,0
Min. of the Interior	4,8	Min. of Education	7,1	Min. of Agriculture	9,8	Min. of Agriculture	12,6
Min. of Labour	4,7	Min. of the Interior	6,5	Min. of the Interior	8,5	Min.of Transport	9,9
Min. of Education	4,9	Min. of Defence	6,3	Min.of Transport	8,5	Min. of Defence	8,4

Source: State budgets for Romania, 2005-2008

We can observe that, although the Ministry of Transports has constantly been allotted important sums of money, it is in 2008 only on the fourth position in terms of volume of resources granted. In order to compensate to some extent this aspect, the Romanian Government tried to attract foreign investments in Romania.

Thus, the Romanian Agency for Foreign Investments was transformed into the Romanian Agency for Investments, and state grants were given to all companies having initial investments reaching more than 30 million euros and create at least 300 new work places. Moreover, the SMEs shall be supported through grants allocated with the help of the Ministry of Economy and Finance. Nonetheless, taking into account the fact that foreign investments decreased by 6.3% in the first eight months of this year, in comparison with the same period last year (2006), a new analysis of allocation of investments of capital for 2008 is required.

Conclusions

A well balanced development of the national economy, firstly through the levels of annual national inflation rates, the current account deficit, GDP growth calls for a pragmatic approach, closely related with the needs of our economy. The dynamics of foreign investments shows us that their volume is uncertain, and big privatizations are over.

The most certain way of ensuring the country's well balanced development lies in continuing the process of investment allocation, for modernizing and developing all elements of infrastructure, because it is these which can provide the necessary support for the development of all the other sectors of our national economy.

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SHARES EVALUATION – TECHNIQUE ANALYSIS

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Abstract

The technique analysis is an instrument necessary for the participants to the market. It fixes their target for income for short-medium term and assumes a correspondent high risk. Who uses this analysis speculate in generally the irrational behavior of market operators, using price graphics for estimate the most predictable evolution of future price. For this, we determine the threshold for the support (the minimum of period), the endurance (the maximum of period), and the mobile average for different lapse of time and different derivatives indicators. It is recommended that the used indicators be determined for a period of time compared whit the period of investment.

Keywords: Odd –lot Theory, CAPM, SML, GARCH Model; volatility

The technique analysis doesn't use the financial situation of a company, being very frequent the cases in which somebody obtains income from a stock of an institution with loss.

At the basis of this analysis is the Charles Dow Theory, which says that the increase or decrease of a stock price is anticipation and a reflection of company results. The used indicators for this theory are the indicators which evaluate the activity on the capital market.

Another theory used for analyses the investors behavior is the "Odd -lot" Theory, or the institutional liquidities and the insiders.

For the indicators interpretation and graphic analysis of capital market evolution, the most representative methods are: mobile average, graphics configuration and the modern technique analysis.

Like in any market, when you want to obtain financial resources from the people who have this kind of resources, you can't realize this thing without knowing the base reason of the investor's behavior. The essential elements for choosing a financial asset are: the involved risks potential, the income and the liquidity of an instrument.

Starting from these observations we faced with more and more analysis and estimations models for the parameters: risk and potential earnings. From these the most important are: The Classic model of Markowitz, CAPM and APT of Ross. All of these theories are built on the estimation of two essential parameters in choosing a financial asset: risk and profitability. The most important concepts introduced by this theory is: the efficient frontier of market or the SML of market (CAPM).

So, the modern financial theory formulates a complex objective of investment administration, more precisely: the optimization of correlation between risk and ratability of these.

For a better understanding of the evaluation process, we will present the theoretical evaluation of statistics indicators which are the basis for a lot of models, especially for the CAPM model:

$$E(R_K) = R_f + \rho_{KM} \cdot \sigma_K \frac{E(R_M - R_f)}{\sigma_M}$$

$$E(R_K) = R_f + \rho_{KM} \cdot \sigma_K \frac{E(R_M - R_f)}{\sigma_M}$$

Profitability

The stock profitability is determined by two components of return: the dividends and the market value. The motivation of investor to buy a stock, immediately after emission, is the net dividend offered from this stock. But any stock brings about the interest of an investor for the other component of profitability: the market value compared with the acquisition price. This last motivation is the one which determine the shares evolution on the market regarding also the wanted return through the stock speculation.

The profitability of a share includes the net dividend (D_1) and difference of market price (P_1) and buying price (P_0). Then, the rate of profitability of a share can be calculated like:

$$R = \frac{D_1 + P_1 - P_0}{P_0}$$

This rate of profitability is defined like a post-calculated rate. The formula does not include the taxes and the commissions for every financial transaction. Starting from this expression we can determine the next indicators: $P_0 = \frac{D_1 + P_1}{1 + R}$ and $P_1 + D_1 = P_0(1 + R)$, where the rentability rate (R) means a coefficient of actualisation of the initial sum (P_0). This is used to obtain a future sum. Also the rentability rate (R) means a simple rate of interest, who must be applied for an initial sum (P_0), for obtain at final period of time a sum who contain the interest.

$$P_0 * R = D_1 + P_1 - P_0$$

$$R = \frac{D_1}{P_0} + \frac{P_1 - P_0}{P_0}$$

$$R = \frac{D_1}{P_0} + \frac{P_1 - P_0}{P_0}$$

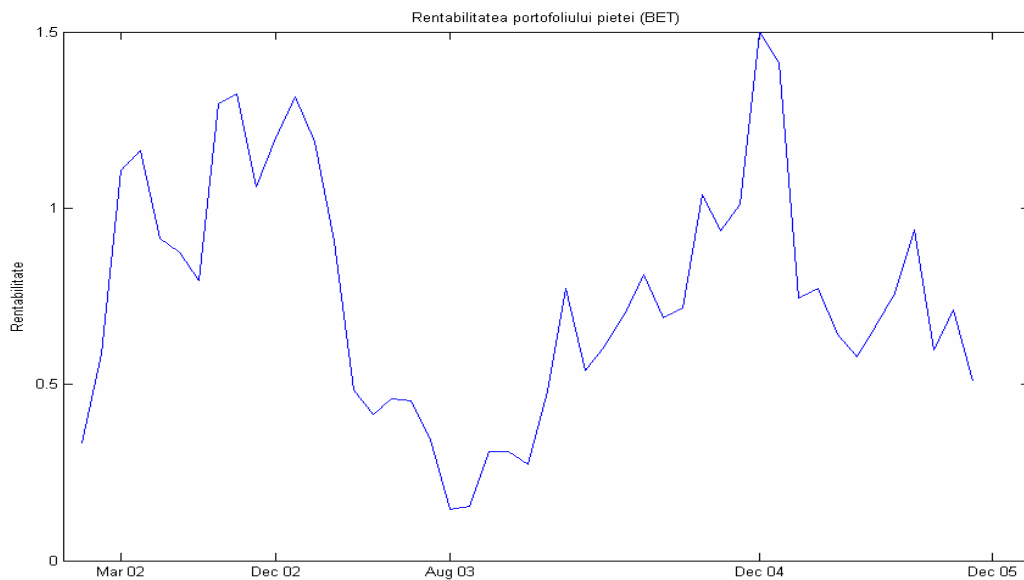
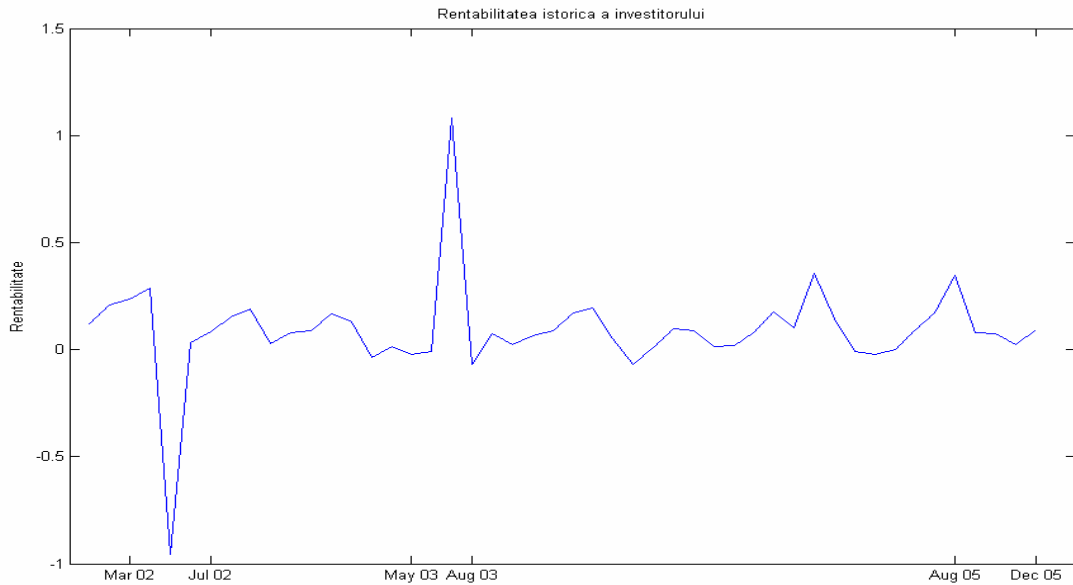
So, the profitability rate of financial asset is given by the $\frac{D_1}{P_0}$ which the issuer can assure to investors and the relative increase of the asset value $\frac{P_1 - P_0}{P_0}$. In concretes terms, R represents the return of an euro invested in buying of a share.

Ex-post profitability calculation is only for statistics applications. Investors are preoccupied by the future profitability of a share which purchase at the moment t_0 . Then the future profitability depends of individual profitability study for a period of time. The statistic series can be composed from the monthly, weekly or every meeting reported profitability rate. On the basis of absolute apparition frequency can be calculate relative frequency. To study the mathematics hope for realizing the future profitability is necessary to study the probability law model, which models in the best way the repartition of the probability rate. Empirically it comes out that the low of repartition which approximates in the best way the distribution of profitability rates is the Normal distribution. On this statistic information we can value the mathematics hope to obtain the profitability rate. But before of this we calculate the average value of individual profitability $\mu = \frac{1}{T} \sum r_i \cdot p_i$,

where

- r_i = profitability rate of moment i ;
- p_i = propability of aparition of that;
- n = number of statistic observation;
- T = year of registering annual rate of profitability;

Moreover the mathematics hope of profitability of a share there is another dimension which is used in investment analysis. This is the dispersion of historical series or the outturn estimation of shares, used as a measure of the share risk.



The risk

The investment in financial assets, like any other investment, supposes some risks and some profitability that must be known by the evaluation person. The risk is dependent on the possible realization of some events with a high uncertainty rate or, which defines the nature and evolution of financial markets, and particularly of the stock exchange. The risk analysis of a share is part of the decision taking during of an uncertainty condition theory.

The risk measurement using probability consists in giving grants of true quantified (objective or subjective probability) to the possible changes of the variable elements value, which interfere in the global calculation. This starts from the principle that changes involve different states and measurement of consensus, for example: on profitability of an investment on the stock exchange. The financial risk of a variable can be determined if the distribution profitability is known.

So, for the estimation of risk which comes with the return it must be study the contribution of all factors which influence the earnings, and as results, choosing the probability distribution. After choosing the distribution we can start to analyze it. The statistics parameters which are taken into consideration are: mean, dispersion and squared mean deviation.

The risk of a share can be calculated either as a profitability dispersion of the dynamic series given mean profitability, or as a squared mean deviation interpreted as an increase or decrease of the profitability – function of individual deviation value (positive or negative).

The dispersion can assimilate with the risk so that the profitability can deviate from average.

$$\sigma^2 = \frac{1}{T-1} \sum (r_i - r)^2 \cdot p_i$$

where r_i , p_i and r means individual profitability, apparition probability and average profitability.

The measure most used for this dispersion is squared mean deviation.

Squared mean deviation is $\sigma = \sqrt{\sigma^2}$

Through the symmetry of possible deviations, in comparison with the mean, it can be accepted that risk is quantified with negative value of deviations, and the profitability with positive value of deviations. These deviations can be analyzed compared to the average or to a certain minimum threshold of profitability admitted (dead point) that must be realized like minimum condition admitted. From the analyzed data base it can be concluded that the most used distribution in practice presents a symmetric or normal configuration. Normal distribution is a density function of Gauss-Laplace law. The direct values of the function for each value of the profitability rate can be found directly in statistics tables.

Statistics indicators determined for individual values of shares have their own importance, but in accordance to modern financial theory, a higher efficiency of placements is obtained from their diversification. In this sense was created a long series of models which try to catch the evolution of different share on the capital market.

The market model of profitability and the shares risk

The daily preoccupation of financial investors is to anticipate the increase or decrease trends of general index of the stock exchange. From these trends are linked the evolution of market value of every portfolio share. Each share follows, more or less, the market tendency. That is why when the market index increases, the majority of shares have an increasing market price and reverse.

This characteristic of shares was catch in the market model elaborated by H. Markowitz and developed later by W. Sharpe. The central idea is that the price fluctuation of a share is influenced by the changes of general index of the stock exchange and also by the specific changes of the issuer company. Thus, the market model decomposes total variation of stock in two components:

1. Systemic risk (market risk, undiversified) – is linked to the variation of principal macroeconomics indexes (GDP, inflation rate, mean interest rate, exchange rate) and also to other characteristics of a country from where are the shares (politic situation, country risk, etc).

2. Specific risk is linked to the characteristics influences of each share which can be decomposed also, in:

- Sector risk – the risk of the activity sector to which the issuer of the share belongs
- Specific intrinsic risk – determined by the economic changes of company situation

The market model represents the linear relation between individual profitability of a share or a portfolio and the general profitability of the capital market (one-factor model).

Volatility

For the volatility estimation there are many models. One of this is GARCH (1,1) Model of Generalized Autoregressive Conditional Heterodasticity (Bellerslev 1986):

$$Y_t = C + \varepsilon_t$$

$$\sigma^2 = K + G_1 * \sigma_{t-1}^2 + A_1 * \varepsilon_{t-1}^2$$

where

Y_t is the market profitability

C coefficient of model, its value must be above 0

ε_t aleator deviation, it supposes that $E(\varepsilon_t)=0$

$K > 0$ $G_1 > 0$ $A_1 > 0$

$G_1 + A_1 < 1$

Using the data for a period between January 2002 – December 2006 from the Bucharest Stock Exchange for BET Index, considered by us the market portfolio, and after application of GARCH model we obtain next results:

Variance: GARCH(1,1)'

Distribution: 'Gaussian'

C: 0.04517248626209

VarianceModel: 'GARCH'

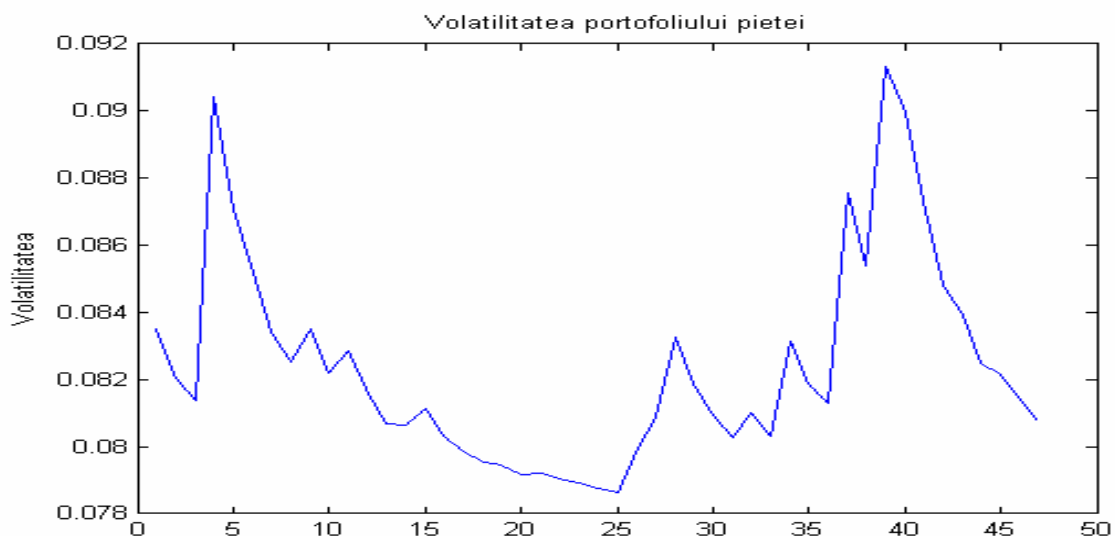
P: 1

Q: 1

K: 0.00179199150160

GARCH: 0.70749954280951

ARCH: 0.02659567326113



Ljung-Box-Pierce Test for correlation of residue:

H =

0

0

0

pValue =

0.59943748003389

0.72045742195906

0.87238344648129

Stat =

8.30124601755657

11.44501739904638

13.11527573154302

CriticalValue =

18.30703805327514

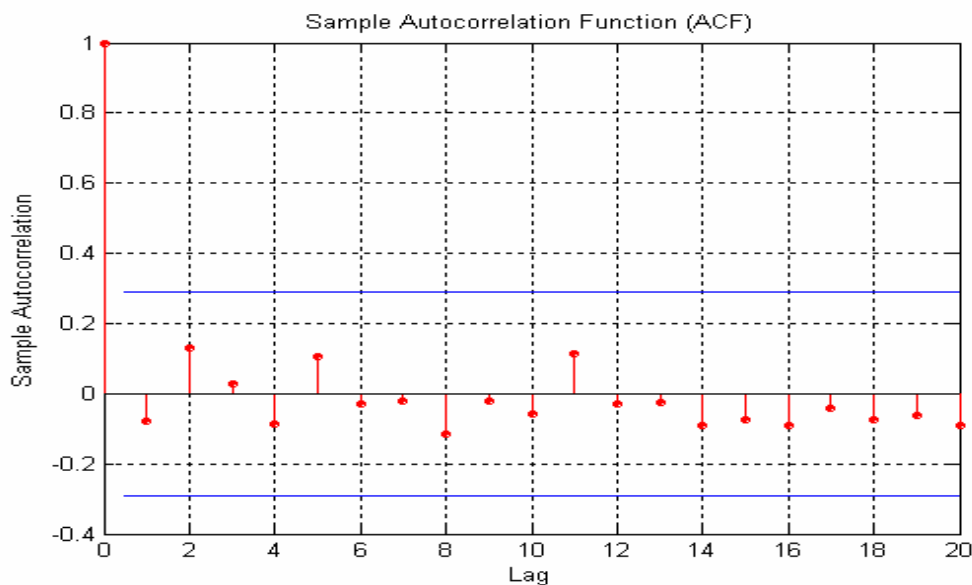
24.99579013972862

31.41043284423093

H – Boolean decision vector. 0 indicates the acceptance of null hypotheses, which evidence if the model is good (there is no correlation between residues). 1 indicates that null hypotheses were rejecting. H has the same length like ϵ .

pValueVector of P-values (the signification level) of this level lbq test reject the null hypotheses of uncorrelation of residues.

CriticalValueVector of critical value – critical values that the model can have in comparison with the vectors elements Qstat, who is the residuals vector.



The correlation between share profitability and the capital market profitability

For a correct estimation of a share market risk, it is necessary to test the intensity of correlation which determines the β coefficient. The statistic measure of this intensity can be determined by the correlation coefficient ρ . This coefficient represents the

determination rate of profitability of the share from the market profitability. This coefficient can be calculated as a percent between the covariance σ_{iM} and the standard deviation of stock profitability and market portfolio.

$$\rho = \frac{\sigma_{iM}}{\sigma_i \sigma_M} \Rightarrow \sigma_{iM} = \rho \sigma_i \sigma_M$$

The correlation coefficient can take value between -1 and 1 ($-1 < \rho < 1$). When $0 < \rho < 1$ the coefficient means a direct dependence proportionally between stock profitability "i" and market profitability. When $\rho=1$ (take the superior limit value) there is a correlations strictly positive, so all the share variation is determined by the variation of market and with the same intensity. In this situation the specific risk doesn't exist; the only one which is manifested is the market risk, undiversified risk. For null values, ρ coefficient highlight uncorrelation between the share profitability and the market profitability; also we can say that the share has an independent evolution regarding the market; the only risk that appears is the specific risk(the market risk is null).

The limit value -1 ($\rho=-1$) represents the inexistence of specific risk of a share, but in this case this evolution of title is reverse toward the evolution of market.

For the practical application we considered the utility exponential function: $U(W)=-e^{-\alpha W}$, which is a function von Neumann- Morgenstern. Robert F. Nau from Fuqua School of Business, Duke University, considered for this function $-\frac{J_W}{J_{WW}W}=\alpha$, that is the tolerance

risk coefficient of an investor. It is constant. Well we can eliminate the K terms, because our investor has a compartment short sightseeing and would not be influenced by the modification of investment opportunity. Prof. Ronald A. Howard, Stanford University, California said that this coefficient α is about 6% of industry, but this is linked to the evolution of a bank share; so we can consider it in our case $\sigma_K=6\%$, also.

Another hypothesis is that ρ_{KM} is 1, because all share variation is determined by the market variation an with the same intensity. Additionally, the calculation is lightening very much in the model application.

$$R_K = R_f + \sigma_K \frac{R_M - R_f}{\sigma_M}$$

Because in the market exist assets with risk aversion and also assets without risk aversion, for R_f we considered the reference interest rate for a period between 2002 – 2006. this rate was calculate like an arithmetical average, pondered with the volume of transaction, the interest rate of deposits and reverse repo operations from the previous month from which the announce is made.

Well the data series used for generated the model are:

	Expected Profitability	Monthly BET profitability	Monthly rate without risk		Expected Profitability	Monthly BET profitability	Monthly rate without risk
Jan-02	0,1207		0,3008	Jan-04	0,1722	0,273448066	0,1942
Feb-02	0,2066	0,333779197	0,3008	Feb-04	0,1924	0,479841091	0,1942
Mar-02	0,2340	0,58750609	0,2978	Mar-04	0,0522	0,772067372	0,1942

	Expected Profitability	Monthly BET profitability	Monthly rate without risk		Expected Profitability	Monthly BET profitability	Monthly rate without risk
Apr-02	0,2854	1,106457118	0,2970	Apr-04	-0,0689	0,539371467	0,1942
May-02	-0,9546	1,162380993	0,2824	May-04	0,0079	0,609306783	0,1942
Jun-02	0,0305	0,91373329	0,2700	Jun-04	0,0961	0,697202099	0,1942
Jul-02	0,0834	0,875192535	0,2518	Jul-04	0,0898	0,810974606	0,1900
Aug-02	0,1518	0,795376646	0,2430	Aug-04	0,0129	0,687990421	0,1862
Sep-02	0,1913	1,29571979	0,2301	Sep-04	0,0198	0,717412511	0,1773
Oct-02	0,0275	1,323889482	0,2154	Oct-04	0,0790	1,039196385	0,1731
Nov-02	0,0800	1,059817327	0,2022	Nov-04	0,1739	0,936396641	0,1731
Dec-02	0,0867	1,197867126	0,1871	Dec-04	0,1000	1,009646021	0,1663
Jan-03	0,1668	1,314482471	0,1803	Jan-05	0,3546	1,498055146	0,1607
Feb-03	0,1308	1,186719651	0,1769	Feb-05	0,1458	1,411792734	0,1466
Mar-03	-0,0361	0,90644252	0,1701	Mar-05	-0,0092	0,743196958	0,1025
Apr-03	0,0139	0,484065359	0,1615	Apr-05	-0,0205	0,771242796	0,0814
May-03	-0,0249	0,415474075	0,1658	May-05	-0,0015	0,641281295	0,0768
Jun-03	-0,0088	0,460235742	0,1684	Jun-05	0,0867	0,578285209	0,0772
Jul-03	1,0799	0,452725765	0,1684	Jul-05	0,1733	0,66493886	0,0772
Aug-03	-0,0679	0,342720983	0,1684	Aug-05	0,3466	0,757698008	0,0772
Sep-03	0,0761	0,144870222	0,1762	Sep-05	0,0779	0,937773529	0,0795
Oct-03	0,0255	0,153818735	0,1773	Oct-05	0,0728	0,597673702	0,0746

If we compare the profitability graphic of the BRD share and the graphic generated by the model, we can observe that the share was over evaluated during the hole period of time. Though we have an exception : the period 2002 -2003. Ans this was caused by the capital increases made. The first capital increase, brought to investors as much free shares, as they had before.

The second capital increase (the one made in 2003) generated some discussions in the market. At that moment it was made for the first time de the difference between the the registration date and the referent date. Then the report of BRD presented as reference date to give a free share (for each 5 shares with a nominal value of 1000 lei) the date 20/11/2002. Also, it presented as registration date for shareholders identificaton, the date 30/01/2003.

After the reference date passed, the investors who didn't know the new legislation (OG28/2002) interpreted that the nominal value of the shares was splited (1000lei/share) and they decided to sell. But after BRD explained how is the real situation, the investors understood that they made a wrong movement.

The BRD analysis presented both the bank strong points and the weak points. But the strong points created a situation that made the BRD share over-evaluated. One of the most important point is the shareholders structures, because Societe Generale, the bigger shareholder, is an international actor of the market. With a 100 years history, Societe Generale represents a quality voucher for the bank.

Conclusions

The conclusion is strengthened by the shareholders of the bank, also. The BRD shares could be more attractive for the market if the shareholders would make an equity increase or a nominal value split. The stabile evolution in the market and the good perspectives for

the bank development recommends to keep the shares into a diversified portfolio. So we can reduce the risks and can create stability.

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EUROPEAN FUNDS FOR PRE AND POST ACCESSION

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Abstract: *Regional development policy represents an essential component of the Romanian reform process, having as main goal to reduce the accumulated economic and social unbalances, to prevent the new unbalance occurrences and to sustain the general durable development of the all regions of the country. This politics was carried on in Romania in pre-accession period and is still going in post-accession period.*

Keywords: *financial instruments, structural funds, cohesion fund, regional policy, programs.*

A. Pre-accession programs

Regional development policy represents an essential component of the Romanian reform process, having as main goal to reduce the accumulated economic and social unbalances, to prevent the new unbalance occurrences and to sustain the general durable development of the all regions of the country.

The legal framework of the regional development was established in 1998, after a detailed research of the Romanian specific existing condition and also of the one needed to be settled in order to promote and implement a regional development policy of European model.

The legal and institutional framework for the regional policy was a process supported by several factors. The most important one was the assistance offered by European Union through pre-accession instruments PHARE, ISPA and SAPARD.

Up to that date, Romania did not have a clear regional development policy, although the Governments acted in this respect using several macroeconomic and sectorial policies. Thus, there have been specific development programs for highly unfavorable areas such as Apuseni Mountains, Danube Delta or the Botosani, Giurgiu and Vaslui Counties.

This research was developed inside PHARE Program for regional development policy, carried on between 1996 and 1998 and destined to provide assistance to Romanian Government to prepare the necessary conditions to introduce the needed specific measures for regional policy. Within this program first analysis of Romanian regional disparities was made.

Together with transition reforms' progress towards a functional free market economy, the need to adopt a clear and efficient regional policy for Romania has arise, as a new and important element of the reform strategy, bringing benefits not only for the less developed regions but only for the general socio-economical development of the country.

Thus, between 1996 and 1998, European Commission and Romanian Government have developed the PHARE Program for regional development policy having as main objectives, on one hand, increasing the awareness of the responsible factors and of the large public about necessity for Romanian regional development, and on the other hand, to provide a model for regional development suitable for Romania, based on a detailed analysis of the existing conditions and of the specific historical and cultural framework.

Thus, the study "Romanian Regional Development Green Card", produced in 1997 within the above mentioned PHARE Program, has proposed a concrete model of approach for regional development, providing the principles, objectives, instruments and necessary institutions to promote some politics in this area.

National and regional institutions were settled according with Law 151/1998, and between 1999 and 2000, The National Development Plan was produced.

The whole institutional and legal framework settled for the regional policies development is in a contiguous improvement, so to meet the European Union requirements and Romanian specificity.

The three financial instruments used by European Union to help Romania to complete the transition process to Structural Funds were the following programs:

- PHARE - Poland Hungary Aid for Reconstruction of Economy;
- SAPARD - Special Accession Program for Agriculture and Rural Development;
- ISPA - Instrument for Structural Policies for Pre-accession.

The PHARE, ISPA and SAPARD financial assistance is designed to complement and not to replace the national effort. According with the additionality principle, the co-financing of this financial assistance is made from national budget, according with the requirements settled in documents signed or agreed between Romanian Government and European Commission.

Starting with 2000, European Union has helped the candidate states from Central and Eastern Europe (Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, Slovenia) in their efforts to prepare for accession, using three financial instruments: **Phare, Ispa și Sapard**.

Phare was created at the beginning of 1989 for Poland and Hungary, the first two countries in the region that have given up to communism and centralized economy. Its

purpose was to help the two countries in their transition process from the communist regime to the democratic one (From there the name: *Poland Hungary Aid for Reconstruction of the Economy*).

Phare concentrates on three main areas:

1. Administration and public institutions consolidation of the candidate states for an efficient functioning within EU (“**Institutional Development**”);
2. Support for candidate states in their investment effort to bring industrial activities and infrastructure to the EU standards (Investment to support the application of the *aquis communautaire*);
3. Promotion of economic and social action (“Economic and Social action investments”).

In Romania, the PHARE Program was implemented within the DIS framework (Decentralized Implementation System). Mainly, the system implies the transfer of program administration responsibility (bids, contracts, payments) to Romanian authorities, but under European Commission supervision through its Delegation in Bucharest.

Phare represented over 38% from annual financial aid, between 2000 and 2006, of European Union for Romania (250 mil. Euro) and its main purpose was to sustain the consolidation of state institutions, the participation to CE programs, regional and social development, industrial restructuring and SME development. (Small and Medium Enterprises)

Ispa (*Instrument for Structural Policies for Pre-Accession*) has financed almost 250 mil. Euro per annum between 2000 and 2006 in projects from transportation infrastructure and environment fields. The program’s purpose was to reach European environment standards, extension and connection of Romanian transport networks with the trans-European ones and familiarization of the beneficiary countries with the politics and procedures used by Structural and Cohesion Funds.

As concerns the *environment*, the main interest areas are:

- Drink water supply
- Waste water treatment
- Solid and dangerous offal management
- Air pollution

In transportation area, ISPA finances the rehabilitation and the development of railways, roads, harbors and airports.

Ispa budget may be used also to finance preparation studies and *technical assistance*. In this respect, there must be a clear connection between these studies and the investments financed through Ispa. Technical assistance is very important to provide a high level of quality for the proposed projects and also in preparation, management and assessment of their impact.

In Romania, Ispa program develops according DIS (Decentralized Implementation System). Mainly, the system implies the transfer of program management responsibility (bids, contracts, payments) to Romanian authorities, under CE supervision - supervision

that implies ex-ante control carried on by DCE in Romania, during the whole process of bidding to the final stage when contracts are signed.

Program implementation was oriented in the manner to encourage the involvement of the institutions that, after accession, were responsible to implement the Structural Funds.

Sapard (*Special Pre-Accession Program for Agriculture and Rural Development*) has sustained Romania to participate to Commune Agricultural Policy and to EU Internal Market. SAPARD represented almost 23% (150 mil. Euro) from per annum allocations between 2000 and 2006, being designed to modernize the agriculture and develop the rural areas.

The objectives of the program were:

- Life improvement of rural communities ;
- Creation of a competitive sector to produce and process agricultural products;
- Creation of new jobs in rural environment;
- To provide suitable revenues for rural inhabitants and to provide a durable development of these areas.

According with Sapard regulation, National Plan for Agriculture and Rural (NPARD) Development included measures concerning the following aspects:

- Agricultural exploitations investments;
- Improvement of production and commercialization process for agricultural and fishery products;
- Quality and standards improvement concerning products of vegetal and animal origin;
- Production methods that consider environment protection and natural landscape protection;
- Development and diversification of economical activities;
- Creation of agricultural producers groups;
- Creation of farm assistance and management services;
- Villages renewal and development, protecting the rural heritage;
- Creation and actualization of land registers;
- Water resources management;
- Development and improvement of rural infrastructure;
- Forestry measures, including reforestation of agricultural areas, investments in private forestry holdings and processing/commercialization of forestry products;
- Professional training improvement;
- Technical assistance, including studies that would contribute to program preparation and monitoring, including also publicity and information.

In Romania, between 2000 and 2006, according with NPARD, projects in the following areas have been financed:

Axis 1: Competitiveness for processed agricultural and fishery products improvement:

1.1 Production process improvement and of agricultural and fishery products marketing;

1.2 Quality and standards improvement, concerning health of vegetal and animal origin products;

Axis 2: Rural and agricultural development infrastructure improvement:

- 2.1 Rural infrastructure development and improvement;
- 2.2 Water resources management;

Axis 3: Rural areas economical development:

- 3.1 Agricultural exploitations investments;
- 3.2 Setting up groups of agricultural producers;
- 3.3 Production methods considering environment protection and natural environment preservation;
- 3.4 Economical diversification;
- 3.5 Forestry measures

Axis 4: Human Resources development:

- 4.1 Professional training improvement;
- 4.2 Technical assistance, including studies contributing to program preparation and monitoring and also to publicity and information.

As pre-accession program, SAPARD has co-financed investment activities and services in agricultural field and rural development had functioned on the reimbursement principle, for the expenses covered by the beneficiary according to the contract. Public and private procurement procedures were based on the Multi-annual Financing Agreement provisions.

SAPARD program was implemented completely decentralized, that implied the exclusive responsibility of the authorities of the beneficiary state for the funds management.

A SAPARD Agency was created in each of the beneficiary state.

It is for the first time when Commission uses a complete decentralized system for the management of an external assistance program.

The program implied a high number of projects (in many candidate states was estimated that thousands of projects will be processed yearly). It would have been almost impossible, from the administrative point of view, for the Commission to perform a beforehand verification for funds allocation (as was the case for Phare and Ispa).

Phare was the most important pre-accession program and it is compared with European Fund for Regional Development within Structural Funds, though it has several social components that compensate the lack of a pre-accession instrument, similar with the one in European Social Fund.

SAPARD is strongly bonded to European Agricultural Guidance and Guarantee Fund, meanwhile ISPA, probably the most coherent amongst pre-accession instruments, is strongly correlated with the Cohesion Fund.

The financial support received by Romania, allowed its participation, after accession, to Structural Funds. This financial support has, thus, contributed to the development of the capacity to understand the EU development policy, to set up and operate the administrative structures and budgetary procedures necessary for the accession to Structural Funds.

B. Post-accession programs

Economical and social cohesion is one of the main objectives of the EU. Cohesion is necessary to promote “general harmonious development” of CE and requires a reduction of “disparities between different levels of development of the different disfavored regions”, including the rural ones.

CE acts through Structural Funds, Cohesion Fund and other financial instruments to support the achievement of these general objectives.

Structural Instruments is the generic term for Structural Funds together with Cohesion Fund as a whole.

Today, four Structural Funds allow UE to provide non-reimbursable financial assistance to resolve the economical and social structural problems. The four Structural Funds do not represent the sole financing source within the EU Budget, but each fund covers its specific theme area.

1. Structural Funds (SF) are financial instruments used by EU to act for economical and social disparities elimination between regions, with the purpose to achieve the economical and social cohesion.

a) *European Regional Development Fund* was established in 1975 and has become the main instrument of CE regional policy.

European Regional Development Fund (ERDF) is the structural fund that addresses economical and social cohesion consolidation through the support of the structural development and adjustment of the regional economies in the CE, supporting the less developed regions through investments financing in the productive sector, infrastructure, education, health, local development, and SMEs; declined industrial regions re-conversion and those less developed, cross-border, cross-national and interregional cooperation.

ERDF objectives are, mainly, structural development and adjustment promotion for the left behind regions and sustaining the economical re-conversion, redeveloping and developing the areas with structural problems, including industrial areas in decline, urban areas in difficulty, areas in crisis, and also the areas depending on fishery or services.

Thus ERDF contributes to the reduction of the differences between the levels of development of the different regions and to the disparity recovering of the less favored regions, including the rural and urban areas, industrial areas in decline, and also the regions affected by a geographical or natural handicap, such as insular areas and mountain areas, the areas with low population density and the border regions.

b) *European Social Fund* was established in 1958 with the purpose to strengthen the economical and social cohesion and to contribute to the implementation of the “European strategy concerning labor force unemployment”.

European Social Fund (ESF) is the structural fund designed for the UE social policy, and supports labor force employment measures and a quantitative and qualitative improvement of this employment.

ESF objective is to improve employment opportunities for unemployed people and the workers on the Single Market, by increasing their mobility and by facilitating the adaptation to the industrial changes, in particular by vocational training, re-training, and also through the recruitment systems.

ESF considers the pertinent priorities and the objectives of CE in the field of education and professional training, the ones concerning increasing the involvement of the economically inactive persons on the labor market, fighting the social exclusion – mostly for the disfavored categories, such as the disabled persons – the ones concerning the promotion of the equality between men and women and of nondiscrimination.

c) *European Agricultural Guidance and Guarantee fund (EAGGF)* was established in 1958 and it finances measures of rural development and aids for farmers, especially in regions with delays in development.

EAGGF section Guidance is the structural fund designed for EU Commune agricultural policy, and supports measures for agricultural modernization and rural development. It is designed for the improvement of the production, processing, marketing structures of the agricultural and forestry products and for the development of the local potential in rural areas. Guarantee section of this fund supports rural development of the Commune Agricultural Policy *in other areas* of the EU.

d) *Financial Instrument for Fisheries Guidance (FIFG)*, established in 1993 contributes to the adaptation and modernization of the fishery industry by removing excess capacities and industry orientation towards sustaining an integrate development of the coast regions strongly depending on fishery.

Financial Instrument for Fisheries Guidance is the structural fund designed for CE fishery policy, and supports measures for increasing competitiveness of the fishery sector by providing a durable balance between resources and exploitation capacities. The fund supports actions purposed to achieve a sustained balance between resources and exploitation, to promote the development of economically viable enterprises in the fishery sector, improvement of the market supply and increase of the added value for the fishery and aquaculture products, revitalizing the industries depending on fishing and aquaculture.

Besides financing the fleet renewal and industrial investments, the fund finances also the measures purposed to seek new markets and alternative sectors of activities.

Structural Funds do not finance individual separate projects. They finance regional development multi-annual programs, designed jointly by regions, Member States and CE, based on the orientation proposed by CE for the whole EU.

CE has expressed its opinion that Structural Funds should remain a vital instrument for strengthening the economies of the underdeveloped regions and for the promotion of the EU economical and social cohesion.

2. Cohesion Fund (CF) was created by Maastricht Treaty in 1992 to provide the necessary contribution for the projects in the environment and trans-European transportation networks.

The fund is reserved to the member states that have introduced the “convergence program” and whose GDP per capita is under 90% of the CE average.

Unlike Structural Funds presented above, the Cohesion Fund does not finance programs but it provides direct financing for individual projects, clearly identified from the beginning. The decision to finance a project is taken by the Commission, in agreement with the beneficiary member state; meanwhile the projects are managed by national authorities and supervised by a Monitoring Committee.

For the financial programming period 2007-2013, to facilitate a maximum impact and to provide the best results possible, EU has three major objectives. The funds contribute to the achievement of these three objectives as follows:

- (a) **Convergence** objective: ERDF, ESF and Cohesion Fund;
- (b) **Economical and Social Competitiveness** objective: ERDF and ESF;
- (c) **European territorial cooperation** objective: ERDF

Due to its needs and characteristics, Romania will benefit of the structural instruments intervention based on a seven years strategy that seeks the reduction of the economical and social disparities between Romania and the development average of the EU member states.

C. Conclusions:

There are major differences between European funds for pre-accession and those post-accession:

- Structural and Cohesion Funds are many more than Phare, Ispa and Sapard. Both the sums and the intervention domain diversity are much more consistent;
- Structural Funds are managed exclusively by Romanian authorities, meanwhile the pre-accession funds were distributed with ECD intervention;
- The bids for projects are made according with Romanian legislation directly by the beneficiaries and not by the Ministries;
- The projects with structural funds will be constrained in a shorter development period, the sums will have to be spent in two or three years, meanwhile for Phare the period could reach four years.

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EUROPEAN SYSTEM OF CENTRAL BANKS AND THE EUROPEAN CENTRAL BANK

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Abstract: *Without prejudice to its primary objective, ESCB contributes to the support of the general economic policy, so that Community objectives to be achieved. The principle that guides ESCB is that of a free open market economy where competition is free, facilitating the efficient allocation of resources.*

Keywords: *European System of Central Banks; The European Central Bank; prices; monetary base; interest rates.*

European System of Central Banks

European System of Central Banks (ESCB) is composed of the European Central Bank and the local Central banks of the member states, having as primary objective to maintain price stability.

ESCB mission consists of:

- defining and applying the EU monetary policy;
- conducting the foreign exchange operations;
- holding and management of the official foreign reserves of the member states, without prejudice to the management of the foreign exchange reserves of the member states;
- promotion of the smooth operation of payment systems.

Also, ESCB contributes to the smooth conduct of policies pursued by the authorities in charge related to the prudential supervision of credit institutions and the stability of the financial system.

The European Central Bank

The European Central Bank is the EU newest institution and represents the central element of the Economic and Monetary Union. It was established on June 1st, 1998.

The European Central Bank has advisory functions, collects statistical information and has an important role in international cooperation. Advisory role is exerted over any Community action that falls under its competency area. Statistical information collection is performed directly from the competent authorities or indirectly from the economic agents. In this respect, ECB cooperate with institutions and bodies from each country and also with international bodies.

ECB is the central element of the Economic and Monetary Union of the EU. The ECB main tasks are:

- defining and applying the EU monetary policy for the Eurozone;
- conducting the foreign exchange operations;
- holding and management of the official foreign reserves of the member states,
- promotion of the smooth operation of payment systems;

- cooperation with national authorities in charge with the prudential supervision of credit institutions and the stability of the financial system.

ECB and the national Central banks are fully independent from the political and private institutions of the member states and also from the Community ones. ECB is accountable for its actions to the European Council and to European Parliament. The Parliament may even invite members of the Executive Committee to provide further explanations about ECB monetary policy.

The structure of the European Central Bank

The structure of the European Central Bank is similar to that of the Bundesbank. In similarity, ECB has an Executive Board of Directors and a Governing Council.

Executive Board of Directors is formed of six members: president, vice-president and other four members. They are appointed in consensus with the member states, on Council recommendation after European parliament and Governors Council were consulted, amongst individuals with notorious authority and professional experience in monetary policy. Their mandate is of eight years and cannot be renewed.

First president of ECB was the Dutch **Wim Duisenberg**, between January 1st, 1999 and November 1st, 2003 when he was replaced with **Jean-Claude Trichet**.

Jean-Claude Trichet is the president of ECB since November 1st, 2003. Executive Board of Directors meets every two weeks. In an interview published in “Le Figaro” he stated that the European System of Central Banks statute provides a good equilibrium; decision making process is completely centralized because is unique, and ESCB relations with the exterior are widely decentralized.

Executive Board of Directors responsibilities are:

- to implement monetary policy adopted by the Governing Council;
- to give necessary instructions to the National Central Banks ;
- to prepare Governing Council meetings
- to manage the day-to-day business of the ECB;
- **the President** is the chairman of ECB assembly of bodies and is its legal representative;

ECB General Council is composed of the president and the vice-president of the ECB and the governors of the NCBs.

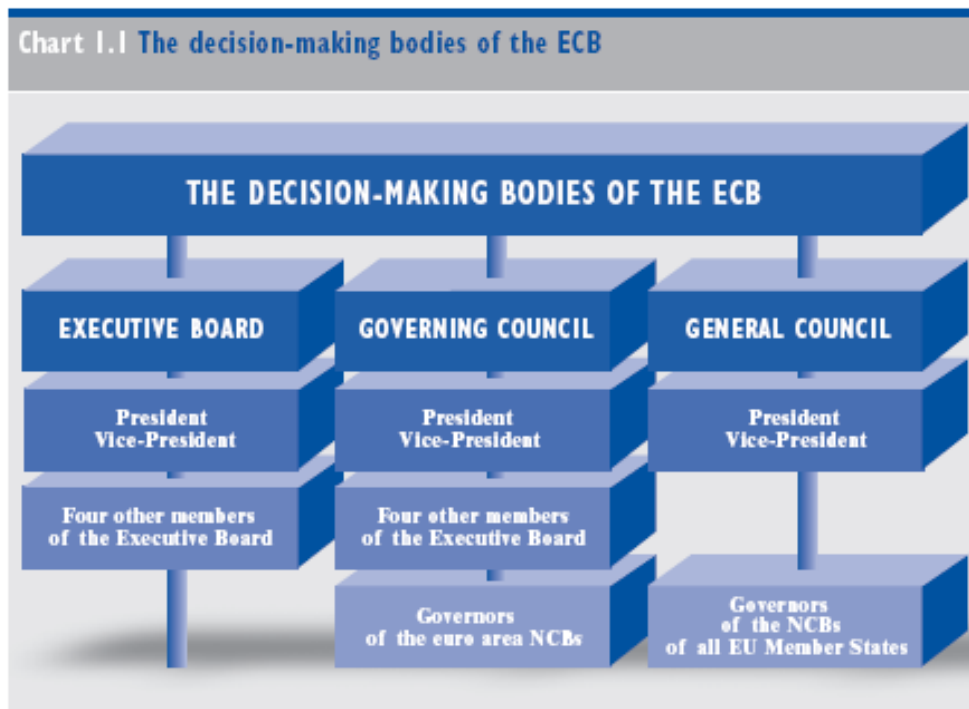
ECB Governing Council is composed of the members of the Executive Board of Directors and the governors of the NCBs of the member states. The reunions are confidential. The Council may decide to make public the result of its deliberations. It meets at least ten times per year. The Council decides the important guidelines of the monetary policy but the day-to-day management is entrusted to the Executive Board of Directors. The members of the Council do not get instructions from the national authorities or from EU Institutions.

Governing Council responsibilities are:

- to formulate monetary policy for the Eurosystem;
- to make decisions relating to monetary intermediary objectives, the supply of reserves in the Eurosystem;

- to decide whether to apply other operational methods of monetary control;
- to regulate the supply of reserves limit;
- to authorize euro-banknotes issuing and their volume, to decide about accounting procedures and information procedures of the NCBs to be used;
- to adopt the internal rules of the ECB and decision-making bodies.

The ECB structure is presented below.



Source: Eurostat

Monetary Policy of the European System of Central Banks and European Central Bank

Below we present the ECB mission and its official position related to some important problems and also the main instruments of its monetary policy.

What ECB monetary policy can do and cannot do?

- ECB may influence, through its policy, the evolution of the European economies because it's the only institution empowered to introduce the currency into the system;
- Through this monopole, ECB affects the monetary base and the interest rate on short term;
- Affecting the interest rates on short term, ECB affects the economic agents activity, that means it affects the production and the prices of goods and services on the market;
- On long term, was proven that the changes concerning currency issuing may influence the price stability but not the level of the unemployment rate or the level of incomes ("long term neutrality of the money");
- The level of the incomes and the level of employment are influenced on long term by other factors, other than the ones deriving from the monetary policy of the Central bank (technology, population dynamics, level of taxation, economic agents preferences);

- In conclusion, on long term, **Central bank, through its monetary policy, is not able to directly influence the economic growth;**
- **Prices stability, though, may contribute to a durable economic growth.**

The main objectives of the ECB monetary policy are:

1. Price stability

According to Article 105 of consolidated version of the European Union Treaty, the primary objective of the ECB is *to maintain the price stability in the Eurozone*. The price stability needs to be maintained on medium term so that ECB would not have to face the prices variations caused by commercial terms or other shocks. As Mishkin (2000) has stated, an institutional engagement for price stability is not sufficient in itself to bring the well desired credibility of a central bank; this general objective should be converted into a simple quantitative purpose. In 1998 Monetary European Institute has defined *price stability* as “year-on-year increase in the Harmonized Index of Consumer Prices” (HICP) for Eurozone under 2% (ECB 2001). HICP is calculated as balanced average of the consumer prices indexes, collected uniformly from the Eurozone member states. In May 2003 ECB Governing Council has reconfirmed the definition of price stability with a small addendum: the Council has established that to achieve the goal “inflation rates have to be maintained below, but close to, 2% over the medium term”.

Harmonized Index of Consumer Prices:

- This index gives the possibility to measure the consumer prices variation in all Eurozone countries;
- It is based on a basket of consumer goods;
- Using this index gives the possibility to maintain the stability around the value of 2% yearly;
- A slightly positive value was chosen for the consumer prices change, to eliminate the negative effects of the inflation and deflation, in the same time;
- If prices would decrease (deflation), it would determine a negative value for the real interest rate (that is impossible) and would hinder ECB to use medium term interest rate as a monetary policy instrument to achieve its inflation goal (2% yearly);

2. High level of employment and sustainable and non-inflationary growth

In the same article (105) from European Union Treaty it is stated that without prejudice to the objective of price stability, ECB will have to support the general economic policies in the Community with a view to contributing to the achievement of the objectives of the Community as defined in Article 2.

Thus, EU must promote social and economic progress, high level of employment and realize a balanced long term development. This fact would demonstrate that ECB is not indifferent towards economic development of the Eurozone.

Although, in several situations, ECB officials have left aside their “non-interference” attitude with the problems of the “real sector”. Official position of ECB is that the optimal method to promote the economical growth is through price stability. Jean-Claude Trichet, the ECB president since November 2003, has stated that “by maintaining a low level of inflation in the following years, not only on medium term but also on long term, the way towards a favorable financial environment is opened, that will automatically determine an economic growth”

3. Monetary base as target?

Between years 1999 – 2003, as we can read in ECB statements, the bank has carefully monitored the increase rate of the monetary aggregate M3, considered to be the “central element of the monetary policy”. “Reference Value” was fixed for a 4.5% yearly increase of M3. This growth must be in concordance with an inflation rate of under 2% (decreasing rate is supposed to be of 1–1.5% yearly). In fact, monetary base increasing rate has systematically overcome the fixed target (around 6.5% in 2003), without causing any reaction as concerns the monetary policy instruments. This is surprising, as long as it’s not possible to prove a close connection between the monetary base increasing rate and inflation (Gerlach și Svensson, 2003). In May 2003, ECB Executive Board of Directors has decided to minimize the role given to the monetary base increase; since then, this variable would be considered an indicator like others, able to give relevant information to determine inflationist trends.

4. National currency exchange rate

ECB officials allege to have an absolute neutral attitude towards the exchange rate. They claim that the most appropriate method to support the international value of the euro is to ensure the price internal stability. Thus, as official position shows, exchange rate it’s not an objective of the economic policy in itself.

Between years 1999 – 2003, ECB officials were officially and publicly against the idea to use the exchange rate stabilization. This “benign negligence” on the international value of the euro, strongly collides with the public perception of the Euro/USD exchange rate that seems to be considered as the main etalon to measure the success of euro. An euro too weak compared with American currency has triggered a strong support intervention in the fall of 2000, against all the critics claiming ECB lack of credibility; on the other hand an euro too strong (1.3 USD/Euro) generated numerous discussions about the unfavorable effect over exports and decreasing goods competitiveness on external markets, up to the level when the new appointed president of ECB, Jean-Claude Trichet, has stated, in January 2004, that “he is not the adept of extremes, neither of an excessive volatility, nor of the turbulence of any kind”.

Up to February 2004, ECB the press office has replaced the term “strong” euro with “stable” currency. In the end, the relatively short life of euro seems to be characterized by a very volatile exchange rate (and maybe not so well anchored on economic basis). In the following years, it shouldn’t be excluded that ECB and Federal Reserve to decide over a common support for a more stabile Euro/USD exchange rate.

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FIRST REGISTRATION TAX

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Abstract

We propose in this paper to describe the environmental taxes from the economic and European law system point of view. In this context we try to identify a legal way of rethinking the first registration tax without interfere with the European and international regulation and in the same time blocking the pollution externalization from developed countries to less developed like Romania, in the context of economic and social sustainability.

The motor vehicles constitute a major tax-base of environmentally related taxes. Motor vehicle registration tax is not harmonized at the European level.

The European Commission has sent a proposal for a directive to the Member States, intended to replace the motor vehicle registration tax with a tax on vehicle use, taking into account the pollution each vehicle produces.

By this perspective, first registration in one Member State of a vehicle coming from another Member State (MS) can represent a personal decision of the state. The European Court of Justice find that a Member State has the right to levy a registration tax when it registers a vehicle for the first time, even if the vehicle has been used. But, Article 90 of the EC Treaty must be respected, which means that the registration tax cannot exceed the amount of tax included in the price of a similar vehicle sold within the same country.

That Article reads as follows: "No Member State shall impose, directly or indirectly, on the products of other Member States any internal taxation of any kind in excess of that imposed directly or indirectly on similar domestic products. Furthermore, no Member State shall impose on the products of other Member States any internal taxation of such a nature as to afford indirect protection to other products"¹.

Therefore the Commission has taken Greece to the European Court of Justice and has opened a number of infringement procedures, in particular against Poland, Hungary, Finland and Cyprus, but discussion was even for Romanian country.

By the press release IP/06/41 of 16 January 2006 we find out that European Commission has decided to refer Greece to the Court over its car registration taxation rules. Greece calculates the depreciation on second hand cars imported into the country in a way that does not guarantee that the registration tax will not exceed the residual tax on a vehicle of a similar age that was registered in Greece when new. Greece calculates the depreciation on second hand cars imported into the country for the purpose of applying registration tax on the basis of a single rule which allows a depreciation of 7% for cars between six months and one year or 14% for a one-year old car. It believes that Greece therefore infringes

¹ Journal officiel des Communautés européennes, VERSION CONSOLIDÉE DU TRAITÉ INSTITUANT LA COMMUNAUTÉ EUROPÉENNE, p. 68

Article 90 of the EC Treaty. The European Court of Justice indicated that a fixed scale of prices should reflect the true depreciation of vehicles with sufficient precision. The Court also held in that Case that discrimination between national and imported products is always prohibited under Article 90 of the EC Treaty, even if the discrimination arises in only a few cases.

By the press release IP/06/918, of 4 July 2006 we find that the Commission has decided to send Poland and Finland formal requests to amend their car registration taxation rules. In Poland, the way registration tax is calculated results in a heavier taxation imposed on second-hand cars imported from other Member States. The rate of car registration tax on first registration of a car in Poland relates exclusively to the age of the vehicle. This rate is 3.1% or 13.6%, depending on the engine capacity of the vehicle, for a car less than two years old. After two years, the rate starts to rise appreciably and can be as high as 65% on cars that are at least seven years old. Consequently, the cars most heavily taxed are second-hand cars from other Member States. The way they are taxed compares unfavorably not only with motor vehicles manufactured in Poland, but also with motor vehicles of non-Polish origin that were bought on the Polish market and registered in Poland when new.

The Court of Justice has consistently found that the method of depreciation chosen by a Member State to assess the taxable value of a foreign second-hand car to reflect the real loss of value, to the effect that the tax applied to a car from other Member States does not exceed the residual tax incorporated in the value of similar vehicles already registered in the country.

In the case of Finland both the amount of registration tax levied on second-hand cars imported from other Member States and the way in which Finland imposes registration tax on leased cars are considered to be not in conformity with Article 90 EC and Article 49 EC, which establishes the freedom to provide services. The requests take the form of "reasoned opinions", the second stage of the infringement procedure laid down in Article 226 of the EC Treaty. The depreciation rate applied when calculating the registration tax for the first six months after the car's registration (which amounts to 0.8% per month) does not correspond to the economic reality.

By the press release IP/05/1279, of 14 October 2005, we find out that the Commission has decided to send Hungary a formal request for information concerning the taxation rules that Hungary applies on the registration of second-hand cars brought into Hungary from other EU Member States. The rules are applied in a way that may breach the EC Treaty provisions on equal treatment of domestic products and those of other Member States. The request to Hungary is in the form of a "letter of formal notice".

Under Hungarian law, a car is subject to a registration tax on its first entry into use in Hungary. The tax is applicable to new and to second hand cars alike, with its level depending only on the engine capacity, type of fuel used and emission standards. The Hungarian registration tax does not, in other words, take account of the real wear and tear undergone by the vehicle. Hungary also applies a surcharge of 25% on top of the registration tax in the case of the intra-community acquisition of second-hand cars. The charge applies to all vehicles from other Member States other than those registered in Hungary when new.

We find out by the press release IP/06/485 of 10 April 2006 that the European Commission has decided to send Cyprus a formal request for information concerning the taxation rules applied on the registration of second-hand cars brought into Cyprus from other EU Member States. Under Cypriot law, a tax is due on the first registration of a vehicle in Cyprus. In practice, it concerns all new vehicles and second-hand vehicles, these latter almost exclusively coming from outside Cyprus. The registration tax has not to be paid for second-hand cars already registered in Cyprus. The amount of the tax varies according to the CO₂ emissions and the age of vehicles.

According to the Cypriot legislation, the amount of the tax based on the CO₂ emissions is calculated as follows: decrease by 15% until 150 gr/km, no reduction between 150 gr/km and 275 gr/km and increase for emissions exceeding 275 gr/km.

With regard to the amount of the tax based on age, Cyprus allows a decrease of the amount of tax by 15% (vehicle one year old or less), a decrease by 20% (vehicles between one year and three years), no decrease in the amount of tax (vehicles between three years and five years) and an increase by 25% (vehicles older than 5 years).

In order to benefit of the reduction based on the CO₂ emissions, owners have to provide a certificate of conformity that is hardly possible to be obtained for second-hand vehicles. The standard way of calculating the amount of the tax according to the age of the vehicle does not allow taking into consideration the real loss of value of the vehicle at the moment of the registration. The consequence is that the tax applied on second hand vehicles coming from another Member State will not reflect, in the majority of the cases, the amount of tax incorporated in similar second hand vehicles already registered in Cyprus.

Member States will always have to ensure that the tax levied on cars from other Member States does not exceed the tax still incorporated in similar cars already registered in the country. If a Member State opts for a system with a fixed depreciation rate, the rate applied has to be established in such a manner that there will be no such discrimination.

The European Commission initiated, March 2007, a sanction procedure (letter of formal notice) against Romanian country, and the government was accused of discrimination for applying this tax.

More than a half of EU members (16) use this kind of taxes and the European Union started the same procedure against Poland, Greece, Nederland, Finland, Hungary, Cyprus and Denmark.

The first registration tax is used in Romania from 1st January 2007 all along with the new Fiscal Code. The main reason for this new tax was the environmental protection. In Romania the tax varies from 160 euro to 9000 euro, regarding the age, motorization and pollution class of the vehicle.

In figure 1 we present a case study about buying a used vehicle and registering it. The max budget is 6000 euro including the first registration tax and VAT.

Figure 1: The first registration tax for Euro 2 class vehicles

CC	Euro	Car age	Tax without VAT	Tax with VAT	Car price
1100cc	euro2	>6 ans	2046	2434.74	3765.26
1200cc	euro2	>6 ans	2232	2656.08	3543.92
1300cc	euro2	>6 ans	2420	2879.8	3320.2
1400cc	euro2	>6 ans	2600	3094	3106
1500cc	euro2	>6 ans	2800	3332	2868
1600cc	euro2	>6 ans	3000	3570	2630
1700cc	euro2	>6 ans	3400	4046	2154
1800cc	euro2	>6 ans	3600	4284	1916
1900cc	euro2	>6 ans	3800	4522	1678

Figure 2: The first registration tax for Euro 3 class vehicles

CC	Euro	Car age	Tax without VAT	Tax with VAT	Car price
1100cc	euro3	>6 ans	787	936.53	5263.47
1200cc	euro3	>6 ans	858	1021.02	5178.98
1300cc	euro3	>6 ans	930	1106.7	5093.3
1400cc	euro3	>6 ans	1000	1190	5010
1500cc	euro3	>6 ans	1073	1276.87	4923.13
1600cc	euro3	>6 ans	1144	1361.36	4838.64
1700cc	euro3	>6 ans	1460	1737.4	4462.6
1800cc	euro3	>6 ans	1545	1838.55	4361.45
1900cc	euro3	>6 ans	1632	1942.08	4257.92

The environmental taxes like the first registration one used between same economic region countries, could interfere with common regulations but represent the sovereign country response against pollution externalization from a developed country to a less developed one, and in the same time represent the country environmental responsible comportment.

There are two possibilities for solving this problem: even the environmental responsibility is common and affects the space of the economic region – although is quite hard to achieve this or a rethinking of the tax. The first registration tax could be put in the same fiscal category with the excises.

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OPERATIONAL RISK

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Abstract

During the early part of the decade, much of the focus was on techniques for measuring and managing market risk. As the decade progressed, this shifted to techniques of measuring and managing credit risk. By the end of the decade, firms and regulators were increasingly focusing on risks "other than market and credit risk", these were call operational risks.

Although the definition includes legal risk and excludes strategic and reputation risk, the Basel Committee recognizes that operational risk is a term that has a variety of meanings and therefore, banks are permitted to adopt their own definitions of operational risk.

Key Words:

Operational risk; advance measurement approach; loss distribution approach; frequency; severity.

Introductory elements:

Operational risk is the risk of obtain losses or less benefit, because of the:

- internal factors: carry on inadequate internal activity; existence of inadequate people or systems;
- external factors: economic conditions, changes in bank framework, technological progress etc.

Basel II defines operational risk such as: „the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events”. An important component was legal risk that appears because of non-application or bad application of regulatory or contractual dispositions, who affects negatively the operations and situations of bank.

According to the definition of operational risk, strategic and reputation risks were not included.

Operational risk is a distinct category of risk and contains all risks that appear because of bad function of an organization:

- *Fraud risk* is the risk that appears because of some actions and practices made by a person or more, and it are done to obtain advantages or unjustified results. There are many forms of this and that is the reason because we cannot create a standard model for quantification or prevention this fraud;
- *The risk of losses control* appears like low capacity of top-management in control and manage the operational activities;
- *Liquidity risk* is because of the incapacity of obtain financing at reasonable cost and can go to the failure;
- *Risk of transfer* appears because of doing the bad funds transfer;

- *The risk of using inadequate methods* and formulas is the risk which appears because of people incompetence who effect transactions or analyses;
- *The risk of utilizations the inadequate systems* appears because of old informatics system or calculations technique with an inadequate function;
- *The risk of process* is the risk of inadequate activity which produces unexpected losses
- *Risk of people* doesn't refers only at human department activity;
- *Legal risk* that appears because of non-application or bad application of regulatory or contractual dispositions;
- *The risk of take-over* – consists in possibility of changing capital structures of the institution after purchasing stock by stock exchange
- *Risk of marketing* – can be when the new products are poor development
- *Technological risk* is computed of all system risk
- *Changes in fiscal system* - if appear changes in taxation level can cause a non-profitable activity
- *Regulatory changes* require a permanent review, and the effect of business can be important, and the risk of high volatility of profitability can be extremely high
- *Size of business*: if the mechanisms, people and informatics infrastructure can't support the development of business, the risk of failure can be high.
- *Risk of project* is a important reason for concern for many institutions
- *Securities* – bank's assets must be assurance against internal and external fraud

Operational risk category according with the New Basel Accord:

- *Internal fraud* - Losses due to acts of a type intended to defraud, misappropriate property or circumvent regulations, the law or company policy, excluding diversity/discrimination events, which involves at least one internal party
- *External fraud* - Losses due to acts of a type intended to defraud, misappropriate property or circumvent the law, by a third party
- *Employment Practices and Workplace Safety* - Losses arising from acts inconsistent with laws or agreements,
- *Damage to Physical Assets* - Losses arising from loss or damage to physical assets from natural disaster or other events.
- *Technological risk* – result from the inadequate system, quality of data, problems of calculation programs.
- *Relation risk* results from clients risk, practices of sell etc;
- *Risk of people from the inadequate politics of people*, problems of motivations or fraud
- *Risk of environment* – result from the changes in law or standards, external fraud

Another definition for operational risk is the unexpected losses because of deficiency of internal control or informational system cause of human error, broken down system and the control of this.

Definition of Basel Committee is based on losses caused by the omission in control, inadvertency in system and the bad information of management, following to underling the minimum standards for all banks, rather to define the best practice.

Knowing the importance of internal control for a bank, these definitions are very valuable for systems and mechanisms for cover the operational risk.

Contextual definition: Some banks consider that the risk appears in “Operation” department and it defines being that errors and omission of controls, systems and processes

which can cause potentially losses and it's quite it immaterial to them who manage the operational risk.

General definition: Some other banks have adopted a definition much wide, including all risk, excepting credit and market risk. This definition was creating a lot of problems and that banks considered that it must be limited at what they can measure relatively easy.

See the last two definitions we can tell that operational risk is "bank's exposure of potential financial loss established by the internal or external events, trends and modifications which weren't cached and prevented by the corporate governance and internal control, systems, politics, organization, ethics standards or another elements of control and institutions standards. These types of losses exclude the ones already incorporated by other risk categories as market risk, credit risk or strategic risk".

Basel Committee on Banking Supervision presents three methods for calculating operational risk capital charges in a continuum of increasing sophistication and risk sensitivity:

A. The Basic Indicator Approach

The Basic Indicator Approach is a simple approach which uses one indicator as substitute of the aggregate exposure of operational risk, and it is the most used approach by the banks out of G-10. For this methods is not necessary a hard „work” and it is the most adequate method that we can use until the management will dispose of a proper controlling and supervisory process, reporting data and audit for operational risk

This method must hold capital for operational risk equal to the average over the previous three years of a fixed percentage 15% of positive annual gross income.

A recent German study which uses data from German banks members of ZKA associations recommends using the indicator „General Administrative Expenses” (GAE) instead of Gross Income indicator. This study considers that Gross Income indicator is a transparent indicator and can be influenced of all levels, reflecting the components of personnel cost, with risks and technological processes and with investment activity. Also the study reflects that GAE is an objective indicator which was made public in annual reports of institutions and presents the raise tendency with respect of the affaires raise and presents a low volatility.

B. The Standardized Approach

In this case bank's activities are divided into eight business lines: corporate finance, trading and sales, retail banking, commercial banking, payment & settlement, agency services, asset management, and retail brokerage, and all of this use like common indicator annual gross income. The banks which use this approach mustn't collect dates about operational losses, but must have efficient standards for risk administrations. This approach must be used until the banks implement the adequate informatics system of data management concerning capital, procedures regarding internal loss experiences and planning loss.

The capital charge for each business line is calculated by multiplying gross income by a factor beta who takes values between 12% and 18% assigned to that business line.

An international active bank using the Standardised Approach must meet the following additional conditions:

- The bank must have an operational risk management system with clear responsibilities assigned to an operational risk management function
- Its operational risk assessment system must be closely integrated into the risk management processes of the bank.
- The bank must have procedures for taking appropriate action according to the information within the management reports.
- The bank's operational risk management system must be well documented
- The bank's operational risk management processes and assessment system must be subject to validation and regular independent review.

The operational risk capital charge/methodology is the same as for the Standardised Approach except for two business lines — retail banking and commercial banking. For these business lines, loans and advances — multiplied by a fixed factor $m=0.035$ — replaces gross income as the exposure indicator. The betas for retail and commercial banking are unchanged from the Standardised Approach. The total capital charge is a simple sum of the capital charge for all eight business line.

C. Advanced Measurement Approaches (AMA)

Advanced Measurement Approaches allow banks to estimate the regulatory capital for covering operational risk by using internal data and models. All the methodologies, qualitative and quantitative standards must be approved by the supervisory institution.

A bank must meet the following qualitative standards before it is permitted to use an AMA for operational risk capital:

- The bank must have an independent operational risk management function;
- The bank's internal operational risk measurement system must be closely integrated into the day-to-day risk management processes of the bank;
- There must be regular reporting of operational risk exposures and loss experience to business unit management, senior management, and to the board of directors;
- Internal and/or external auditors must perform regular reviews of the operational risk management processes and measurement systems;
- The validation of the operational risk measurement system by external auditors and/or supervisory authorities ;
- The bank's operational risk management system must be well documented.

The quantitative standards that will apply to internally generate operational risk measures for purposes of calculating the regulatory minimum capital charge.

- Any internal operational risk measurement system must be consistent with the scope of operational risk
- A bank's risk measurement system must be sufficiently 'granular' to capture the major drivers of operational risk affecting the shape of the tail of the loss estimates.
- Supervisors will require the bank to calculate its regulatory capital requirement as the sum of expected loss and unexpected loss; unless the bank can demonstrate that it is adequately capturing EL in its internal business practices.
- Must exist a data-based who include losses whit high severity and low frequency
- Internally generated operational risk measures used for regulatory capital purposes must be based on a minimum five-year observation period of internal loss data
- We use external data when are available losses whit high severity and low frequency

- Bank must use scenario analysis of expert opinion in conjunction with external data to evaluate its exposure to high-severity events.

Data for this approach can group in for category: internal data, external data, scenario analysis and internal control.

If banks can obtain all information demanded by this approach, they have three options, identified by the supervisory institutions for this approach:

- Internal Measurement Approach (IMA) which uses information obtained by Standardized Approach. It gives for each business line an exposure indicator (EI), with the probability of an event appearance (PE) which generate loss and the loss which appears in the situation of this event (LGE). Expected loss represents product of these factors, and the capital needed is determined by applying a transformations factor on this loss.
- Loss Distribution Approach (LDA) which determines the expected distribution of operational loss for a period of time, for each business line and event type. This approach tries to evaluate directly the unexpected loss, while the IMA uses hypothesis regarding the relation between expected and unexpected loss. Also, the LDA approach supposes the existence of an internal data base which contains the frequency of loss and the severity of loss at least.
- Scorecard Approach calculates the first level of capital for the operational risk. This level changes in time by including the fundamental risk of different business line. For this approach is needed more a qualitative judgment and less historical data.

Quantitative modeling technique plays an important role, especially for the banks that choose for compute their necessary of capital for operational risk, using an Advanced Measurement Approach.

Many institutions haven't an internal data-based which contains historical loss data about operational risk, or if they have it is populated with data with high frequency and low severity or exceeding losses.

The quality of data varies across institutions, and then loss data should be carefully selected to reflect the current business environment of the institution. Banks must choose the measurement techniques according the data base. In this case the techniques may be considered appropriate measures of operational risk for resulting a more reasonable conclusions regarding economic capital.

Loss Distribution Approach (LDA) measure operational risk at the enterprise level, business line and event type levels. The LDA has three essential components: frequency, severity and an aggregate loss distribution that combines the two.

First must decompose the activities of which institution in business line and event type. The losses of operational risk was attributed of a risk class (a cellule of risk matrix 7×8 like Basel II)

Classifying the loss data into business line or event type buckets further reduces the number of observations and increases the difficulty of modeling them.

It must analyze data at the individual bank level in order to determine whether the same quantitative techniques “work” for a variety of banks with different business mixes, control infrastructures, and geographic exposures.

Understanding the structure and characteristics of the data is an important step in the process of modeling because no research so far has demonstrated that operational loss severity data follow some particular distribution.

One of the most significant choices is the technique to use for modeling the severity of operational losses.

We consider the following distributions to model the loss severity: exponential, gamma, Pareto, generalized Pareto, log logistic, Burr, Lognormal, Weibull, Log gamma, Generalized Beta Distribution of Second Kind and the g-and-h distribution, for show which of this fit the data-based.

To estimate the parameters of the severity distributions it was used the Maximum Likelihood Estimation (MLE). It was used in all cases excluding the g-and-h distribution, for which we used the method of quantile estimation.

If a model does not fit to the data, then the model is estimating a risk exposure that is not indicated by the data, and this is why we feel that testing goodness-of-fit is a necessary condition for any model being used before capital is calculated.

There are two ways of assessing this goodness-of-fit: using graphical methods and using formal statistical goodness-of-fit tests.

We discuss the following four types of goodness-of-fit tests:

- Pearson's chi-square test, is very flexible, it has low power relative to many other goodness-of-fit tests, but is the most popular test;
- The Kolmogorov-Smirnov (K-S) test is also a relatively low power test, but it is very simple to compute and is one of the most popular empirical distribution function (EDF) test statistics. The main disadvantage of the K-S test is that the test puts more weight on the center of the distribution than on the tails, and in my case the capital estimate is mainly driven by the tail behavior of the distribution;
- The Anderson-Darling (A-D) test is superior to the K-S in this regard because the A-D test puts more weight on the tail of the distribution;
- When testing the goodness-of-fit of a distribution to data, it is important to use the correct critical values for the test statistic, which we compute by simulating the values of the test statistic;
- The Quantile-Quantile (Q-Q) plot is a visual representation of fit. A seemingly good fit on the Q-Q plot may not always translate to a good statistical fit;

To evaluate distributions or methods we can use five different performance measures: how well does the method fit the data; If a method fits well in a statistical sense, does it generate a loss distribution with a realistic capital estimate; if the characteristics of the fitted data are similar to the loss data and logically consistent; how well is the method able to reasonably accommodate a wide variety of empirical loss data; if the method is easy to apply in practice, and it is easy to generate random numbers for the purposes of loss simulation.

For estimating loss severities for the institutions we can use a several techniques:

- Simple and generalized parametric distribution fitting, the data are assumed to follow some specific parametric model, and the parameters are chosen (estimated) such that the model fits the underlying distribution of the data in some optimal way.
- Non-parametric fitting, involves modeling the data in the absence of any theoretical parametric constraints and assuming that the empirical loss distribution is a near substitute for the actual loss distribution, simulations based on this method involve drawing random observations directly from the historical loss data.
- the application of EVT involve choosing a threshold for separating the loss severity distribution into a body and tail and fitting the generalized Pareto distribution to the data in the tail, because the EVT compute rare, exceptionally losses

Frequency modeling is highly limited because banks has a data-based poor which contains historical loss data about operational loss and for that I used, according of the availability of data, the Poisson distribution or negative binomial distribution like the probably model for determining the number of losses for a period of time. The Poisson distribution has one parameter, which is equal to both the mean and variance of the frequency and the negative binomial distribution has two parameters with mean less than the variance. Due to the annual reporting and other regulatory requirements, the time stamping on an annual basis is generally found to be more accurate than on a daily, weekly, or a monthly basis.

Using Monte Carlo Simulation to combine the frequency and severity distributions, we obtain an estimate for the distribution of total annual operational losses

Measuring risk at the enterprise level is advantageous because there are more data available; however, the disadvantage is that dissimilar losses are grouped together.

We obtain CaR (Capital at Risk) whit the aggregate distribution for every risk class.

According Basel II the capital estimate is computed as the 99.9% quantile of the simulated loss distribution. Finally we will obtain the economic capital at aggregate level like a sum of necessary capital for all the risk class.

Conclusions

The challenge of the operational loss data should motivate us to find new models that describe the characteristics of the data rather than limit the data so that it matches to the characteristics of a model. We hope our analysis will be useful for estimating capital for operational risk and for encouraging risk mitigation and hedging through new products development, by using a coherent and robust risk measurement technique.

On the other hand, a poor operational risk measurement can have very significant adverse consequences. As Froot observed „I hope we do not need a serious event regarding operational risk to give us the wake up call.”

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STRUCTURE EUROPEAN INSTITUTIONAL FROM VIEW OF THE ENLARGEMENT U.E.

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Abstract

The national Parliaments participation in the union might be strengthened by Parliaments delegates' presence in the European Council, constituted in legislative structure or in a States Chamber. Democratization improvement of the UE might accomplish through the change of the way in which the European Parliament is chosen, generalizing the proportional poll in districts that have a number of 5 million participants.

Keywords: *European Council, European Parliament, communitary government, structure european institutional*

Introduction

The federal school support of idea that in new generations created by U.E., through transformation of European Committee in an organism with similar abilities with those of govern, the Council should become the second chamber.

In current situation, such conception is over fulfilled for next reasons:

- it would be unrealistic to believe that an only communitary government is able to decide in important problems, like defence and external politics;
- the governments of members countries, like the statesmen would accuse the government backing it by popular support, without which it transformation in politic executive would be random;
- the national states would make big efforts because their representatives to enter in the government, which would generate endless back stages intrigues, strains and tergiversations.

Presidency of U.E. contra European Council and to European Parliament

Because of multiple situations which a federal government would generate them in case in which it would grant unlimited competences it established that the presidency of U.E. do not decide upon alone the fundamental orientations, but to suggest to European Council and to European Parliament, which on their turn to assure the coherence on the wholw of politics on governation performances. The politic cabinet of Commission interior could be formed of 5-6 personalities liked by European Council and Parliament, assigned after european elections.

The cabinet is nomed Presidium or Presidency, considered to be the most suitable solution for solving of all different situations from european states this can assure a poise between big states and small states, between those northern and those southern, between new member countries and those old. The structure of this Presidium whit one president choisen is considered by „federals” like reflexion of diversity of politic tendency in the member states. The desire of politic integration in the U.E. framework is enough spread

through European citizens, although doesn't exist a percentage of citizens who manifest reticence.

Such an unfavourable situation for big countries in frame of U.E. -27 impose the revision weight possibility of votes with the aim of improves the part which considers that fiddling them. For that has decided the stabilisation of general increasement of vote rights, differential, after the demographic importance of states, which would reduce fewer than 71% the limit of calificated majority and improvement of situations in case of France.

The president of presidium and those 4-5 vicepresidents with the title of minister would continue the coordination of commissions activities in light relation with national governments. The president would represent the Union and would preside the General Affairs Council and exceptionally this of External Relations Council. The vicepresident which take care with Monetary and Economic Union would be the politic substitute of Central Bank. The others vicepresidents would follow to occupy the next domains:

- defence, armament, communications, space and investigation;
- fundamental rights, intern security, borders supervisions, asylum and immigration;
- internal market, concurence, solidaritz politic in different action domains of U.E.

Presidium or presidency – the most suitable solution for solving of all different situations from European state

The existence of presidium would allow the solving problem of Union president, concerning the continuity and transparent absence which results from actual semester rotation. The election of European Council president or of different Ministers Councils for a long period would remove the difficulties of long duration pluralism of national functions concerning the interest conflicts and the proposal of one personality which doesn't have national functions. Such a solutions would arouse conflicts would have like effect at the most high level of system, confusion and conflicts. In case in which the rules of presidents and governments couldn't adjust with one external presidency is good to preserve an improved formula of presidency, through rotation, than to assume the risk of one bicefal leadership of Union.

Concerning the sustainers of one Europe of states, this don't admit the presidency and presidium solution. For this thinking group, the best and reasonable solution would be the entrustment of presidency European Council and this of General Affairs Council without vote right, of president; the presidency of Ministers Council is ascribed to ministers, function of their coordination executive. A part of communitarian method sustainers consider that the function of president of European Council is incompatible with charge to reconcile national interests and that of Commission president like promoter of general interest. The reunion of 2 functions is possible, because they are more complementary and less contradictory. With all these, a series of risks of incoherence could result from contradiction of 2 rival presidents (the president of Council and the president of Presidium).

The idea of unique presidency, but collegial, of U.E. was elaborated in 2002 by Robert Tulemon, the president of Research French Association for U.E., idea assumed by representatives of member countries of U.E.

In this way, the Council should participate on executive function with certain prerogatives (the most important decisions). The legislative function of the council would be exercised

by respecting the transparency rules. The difference that should be made between legislative function and the executive, one of the Council might be justified by the fact that different legislative formations choose their president among their members.

Another solution for the European citizens and in concordance with powers separation principles, consists in setting up for the legislative function, on different ministers a councils, of a States Chamber whose composition might be leaved on free appreciation of every state that might dispose a single vote, by the simple rule of double majority (of the states and the people).

In case that the union might have 30 members, the unanimity rule must be abandoned entirely and be replaced by two dispositions that insure the balance between different dimension states and save the essential part of the sovereignty, as follows: the double majority (simple or with two third) of the states that are in minority to obtain derogations, in conditions rigorously established.

The double majority rule, stipulated initially was eliminated in the Nyssa Treaty, because this way it would be unbalanced the Germany's parity. The content of the proposals concerning the Nyssa double majority has the merit of the clarity and adaptability at successive extension in European Union, replying to the common sense and understudied by all. The double majority conceived in this way represents an important element of democratization and transparency that is recommended to all the representative instances of the states.

The control over the executive may be achieved by the presidium and by the commission in problems that are addressed to the Parliament. In conditions that it is wished the maintaining of a censorship possibility from the Parliament, it is logical that the executive could be dissolved after it was obtained the European council's accord.

The executive must undertake the Union's Program for 5 years period, with the General Affair Council's accord composed of the specialized ministers or for the states that refuse this formula of External Defense ministers. Such a program must be approved by the European Council and by the Parliament or by a European Parliament's Congress and a national Parliaments Congress and a national Parliaments Congress.

The national Parliaments participation in the union might be strengthened by Parliaments delegates presence in the European Council, constituted in legislative structure or in a States Chamber.

Democratization improvement of the Union might accomplish through the change of the way in which the European Parliament is chosen, generalizing the proportional poll in districts that have a number of 5 million participants. To favor the European political parties formation that have the obligation of presenting to the voters, vote bulletin that allows them the election of certain faction of the Parliament (5 – 10%) on transnational obligatory lists. The Parliament number must be of 500 members, which is 1 deputy on 1 million inhabitants and 20-40 elected on transnational lists.

In case of referendum started by popular initiative and significant number of countries, would constitute a consolidation factor where citizens would like to choose the executive organism of the union and, this way, the collegial presidencies that might constitute the

best mean of avoiding a falsificate choice by candidates nationality. At the end of transition period, the executive structure and its way of nomination should be reviewed, taking into account the dynamic evolution of the council competences.

The Shawn plan has, as main modifications, the double majority's generalization according Nisa proposals, in representative organs of the states that have a double confidence both for state part and for nation's part.

A closer Europe to the citizens, in the national states school conception, must insure that the executive at communitary level couldn't take measures that not meet the agreement of those governments.

Conclusion

A such requirement leads to a Union's configuration with a responsible executive and possibly of being in a perspective period by universal vote of the nations that belong to the Union, in this way, the obtaining of the states majority for every decision of European Council and of states that they haven't been ignored the will, and to the large dimensions states that they aren't blocked by a egalitarianism lack of conection with realities of each concrete situation.

The remove of the risk of having a numerous and supernational commission, of the political cabinet. The collegial character of the presidium allows a balanced representation of all the states, of men and woman, of the countries from the north and south of Europe, of different political orientations.

The existence of parity legislative part in the States Chamber, greater involvement of the Parliaments in the Union's activites, offer to the European members of the Parliament the possibility to obtain the whole recognition of colegislators function in a tie with the Council, and the European rules might obtain the parteners of the Union statute and the possibility of being represented in the legislative chambers of the European Parliament.

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THE IMPLICATIONS OF ASSESSMENT METHODS FOR SUPPLIES AND ON-GOING PRODUCTION OVER PRODUCTION COST AND RESULT

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Abstract

Enterprises decide on the choice of method to assess supply and, indirectly, results. The application of one or another of the methods assessing exits from supplies must be analysed according to the increases in prices and to the accounting policy of the enterprise because the same exits in quantity, assessed by different methods, lead to different values of the accounting result (profit) and of the size of supplies (differences in data between the balance and the results).

The evolution of prices, which may change from an entry to the next of the same type of supply, due to inflation or simply as a result of demand and offer, leads to the application of the “best” method in assessing exits of supply.

Keywords: *supply, shape, destination, source, belonging to property, individual characteristics type of management, specific identification and weight average cost.*

1. Supplies: definition, classification

Asset is classified as circulating asset when:

- it is purchased or produced for personal consumption or for sale and is expected to be achieved within 12 months since the closing of the financial operation;
- it is represented by debts inherent to the cycle of exploitation;
- it is represented by the treasury or its equivalents with non-restricted use;

According to Romanian accountancy regulations in compliance with the European directions, circulating assets are classified as follows:

- supplies, including the value of services carried out in the absence of an invoice;
- short-term investments;
- cash in banks and counters;
- debts.

The International Accountancy Standard (IAS) 2- “Supplies”- defines supplies as assets owned to be sold during the normal advancement of activity, those in on-going production for sale under the same terms as above or goods to be found as raw material, material and other consumables which are to be used in production or to carry out services.

Supplies can be classified according to several criteria, such as:

📦 shape and destination:

- merchandise- supplies purchased for resale in the same condition or products sent for sale to personal shops;
- raw materials- which directly contribute to manufacturing the products and can be identified in the finite product, completely or partly, either in the same condition or transformed (representing the main material for the finite products);
- consumables - goods which contribute to or aid in the process of production or exploitation without usually being identifiable in the finite product;

- items such as inventory objects- these are goods which do not correspond in value and/ or resistance to the category of bodily immobilization;
- products- represented by semi-manufactured goods, finite products and residue products:
 - o semi-manufactured goods are products whose technological process was finalized in one sector (production stage) and which are to continue in the technological process of another (production stage) or are to be delivered to third parties;
 - o finite products are the products which have gone through all the stages in manufacturing and do not need further operations within the entity, being stored for delivery or sent to customers directly;
 - o residue products are represented by scraps, recoverable materials and waste.
- animals and birds- are represented by: born animals and young ones of any type raised and used for reproduction; animals and birds being fed to be further used; animals for production; bee colonies;
- packages- these are supplies used for storage and transport of goods, including reusable packages, purchased or manufactured, destined for sold products and which may be temporarily kept by third parties, under an obligation to return according to regulations in contracts;
- on-going production- is represented by production which has not gone through all the stages of manufacturing in the technological process; products not subject to tests and technical approval or incomplete, operations and services, as well as studies under execution or unfinished.

✚ source:

- purchased supplies: raw materials, consumables, inventory objects, temporary or improvised storage spaces; animals; packages;
- manufactured supplies: on-going production, semi-manufactured goods, residue products, finite products;

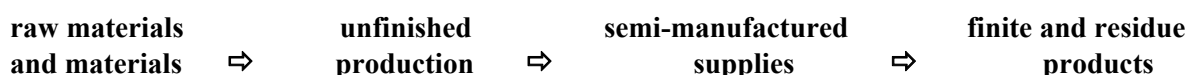
✚ belonging to property:

- supplies that are part of the property, which may be stored either in personal storage spaces or in custody with third parties, in consignment, for manufacture or repairs;
- supplies that are not part of the property, but are under entity management, being received from third parties for sale in consignment, for manufacture or repairs etc.

✚ individual characteristics and type of management:

- identifiable supplies, which are particularized for every item or category of goods, which usually include long-term use goods: cars, television sets, computers, etc.
- interchangeable supplies, which within each category cannot be identifiable in a homogeneous way: bags of packed sugar belonging to the same type, even if purchased at different prices etc.

The structure of supplies changes according to the stages they are in within the process of exploitation which, inside manufacturing entities, can be represented the following way:



In economic practice there are frequent cases in which from one period to another there are recorded significant increases in prices for property items such as supplies, with noticeable influence upon the continuation of manufacturing and further production costs.

It is well known that, being meant for consumption in manufacturing, raw materials and consumables constitute, for most entities, the majority of assets available to them at a given time. The profitability of an entity eventually depends on the way in which supplies turn into monetary influx and back into supplies, and on the speed of this transformation.

The main decisional problems related to raw materials and consumables refer to:

✚ the inventorying method used. According to the aimed objectives and the inherent characteristics of the methods, they can classify as follows:

- the method of permanent inventory;
- the method of unexpected inventory.

The concept of “inventory” means the possibility provided by accountancy to check the supply level on the staff, permanently or periodically.

The organization and financial management of accountancy in a system integrated with financial accountancy implies that the verification of supplies through permanent inventory should be carried out in financial accountancy.

In the case of organizing financial management of accountancy on an independent basis, the verification of supplies through permanent inventory may be carried out in accountancy, followed by verification of supplies in financial accountancy led on the sole basis of unexpected inventory.

Currently in our country the management of supplies is subject to financial accountancy, while foreign specialized literature considers that the management of supplies must be an objective of accountancy management, permanent inventory being defined as “ the organization of stocks of supplies which, by recording mobility, allow constant knowledge, within an operation, of the existing supplies quantified as amounts and values.”

- ✚ the assessment method used on exiting property;
- ✚ the way of organizing financial accountancy.

2. Supply assessment

Considering the moment when property items are assessed, Romanian regulations have established the following:

- ✚ assessment on entering property;
- ✚ assessment on inventorying;
- ✚ assessment on closing the operation;
- ✚ assessment on the date of exiting property or on entering consumption.

The four moments of assessment may be grouped into:

- **initial assessment**, on entering property, on the basis of initial cost as just value assessed on supplies entering property. Cost represents the value in cash or equivalents of cash to pay or the just value of services provided to obtain an asset at the moment of its acquisition or manufacture.

- **further assessment**, at the time of inventorying and closing the operation (financial balance). It is “ assessment following initial identification of assets and debts.”

For **supplies**, according to regulations in IAS 2 “Supplies”, assessment implies the establishment of expenses considered as part of the calculus for the cost of supply.” (5)

2.1. Supply assessment on entering property

Depending on the way of entering property, supplies are assessed for:

✚ **purchase cost** for supplies which were bought, which includes: price free of VAT, irrecoverable taxes (customs tax, excise, charges, insurance tax, etc.), transportation fees, and other costs that can be directly attributed to supply acquisition, VAT on the supplier's invoice, if the buyer is not a VAT payer.

✚ **production cost** for supplies resulted from personal manufacture (finite products, semi-manufactured products etc.), consisting of direct expenses on raw materials, materials, the salaries for in-production workers and the share of indirect expenses on machinery, repairs, salaries for managing personnel in different departments etc.

The IAS 2 "Supplies" norm also presents examples of costs outside the costs of supplies and accounted for with expenses on the operation during which expenses are considered: abnormal amounts of wasted materials, of manoeuvre or related to other production costs; storage costs, except for cases in which they are necessary in production as preparation for a new stage in production; administrative overheads which do not contribute to bringing the supplies to the place and condition they are in; selling costs. In a limited number of cases, supply costs include loan costs as well.

If production results in several simultaneous products, or one main product and one or more sub-products, the costs of transformation must be shared between these products, depending on certain logical rules and permanently based on, say, the commercial value of each of them.

✚ **just value (utilitarian)** for supplies obtained as gratuities;

✚ **added value** for supplies provided as addition in products.

2.2. Supply assessment on inventorying and on closing the financial operation

On inventorying property at the end of the financial operation, supplies are assessed at current value, also known as inventory value. Current value is established according to the good's use, its condition and the market price.

On this occasion there is also established:

➤ differences in quantity, added or subtracted, between the real situation identified on inventorying and the theoretical situation in accounting papers;

➤ differences in value, added or subtracted, between the accounting value (input) and the real value (on inventory).

In financial situations, supplies must be recorded at the lowest value between the accounting value and the inventory value. Thus, if the evidence is that:

✚ inventory value > accounting value, the latter will be recorded on the **inventory lists**;

✚ inventory value < accounting value, the former will be recorded on the inventory lists. For the difference between the accounting value (higher) and the inventory value (lower), adjustments are calculated for the devaluation of supplies.

Example concerning supply assessment on inventorying and in financial situations:

Name of goods	U/M	Quantities			Accounting value			Inventory value			Value on balance
		real	theo - retical	differ - ences	price	value	differ - ences	price	value	deva - luation	
flour	kilo	32	30	2	2,5	75	5	2,5	80	0	75
milk	litre	41	45	-4	2,0	90	-8	2,0	82	8	82

For the item “flour” there will be an addition of 5 lei on inventory, and in the balance, according to the principle of caution, there will be mentioned the lowest value between the accounting value (75 lei) and the inventory value (80 lei).

For the item “milk” there will be a detraction of 8 lei on inventory, as well as an adjustment for depreciation of supplies, valued at 8 lei. In the balance there will be mentioned the lowest value, that is the inventory value (82 lei).

2.3. Supply assessment on exiting property

On exiting property through sale, consumption, donation, damage etc., supplies are assessed and detracted to the value on entering, with the help of the following methods:

✚ **The method of specific identification (SI)**- consists in assessment of the goods at “historic” cost (on entering). It can be used for long-term use products, which may be identified by serial number, entering date, acquisition cost.

✚ **The method of weight average cost (WAC)** - implies the calculus of the average cost of a particular element, be it periodically (end of month) or after each acquisition.

When it is calculated at the end of month, **(WAC)** is established as a ratio between the value of initial supply (**V_{IS}**) added to the value of input (**V_I**) and the existing amount or quantity in the initial supply (**Q_{IS}**) added to the input quantities (**Q_I**), namely:

$$\text{WAC} = (\text{V}_{\text{IS}} + \text{V}_{\text{I}}) / (\text{Q}_{\text{IS}} + \text{Q}_{\text{I}})$$

When it is calculated after each acquisition, weight average cost **(WAC)** is established as a ratio between the value of previous supply (**V_{PS}**) added to the value of input (**V_I**) and the quantity existing in the previous supply (**Q_{PS}**) added to the input quantities (**Q_I**), namely:

$$\text{WAC} = (\text{V}_{\text{PS}} + \text{V}_{\text{I}}) / (\text{Q}_{\text{PS}} + \text{Q}_{\text{I}})$$

If we average the exiting quantities (**Q_e**) with the weight average cost we obtain the value of exiting goods (**V_{EG}**), namely:

$$\text{V}_{\text{EG}} = \text{WAC} * \text{Q}_{\text{e}}$$

The use of the weight average method calculated monthly brings the advantage of easier calculus, but it does not allow assessment of the exits during the month. The same method used after each acquisition offers the possibility of assessing exits during financial control (over that month), although it brings the disadvantage of more complex calculus, which can be avoided by using information technology. This method can be used both for permanent inventory and for unexpected inventory.

✚ **The “first in- first out” method (FIFO)**- assumes that the first acquisitions are also sold the first, and therefore those which are still in supply at the end of the period are the ones most recently purchased or produced. So assessment of exits from supply is made for the costs on entering in chronological order of appearance. The use of the FIFO method can be applied to both permanent and unexpected inventory, leading to the assessment of final supplies at most recent prices, the older prices being attached to exited supplies.

The FIFO method can be used irrespective of the real flux of supplies, as the assumption is made in relation to the fluctuation of prices, not of goods.

✚ **The “last in- first out” method (LIFO)** - assumes that the supplies most recently purchased or produced will sell first and therefore the supplies still in store at the end of the period are the ones purchased or produced the first. In this way, the final supply is assessed at the oldest prices. The assumption used by this method does not correspond to the real mobility of supplies in most economic entities. Unlike the other methods, the LIFO method does not distribute the costs of supplies entered by that time, but connects incomes to inherent expenses. The cost of the elements still in supply at the end of the period is lower than the real cost, which is in compliance with the principle of balance assessment at the lowest ratio between cost and clear achievable value.

An entity must use the same methods of determining cost for all supplies with similar characteristics and uses. The chosen method must be applied consistently from a financial operation to the next. If, under exceptional circumstances, managers decide to change the method for a particular type of supplies, they have to explain the reason for changing the method and the effect of the change upon the results, in the explanatory notes within annual financial statistics.

3. Practical considerations regarding the implications of assessment methods for supplies on exiting property over production cost and result

The table below shows the initial supply and the mobility concerning raw material “flour” during October:

Date	Operation	Quantity (kilo) - Q	Unit price (lei) - UP
01.oct	Initial supply	300	0,80
08.oct	Provisioning	500	1,00
16.oct	Consumption	400	1,00
21.oct	Provisioning	300	1,24
28.oct	Consumption	600	1,24

a. The “first in- first out” (FIFO) method

Date	Operation	In			Out			Supply		
		Q	UP	V	Q	UP	V	Q	UP	V
01.oct	Initial supply							300	0,80	240
08.oct	Provisioning	500	1,00	500						
16.oct	Consumption				300	0,80	240			
					100	1,00	100	400	1,00	400
								400	1,00	400
21.oct	Provisioning	300	1,24	372				300	1,24	372
28.oct	Consumption				400	1,00	400			
					200	1,24	248	100	1,24	124
	TOTAL	800		872	1000		988	100	1,24	124

b. The “last in-first out” (LIFO) method

Date	Operation	In			Out			Supply		
		Q	UP	V	Q	UP	V	Q	UP	V
01.oct	Initial supply							300	0,80	240

Date	Operation	In			Out			Supply		
		Q	UP	V	Q	UP	V	Q	UP	V
08.oct	Provisioning	500	1,00	500				300	0,80	240
								500	1,00	500
16.oct	Consumption				400	1,00	400	300	0,80	240
								100	1,00	100
21.oct	Provisioning	300	1,24	372				300	0,80	240
								100	1,00	100
								300	1,24	372
28.oct	Consumption				300	1,2	372			
					100	1,00	100			
					200	0,80	160			
	TOTAL	800		872	1000		1032	100	0,8	80

c. The method of weight average cost (WAC) calculated after each acquisition

Date	Operation	In			Out			Supply		
		Q	UP	V	Q	UP	V	Q	UP	V
01.oct	Initial supply							300	0,800	240
08.oct	Provisioning	500	1,000	500				800	0,925	740
16.oct	Consumption				400	0,925	370	400	0,925	370
21.oct	Provisioning	300	1,240	372				700	1,060	742
28.oct	Consumption				600	1,060	636	100	1,060	106
	TOTAL	800		872	1000		1006	100	1,060	106

d. The method of weight average cost (WAC) calculated at the end of month

Date	Operation	In			Out			Supply		
		Q	UP	V	Q	UP	V	Q	UP	V
01.oct	Initial supply							300	0,800	240
08.oct	Provisioning	500	1,000	500				800		
16.oct	Consumption				400			400		
21.oct	Provisioning	300	1,240	372				700		
28.oct	Consumption				600			100		
	TOTAL	800		872	1000	1,010	1010	100	1,010	101

$$\text{WAC} = (240 \text{ lei} + 872 \text{ lei}) / (300 \text{ kg.} + 800 \text{ kg.}) = 1,01 \text{ lei}$$

4. Conclusions

Among the criteria at the basis of choosing the method is fiscal impact. In general, on exiting supply there is expense or a reduction of income with a direct impact upon the accounting result. From a fiscal point of view, the bigger the expense on a given quantity of goods sold or provided for consumption, the lower the profit and the income tax on profit. In this way, a percentage of the fiscal duty is postponed for a later date.

From the example presented above we can reach the conclusion that from this point of view the best method seems to be the LIFO method, where the cost of supply is 1032 lei.

This method is recommended on condition that priced rise because it allows the assessment of exits at the price of the latest lot, to its exhaustion.

Many Romanian enterprises use the method of the weight average cost, on a monthly basis. Although this method is not always the “best”, it has been chosen because it seems to be simple and it best suits the organization of the informational system in these enterprises, where papers giving evidence on entering and exiting supply are usually recorded at the end of month, considering the strictly chronological order of their appearance, an essential condition for the application of methods such as LIFO or FIFO.

Supplies are the ones following immobilizing from the point of view of their degree of liquidation.

The impact of inflation upon supplies is felt when their mobility speed is low. In the tradition of “historic” cost, even under inflation, they will have the same value all over their existence as property of an enterprise, irrespective of the evolution of prices of the respective supplies. Thus we can notice an underestimation of their value. The phenomenon of rising prices generates benefits in the enterprise from holding supply, benefits that are neither achieved nor accounted for through a rise in value of the respective supply.

In periods of **inflation** the **LIFO** method leads to an **overestimation of production costs**, exits being assessed at the highest prices, to an unjustified decrease in profit and to a lower final inventory value of supplies. For entities with low profitability **the risk of bankruptcy is increased, even if they will pay lower income taxes**. This method brings about the **disadvantage** that, **in times of continuous decrease in prices for market goods**, it leads to an **underestimation of production costs**, the exits being assessed at the lowest prices, to bigger profits and to a higher final inventory value of supplies. The company **will pay higher income taxes that can not be justified**. In conclusion, the LIFO method is advantageous for companies during inflation periods. ”The popularity of the LIFO method is closely connected to the decrease of taxable profit and therefore to improvements in the treasury.”

A method that is essential for inflation accountancy is “**next-in, next-out**” (**NIFO**), which consists in assessing exits from supply at an anticipated cost (replacement cost) which may be the price of the latest invoice or the estimated price of the next one, for supplies under purchase. Since the exits are assessed at the replacement value, “it is necessary, to avoid getting a negative balance, to reassess the remaining supply, the necessary one being thus permanently assessed and the difference from reassessment is neutralized. “**The NIFO method is recommended for times of inflation. But currently it is not accepted either by Romanian legal accountancy regulations nor by the international ones.**

Apart from the NIFO method, specialized literature presents other methods of assessing exits from supply, such as:

- ✚ the method of assessing exits from supply at a cost close to the real costs of acquisition calculated on the basis of real acquisition prices from previous periods;

- ✚ the method of assessing exits from supply at a pre-established cost determined on the basis of technical studies to foresee the evolution of acquisition costs.

“The application of one of the methods of assessment exits from supply must be analysed according to the mobility of prices and the accountancy policies of the company because the same exits, assessed with different methods, lead to different values of the accounting result (profit) and of the supplies (so lead to different information in the balance and the results account) “. From the analysis of these methods we conclude that enterprises “have some freedom in choosing the method of assessing supply and results, indirectly”

We consider that dealing with supply accountancy must be part of financial management control for the following reasons:

➤ the determination of characteristics of supplies is done from the quantity's- not only value's- point of view, both for the calculus of costs- an objective of financial management control- but also for the physical inventory;

➤ the difficulties that may arise while applying the method of permanent inventoring for assessment as a consequence of delays in devising and producing financial accounts and situations;

➤ chronological and systematic recording of all changes in supplies implies the use of permanent inventoring as a means of expression specific to financial accountancy.

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THE ROLE OF THE STATISTICAL INDICATORS AND INDEXES INTO THE ECONOMICAL ANALYSES

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Abstract

The statistical indicator includes any scientific indication, represented by numbers, of a social-economic community, phenomenon or process derived by such a community or reflected by itself. This indicator has a real content and a numerical form, being the result of a count or measurement. Statistics has elaborated a system of specific indicators of each branch of material production and social-culturally developing processes, because only as system form, and not as isolated elements, the statistical indicators obtain their importance in the analyses of the phenomenon development.

Any statistical indicator must accomplish two conditions:

- a) to have a scientific content, well determined*
- b) to accomplish the condition of comparing*

The indicators classification:

- 1) by structure, may be:*
 - simply, or elementary indicators*
 - derived indicators*
- 2) by their role in the analyse:*
 - synthetically indicators*
 - analytical indicators*
- 3) by the application domain, the indicators show a great variety, according the number of directions and sides of the human activity.*

The notion of index or index numbers has the role to measure and characterise the average and relative variation of a community.

Indifferent of their category (time, territorialy or quality), the indexes have a common methodology base, consists of comparing two different levels of statistical indicator, in this way: we determine a term of the series or out of series as a comparing base, than we report successively the other terms to the base term. The base term is the measure unit for all the other terms of the series.

So, the statistical index is a relative dimension, results by the proportion of a absolute value of a current indicator to its value of the base period. Practically, we often meet cases when the indicators are confused with the statistical indexes.

With the help of indicators and statistical indexes on study and concretize the co-relations of developing the phenomenon and processes of the economic life, into the periodic reports of some domains, as:

- people and work resources*
- national wealth*
- the raw internal product*
- live level*

Also, the statistical indicators have a specific role in watching the achievements of the macroeconomical system, for the global comparing, according the suggests of the U.N. Bureau of Statistics.

Keywords: *statistical indicator, statistic index, statistical indexes system, comparing condition, simply or elementary indexes, derived indicators, synthetically and analytical indicators, time, territorial and quality indexes, relative value*

The **statistical indicator** notion includes any scientific indication, represented by numbers, concerning a social-economic community, a phenomenon or social-economic process, derived from such a community and reflected by itself. Because it refers to a concrete phenomenon or process, any statistical indicator has a real content and a numerical form. Generally, a statistical indicator is either the numerical result of a count or measure into the social-economic life domain, or of a data processing from a count or measure.

For characterize the social-economic status and development, the statistics elaborated a system of specifically statistic indicators for each branch of the material production and the different sides and processes of the social-culture development. So, we have into the material production branches, statistical indicators of industry, agriculture, transports, trade etc. On the scientific and culture life domain was developed the system of indicators that characterize the education and other activities of the scientific and cultural domain. To characterize the population development, it was developed the system of demographic indicators, referring to the population number and the essential demographic processes, as: birth rate, death rate, migration etc.

Only under the form of systems and not as isolated elements, the statistic indicators obtain their entire importance in the statistic analyses of phenomena development.

The methodology to elaborate the unique system of statistic indicators in our country is established and guided scientifically by The National Statistics Office.

Any statistical indicator must accomplish two main conditions:

- a) to have a scientific content, well determined, a definition and a formula;
- b) to accomplish the condition of compare between the three known aspects, namely: comparable **in time, or evolution**, that means any indicator can be compared with another previously, comparable **on area, or distance**, with reference not only between the national regions, but on global scale, and **quality comparing**.

For a better understanding of the indicators role into the statistical analyses, we must show, first of all, their classification way, namely:

1) **by structure**, it may be classified into: **simple, or elementary**, represents by absolute size a certain dimension of a community or group. These indicators constitute calculation elements for **the derived indicators** category, that are obtain by combine and process some simple statistic indicators.

2) **by their role in the analyse**, the statistical indicators may be classified into **synthetically** and **analytical**.

The synthetically statistical indicators refers to synthesis economic categories and can result by a sum of simply indicators, either by a combination and process of such

indicators. These indicators may be calculated into all the social-economic activities. The prime cost, by example, is an synthetically indicator, composed by the simple sum of material and manufacture expenses for obtain a product.

The analytical statistic indicators have the role to point out the distinctive groups structure of a given community.

3) **by the applied domain**, the statistical indicators presents a huge variety, according the big number of directions and sides of human activity, as: the industrial production indicators, agricultural production, demographic indicators etc.

The notion of **index** or **index numbers** has the role to measure and characterise the average and relative variation of a given community. The application domain of the indexis consists of communities or multitudes of things and facts, and the main aspect concerning these communities is the movement and middle variations, their progressive or regressive development.

Just like the statistical series, the indexes can reflect the variation by time or dynamics, territorial variation and quality variation.

The time or dynamics indexes, having the role of measurement and characterise by relative dimensions ,depending on a chosen base, the variations on time of the phenomenons and processes, will indicate, when they are calculate for a long period, the tendency that manifests on these phenomenon development.

The territorial indexis serve for compare the levels touched by a community on different territories or geographic areas, countries, etc., to the level of another territory, considered as significant on analyse and being a comparison base.

The quality indexes have the role to measure and characterise the ratio between different quality groups of a statistic community, such as some production groups obtained by different production units.

Indifferently of their category, the indexes have a common methodology, consists in **comparing two different levels of a given statistical index**, either this index shows a time variation(the dynamic aspect), or it refers to the territorial extent of a community, or it shows some internal (quality) changes.

Practically, for calculate the indexes, we must start from a statistical series (of time, space or quality), determinig a term from inside or outside the series with a certain meaning in the analyse, as a comparing base, than we report successively the other terms of the series to the basic term. It results that the **basic term is a measure unit for all the rest of the series terms**.

The report value is **the index number** that we are searching and express **the relative variation** of the term comparing with the base. Multiplying this proportion by 100, we have the percent expression of the variation, which is the usual form of to represent the indexes. So, the statistical index is a relative value, result by the proportion between the absolute value of an indicator of the current perriod to the value of the basic period indicator.

The birth of the indicators is durable linked by the necessity of the economy to measure and characterise the current variation of the goods price and of the market values, so they become a kind of business **guide**. The compare of a level touched in a per-riod with the base period level of any statistical indicator shows, by their proportion if the respective unit, the unit group or a certain zone or territory have obtained good results for bringing a production proffit or benefit to those which co-ordinate the respective area. Because of the absence of economical knowledge, we often meet situations when, practically, the indicators are confused with the statistical indexes. There are cases when so-called economy specialists say, when they analyse some indicators, as: indus-trial goods production, productivity, manpower, agriculture production or animal effec-tives, that they analyse statistical indexes, not the indicators, giving to these indicators re-llative values, not absolute values as it should.

With the help of the statistical indicators and the indexes, the economic statistics helps to know the reality and the people informing about showing the main events and processes of the economic life. So, by the economic analyses, statistics studies and put in a concrete form the correlations, the rate and the proportions of the country, with the help of a proper indicators system, used on the periodical reports, as:

- people and work resourses indicators
- national wealth indicators
- the raw internal product indicators
- financial indicators
- life level indicators, etc.

For a state economy, the financial indicators, pursued through statistics, show a great importance, because the mode are formed and used the state finances generates the assurance with materials, machines and production process development.

Also through indicators and statistical indexes we can watch, on the country size, the national wealth statistics, meaning the entire material goods available for the society at one time. The necessary data and informations for the economy process of developement are pursued by the computational statistic system, formed by two main sides: the statistical reports subsystem and the statistical research subsystem, both for the private or state sectors of the national economy. The statistical indicators and indexes also have an significant role in pursuit of the macroeconomical system achievements, for doing a global comparability according The U.N. Bureau of Statistics, as well as the results of the external balance of payment and the external debt.

Without the help of the indicators and statistical indexes we couldn't know the reallity around us and it wouldn't be possible to action any time is need to eliminate some troubles show by the statistical studies and researches.

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CAPITAL INCREASE AND ITS DILUTION EFFECTS

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Abstract: *The economic activity performed by companies needs sometimes to attract additional financial resources. In this respect the available alternatives to do it implies the classical one – to approach the banking system by funding through interest bearing loans and/or the capital market by founding through capital increase or bond issue.*

The result of funding through new shares issue is the equity increase followed by negative effects for the company's existing shareholders because of so called "dilution effects". The issuer needs to quantify the dilution effect in order to grant the existing shareholders with preferential subscription rights on the new shares issue to compensate their potential financial impairments.

Key words: *capital increase, dilution effects, preferential rights, subscription right, capital dilution, profit dilution, dilution of the shareholders interest*

The beginning and the development of the capital markets funding rising methods, are correlated with the funding needs evolution of the main players on the economy. Often, start up businesses begin with a relatively small capital amount but the business expansion (diversifying, technology upgrading, new markets penetration) requests a higher funding either through interest bearing loans/bonds (by applying to banking system/capital markets) and/or through capital increase (by applying to the capital markets).

The most dynamic corporates within a economy often try to diversify their fundings by both interest bearing loans/bonds or/and by issuing shares.

The shares issue can be performed at the registration moment as well as further during its operational cycle.

For the issuer, the effect of the new shares issue is the capital/funding increase, while for the investors the return expectation will enhance through the investment return: a direct investment return (through a dividends incoming expectations based on capital sharing) and a indirect return (through a favorable expectations of the share price between the purchasing/subscription time and the further price).

During the company life, each capital increase by new shares issue obviously affects the equity level, the price per earning as well as the voting right.

Legally a rights issue must be made before a new issue to the public. This is because existing shareholders have the "right of first refusal" (otherwise known as a "preemption right") on the new shares. By taking these preemption rights up, existing shareholders can maintain their existing percentage held in the company.

However, shareholders can, and often do, waive these rights by selling them to others. Shareholders can also vote to rescind their preemption rights.

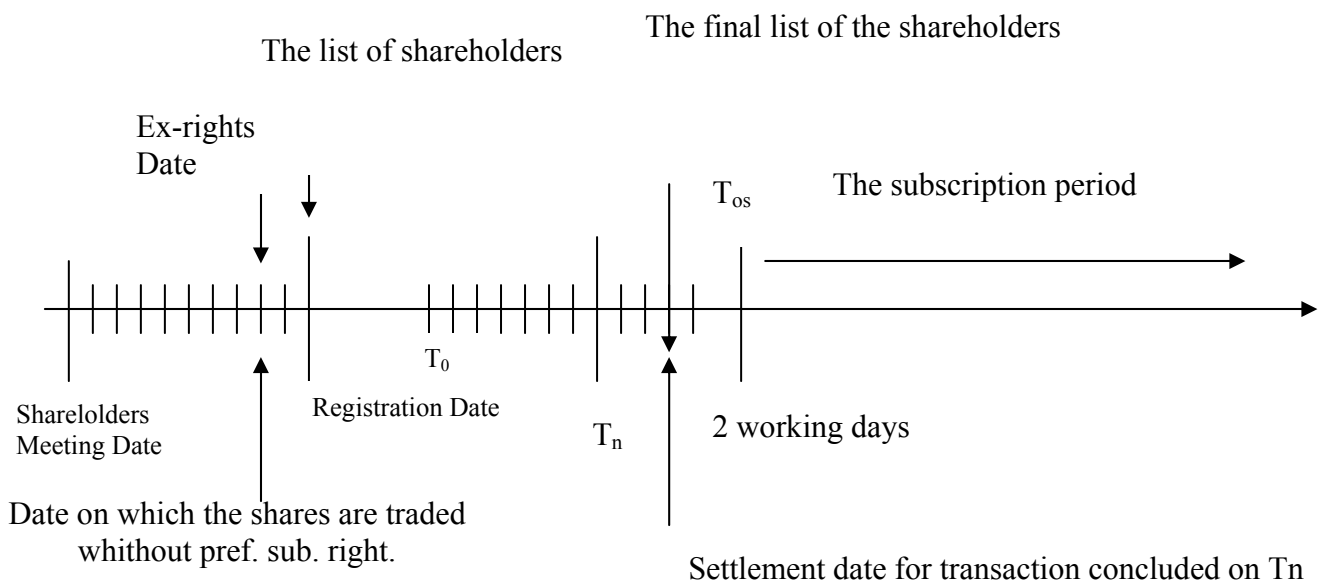
In order to attenuate all these negative dilution effects the issuer grants special proportional subscription rights for each existing shareholder (that owns preferential subscription rights against those that intend to become new shareholders). These subscription rights are eligible for each registered shareholder at the registration date.

The preferential subscription rights can be used by the existing shareholders in order to maintain the capital stake by subscribing to the new shares issue as well as to cash-in based on market-price.

The allowed subscription rights entitle the existing shareholders to:

- pro-rata subscribe for shares on the new shares issue in order to prevail their current shareholder interest
- to cash-in by selling on the stock exchange at the market price.

The allocations of the trading rights for the preferential subscription rights are succeeding as followings:



The trading period for preferential subscription rights is allowed between T₀ - T_n.

The capital increase through capital injection is performed through new shares issue:

- To the stockholders of the preferential subscription rights (existing shareholders at the registration date or those that purchased the rights on capital market during the trading period);
- To any other investor, if the subscription percentage for the new shares during the expression of the subscription rights does not meet the requested level and if the issuer does not decided for call off.

The price at which the new shares are issued is generally much less than the prevailing market price for the shares. A discount of up to 20-30% is fairly common.

The main reason is to make the offer relatively attractive to shareholders and encourage them either to take up their rights or sell them so the share issue to be "fully subscribed".

The price discount also acts as a safeguard if the market price of the company's shares fall before the issue is completed. If the market share price were to fall below the rights issue price, the issue would not have much chance of being a success - since shareholders could buy the shares cheaper in the market than by taking up their rights to buy through the new issue.

The capital subscription right is priced on the stock exchange, the price being established as a result of the bid/ask orders. Even though, the theoretical price can be „priced” by the issuer as a premium between the last market price for a share and the „theoretical” price of a share after the capital increase. The size of it depends of the number of the new shares issued and of the price per new share (issue price or nominal value). If the new shares offer is issued at the issuing price, the „theoretical” value of the preferential subscription right is:

$$DS = C - \frac{N \times C + n \times PE}{N + n};$$

where:

- DS – the theoretical value for the preferential subscription right
- C – Market price per share before the capital increase
- PE – Issuing price per share for new shares
- N – Number of existing shares before the capital increase
- n – Number of new issued shares

The size of the preferential subscription rights can be priced by the issuer started from the subscription weight (considering the existing and the new subscribed shares) that can emphasize the number of new shares that can be preferentially subscribed based on the preferential subscription rights resulting in non-changing in shareholder right position.

In addition to the price at which a rights issue is offered, there are several other factors that need to be considered: rights issues are a relatively cheap way of raising capital for a quoted company since the costs of preparing a brochure, underwriting commission or press advertising involved in a new issue of shares are largely avoided.

However, it still costs money to complete a rights issue. Issue costs are often estimated at around 4% on equity funds raised of around EUR 3.5 million raised. However, as many of the costs of the rights issue are fixed (e.g. accountants and lawyers fees) the percentage cost falls as the sum raised increases.

If the capital increase through a new shares issue by cash contribution is considered, the existing shareholders' options are:

- to maintain their rights
- to purchase additional rights on stock-exchange
- to sell part or total of their allocated rights.

Shareholders may react badly to firms continually making rights issues as they are forced either to take up their rights or sell them. They may sell their shares in the company, driving down the market price.

Unless large numbers of existing shareholders sell their rights to new shareholders there should be little impact in terms of control of the business by existing shareholders.

Unlisted companies often find rights issues difficult to use because shareholders unable to raise sufficient funds to take up their rights may not have available the alternative of selling them where the firm's shares are not listed. This could mean that the firm is forced to rely on retained profits as the main source of equity or seek to raise venture capital or take on debt.

On BSE (Bucharest Stock Exchange) the trading of the subscription rights is based on their qualification as such based on the documentation issued by the issuer and following the shareholders registration. The subscription right is traded based on the bid/ask premium, the owner of a such right can sell it in the market for a totally different price compared to the “theoretical one” , cashing in the amount that can protect him against the dilution effect.

In order to explain the dilution effects we have considered the capital increase, through cash contribution, performed by SC COMPA SA (in 2006) by issuing a number of 77.800.870 nominative shares with a nominal value of 0,1 RON/share.

The preferential subscription right could be performed by each shareholder registered as such at 27.01.2006.

Example: Compa Sibiu case

Explanations	T₀ (before the increase)	T₁ (after the increase)
Number of shares	77.800.880	148.667.067
Nominal Value (RON)	0,1000	0,1000
ROE (return on equity)	4,80%	4,80%
Number of shares owned by a minority shareholder	15.000	15.000
Shareholders Equity (RON)	100.763.932	108.544.019
Net Profit (RON)	4.832.079	7.136.019

Because of the capital increase the following negative effects were recorded by the existing stockholders:

1. The change in the share value known as a “**capital dilution**” effect.

At the company’s incorporation date, the share value can be expressed through the book-keeping value considering just the shareholders equity and the number of issued shares:

$$VI_0 = \frac{CPR_0}{N}$$

$$VI_0 = \frac{(CS + RI)}{N} = \frac{(VN \times N) + RI}{N}$$

For Compa Sibiu:

$$VI_0 = \frac{CPR_0}{N} = \frac{100.763.932}{77.800.880} = 1,29515 \text{ RON/ share}$$

where:

VI – book-keeping value

CPR – Total equity

CS– Shareholders equity

RI – Legal provisions

N – Number of existing shares

After the capital increase, the book-keeping value per share decreased as followed:

$$VI_1 = \frac{CPR_1}{N + n}$$

$$VI_1 = \frac{CS_o + RI + \Delta CS_o}{N + n} = \frac{(VN \times N) + RI + (PE \times n)}{N + n}$$

In case of Compa Sibiu:

$$VI_1 = \frac{CPR_1}{N + n} = \frac{108.544.019}{148.667.067} = 0,73011 \text{ RON/ share}$$

where:

CPR₁ - Total equity after the capital increase by new shares issue

ΔCS_o - Shareholders equity increase

N – Number of additional shares

Following the data computations, it can be observed that the dilution effect for the analyzed company results in a book-keeping value diminishing per share of RON 0,56504/share.

2. Changes on the profit per share (**Earning per share dilution**)

The net profit per share (PPA) can be theoretical considered as the corporate ability to perform profitability in a such way that its expensions to be further covered by the incomings.

The significance of this indicator is related to the moment it refers to. Basically the capital markets operators are interested on this indicator estimation at the financial results publishing date.

$$PPA_0 = \frac{PN_0}{N}$$

$$PPA_0 = \frac{(ROE \times CPR)_0}{N}$$

where:

PN₀ – net profit before the capital increase

ROE – return on equity

In case of Compa SA, before the capital increase:

$$PPA_0 = \frac{4.832.079}{77.800.880} = 0,0621 \text{ RON/share}$$

After the capital increase the earning per share can be considered as:

$$PPA_1 = \frac{PN_1}{N + n}$$

$$PPA_1 = \frac{(ROE \times CPR)_1}{N + n}$$

In case of the capital increase, the Compa SA' earning per share will be :

$$PPA_1 = \frac{7.136.019}{148.667.067} = 0,0479 \text{ RON/share;}$$

The dilution of the earning per share

= PPA₀ – PPA₁ = 0,0621 - 0,0479 = 0,0142 RON/share

where:

PPA₀, PPA₁ - earning per share before and after the capital increase

PN₀, PN₁ – net earning before and after the capital increase

CPR₀, CPR₁ - shareholders equity before and after the capital increase

It can be observed that through the change in shareholders shares, the earning per share decreased, in our example with 0,0142 RON/share. Taking this into account it can be considered a pro-rata reducing in dividend per share allocation the result affecting the placement rentability.

3. Changes in the decision interest share (**dilution of the voting rights**)

When a company decide to funding itself by capital increase, the existing stockholders are exposed to the risk of losing their former voting rights. Before the capital increase:

$$\text{Voting right} = \frac{\text{Number of shares}}{N}$$

After the capital increase:

$$\text{Voting right} = \frac{\text{Number of owned shares}}{N + n}$$

In case of an existing stockholder of SC Compa SA that owned before the capital increase 15.000 of shares, his voting right is:

$$\text{Voting right}_0 = \frac{15.000}{77.800.880} = 0,0192\%$$

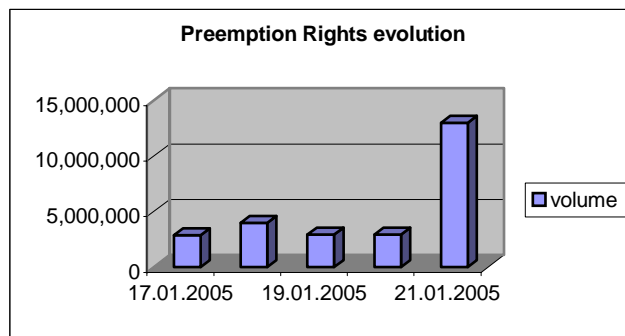
$$\text{Voting right}_1 = \frac{15.000}{148.667.067} = 0,0100896\%$$

As such, the stockholder that is maintaining its same number of shares after the capital increase, will have a diminished voting rights share. In case he will intend to maintain its voting stake he needs to participate at the company capital increase by benefiting of the allocated subscription rights and/or by purchasing and benefiting of additional such rights.

The first trade of subscription rights

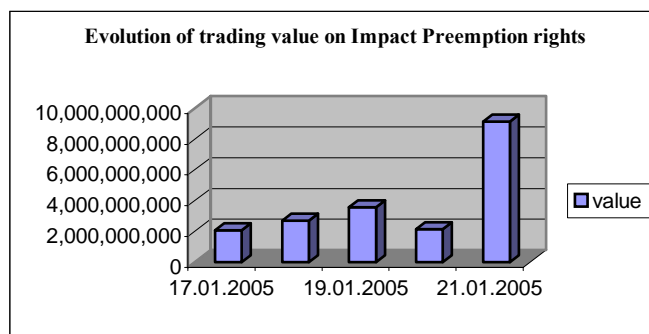
The Impact Construct and Developer, listed on Bucharest Stock Exchange issued preemptions guidelines in January 2005, which govern all such non pre-emption issues and seek to protect the various investment groups.

In theory, waiving of preemption rights would allow directors to negotiate with favored investment banks for sale to them of blocks of shares, which those banks might then sell to their own clients. Clients of other brokers would not get an opportunity to participate in the new issue at all. The guidelines require annual disapplication of pre-emption rights; specify limits on the cumulative use of this entitlement and on the discount to prevailing market price of securities at which the new issue may be offered. Issue details must be notified to Bucharest Stock Exchange. The evolution of preemption rights issued by Impact SA was as following:



Source: www.bvb.ro

So, between January 17 and 21 there had been sold 25.844.960 preemption rights issued by Impact, which represents about 5,53% from the total amount of preemption rights issued. The evolution of trading value of the preemption rights issued by Impact SA was:



Source: www.bvb.ro

Conclusions: attracting of new funding (available on risk/pricing equilibrium on the market) is a real necessity and a dilemma too. Even the funding through capital markets seems to disadvantage the existing stockholders (decrease of price per share, dilution of decision power, earning per share dilution) this funding way plenty compensate them through the presented subscription rights (if balanced and/or fair quantified).

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CALENDAR ANOMALIES ON BUCHAREST STOCK EXCHANGE: TESTING FOR MONTH-OF-THE-YEAR EFFECT

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Abstract

This paper is concerned with testing the existence of month-of-the-year effect on Bucharest Stock Exchange.

The empirical research is conducted using daily logarithmic returns of the Romanian composite index, BET- and of the index of the five investment financial societies listed on BSE (SIFs) over a eight years period (January 2000 and October 2000 respectively, the first available dates for both BET-C and BET-FI – till present time- November 2007). A regression model using dummy variables is run to test the presence of this seasonal effect. We find that we do have a statistically significant January effect for the BET-C index, but the results provide no support for the existence of the month of the year effect for the BET-FI index..

Keywords: *pattern, month of the year effect, dummy variable, multiple regressions.*

For many years, financial analysts have been concerned about seasonality in stock returns. The most important calendar effects studied are the day-of-the-week effect (significantly different returns on some day of the week; usually higher Friday returns and lower Monday returns), the monthly or January effect (relatively higher January returns), the trading month effect (returns higher over the first fortnight of the month) and the holiday effect (returns higher on the days before holydays). These market anomalies, if detected, are proofs of market inefficiencies.

Since Fama (1965), a vast number of papers have been concerned with these stock price anomalies, known as calendar effects. For a survey of common security price anomalies see Thaler (1987).

Month of the year effect on BET-C Index

As stated before, we employ daily log returns of the BET-C index covering a eight years period, from January 2000 through November 2007.

We estimate next a regression equation including an intercept and 11 dummy variables, one for each of the first eleven months of the year. The equation that we estimate is:

$$\text{Return}_t = b_0 + b_1\text{Jan}_t + b_2\text{Feb}_t + \dots + b_{11}\text{Nov}_t + u_t,$$

where each month's dummy variable has a value of 1 when the month occurs and a value of 0 for the other months. The intercept, b_0 in our equation, measures the average log return of the index for December. Table 1 shows the results of the above regression.

TABLE 1: Statistics for monthly regression for BET-C Index (2000-2007)

<i>Regression Statistics</i>	
Multiple R	0,51071
R Square	0,260825
Adjusted R Square	0,161668
Standard Error	9,564079
Observations	94

<i>ANOVA</i>					
	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	11	2646,687	240,6079	2,630411	0,006291
Residual	82	7500,672	91,47161		
Total	93	10147,36			

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>
Intercept	2,744091	3,614882	0,759109	0,449964	-4,44706	9,935247
X Variable 1	16,81618	5,112215	3,289412	0,001481	6,646351	26,98601
X Variable 2	0,185476	4,949881	0,037471	0,970201	-9,66142	10,03237
X Variable 3	-8,38533	4,949881	-1,69405	0,094052	-18,2322	1,461568
X Variable 4	-0,03409	4,949881	-0,00689	0,994522	-9,88098	9,812807
X Variable 5	-1,88636	4,949881	-0,38109	0,70412	-11,7333	7,960534
X Variable 6	1,167897	4,949881	0,235944	0,814064	-8,679	11,01479
X Variable 7	0,775983	4,949881	0,156768	0,875813	-9,07091	10,62288
X Variable 8	-1,15881	4,949881	-0,23411	0,815485	-11,0057	8,68809
X Variable 9	-0,81681	4,949881	-0,16502	0,869337	-10,6637	9,030083
X Variable 10	0,652427	4,949881	0,131807	0,89546	-9,19447	10,49932
X Variable 11	-2,40089	4,949881	-0,48504	0,628942	-12,2478	7,44601

The regression equation estimates that the average return for BET-C in December is 2,74 percent. Each of the estimated coefficients for the dummy variables shows the estimated difference between returns in that month and returns in December.

For example, if we look at the results in Table 1, we find that the estimated return for January is an impressive 16,81 percent higher than December, which gives us a January prediction of 19,55 percent.

This is actually from far the highest value we find between all 11 variables, followed by variable 6 (June) and variable 7 (July), with estimated prediction way lower than January.

If we look further at the regression coefficients we find, however, a low R-squared, which may suggest that a month-of-the-year effect in BET-C return may not be very important in explaining the evolution of the index.

We can use further the F-statistics to analyze the null hypothesis that monthly dummy variables are all equal to 0, or that there is no month of the year effect on BSE.

$$H_0: b_1 = b_2 = b_3 = \dots = b_{11} = 0$$

We are testing for significant monthly variation of the Romanian composite index. Looking at the ANOVA table, we find that, for 11 degrees of freedom, the F-statistic to determine whether all the regression slope coefficients are jointly equal to 0 is 2,63. We must next look in a table with critical values for F-test. If we choose a significance level of 0,05, we see that for 11 degrees of freedom of the numerator, the critical value is 1,95 when the denominator has 60 and 1,87 when the denominator has 120.

In our case (82 degrees of freedom for the denominator), the critical value would have to be larger than 1,87 and smaller than 1,95. The value for F-statistic is 2,63, so we can reject the null hypothesis that all the coefficients are jointly equal to 0, which means that there is a month of the year effect on BSE for the analyzed period.

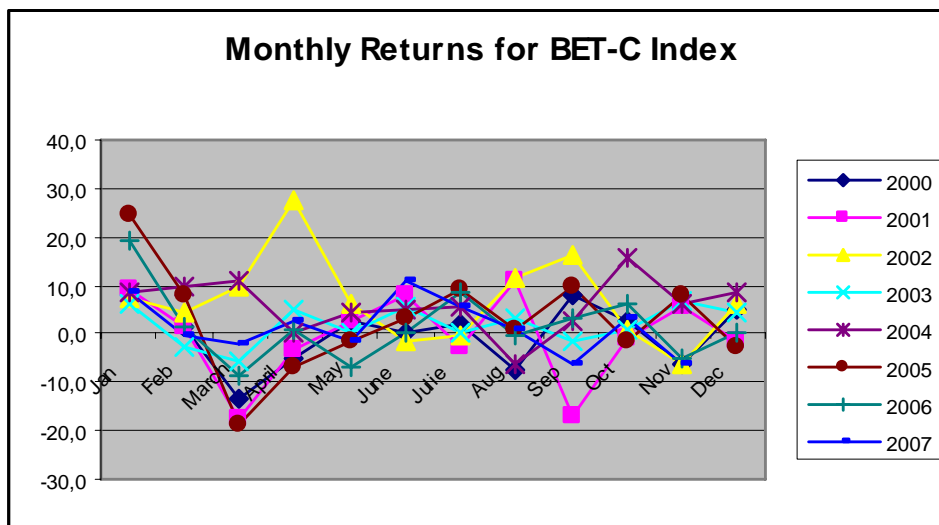
The p-value of 0,006291 shown for the F-test in Table 1 means that the smallest level of significance at which we can reject the null hypothesis is 0,006291, or 0,62% - way below the conventional level of 5 percent.

Among the 11 dummy variables, we find one statistically significant value for t-statistic, for variable 1, which represents the January return, so we can reject the null hypothesis that the returns are equal across the months based on the t-test. The only coefficient with a p-value close to the accepted level of 0,05 is also variable 1, which means that the January effect is statistically significant judging also by the coefficient's p-value.

In conclusion, the higher return observed in January is statistically significant, which means the null hypothesis can be rejected and we do encounter a month-of-the-year effect, or January effect, on Bucharest Stock Exchange Composite Index. The graph below also reflects the higher January returns of the BET composite index.

Table 2: Monthly return for BET-C Index (2000-2007)

	Jan	Feb	March	April	May	June	Julie	Aug	Sep	Oct	Nov	Dec
2000		1,5	-13,3	-5,3	2,6	0,5	2,2	-7,6	8,3	2,5	-6,2	4,8
2001	9,4	1,7	-17,6	-3,1	2,7	7,9	-2,7	10,7	17,1	-1,0	5,8	-1,7
2002	7,3	4,2	9,9	27,8	6,1	-1,4	-0,5	11,3	16,4	1,1	-6,4	6,2
2003	6,0	-2,5	-5,4	5,2	0,1	5,5	0,5	3,1	-1,4	1,0	6,8	4,3
2004	8,6	9,5	11,1	0,4	4,6	4,9	5,4	-6,3	2,6	15,6	6,2	8,5
2005	24,5	7,9	-18,5	-6,7	-1,3	3,1	9,1	1,1	9,5	-1,6	8,1	-2,9
2006	19,1	1,2	-8,8	0,7	-6,7	0,0	8,8	-0,2	3,4	6,2	-5,0	0,0
2007	8,4	-0,1	-2,3	2,7	-1,3	10,9	5,4	0,6	-6,3	3,2	-6,5	



Month of the year effect on BET-FI Index

TABLE 2: Statistics for monthly regression for BET-FI Index (2000-2007)

<i>Regression Statistics</i>	
Multiple R	0,446428
R Square	0,199298
Adjusted R Square	0,078645
Standard Error	13,26613
Observations	85

ANOVA

	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	11	3197,751	290,7046	1,651822	0,10229
Residual	73	12847,29	175,9903		
Total	84	16045,04			

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>
Intercept	6,836646	5,014127	1,363477	0,176923	-3,1565	16,82979
X Variable 1	0,90237	7,091046	0,127255	0,899089	-13,2301	15,03481
X Variable 2	-10,3476	7,091046	-1,45925	0,148786	-24,4801	3,784839
X Variable 3	-14,0433	7,091046	-1,98042	0,051425	-28,1757	0,089174
X Variable 4	10,97579	7,091046	1,547838	0,125986	-3,15665	25,10824
X Variable 5	-6,37276	7,091046	-0,89871	0,371764	-20,5052	7,759682
X Variable 6	1,281688	7,091046	0,180747	0,857067	-12,8508	15,41413
X Variable 7	1,738248	7,091046	0,245133	0,807041	-12,3942	15,87069
X Variable 8	1,484243	7,091046	0,209312	0,834787	-12,6482	15,61669
X Variable 9	-2,10312	7,091046	-0,29659	0,767623	-16,2356	12,02932
X Variable 10	-0,71085	7,091046	-0,10025	0,920424	-14,8433	13,42159
X Variable 11	-3,91473	6,865876	-0,57017	0,570312	-17,5984	9,768948

We rerun the above analysis for BET-FI Index.

We see that for BET-FI the intercept, or the average return in December, is 6, 83%. As mentioned before, each of the estimated coefficients for the dummy variables represents the estimated difference between returns in that month and returns in December. We find an impressive 10,97 coefficient for variable 4, which means that the predicted return for April is 17,80%. At a big distance we have next the coefficients for July, August and June, with values of 1,73, 1,48 and 1,28 respectively, all others having values lower than the intercept December. We investigate further if the found coefficients are statistically significant.

In this case we have also a low-R squared, which gives us in indication that we may not encounter a month of the year effect on BSE.

We analyze the F-statistic from the ANOVA table, and find a value of 1,65. We must next look in a table with critical values for F-test. Like before, if we choose a significance level of 0,05, we see that for 11 degrees of freedom of the numerator, the critical value is 1,95 when the denominator has 60 and 1,87 when the denominator has 120. In our case (73 degrees of freedom), the critical value would have to be in the interval [1,87-1,95]. The value for F-statistic is 1,65, so this time we cannot reject the null hypothesis that all the coefficients jointly are equal to 0.

The p-value of 0,10229 shown for the F-test in Table 2 means that the smallest level of significance at which we can reject the null hypothesis is 0,10229, or 10,2% - above the conventional level of 5 percent.

Among the 11 dummy variables, we find no statistically significant value for t-statistic, so we cannot reject the null hypothesis that the returns are equal across the months based on the t-test. The only coefficient with a p-value close to the accepted level of 0,05 is variable 3, which represents the estimated return from March. In our case, this value is by far the smallest one found among all monthly coefficients (14,04 % smaller than the estimated return for December).

In conclusion, the higher return observed in April is not statistically significant, (nor are the other regression coefficients), which means the null hypothesis cannot be rejected and we do not encounter a month-of-the-year effect on BET-FI Index.

The paper provides evidence that there is a significant January effect on Bucharest Stock Exchange as reflected by the broader index BET-C, but could not find a statistically relevant monthly effect when considering the BET-FI index for the same period.

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THE EVALUATION OF INSURANCE CONTRACTS ACCORDING TO THE NEW IAS/IFRS INTERNATIONAL ACCOUNTANCY STANDARDS

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Abstract

IFRS 4 – represents the first step towards the insurance of an exclusive framework for the drawing up of insurance companies' balance sheets. This international accountancy standard applies to all kinds of insurance contracts. The insurers (the insurance companies) are exempted from the dispositions of the General Accountancy Framework (FRAMEWORK) or from those of other IAS/IFRS international accountancy standards, like the incorporated derived instruments for which specific evaluation norms are established (IAS39 – Financial Instruments).

The adoption of new international accountancy standards (IFRS) prescribes, among others, that from the very beginning the contracts should be classified as: investment contracts, insurance contracts and service performing contracts. It also prescribes that the contracts should be analytically individualized on certain contract components before one establishes to which international accountancy standards the type of contract or its specific component parts should effectively abide to.

Adopting IFRS₄ aims to implement a common accountancy language for the insurance company and also for the sector operators, meaning consultants in accountancy issues, auditors and economic-financial analysts.

Getting to IFRS doesn't necessary refer to the accountancy field but it follows better objectives which focus on the strategic management and also the basic planning of the company.

We have to mention that when finishing the balance, the Insurance Companies will classify contracts into insurance contracts, investment contracts and services contracts according to the new accountancy international standards (IAS/IFRS).

Practice Guidelines", elaborated by the International Actuarial Association (IAA) was considered as a reference – this guide was elaborated in an opportune way in order to take into account the market particularities concerning the insurance sector. After the classification of contracts in: insurance contracts, investment contracts and services contracts was made, the types of accountancy standards will be examined, standards which are to be applied in a special way:

- IFRS4 – Insurance contracts
- IAS 32 – Financial instruments: information to be presented and supplied

which define the financial instruments and offer diverse modalities to register into the balance.

- IAS 39 – “Financial Instruments” – “acknowledgement and evaluation” – supplies with necessary information to determine if a financial instrument is a derivate or an embedded derivate and if it directs to the value evaluation of a financial instrument.

- IAS 18 “the income of common activities” – shows the necessary conditions that an income from ordinary activities should be considered per se.

Most of the contracts which are to be found in the balance of an insurance company will be evaluated according to these four standards.

At the same time, these contracts will have to accomplish certain conditions: to offer relevant information - which should cover the characteristics of products and services supplied by the company; among these information regarding possible correlated contracts will be included.

The type of contract has to be clearly defined for the accountancy – here there will be information concerning the way a contract is accounted according to IFRS.

IAS 32, line 13 concerning the financial instruments defines a contract as an agreement between two or more parties, with clear economic consequences that the parties have a limited possibility or no possibility at all to avoid it, the agreement being concluded according to certain legal regulations.

Generally, IFRS define a contract basing on the economic substance of the agreement between the parties and not on the legal form of the same contract.

As a consequence, a contract might contain more elements which can represent separate contracts and in order to individualise IFRS for being applied, the economic character will be evaluated.

Also, it is necessary to mention that certain parts of such a contract, besides its legal form, must be accounted differently from other parts of the same contract. For example the components of one contract can be separated for the accountancy as follows:

- they will be administered separately, especially those referring to the safety;
- they stipulate different clauses to participate in companies within the group;
- they can be transferred or applied separately;
- they can be sold, separately or at the same time they can be sold together.

A contract which is the subject of an IFRS 4 should necessary be divided in many parts, at least if it isn't expressly mentioned by IFRS 4 and IAS 39 line 11.

If a contract is not an insurance one then it should be verified as a financial instrument. In this case, it is considered an investment contract or a services contract to which we apply IAS 18 incomes from common activities.

Normally, insurance contracts are accounted according to the conditions of IFRS but there might be exceptions concerning the application field – (ex. IFRS 4, line 4). The embedded derivate in insurance contracts which don't cover IFRS 4 application field will be accounted according to IAS 32 and IAS 39, modified according to the same IFRS. Also, a contract or one of its component parts accomplishes the conditions for being defined as an insurance contract; this must “transfer a significant insuring risk from one part (the insured person) to the other part (the insurance company) agreeing that the insurance company should pay the damages to the insured person when a possible event related to that risk will

strike him”(IFRS 4 – art.4). That IFRS defines the insured person as a party that has the right to be compensated according to a life insurance contract, if the insured event takes place.

In life insurance contracts, this fact doesn't correspond in legal terms to the insured person, but to the beneficiary. In order to classify an insurance contract, we have to see if the insured event is covered by the contract and if the insurance risk included in the contract is significant.

In other words, an insurance contract has to include at least one insured event which might generate a service according to a legal obligation. The risk which characterise an insurance contract has to be a pre-existing one which will be transferred from the insured person to the insurance company so, it has to be independent from the contract existence; a risk created by the contract is not an insurance risk.

According to IFRS 4 – “the insured event must have a negative impact over the insured person and there must be mentioned something about a n indemnity which must compensate the negative effects of that event”.

Also, in certain circumstances, it is not necessary that the insured company should verify if an adverse event effectively took place for the insured person. Certain contracts are written in such a way that the insured person shouldn't prove that he suffered from an adverse effecting order to get compensated, either because investigating the adverse effect might be considered inadequate , or because the nature of that risk might lead to a verisimilar trauma for the insured person. For example, this happens in case of risks related to life/death or health/disease/invalidity of people.

IFRS 4 (addendum B, B23) – ascertains that the insurance risk is significant “only if an insured event might lead the insured person pay significant, additional compensations in any circumstances, excluding those which don't have commercial substance or those which don't have a relevant economic effect over the operation”.

IFRS 4 – specifies at the same time that the insurance risk can be significant even when the insured event has a low probability to have taken place (e.g. Catastrophes) or if the actual value of the cash-flow related to the insured event is a small part of the actual value of the contracts cash-flow (IFRS 4 – addendum B, B23), so that the reference scenario should have material substance.

In case of insurance contracts, investment contracts and services contracts, we have to verify if the contract contains an embedded derivate. In positive case, we should verify if this component was already evaluated correctly (for example if the whole value of the contract was evaluated correctly) or if is strictly connected to the host contract. If neither of the two conditions is verified, it is necessary to separate the contracts; and there is an embedded derivate, IFRS 4 compels specific information.

Eventually, we have to pay a special attention to the fact that IFRS 4 does not stipulate the evaluation of liability elements connected to the insurance contracts at the fair value, circumstance which might show the incorrect evaluation of assets elements of the same company. This problem which derives from the evaluation of assets elements to the fair value and liability ones to the historic cost represents a debate between the representatives

of insurance companies and IASB, anticipating as the second stage of IFRS implementation, to agree the introduction of the fair value with minor consequences.

At a community level there are two regulations regarding the insurance field. The accountancy directives – the Directive 91/674/CEE concerning the annual accounts and secure accounts of insurance companies; the fourth Directive (no. 78/660/CEE) concerning the annual accounts of certain types of companies; The 7th Directive (no. 8/349/CEE) concerning the secure accounts.

The Regulations of the European Commission CE (no.1606/2002) or the Regulations IFRS which stipulate the obligation to apply the IFRS adopted at the community level through the CE regulations regarding the drawing up of secure financial reports by the rated companies starting with 1st January 2005.

As a result, the Insurance Supervising Commission (CSA) started a process of evaluation, at the insurance market level, concerning the capacity to implement International Standards of Financial Reports (IFRS), of the results of this evaluation as well as of other analysis presented within this process.

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THE IMPLEMENTATION OF THE INTERNATIONAL ACCOUNTING STANDARDS

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Abstract

As the world continues to globalize, discussion of convergence of national and international standards has increased significantly.

Most major capital markets are now actively discussing or pursuing efforts of convergence towards single sets of globally accepted accounting and auditing standards. IFAC, in an effort to facilitate international convergence, commissioned this study to explore the challenges and successes involved in adopting and implementing international standards.

1. The benefits of globally accepted International Standards

Globally consistent and uniform financial systems provide cost-efficiencies to business and greater safeguards to the public. The public is entitled to have confidence that, regardless of where a business activity occurs, the same high quality standards were applied. It is

widely recognized that investors will be more willing to diversify their investments across borders if they are able to rely on financial information based on a similar set of standards.

Thus, adherence to international standards, such as those developed by the International Accounting Standards Board (IASB) and the International Auditing and Assurance Standards Board (IAASB), can ultimately lead to greater economic expansion.

The international accounting standards have a direct effect on far more people than the international auditing standards. The complexity of the international auditing standards might flow through into the audit fee an entity pays, but the entity does not itself have to read, interpret, and implement the standards.

Successful adoption of the international standards is dependent on the development of high quality standards and integrity in the application of the international standards is essential. Preparers, auditors, and users of financial statements must encourage and support compliance with the substance and form of the international standards.

The adoption and implementation of the international standards require action at both the national and international levels. At the national level, it is important that governments, regulators, and national standard setters place international convergence as a priority on their agendas. At the international level, it is important that the international standard setters establish processes and procedures that facilitate national input and lead to the development of high quality standards that are globally accepted.

Finally, it is clear that to achieve international convergence, action is necessary at all points along the information supply chain that delivers financial reporting. Boards of directors and management, who have the primary responsibility for financial reporting, as well as auditors, standard setters, regulators, and other participants in the financial reporting process, such as lawyers, investment bankers, analysts, credit rating agencies, and educators, all have important roles to play in achieving international convergence.

2. Support for international convergence

The Financial Stability Forum (FSF)¹ included the International Financial Reporting Standards (IFRSs) issued by the IASB and the International Standards on Auditing (ISAs) issued by the IAASB in its 12 Key Standards for Sound Financial Systems. The FSF indicated that these 12 Key Standards are most likely to make the greatest contribution to reducing vulnerabilities and strengthening the resilience of financial systems.

The report on Rebuilding Public Confidence in Financial Reporting – An International Perspective, issued in July 2003, provided further support for IFRSs and ISAs becoming the worldwide standards. The report was developed by the Task Force on Rebuilding Public Confidence in Financial Reporting – an independent group commissioned by IFAC to address, from an international perspective, the loss of credibility in financial reporting and approaches to resolving the problem. The task force recommended that convergence of national and international standards be achieved as soon as possible, viewing this as a significant public interest issue.

IFAC has committed itself to the achievement of global convergence of national standards with IFRSs and ISAs. This is evidenced both in its mission statement and in its Statements of Membership Obligations.

Published in April 2004, the Statements of Membership Obligations formally capture IFAC's longstanding requirement that its member bodies support the work of the IASB and IAASB by using their best endeavors to incorporate the IFRSs and ISAs in their national requirements (or where the responsibility for the development of national standards lies with third parties, to persuade them on a best endeavors basis to do so) and to assist with the implementation of IFRSs and ISAs, or national standards that incorporate IFRSs and ISAs.

As countries increasingly commit to converging national standards with IFRSs and ISAs, there is a need to ensure international convergence is approached in a systematic and, where possible, consistent way across jurisdictions.

It also has made it necessary for interested parties, such as IFAC, the international and national standard setters, and international regulators, to understand the challenges in adopting and implementing the international standards so that they can be addressed at an early stage.

3. Accessibility to the international standards

Limited accessibility to some or parts of the international standards was identified as a barrier to international convergence. Some participants, particularly those from developing countries, were concerned that fees are being charged to obtain the IFRSs. Similarly, participants from the EU, who will have free-of-charge access to parts of the IASB literature, were concerned that guidance essential for proper implementation of IFRSs would not be available free of charge and, as a result, might not be considered by entities implementing IFRSs.

It is evident that international convergence is a process. This process could be enhanced by IFAC through greater clarification of the end result, the meaning of "adoption," and by the development of a more consistent and globally recognized measurement of international convergence.

While consideration needs to be given as to how best to accommodate national laws and regulations, greater consistency in approach by those adopting the international standards is needed. Governments and regulators are encouraged to establish legal and regulatory environments that provide for compliance with the international standards, with no or very limited additional national requirements. Governments are also encouraged to acknowledge the differing roles of tax accounting and financial reporting.

National standard setters are encouraged to make international convergence the core of their work and the focus of their resources, and to interface with the international standard setters on behalf of their national constituencies. International standard setters need to continue to recognize the unique challenges faced by national standard setters and to provide sufficient opportunity for national standard setters to provide input to the international standard-setting processes. Of note is the joint effort by the Financial Accounting Standards Board (FASB) in the United States and the IASB to eliminate differences between the national accounting.

Urgent attention should be given to the development of implementation guidance that is widely available to all in need of such guidance.

At present, some IFRSs are open to varying interpretations and competitors are “shopping” for more favorable interpretation on common issues. To prevent this, some industries have started to organize forums where leading entities could discuss their approaches to common issues.

Implementation guidance is of particular importance when the international standards are applied for the first time, when there are translation issues, and when there is a lack of technical expertise and “real life examples” of best practice. In addition, reference was made to the implementation of the international standards in the context of, for example, national legal and regulatory frameworks and cultures.

National professional accountancy bodies are encouraged to continue to create an awareness and expand the knowledge of professional accountants and others of the international standards. Educational institutions are encouraged to provide the educators with education and training in the international standards. They should also offer programs of accounting and auditing that produce accounting graduates familiar with the international standards.

For entities that are implementing IFRSs, an understanding of the standards is necessary from the top down – from those responsible for the governance of the entity to those responsible for financial and operational reporting by individual business units. Consequently, training programs should involve individuals at all levels of the entity and should continue after the initial transition to IFRSs.

There is also a need to make analysts and journalists aware of the effect that the transition to IFRSs may have on entities’ financial statements. Participants encouraged entities to provide analysts with the information necessary to interpret their entities’ financial positions and results of operations. The international standard setters are encouraged to establish processes, or enhance existing processes, to respond to requests for interpretations in a timely manner.

There was no consensus as to who should develop the implementation guidance. Possibilities include: the international standard setters, national standard setters, national professional accountancy bodies, and large accounting firms. However, if the guidance is developed by anyone other than the international standard setters, there may be a lack of international coordination and a corresponding lack of consistency.

Factors that contributed to addressing successfully the potential knowledge shortfall include:

- National professional accountancy bodies offering training to their members by way of seminars, and large entities and accounting firms providing compulsory training to their staff;
- National professional accountancy bodies educating analysts and journalists on the effect that the transition to IFRSs may have on an entity’s financial statements. This includes the issuance of press releases and posting of information on websites;
- Educational institutions involving staff from accounting firms in teaching the international standards;
- International organizations that represent industries, such as financial institutions, providing training to their members by way of seminars;

- Industries organizing forums where leading entities can discuss challenges and solutions to implementing specific IFRSs.

Entities, viewing the transition to IFRSs as a business issue and not just an accounting issue, training staff at all levels, including those outside the financial reporting system, for example, staff responsible for determining the effect of new international accounting standards on an entity's remuneration policies.

4. Conclusions

The Romanian financial reporting and auditing requirements are continuing to undergo change and progression to move toward application of standards comparable with the European Union.

Romanian accounting law and regulations are not as such at fault, as they both seem to provide for and encourage treatments that are consistent in many ways with international accounting principles. Where problems have arisen has been in how the provisions of the laws and regulations are applied that have reflected the background and outlook of Romanian accountants applying the legislation, where reliance has been on past practice.

The implementation of a market-driven accounting system now requires the development of the professional practices in accordance with the accounting regulations, the organisational improvement of professional bodies, and the intensive training of accountants and auditors. Despite the implementation of the legal framework, the accounting practices are still subject of debate among professionals, regulators and academics. The financial reporting is considered by entrepreneurs to be cumbersome, and the training of accounting experts and auditors professionals is proceeding at a slow pace.

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CONSIDERATIONS REGARDING THE RELATIONSHIP BETWEEN THE DEGREE OF SIGNIFICANCE AND THE RISK OF AUDIT FROM THE PERSPECTIVE OF ISA 320

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Abstract

The auditor must plan and develop the audit engagement in such manner to reduce the risk of audit up to an acceptable low level that should consequent with the objective of an audit.

The auditor must reduce the risk of audit through creating and realizing some audit procedures that would help him obtain adequate and sufficient audit proves in order to be able to establish reasonable conclusions on which he would base a pinion of audit. The reasonable certification is obtained when the auditor has reduced the risk of audit to an acceptable low level.

The purpose of this international standard of audit is to establish rules and to offer recommendations regarding the concept of the degree of significance as well as to the connection between the degree of significance and the risk of audit.

The degree of significance is defined in “General terms for establishing and presentation of financial situations”, issued by the Committee for the International Standards of Accountability as follows:

“Information is significant if the omission or the erroneous declaration of this information could influence the economical decisions taken by users in base of these financial situations.

The degree of significance depends on the dimension of the element or of the error judged by the specific circumstance of the omission or erroneous declaration. The degree of significance offers a limit rather than to represent a primary quality characteristic that the information must have in order to be useful.”

In order to raise the degree of confidence in the truthful image offered by accountability, in the process of the organization of the accountancy for the economical entities you must take into account more principles among which the degree of significance plays an important role.

The principle imposes that any element of accountancy that has a significant value should be presented separately in the financial presentations. The degree of significance is the

limit from which an error, an inexact thing or an omission can affect the conformity to the rules and the sincerity of annual accounts.

According to this principle the elements of balance and of profit and loss account which are preceded by Arabian figures can be combined if:

- these represent a significant amount
- such a combination offers a bigger level of clarity, with the condition that elements should be combined in such a way to be presented separately in explicative notes.

The principle of the degree of significance can be applied only by big and very big entities.

The degree of significance

The auditor must take into consideration the degree of significance and its relation to the risk of audit when the auditor develops an audit engagement.

“The objective of an audit of financial situations is that of allowing an auditor to express an opinion according to which the financial situations have been established, with all the significant aspects, within a frame of financial reporting applicable.” The assessment of what is significant is an aspect that regards the use of the professional reasoning.

In the elaboration of the plan of the audit, the auditor takes into consideration an acceptable level of the degree of significance in order to detect the significant distortions from the quantitative point of view. But, both the quantitative quality and the nature (quality) of the distortions must be taken into consideration.

The auditor must plan the audit in such a manner to assure that the mission will be fulfilled in conditions of economical, efficiency, and at the established term. (Example of qualitative distortions could be the inadequate description of a accountancy policy, when it is probable that a user of financial situations could be misled by it.)

The auditor is preoccupied by the significant distortions and he is not responsible with detection of distortions that are not significant for the situations audited considered as a whole. The auditor is the one that must consider if the effect of distortions incorrectly identified, both individual and cumulated, is significant for the situations as a whole.

The auditor takes into consideration the risk of significant distortions at the level of general situations audited, that refer to the risk of significant distortions that are connected totally by the situations audited taken as a whole that affects potentially many assertions. The risks of this nature are connected often with the control environment of the entity (although these risks can be correlated with other factors like regressive economical conditions) and are not risks that can be identified with specific assertions at the level of information presentation.

This general risk represents circumstances that raise the risk of the existence of significant distortions in any number of different assertions, for example, by the fact the management has ignored the internal check-ups.

Such risks may have a special relevance for the consideration of the author of the risk of significant distortions.

The answer of the auditor at the evaluated risk of significant distortions includes: taking into consideration the knowledge, the aptitudes and the capacity of the personnel that has in charge significant responsibilities within the engagement, including the necessity of taking experts; the corresponding levels of surveillance; and if there are events and conditions that can lead to doubt significantly the capacity of the entity to function on the base of the principle of continuity of the activity.

The auditor must take into consideration also the possibility of appearance of the distortions at the level of relative small values which taken together can have a significant effect on the financial situations.

(Example, an error that appears I the procedure of closing a month might be a sign of potential significant distortions if that error repeats itself each month.)

The auditor takes into consideration the degree of significance both at the global level of financial situations and in relation with aspects connected to the accounts sold, with the transactions developed and the manner of presentation of the information. The level of significance must be taken into consideration by the auditor when:

- we determine the nature and the length of the audit procedures;
- we evaluate the effects of the distortions;

The relation between the degree of significance and the risk of the audit

When planning the audit, the auditor takes into consideration the aspects that might lead to the fact that financial situations could be significantly distorted. The evaluation by the auditor of the degree of significance, in relation to the balance of the accounts, of the classes of transaction and the presentations of information help the auditor to decide over the elements that must be examined and if he must use analytical procedures and samples.

These allow the auditor to select the procedures of audit which, combined, are estimated to reduce the risk of audit at an acceptable low level. There is an inverse relation between the degree of significance and the level of the audit risk, that is the high the level of the degree of significance is the lower the risk of audit is and vice versa, so between the degree of significance and the risk of audit there is a opposite proportional relation.

If after planning the specific procedures of audit, the auditor establishes that the acceptable level of the significance degree is low, that the risk is high. The auditor may approach it in two ways:

- reducing the evaluated level of the significant distortion risk , where it is possible, and maintaining the reduced level by some extended or supplementary tests of controls;
- reducing the risk of non-detecting, by modifying the nature, the duration, and the extent of the detailed tests planned of audit.

In order to evaluate if the financial situations have been realized in all the significant aspects in conformity with an applicable frame of reporting, the auditor must appreciate if the total of the denaturations that are not corrected identified along the process of audit is significant. The total of distortions corrected contains:

- a) specific distortions identified by the auditor
- b) the best estimation of the auditor regarding other distortions that cannot be especially identified (predicted errors).

Conclusion

If the auditor has identified a significant distortion resulted from the error, this must communicate the respective distortion to the level of management corresponding.

The entities follow strategies through which they fulfill their objectives and function of the nature of operations and of the field of activity, by the regulations of the environment where it functions and by the dimension and complexity, they are confronted with a variety of risks of the activity. The management is responsible with identifying such risks and treating them.

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ROMANIAN MONEY MARKET INSTRUMENTS IN THE CONTEXT OF CREDITING MECHANISMS UPDATING AT THE PLANET SCALE

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Abstract

Regardless of money policy conceptions upheld by systems and structures succeeded in Romania, the money market integration in international structures at the beginning of the 3rd millennium should take into account the financing mechanisms at worldwide dimensions and implications, capable to create an essential support in the future of national companies and of the whole economy. At the beginning of the 3rd millennium the mechanism of economic entities funding and of the economy in general, has four main dimensions: space, time, national element, commerce and production actions.

Key words: *Money market, Retail banking, Capitalization, Directed credit, Reference interest*

In fact, the capital funding conceived on these coordinates means the measure of the very extended activity dimensions and simultaneously branched out on more markets as well as of strategy conceived at worldwide scale based on transnational functional structure of its own enterprises network.

The space seems to be owned for a long time, so long as the corresponding banks-network of “mother” bank has reached the hundreds order. With the help of corresponding banks, currency transfer, some banking authentication and approval, rapid development of international counter-guarantees, letters of credit residence settling, etc efficiently find their finality. Initially, put to multinational companies’ disposal by banks because of the lack of power lonely to fund a big project, but also by a certain bank care to diminish the risk, the unionized credit is more outlined as a measure to fund the second dimension-time. It is destined for funding the companies financial needs by banks, as an alternative of classical credit, especially for full-sized objectives as well as long-term ones.

Taking into account that funded investments make profit through time, the unionized credit means the trust of a certain banking trade union in the future of the respective company.

To promote the national element and to gain new markets, the companies banks put at commercial partners’ disposal funding lines with the help of corresponding banks.

The funding facilities in this way got by the corresponding banks from “mother” bank, have certain common functional characteristics determined by the enforcement of some provision of OEDC (Organization for Economic Development and Cooperation) Agreement: regarding introduction into these lines only of commercial transaction (export import); funding admitted quota that cannot exceed 85% of the commercial contract amount; a minimum extreme limit under which it cannot decrease; funding object which means the import of capital goods and services necessary to put them into operation, deriving at a previous settled proportion from the exporter’s country; existence of an insurance policy issued by the insurance agency for export credits in the supplier’s country of origin, etc.

Goods production and commercialization action itself in each its stage is funded in the most diversified categories of credits and banking letters of guarantee at 2-3 times lower prices. With their help it can guarantee and implicitly we can say that it funds each stage of goods producing and capitalization in auctions to contract orders going on with guaranteeing the return of advances got from partners in order to launch in production the respective goods, with the guarantee of external contracts good execution and ending with the guarantee of the products working from their technical point of view.

The impact of entering the Romanian money market of some credit products promoted by banks with majority foreign capital (banks in continuous increase in point of number and extent on market) was obviously seen on the retail segment.

The banking competition to conquer this market was focused on offering the most various credits category, starting with credits to buy some lands and buildings and ending with cash credits for temporary needs.

If object credits require a more detailed documentation and a strict control, cash credits are given without an afterwards justification by documents and without a banking control of the amounts. As it was expected, the population reaction to cash credits was very rapid, banks being taken by storm. In many cases, the amounts are used to pay the debts for rates, litigations, a family temporary expenses, etc. Under these circumstance when this type of credit pays the population’s debts generated by the lack of financial power there is the risk of increase the natural person’s indebted level above a certain endurable threshold, creating

a short- term financial blocking by appearing the additional expenses with interests in the family budget.

Another negative effect of banking competition strengthening on this market was the lately visible increase of building and land prices with negative effects also on banking clients that is to be gained rapidly.

Taking into account that natural persons are sensible to the bank offers and especially to cash credits, banks are obliged to select its clients seriously even if they are protected against the non-payment financial risk by various insurance institutions and the number one objective today is the retail activity.

To maximize the indirect negative effects generated by this activity development some urgent measures are required, as follows:

- mainly, to grant credits on objects, being encouraged the investment credits;
- to issue letters of banking guarantee in order to guarantee the purchasing of farm implements, the population do not pay interests at banks, but only a commission of maximum 2-4% / year for the amounts in lei;
- economic agents issue certificates of income of maximum responsibility, under the circumstances when the period of appointments covers the credit length of time;
- the possibility of credit pre-payment and the interest calculation for the remained credit balance.

Today, the banking retail activity should be directed to the supporting of authorized natural persons free initiative to develop small business by offering some credits in lei as well as foreign currency for several destinations. All these mentioned only against the background of banking cultural development for the future clients.

The unprecedented development of credits demand and the competition intensification in the banking system can encourage changes in the structure of commercial banks balance. Thus, credit institutions prefer to lurch to attract some external debt, keeping interests at a low level for residents deposits.

The impact of international financial markets evolutions and goods external market upon Romanian similar markets has an influence on the policy coordinates on the money market. One of the external tendencies during the last period of time was the increase of trade balance deficit. This tendency counteraction by money policy instruments should not create major conflicts between monetary policy and central bank objectives. Under present circumstances it is required a pronounced support for Romanian exports funded by financial market instruments and an important discouragement at the risk of getting less satisfactory disinflation levels.

The opposition existing at a certain moment between the Romanian economy expansion stage and the stage of partner economy stagnation can determine the increase of the reference rate of interest justified by the rise of the commercial balance deficit.

Under these circumstances, the process of capitalization in Romania must positively utilize the advantages of space and time where it is performed, at the same time also taking into account the external constrains.

Regarding the effects of directed credit using many critics were expressed through time that put into evidence that this type of credit does not ameliorate the poverty but especially it helps privileged persons in the country. This statement is based on the following considerations:

- firstly, to support such credits costs, the banking financial institutions are obliged to pay less interests to their depositors. The interest difference is thus transferred from one little and middle class to a superior one owing to his privileged occupying position. The more possibilities to save the superior class have the more negative this fact is, while the others are related to the rate of interest .

- secondly, those who administrate such loans belongs to the top class who enjoys the special attention in the country;

- thirdly, the compulsory minimum costs that are to be supported in the moment of loan contraction are unfair, that is those who lends small amounts of money bears big costs in comparison with the credit amount.

Another negative influence of directed credit using is given by the decrease of companies reliability which profits from it. The banking financial institutions are interested in this process only by owning the grant but the borrower being deprived of loosing some properties superficially treats the bargain and they follow immediate aims but not long-term ones. It is thought that between 1998-1999 the credits directed to hidden grants increased the credits portfolio degradation.

The influence upon the capitalization process could be in someone's opinion non-significant because the liquidity excess got from investment credits could be redirected to other economic activities that do not contribute to capitals increase.

The techniques by which the directed credit impact on economy was measured were criticized supporting the idea that classical studies upon the credit effects frequently outbid the advantages of using the credit concomitantly with such programs costs underestimation.

The using of such credits in the Romanian economy has been imposed after 1989. When the capitals were not sufficient in many branches of the national economy, funding by directed credit was an alternative in the process of capitalization.

The law 76/16th January 2002 republished regarding the insurance system for unemployment and stimulation of labour holding is aimed to achieve the following objectives on the market of human capital:

- prevention of unemployment and fighting against its social effects;
- staffing or re-staffing of persons looking for a job;
- staffing supporting for persons belonging to non-favoured categories;
- assurance of equal chances on labour market;
- unemployed stimulation in order to have a job;
- employers stimulation to staff persons looking for a job;
- improvement of staffing structure depending on economic branches and geographic areas;
- increase of labour mobility depending on structural chances in the national economy;
- persons protection within the unemployment insurance system.

This type of funding contributes to economy capitalization with human factor and with less other types of capital because the costs which the staffing implies are equivalent to the decrease of interest the borrowers enjoy. Branches such as ready made clothes, leather goods, transports, however offer a great number of free-work skilled persons that can work immediately after staffing without an afterwards training. Thus, the current activity and investment funding in these branches by credits from assurance funds for unemployment becomes an opportunity.

Another law creating useful effects upon the accumulation of capital in Romania is the Law no.150/14th April 2003-the law for production farm credit, modified by the Law no.605/2003. According to this law the farm credit for production is to be a farm policy economic and financial instrument by which are supported its current activities of farm production, established with priority by the Ministry of Agriculture, Food and Woods.

According to the law, by current activities of farm production are understood the actions connected to

- farm crops setting up, maintenance and harvesting as well as plantation maintenance and harvesting;
- purchasing or reproduction of chickens for meat and eggs, of pigs to become fat, of young sheep, goats, bovine and horses to become fat as well as of material for fish reproduction and for bee families;
- provisioning, food processing, assurance of medicines and medical cures for animals, current expenses for maintenance and working of due shelters, equipment and installations;
- insurance of crops and plantations against harmful effects of natural risk factors as well as insurance of animals against harmful effects of natural risk factors, diseases and accidents.

Beneficiaries who pays the credits and the interests at due terms foreseen in the loan contracts enjoy the public funds according to the credit amount.

Under our economy present conditions, using of such levers is useful to consolidate the process of capitalization but for this process to be successful an adequate policy is needed for sources constitution.

The sources constitution on money market means a very important process taking into account afterwards investments which cannot be possible without suitable sources and the capitalization process cannot be conceived without creating a market optimum liquidity at first and afterwards by a long and medium term crediting.

Sources constitution on money market belongs to passive operations category performed by banking units that implies:

- attraction of natural and juridical persons money to be saved;
- payments at deposit owners order;
- economic agents treasury activity and of those who requires it.

The evolution of banking activity through time made the instruments of banking techniques by which passive transactions are put into practice, to be continuously diversified, at the moment reaching a great complexity.

The most used mood of constituting the sources on money market is the banking deposits. At the moment they are much diversified in point of terms granting, conditions of its constitution and the mood of interest calculation. The most used terms for which the natural persons savings are mobilized within the banking deposits are one month, three, six, nine, twelve and eighteen months. The deducted interest is different for each term, being bigger and bigger in proportion as the deposits length of time increases. The mood of interest calculations for these deposits can be done both with capitalization when monthly interest is added to the deposit amount and it will belong to the capital, or with monthly payment or on time.

From the process of capitalization on money market point of view it is convenient the interest to be capitalized monthly thus contributing to the sources increase.

Taking into account the activity performed by legal persons, the banks constitutes shorter-term deposits, on fifteen, seven and even one day. The deposits constituted for one day are known as over night.

In the continuous struggle against competition, banks offer packages of products to its natural person clients which apart from the deposit constitution it simultaneously grants a credit, issues an insurance policy or issues a card. This attitude of a bank which when a banking deposit is constituted also offers other credit products, emphasizes the importance of sources constitution on money market, afterwards it constituting the base on which credits are granted. Also, to grant bigger interests for medium and long-term deposits is to motivate the importance of longer-time sources constitution.

In order to attract sources from legal persons, banks grant banking engagements guaranteed by banking deposits. For these products are granted facilities for commissions and interests.

To carry out payments at the deposit owners order is another mood to attract sources on money market. In order to achieve this objective, banking institutions aim to conclude agreements with various legal person clients to pay by bank the bills for electricity, phone, gas, etc

To keep the economic agents disposable funds at sight as long as possible, agreements for payment the wages on cards are concluded, which remain on the money market up to the moment when they are taken from cash keeping and releasing machine.

The extension of cash keeping and releasing machine network is a result of electric trade unprecedented development which implied cards using on a large scale also in Romania.

Deposit certificates mean another way to attract sources on money market. They are negotiating financial certificates which certifies the existence of a deposit at notice in a bank. These instruments can be used by owners in various aims as well as the discounting, security or banking guarantee.

The state can attract sources on money market by issuing state securities considered to be the least risky instruments on the financial market. The securities are issued on short term with less than one year due time destined to cover some temporary internal deficits or to fund some governmental projects of national interest. At the securities due time the state

will repurchase them at the nominal value. The investor's profit derives from the fact that securities are issued with discount being subscribed by investors at a less value than the nominal one. The securities do not bear interest. One of the remarkable advantages is the fact that the securities owners can sell them before the due time if they need liquidities.

Repurchase agreements (REPO) are another mood of constituting the sources on money market. REPO transactions are irreversible ones within which the client, a legal person, can buy/sell to the bank the state securities with the bank/legal person engagement to repurchase the respective assets at a later term and at a price settled at the transaction date. In the case of reversible buying/selling repo/reverse repo the property upon the savings during the transaction is transferred to the buyer and the due time cannot be longer than 90 calendar days. The main advantages of these transactions consist of: the possibility to get a superior interest to that due for deposits; the possibility to make investments at terms different to those foreseen by the bank internal norms getting a superior interest to that deducted for disposable funds at sight; The possibility to get liquidities for temporary needs by selling the state securities from the portfolio to the bank.

As a conclusion, can be seen that money market offers many financial instruments to attract sources. The keen competition as well as continuously increasing need of deponents and applicants on this market make these instruments to be continuously diversified and improved.

Conclusions

The sources constitution on money market is influenced by three main factors:

1) Population behaviour to payments, receipts, deposits and withdrawal of amounts in banking system. Population behaviour is given by the relation between the held cash and the deposits in banks. Within a year the relation between cash and deposit is changeable, being bigger around holidays and vacations and smaller in the other periods of the year. This relation increase behaves this way when in PNB consumption value increases.

2) Banks behaviour expressed by the relation between banks stocks and money deposits. The stocks constitution is imposed by the necessity to assure adequate liquidities allowing withdrawals of a part of population deposits any moment without the bank reputation and image should be affected. The stocks constituted by banks belong to the stock accounts class that implies the increase of banking performance indicators. The policy of a safe capitalization will be determined by many factors of which the most important are: rate of interest, uncertainty of deposit flow and rate of discount.

3) The monetary policy promoted by the National Bank knowing the fact that an interest increase imposed by the limitation of money in circulation leads to the increase of population deposits.

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A NEW STRATEGY IN THE INTERNATIONAL ACCOUNTING SYSTEM

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Abstract

It is important to emphasise that there is a strong consensus in Europe that adjustments to existing IFRS in the immediate future should be very well justified and that providing a stable platform for IFRS is the immediate priority. This was clear from a discussion which FEE and a number of others had with some of the Trustees yesterday, it was clear from the dinner with speakers last night, in my belief, and it is entirely clear from today's proceedings.

Keywords: *IFRS – International Financial Reporting Standards, IAS – International Accounting Standards, EU – European Union, EC – European Commission, SEC – Security and Exchange Commission, IFRIC – International Financial Reporting Interpretations Committee, GAAP – Generally Accepted Accounting Principles, IASB – International Accounting Standards Board, FASB - Financial Accounting Standards Board, CFA – Chartered Financial Analyst, CESR – Committee of European Securities Regulators, FRRP – Financial Reporting Review Panel*

In order to benefit fully from IFRS it needs to be ensured that they are applied in a consistent manner. This is a challenge and there will be “teething problems”. The idea for a temporary, informal Roundtable involving relevant stakeholders is gaining ground, gathering diverging national and local interpretations or guidance and grasping together issues of common concern and recommending that these should be taken up by IFRIC. The Roundtable will not be making any interpretations.

The Roadmap between the EC and SEC means that IFRS could be accepted in the US no later than 2009, or even sooner. The EU might defer its equivalence decision under the Transparency and Prospectus Directives covering foreign issuer's GAAP in Europe and prolong the status quo whereby they do not reconcile to IFRS. It would align the equivalence agenda on both sides of the Atlantic and allow time for consolidating experiences of working with IFRS in practice.

The objective of convergence is to have an effective process up and running which will reach a sufficient level of convergence within a reasonable timeframe. Convergence is a tool, not an end in itself. The convergence exercise must be a two way street and it must not be allowed to destabilise the IFRS platform in Europe. It must be a practical exercise firmly anchored in business reality.

The SEC fully recognises the enormous possibilities that a truly global set of high quality accounting standards offer capital markets around the world. A single set of global accounting standards would improve investor confidence in the market, so long as they are high quality, sufficiently comprehensive and rigorously applied.

Accounting standards in the US have a long and unique history. The strength of US GAAP, derives, at least partially, from the fact that it has been stress-tested, developed and leavened for many decades. When measured in market capitalisation, today, US GAAP is

used by more than half of the world's companies. US GAAP today is widely used, comprehensive, well understood and well regarded both at home and internationally. IFRS has only existed as a truly comprehensive set of accounting standards for just a few years: it has little or no history of application or interpretation. In the "Roadmap" SEC staff are asking for some time to assess the consistency and faithfulness of IFRS interpretation and application.

The SEC does not expect full or even a finite degree of convergence. What is important is that investors in the US be able to understand financial statements prepared under IFRS. Before eliminating the requirement, the SEC is likely to be keen to see that a robust process for convergence is in place and active. SEC staff plan to review the US GAAP reconciled financial statements of some of the European companies listed in the US. In the short-term, IFRS and US GAAP will not be the same. The "Roadmap" is predicated on a handful of expectations:

1. The overarching philosophy behind the development of IFRS remain the best interest of current and potential investors.
2. The standard setting process of the IASB be fully transparent: in finalising its standards the IASB should make clear what substantive views it has adopted, which it has rejected and why.
3. The IASB be an independent professional accounting standard setter: politically independent, not subject to undue funding pressures; and IASB members chosen on the basis of professional competence.
4. IFRS-US GAAP convergence to continue apace.
5. The current dialogue among financial regulators over IFRS development continues. Things that would undermine this dialogue, such as a finding by the European Commission that US GAAP and IFRS cannot co-exist in Europe, or the introduction of significant additional disclosure requirements for the use of US GAAP in the EU, could also easily cause the public and others to ask for the SEC to re-examine whether it can eliminate its own reconciliation requirement.

The IASB working process was for the last years dominated by getting ready for "2005". The IASB integrated 34 standards of the IASC of which 14 were criticised by IOSCO, including IAS 39 (on which the IASC worked for 12 years). Addressing IOSCO's concerns, the IASB completed the stable platform in March 2004 with 17 of the 34 standards changed and 6 new standards (3 out of the convergence project with FASB). Further amendments resulting from difficulties and implementation experience with the standards were made at the request of many involved in the adoption of IFRSs, including IAS 19 amendments and IFRS 7.

With that phase complete the Roadmap agreed between the EC and SEC gave clear direction. For the IASB's and FASB's purposes the important issue is that the SEC's willingness to consider mutual recognition of IFRS for the purpose of registering in the US is dependent on a robust convergence process being in place and would continue following the removal of the reconciliation request.

The Roadmap work is predicated on two distinct tracks: firstly: by 2008 the goal is to reach a conclusion on whether major differences in few focused areas should be eliminated through short-term adjustments (IASB: 6, FASB: 6, and two of them jointly). For the IASB they include borrowing costs: joint ventures: government grants: segment reporting. Jointly IASB and FASB are going to look at impairment and income taxes.

Secondly and more substantially, significant progress needs to be made on eleven areas identified by both Boards, where current accounting practices of both US and IASB are outdated and candidates for improvement. This does not mean completed standards by 2008. Out of that 11 only two would be final or amended standards. The other nine would either only be agenda decisions or discussion papers. The majority of the work is after 2008, after the reconciliation has been removed. For the projects that will be finished before 2008, it needs to be assessed what effective dates to put in, to spread them.

The IASB does not provide questions and answers to standards with the exception of those inherited with IAS 39 (some of which were amended). It does not intend to do that again in the future. Every interpretation is a rule. If standards are ambiguous, then the standard needs to be changed and clarified. If there is a principle and two ways of getting to the principle, with slightly different answers, both need to be accepted. If one method only were to be selected, that will become the rule. The IASB wants principles-based standards, but it depends on how you operate them.

The educational benefits of no longer having two sets of standards (local GAAP and IFRS) is often overlooked. The use of high quality financial information should lead to better management decisions. There are some projects on which the FASB works commonly with the IASB, one of them being the Framework. There is a need for a common framework for standards. It took 20 years to get the FASB Framework in place with different people working on it with different ideas: people tend not to look at the Framework to find the answers to questions.

FASB is dedicated to convergence, the convergence process is not an easy process. US GAAP is principles-based, but there is the legal regulatory regime in the US, with a lot of litigation. Adding volatility is not favoured, people always refer to “unnecessary volatility”, but volatility in the economic transaction needs to be disclosed.

The debate has now rapidly moved from convergence to the debate around more conceptual issues: preparers are not looking for a theoretical debate about the Conceptual Framework, but need to understand better where the priorities are around guidance on business combinations, performance reporting (at the heart of communication) and need to understand what is the ultimate role of fair values.

Short term, users can live with (mutually recognised) equivalence of converging sets of financial reporting standards, but in the long term, there is no rationale for competing sets of reporting standards. He underlined that the purpose of financial reporting is a faithful representation of economic reality. While competition between sets of standards is therefore not reasonable, a competition of ideas for top quality standards is necessary. This, among other things, is the purpose of the Constitution.

Investors have a home bias. They feel more comfortable with what they know and will therefore invest a higher share of assets in their home markets than technically justified, thus creating suboptimal portfolios. Convergence will help to reduce this home bias in investments, which in turn will create more efficient portfolios and higher returns. A single set of standards will streamline the research process more and analysts can come to better conclusions.

The CFA Institute recently produced a report on “ A Comprehensive Business Reporting Model”. It includes twelve principles:

1. The company must be viewed from the perspective of a current investor in the company’s common equity.
2. Fair value information is the only information relevant for financial decision-making.
3. Recognition and disclosure must be determined by the relevance of the information to investment decision-making and not based upon measurement reliability alone.
4. All economic transactions and event should be completely and accurately recognised as they occur in the financial statements.
5. Investors’ wealth assessments must determine the materiality threshold.
6. Financial reporting must be neutral.
7. All changes in net assets must be recorded in a single financial statement, the Statement of Changes in Net Assets Available to Common Shareowners.
8. The Statement of Changes in Net Assets Available to Common Shareowners should include timely recognition of all changes in *fair values* of assets and liabilities.
9. The Cash Flow Statement provides information essential to the analyst of a company and should be prepared using the direct method only.
10. Changes affecting the financial statements must be reported and explained on a disaggregated basis.
11. Individual line items should be reported based upon the *nature* of the items rather than the *functions* for which they are used.
12. Disclosures must provide all the additional information investors require to understand the items recognised in the financial statements, their measurement properties, and risk exposures.

This report is an update of an influential paper from the early 1990’s. It should be seen as a visionary piece, laying the tracks on which the standard setting train might roll towards the future. Accounting standards need to reflect economic reality. There is a risk of politicians interfering in standard setting. There will be consequences for rating and dividend policy reflecting one of the biggest social and economic issues that need to be dealt with.

The steps needed for elimination of the reconciliation statement need to be made public and priorities in the work programme need to be decided. Consistency is a crucial part of the convergence process as is due process. Europe at that time, by selecting IFRS accepted a certain level of inconsistency which is inherent in high-level principles-based standards. The standards allow some flexibility. Preparers want help, they do not understand IFRS fully, which is perfectly reasonable since they are complex standards and they want to know how to use the flexibility in IFRS without upsetting the regulators. The regulators would have to clarify the implicit level of flexibility and inconsistency they will accept in financial statements.

Consistency means applying the same accounting treatment to similar events and transactions: recognition, measurement and disclosure. Debatable is what “similarity” means and implies. Rules will never be detailed enough to accommodate all the fact patterns possible. Adherence to detailed rules may not lead to a fair representation.

Users need to be able to compare between entities to make economic decisions. Principles-based standards may lead to different solutions on the same fact pattern. Disclosure of the accounting policies may be a solution for comparability. Principles-based systems need interpretations. Interpretations must be short and must add value, by clarifying a principle

and not adding rules. Interpretations must be few in number to avoid going to a rules-based system. IFRIC should be selective and give the reasons why it does not take an interpretation on board.

The ideal benchmark is a direct comparability of financial information published by different issuers but it is not always possible because of the judgment is inevitable in making economic assumptions and different industries cannot be comparable. However direct comparability within a sector is highly desirable. Similar transactions should be treated in the same way in same circumstances. They are some of the risks of inconsistency: the many options available, the areas not covered by IFRS, formats, conflicting standards, the economic assumptions underlying estimates, the degree of judgment involved, and the understanding by preparers and auditors. Many questions arise due to the complexity of the standards and the fact that they are new to many people.

Non GAAP measures are not the solution. There are no reliable definitions and they are not audited. It will be confusing to use two ways to explain the performance. It is important to provide help at the preparers level. IFRIC should be responsive to the evolving needs. IFRIC should not take a too narrow view of its job. A European Roundtable could be useful but should not result in EU interpretations. It is clear that the role of regulators is crucial to ensure consistent enforcement. There is a need to get it right the first time in order to avoid an expectation gap. Issuers should not be overloaded by new standards and need a pause. It needs to be clarified with the SEC what the SEC is expecting from Europe notably of CESR and European regulators. Different interpretations are possible for the same issue, as long as they are an acceptable answer to the application of the standard. The drive for consistency should be guided by identifying those interpretations that are not acceptable under the standards rather than saying there is only one possible answer. Implicit options cannot be limited if they are based on sound arguments.

Secondly one should be realistic in what can be expected because it is new material to deal with. Every standard takes time to settle. Time is necessary to allow proper consistency to happen. One should not lose sight that a huge step forward has been made in terms of comparability. Markets will get better information than they had in the past. Auditors realise they have an important role to play. Proper measures are put in place within audit firms to fulfil this task: global training, peer review at national and international level, discussions between audit firms, preparation of guidance books, etc.

A true standard is not the one written down but the one that is enforced. Every time we apply a standard we interpret it. Every standard needs interpretation. By using a principles-based system, the degree of interpretation is made wider. Provided that interpretations remain within the boundaries of the principles they can be considered as being consistent with the standard. Consistency does not necessarily mean identical application. Every time an enforcer considers a case, he makes an interpretation. CESR's database is crucial. The responsibility of preparation of accounts under IFRS lies with the preparers. FRRP is not accepting the transfer of that responsibility.

Despite progress made to achieve a complete and consistent IFRS framework several issues still need to be addressed such as business combinations and performance reporting. The turmoil provoked by constant changes to IFRS at IASB level and the perpetual catching up at European level undermines the legal certainty of the stable IFRS platform in the EU. Fair value is a conceptual change, it should not be introduced through the side door

during the negotiations on the next standards. A call for a regulatory pause and a greater accent on enforcement is useful. Concerned by the pace of change, the Economic and Monetary Affairs Committee urged the European Commission to carry out an evaluation after the first year of implementation of IFRS and report to the European Parliament.

Debates on the constitutional review of the IASB and on the (future) role of European Financial Reporting Advisory Group (EFRAG) represent an outstanding opportunity to strengthen the voice and the role of Europe, to improve the IASB corporate governance, and to make the decision-making process at IASB level more balanced. EFRAG's role and operation should be enhanced in order to respond to current challenges at European and at worldwide level. The group should function as the European Accounting Board and the Commission and CESR should be more involved in its work. Nevertheless, this cannot be achieved without finding a balanced solution to EFRAG's composition, financing and its capacity to contribute to a coordinated European interpretation of accounting standards. The experience shows that an enhanced cooperation between private sector and bodies representing public interests, be it at national or at European level, can deliver a substantial positive contribution in defending European interests as has recently demonstrated the experience of the Commission in the car industry with the high level group CARS. The European Parliament therefore encourages the Commission to find a speedy and appropriate solution.

The European Parliament has expressed its concern about the calendar of the convergence process. The transitory period in the Roadmap should be shortened in order to minimise turbulence and disturbances aggravating the competitive position of European companies in the US capital market. The current speed of demands for endorsement cannot continue, but the European Parliament wants to play its proper role in comitology, a better procedure with involvement of the European Parliament needs to be worked out. Another question concerned the possible simplification of the endorsement process.

It was suggested that there would be a role for the European Parliament in the Transatlantic Dialogue with the US Congress. This will be done when convergence is at a further stage and is of more interest to the Congress. It is important to oversee the process in a global strategy. The preparers strongly supported the move of the European Commission a few years ago to introduce IFRS as the common European language with a view that it would go hand in hand with mutual recognition with the US, and be done in a realistic way producing useable standards. Today however the preparers view has somewhat changed. The priorities of industry are as follows:

1. To have an integrated financial market within the EU which involves a common accounting language: IFRS.
2. Mutual recognition with the US, but not at any cost: standards need to be understandable both by preparers and investors and can be used as a management system. Standards need to be consistent over time and reliable. Mutual recognition needs to be achieved in a balanced fashion, with mutually agreed timetable and milestones in the convergence process.
3. Convergence needs to be based on existing best standards rather than using the convergence for introducing new standards. Companies need to have stability: a pause is needed. The complex discussion on consistency itself shows the reason for the need for a pause. Systems need to be consistent over time and the enforcement process and interpretation process should produce consistent results. It is not possible to manage a company when financial statements change all the time.

Industry is not against changes, it is understood that changes are needed, but they need to be done in an orderly way. Convergence should not be used to prevent a proper discussion and dialogue. Solid fact based accounting is needed. Industry is prepared to continue to work very actively in a constructive manner with IASB, the European Commission, the European Parliament, EFRAG, national standard setters and users in order to achieve objectives in a realistic and down to earth manner.

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PUBLIC PENSION SYSTEM

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Abstract

Pension systems all around the world are facing the difficulties that seem to amplify in the years that follow. The lack of balance origin of the pension systems are found in varied situations which the majority of countries in the world face, such as: the evolution and the demographic tendencies regarding the ageing of the population at the same time with a decrease in the rate of births; the increase in the medium life span; inflation, all increasing costs necessary to the post-active period, more specifically the decrease in the number of tax payers and the increase in the number of pensioners.

This entire phenomenon’s generate huge pressures on the social insurance budgets, which cannot keep up with the level of costs that the payment of pensions involves. Therefore, in many countries the financial consequences of the demographic tendencies are already alarming and they try the finding of equitable solutions for all existing generations at a certain point in society, as well for future generations.

The sources of financing the pensions differ from country to country, according to national legislations, as well as the economic and social situation of each country. In most countries, the main source is represented by the contribution of employed persons which constitute in a central fond from which the pensions the pensioners deserve are almost immediately paid.

Keywords : *public pension system, social insurance, privat pensions*

The organization of the pension system in the world

Regarding the organization of the pension system, in 1994 The World Bank has recommended a concept of “**pension system based on three pylons**”; an approach that today has become well known. The three pylons differ one from each other through objectives, principles regarding contributions and benefits, public or private character, and the optional or mandatory nature, which allows the combination of different elements in the most suitable ways.

Pylon I	Pylon II	Pylon III
Mandatory	Mandatory	Voluntary
PAYG	PAYG/Financed	Financed
Public	Public/Private	Private
Anti-poverty/Redistribution towards elders	Determined benefits/ Determined Contributions	Determined benefits/ Determined Contributions
Financed through contributions/taxes	Contributions	Contributions

Table no. 1 Multi pylon system promoted by the World Bank

The first pylon is the public pension system that guides after the saying “pay-as-you-go” (PAYG) and can be imposed by law or can be by the type of defined benefit.

The second pylon contains *occupational provisions* for pensions (regarding the work place) which are usually beforehand made. The pensions are administrated by independent or affiliated pension funds, through life insurance contracts or even companies, these forming reserves.

The third pylon consists in *individual, voluntary savings* administrated by the insurers, mutual funds, investment companies or even by the individuals themselves. In general, is by the type of defined contribution and in most cases it has privileged taxes.

It considers that a balanced mix of the three represents the best solution and it makes possible the benefaction of advantages of all the three systems allowing, also, the distribution of risks.

The public pension system in Romania

Like in all countries in Europe, in Romania, the data and the projections of the specialists indicate a decrease in the young population on the base of a negative natural rate of increase, at the same time as the population over 65 years is increasing. The statistics show that in the year 2020 the population over 65 years old will reach 22% from the total of the active population, compared to 19% in 1999. As a fact, a new balance of the ratio between pension resources and other social insurances and costs is needed to ensure the functioning credibility and viability of the multi pylon system meaning to function in Romania.

Like in the other ex socialist countries, in Romania the pension system is organized on the redistribution principal (“pay as you go”) in which the pensioners are being paid from the actual employees contributions, and the pension quantum is tied to the income level (with minimum contribution periods), but not directly linked to the total contribution. The key element that varies in such a system is the rate of dependency, meaning the ratio between the number of pensioners and the number of tax payers.

The number of pensioners has rapidly increased after 1990 and, if we include the ones from agriculture also, it has passed the number of the ones contributing to the pension funds around the middle of the decade. At the same time, the number of tax payers has diminished, because of the specific general economic downfall of the transaction period. Also, the low rate of births generated by the increased age of marriages and the increased rate of divorces have amplified the crisis.

As for the making of the new pension system in Romania, the World's Bank strategy in this field was taken into account, more exactly the three pylon system. At present day, the pension system in Romania is governed by the public pensions (pylon I), and recently the implementation of pylon II has begun.

The first major review of the pension system in our country was made by adopting the *Law no.19/2000 regarding the public pension system and other social insurance rights*, law that took effect from April 2001. The law has reformed the pension system by configuring the system onto the three components:

1. *Pylon I* – the mandatory redistributing component, publicly administrated;
2. *Pylon II* – the mandatory component, based on capitalization, privately administrated, the judicial background being shaped through the project Law no. 411/2004 regarding pension funds privately administrated, modified and completed though Law no. 23/2007;
3. *Pylon III* - optional component, based on capitalization, also privately administrated, regulated through Law no. 204/2006 regarding optional pensions applicable from January 1st, 2007.

The privately administrated pension system is a mandatory system for the new comers in the work market that have at most 35 years and is optional for all other categories of people aged to 45 years, who are already insured and contribute to the public pension system. In the first gathering year, year 2008, the contribution is 2% from the individual contribution to the public pension system. The contribution will increase each year by a percent of 0.5, until it reaches 6% on a period of 8 years¹. The contribution to the private pension will be taxed and collected in the same way as the contribution to the state pension.

Regarding investment risks, they depend on the type of fund chosen. When choosing a fund, we must keep in mind the risk-efficiency ratio. The biggest risk value is represented by the shares fund, which depends on the stock market evolution, and the most balanced risk-efficiency ratio can be found in the diverse funds. On a long term though the share fund is more advantageous. According to the law, optional pension fund assets cannot be invested in:

- a) assets which cannot be alienated by law;
- b) assets the value of which is not certain, like antiquities, works of art, vehicles and other;
- c) real assets;
- d) shares, bonds and other mobile values emitted by the administrator;
- e) all other assets established by the CSSPP norms.

Every participant has the possibility to know *the efficiency of the fund they joined*, from the monthly publication by CSSPP of the information regarding:

- medium balanced rate of efficiency of all optional pension funds for the last 24 months;
- efficiency rate of each optional pension fund for the last 24 months;
- minimum efficiency rate of all funds.

When choosing a private pension fund, we must take in consideration, first of all, the risk value that each insured person is willing to take. It is recommended the contribution to

only one private pension fund, and as you get older, it is best to choose a fund with a lower risk value, less volatile, lower efficiency, but safer. If young people can choose funds with bigger placements in stocks, which can bring higher profits, with obvious higher risks, the elderly must be more careful with this money, because it will be harder for them to recover the eventual losses important to the portfolio.

In table no.2 we have synthesized the maximum limits on placement ways which pension funds administrators must respect.

Table no. 2

Possibilities of assets investment	Maximum limit from the total asset fund %
Monetary market instruments, including counts and lei deposits	20
Bonds emitted by the Public Finances Ministry from Romania, emitted by member states of the European Union or belonging to the European Economic Space - EES	70
Bonds and other mobile assets emitted by the local public administration authorities from Romania or the member states of the EU or EES	30
Mobile assets auctioned on administrated and supervised markets from Romania, member states of the EU or EES	50
Bonds and other mobile assets emitted by third states	15
Bonds and other mobile assets auctioned on administrated and supervised markets, emitted by local public administration authorities from third states	10
Bonds and mobile assets of non government foreign organizations, if this instruments are shared on an authorized stock exchange and fulfill the rating requirements	5
Participation titles emitted by collective placement organizations in mobile assets from Romania or other countries	5

Optional pension funds asset investments are excused from paying taxes until the moment of paying the right deserved by the participants and benefactors. Depending on the instrument's issuer's nature in which the administrator can invest, maximum 5% from the assets of an optional pension fund are allowed to be invested in a single commercial company or in each category of assets and 10% of an optional pension fund's assets can be invested in the assets of an issuers group and their affiliated persons.

Conclusions

Pension systems around the world are going through a crisis period. Many of the member countries of the European Union, and not only, have impressive costs – in general over 8-10% from GNI (Gross National Income), only to maintain on a floating line a component of the social insurance system, specifically, the one granting the revenue necessary after exiting the work market. The situation is though much difficult, more complex, especially in perspective. In the conditions of “inherited pension system particularities” and of the factors that inevitably affect the century we are going through (the aging of the population, the decrease of active population, the macroeconomic problems that countries in transition have etc.), the budget necessary to the insurance of pension payments as a percent from GNI is expected to double in 40 to 50 years.

The awareness from the population regarding the utility of the products such as private pensions, the integration of Romania into the European Union and the increase in income will have as an effect o massive orientation of Romanians towards private pensions. The delay in finishing the legislation required has contributed to a high extent to the slowing of it for years placing Romania regarding private pensions on the bottom in Europe. Successive delays haven't allowed local players to accumulate experience in the field, having to face now not only the difficulties of a new business, but also the competition of foreign funds, because at the same time with the integration of Romania in the European Union since January 1st 2007, Romanians can contribute to any pension fund in the EU.

MATERIALITY AND RISK IN THE EXTERNAL AUDIT PURSUED BY NATIONAL AUDIT OFFICE (UK)

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***Abstract:** Control tests contain verification of the justifying documents regarding the financial operations and other events aiming to obtain audit proofs regarding the internal control (for example it is checked if an operation was authorised). There are also placed investigation and preservation of the internal controls that did not obtain proofs and internal controls restoration. Considering control tests results the auditor will evaluate if the internal controls are correctly conducted and operate at forecasted level.*

***Key words:** Audit, programming, risks, tests, proofs, materiality.*

The Audit Standards settle in charge of the auditors audit planning activity as a stage aimed to assure activity efficiency. By planning the auditors build a general strategy and a detailed approach of the nature, duration and coverage area of the audit. Adequate planning of the audit activity guides the audit towards the important areas to be audited, potential risks intensification and provides audit efficiency. Planning duration is different according to the entity size, auditor's experience and entity activity acquaintance.

Audit general plan and Audit programmes

Within planning stage the auditors elaborate The Audit General Plan and Audit Programmes. Audit general plan represents the audit general strategy wording that settles the audit direction, describes the preliminary sphere and audit development offering a guide for audit programme issuance. This one is basing on the available proofs and promises proper to a certain moment and its validity is maintained as long as premises do not change. If circumstances are modified the plan has not to be followed.

Audit standards stipulate auditors' obligation of synthesizing the audit general plan in a memorandum of audit planning that contains a brief presentation of the audit field and its approach.

Audit planning memorandum aims to ²:

- ✓ Supplies to the management of the supreme audit institution a base for auditing monitoring ;
- ✓ Helps the auditors team to settle what it is requested in the audit process ;
- ✓ To facilitate the operative development of the audit .

Audit general plan elaboration involves a constructive relationship with the audited entity the collaboration materialising in a relationships graphic with the entity to be audited that has to contain tasks and acceptable terms for the audited entity and realistic too and that will allow the auditing team to obtain relevant data in adequate time and audit performance with maxim efficiency .

In accordance with audit standards regarding planning the auditors have to elaborate a documentation for audit general plan implementation .

Audit program represents a set of instructions for the auditing team settling the audit procedures that the auditors are going to adopt and that can include references to other aspects such as : audit targets, programming ,size and selection base of the samples for every field of activity. It also serves as a mean of control and registration of an adequate development of the activity.

The elements contained in audit programmes and the results of audit procedures application are synthesized in The Memorandum of audit development and finalisation .

Determination of materiality and evaluation of the material risks

Auditors option for utilisation within the audit process of certain procedures is based on the determination of materiality and evaluation of the material risks .

Determination of materiality

Materiality is a concept based on recognition of the fact that rarely the financial statements can be absolutely correct and that a certain tolerance degree of their accuracy is therefore acceptable .

This represents the error level that the auditors accept and can not be mathematically defined as contains both qualitative and quantitative aspects .

A definition of materiality is as follows: “Expression of the significant or relative importance of a particular aspect of the financial statements aggregately considered .An aspect is material if its omission or wrong/false statement would influence acceptably /reasonably the decisions of the audit report recipient “.

Materiality can be defined in three modalities :

Materiality by value

² The main aspects included in The Memorandum are as follows: brief presentation of the activity of the entity to be audited; general frame within which the entity carries out her activity and its influence on the audit; details regarding significant deeds that affect the audited entity or the audit ; planning of materiality (materiality represents the error level that the auditors are willing to accept); summary of the identified specific risks ; evaluation of the activity and development terms of the internal control ; general presentation of audit approach manner ; audit team components and tasks of each member of the team ; audit costs and allotted budget ,etc.

The auditors have to start with determination of the materiality calculation basis. Currently materiality consideration is achieved calculating all possible values for different available basis .

Materiality has to be determined for all financial operations that are reflected in the accounts such as : expenses , incomes, surplus or inventory values .

Level of materiality by value is settled at the beginning of the audit and will be considered only as a guide mark within audit development but always the auditors will consider a range of values for materiality and justify the elected level for this one .

Materiality by nature

Within planning phase the auditors have to try to anticipate all circumstances that might be material by nature or context. Then they can select adequate audit procedures .It is easier for the auditors to plan the material errors according to their nature .These include specific aspects being known that The Parliament is more interested in this imposing a higher accuracy degree regarding certain chapters as well the account in the aggregate. Examples of materiality by nature can be : salary of the chief of executive ,cash balance, auditor's remuneration, details of some special payments ,losses ,etc.

Materiality by context

This one is more difficult to be evaluated in the planning phase .In this case errors are material as they have an important effect upon the account .An example of materiality by context is an expenses statement lower than £ 160,000 that generated the registration of a surplus instead of a real deficit .

Clear definition of material errors examples and bringing them to team knowledge will help this one to identify the material error in an incipient stage .

Materiality and results of evaluation

It is important that materiality to be approached within the whole audit development and not only in planning and finalisation phases .Materiality has to be reconsidered in the stage of audit results evaluation and audit opinion formation in case that the base used to establish the materiality in the planning stage significantly changed as regards the financial statements .

Significance threshold is situated at the limit of materiality. Its definition results from wording: "Information are significant if their omission or wrong declaration would influence the economic decisions of users, decisions taken on the basis of the financial statements . Significance threshold depends on the size of the element or the analysed error in the circumstances specific to its omission or wrong declaration of this one .Thus the significance threshold is more a limit than a fundamental qualitative characteristic that has to be contained by the information in order to be useful " .³

Evaluation of the material risks

Identification of risks generated by the activities of the entity to be audited and their potential impact on the financial statements represent an essential stage of audit approach.

³ According to NAO documentary achieved by a team of The Court of Accounts coordinated by Prof.univ.dr. Florin Bercea, lecturer univ.drd. Ovidiu Ispir and Conf.univ.dr. Marin Ţole published in the magazine no.1/2001 issued by The Court of Accounts .

The central aim of the auditor is the formation of an opinion based on the financial statements not affected by errors. Identification of the risks that might lead to errors and the manner these risks can be diminished are essential for the audit.

Settlement of priorities on risk consideration basis

Risks may be accordingly classified depending on the probability of their apparition in case that they are produced. The most important risks are those with high apparition probability and considerable impact. On the contrary the less important risks are those with low apparition probability and diminished impact. Auditors efforts will be focused on high apparition risks and considerable impact.

Management reaction

Auditors have to consider management reaction to the identified risks. This reaction may develop from risks ignore (those with low apparition probability and diminished impact) to the utilisation of detailed internal control procedures for prevention and diminishment of other risks categories.

In case that management settled adequate procedures for risks diminishment the auditors have to test their functioning.

Within the auditing process a particular stress is laid on verification of the control activities adopted by management in order to solve the identified risks.

Risk of audit

The risk of the audit represents the risk that auditors to express an incorrect audit opinion regarding financial statements. It has the following three components :

1. Inherent risk that represents the possibility that the balance of an account or a certain category of financial operations to contain untrue information that may be individually significant or when they are cumulated with wrong information from other balances or financial operations as a consequence of the fact that there were not performed any internal controls.

Within audit general plan performance the auditor has to evaluate the inherent risks at the level of the financial statements. Also within the audit programs application the auditor has to appraise the balances of the significant accounts and the categories of the financial operations in relationship with the content of the financial statements.⁴

2. *The control risk* represents the risk as an error that should occur in the balance of an account or in a category of operations and that can be significant either individually or cumulatively with errors from other balances or categories of operations and that can not be prevented or detected and corrected in due time by the means of the accounting and

⁴ In order to evaluate the inherent risk the auditor use the professional judgement to appreciate the factors that may influence financial statements accuracy such as : management integrity ;management experience and knowledge;unusual pressures exercided on management staff; nature of the activity of the entity. As regards the level of the balance and category of financial operations the auditors have to consider the possibility of wrong presentation of the accounts,complexity of financial operations registration or other events that may require the utilisation of the services of an expert ; assets susceptibi.lity especially upon those with a high rate of circulation (cash, for example) to be lost or embezzled ;finalisation of unusual or complex financial operations at the end of the financial exercise;operations that are not usually developed etc.

internal control systems . Preliminary evaluation of the control risk represents the appraisal process of the efficiency of the accounting and internal controls systems of the entity in order to prevent and detect the significant wrong information. The control risks will permanently exist due to the inherent limitations of any accounting and internal control system. The auditor has to achieve a preliminary evaluation of the control risk at the level of every account balance or category of significant financial operations reported in the financial statements .It is imperiously necessary that the control risk to be evaluated at a high level when it is found that the accounting and internal control systems are not efficient .A preliminary evaluation of a low control risk is done when the auditor identifies efficient internal control systems capable to prevent, detect and correct a wrong significant information and if this one plans to effectuate control tests for appraisal support . In order to understand and evaluate the control risk it is necessary that the auditors to issue a documentation regarding the accounting and internal control systems . Form and volume of this documentation depend on the size and complexity of the activity carried out by the entity as well as the nature of the accounting and internal control systems.

Aiming to establish the efficiency of the accounting and internal control systems the auditor has to effectuate control tests in order to obtain the audit proofs.⁵ Considering the results of the control tests the auditor will evaluate if the internal controls are correctly guided and operate at the forecasted level.

3. *Non detection risk* represents the risk that the used substance procedure does not detect a wrong information existent in the balance of an account or in a financial operation and that can be significant either individually or cumulatively together with untrue information from other balances. The level of this risk always depends on the matter procedures adopted by the auditor.

Finally we reveal that control risk and inherent risk appraisal naturally influence the duration and extent of the substance procedures that have to be used by non detection risk diminishment and therefore the audit risk to be on the minim acceptable level .In order to achieve this target the auditor has to consider the nature of the matter procedures, the moment these are applied and their extent .Then evaluation of the components of the inherent risk and control risk effectuated by the auditor may be modified within the audit development if this one receives information that are significantly different in comparison with those on the basis of which the inherent and control risks were appraised.

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⁵ Part of the procedures used to understand the accounting and internal control systems can supply audit proofs regarding the efficiency of relevant internal controls effectuation and consequently these may be considered as control tests.For example in order to understand the accounting and internal control systems regarding the entity cash flow the auditor has to obtain audit proofs regarding the efficiency of the banking collaboration process by investigation and observation means. The control tests may include: verification of the justifying documents of the financial operations and other events aiming to obtain audit proofs regarding the internal control(for example it is verified if an operation was authorised);investigations and preservation of the internal controls that did not reached to proofs; internal controls restoration(for example there are verified the banking accounts in order to be sure these were correctly drawn out).

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INSTITUTIONAL FRAME OF PUBLIC SECTOR FINANCIAL AUDIT DEVELOPMENT IN UNITED KINGDOM

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Abstract

In United Kingdom public audit activity is ruled by The Law of National Audit of 1866 further modified and completed in 1921 and 1983. National Audit Office of Great Britain is the supreme Audit Institution of The Public Funds .The Comptroller and General Auditor audits and certifies the accounts of the governmental departments and other institutions of The Public Sector ,effectuates audits of activity performance and reports the results of the achieved audits to The Parliament .

Keywords: *public audit, procedures, risks, prevention, conformity, reporting .*

National Audit Office of United Kingdom is the supreme audit institution of the public funds .NAO of United Kingdom does not have a jurisdictional component and consequently the enforce procedures of the issued reports are different in comparison with those of The Court of Accounts in Romania .

We have to reveal that public audit activity in UK is ruled by The Law of The National Audit of 1866 further modified and completed in 1921 and 1983.⁶

The Comptroller and General Auditor is the leader of NAO of UK and he is elected by the members of The Chamber of Commons and appointed by The Queen of England. The mandate of the controller and general auditor is not limited in time and only The Queen can revoke him from his position on the basis of the proposal of The Chamber of Commons.

The possibility of a critical opinion for Govern activity evaluation done by NAO is issued by The Public Accounts Committee existence and functioning.⁷ This one has been

⁶ The main modifications achieved by The Law of 1983 were : Finances and Audit Department(F&A.D) was included in The National Audit Office(NAO); it was reglementated the right of The Controller and General Auditor to effectuate audit of performance; The Controller and General Auditor was empowered to present the reports in front of The Parliament within the whole year ;it was established The Public Accounts Commission -legal authority authorised to survey NAO budget and expenses and to appoint an auditor of the activity carried on by this one .

established in 1861 within the organisational structure of The Chamber of Commons. This one is led by one of the members of the opposition of The Chamber of Commons and it is compounded of 15 members belonging to the whole political spectrum .Public Accounts Committee meets 40 times per year and examines the reports issued by The Comptroller and General Auditor regarding the execution accounts of the departments, governmental agencies and other public bodies as well as the reports issued further the achievement of the performance audit.

NAO participation modalities to The Public Accounts Committee activity

- Supplies to The Parliament reports and memoranda by the help of The Comptroller and General Auditor ;
- The Comptroller and General Auditor and NAO staff participate as witness in the hearings of The Public Accounts Committee ;
- Supplies to The Parliament additional information on demand basis ;
- NAO together with The Public Accounts Committee participates in the programme achievement regarding efficiency audit .

In practice NAO activity is interdependent with the activity of The Public Accounts Committee activity .Thus The Public Accounts Committee analyses the reports issued and remitted by NAO and hears the audited entity and The Comptroller and General Auditor ,too in connection with the content of these reports .⁸ Further the carried out examinations The Public Accounts Committee issues its own report that is sent to The Govern together with NAO report. The Comptroller and General Auditor participates in the hearings of The Public Accounts Committee accompanied by the members of the audit team that issued the report and in case that the latter one demands for additional information concerning the aspects presented in the report ,NAO issues a memorandum. Also NAO issues its own control programme that is remitted to The Public Accounts Committee for approval purposes .

Audited entities

The audited entities are the departments (the ministries) and their subordinated institutions, governmental agencies and other entities that utilise public money. In these entities, the responsibility regarding public money administration is in charge of the account officer⁹, position equivalent to that of credits accountant in the public institutions of Romania.

Having this position the account officer represents the audited entity and participates in the hearings done by The Public Accounts Committee. Also the account officer of The Treasury Department participates in these hearings and has the obligation of elaborating a

⁷ In the relationship between NAO and the audited entities the role of The Public Accounts Committee resides in : examination of the reports of the accounts officers, the reports of The Comptroller and General Auditor as well as memoranda (reports regarding the national security or other specific situations that are not published); presents in front of The Chamber of Commons the results of the examinations ,lays down recommendations for the audited entities in order to improve their economical-financial performances .

⁸UK NAO leader is named „General Controller of returns and issues of The Treasury of Her Majesty and General Auditor of Public Accounts”(abbreviated form C&AG).

⁹ Within The English system the superior clerk equivalent to the credits accountant of The Romanian system is named Account Officer and has responsibilities regarding the correctitude and regularity of financial resources utilisation ;accounts reality and exactity ,prudent and economic administration of the financial resources, avoidance of waste and inefficient expenses ; efficient utilisation of the available resources etc.

relevant answer regarding the findings written in The Public Accounts Committee report in the form of a Minute. The Govern answers to the yearly reports of The Public Accounts Committee presented in The Chamber of Commons.

Tasks and responsibilities of UK NAO

UK NAO carries out financial control activities as well as financial and performance audit. Financial control activity resides in ‘control of all returns and issues of The Treasury’. Presently this activity has an insignificant weight within ONA .Having a complexity relatively reduced the financial control activity is effectuated by five auditors simultaneously fulfilling specific audit tasks.

The audit activity structured on the financial audit and performance audit represents NAO basic activity .As regards audit NAO has obligatory tasks (stipulated by law) as follows :

- ✓ audit and certification of the accounts of the public sector departments and institutions;
- ✓ audit results reporting in front of The Parliament as well as discretionary tasks (allowed by the law)but at the disposition of NAO leader ,respectively :
 - ✓ performance audits achievement ;
 - ✓ audit and certification of other accounts than those stipulated by law on the basis of a contract .

The Comptroller and General Auditor pursues his activity independently as empowered ‘officer’ of The Chamber of Commons.

Audit pursued by NAO

NAO audit activity (NAO mission) aim is that of supplying information, guarantees and consultancy to The Parliament regarding the manner in which the governmental departments, executive agencies and other public institutions pursue the responsibilities regarding contributors money administration. NAO by the means of the performed activity is aiming to support the audited entities to improve their financial management .The audit involves issuance of an interdependent opinion on a set of financial situations.

Audit of the financial situations represents an exercise that is aiming to allow the auditors to express an opinion if the financial situations offer a real and honest image (or equivalent) of the activity of the entity at the end of the period of time and on profit and loss(or incomes and costs) for the ended period and that were drawn up in accordance with the applicable reporting frame (for example relevant legislation and applicable accounting standards) or where legal stipulations allow or other specific demands provide the statement “if the financial statements accurately present”. Financial audit activity has to be carried out in accordance with Audit Standards that contain basic principles and specific procedures for audit achievement. Statement of Audit standards are of more types¹⁰:

- ✓ INTOSAI Audit Standards and UE directives regarding their implementation ;
- ✓ IFAC Standards (International Federation of Accountants);
- ✓ United Kingdom Audit Standards .

United Kingdom Audit Standards are issued by The Council for Audit Practices compounded of representatives of the accounting institutions ,NAO and Treasury and are

¹⁰ As regards the format, standards are of the following types : Statement of Audit Standards – SAS; Practice Notes; Bulletins .

published in the book “Auditing and reporting “ having a compulsory character. NAO utilises The Practice Note 10”Audit of the financial declarations of the central governmental sector in United Kingdom” and The Practice Note 17 “Audit of regularity in the central governmental sector”.

There is also used the audit manual that contains :

- ✓ financial audit manual ;
- ✓ modules regarding the audit for different fields of activity ;
- ✓ audit circulars .

Within the performed financial audit activity the auditors are acting according to The Ethical and Professional Behaviour Code and observe the ethical principles that govern the financial responsibilities of the auditor such as: independence, integrity, objectivity, professional competence and confidentiality .

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FINANCIAL ADMINISTRATION CONTROL, AN ESSENTIAL ACTIVITY IN PERFORMANT MANAGEMENT

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Abstract

Financial management control may be considered operational methodology using tools based on an entity's organization, evolving from the production of information to its organization and analysis, thus being complex control, focusing both on the correct administration of property and on the assessment of performance within each entity, irrespective of the juridical aspects.

Financial management control involves taking into consideration all the activities fulfilled within an entity in order to increase its economic performance.

Keywords: *control, financial management control, the control of conformity, the control of performance.*

1. General considerations on financial management control

The knowledge of the system of property, of its ability to generate profit at a particular moment is supported and ensured both by accountancy and by rigorous, efficient control.

It may be stated that on both macro-economic and micro-economic levels, control represents an efficient and necessary function of management.

Exercising control as an activity in itself is present in each and every field of social activity and is therefore required as a necessity for information.

If we are to study control in terms of management, we will notice within specialized literature the existence of approaches with reference to the function of control in management which “consists in assessing and correcting performance registered in employees’ activity, for the purpose of ensuring the corresponding achievement of all settled objectives and plans.”

According to dictionaries, control is defined as “verification, permanent or periodical analysis of a specific activity in order to follow its course and to take measures for improvement”, or as “permanent, periodical or unexpected verification, applied in some field of activity for the purpose of getting information about its realities and about the way in which it is performed in that field, so as to prevent or correct possible shortages and to improve it.”

The concept of control is derived from the phrase “contra rolus”, which means a verification of the original paper, by comparing it with a copy that is entrusted to another person for this purpose.

In a broad sense, control consists in checking whether everything has been fulfilled according to the fixed schedule, to the instructions given and the established principles. It also means systematic and continuous supervision of an activity.

Control may also be defined as “being entitled to manage the financial and operational policies of a company to the acquisition of benefits from its activity.”

As a scientific subject, control can be classified nowadays among the financial management sciences, after being most often considered as a subject belonging to economic sciences for several decades in the past century.

The implications of the activity in financial management control may in turn have several different connotations, and the concrete methods of organizing and fulfilling it present essential differences from an economic system to another.

In what the concept of “financial management control” is concerned, this implies a broader view, being defined as “a set of clear, exact procedures that ensure the efficiency and effectiveness of the activities to be fulfilled for the achievement of the stated objectives.”

Ion Florea and Radu Florea describe economic and financial control that covers in its area technical, economic, social and administrative aspects, as well as the connections of economic and juridical institutions of any kind. Theoretically, economic and financial control is represented, according to the same authors, by the control function of finances and in particular by the functions of financial management control and informative control in accountancy.

Ioan Oprean states the idea of a system control, or a control of performance, focused on the achievement of the managerial objectives at the optimum level (4), which must decide on the economical features, efficiency, effectiveness and convenience of transactions and operations.

The same author describes two aspects of control, namely:

- the control of conformity, or investigative control;
- the control of performance, or guidance and adaptability control.

The control of conformity aims at establishing and analysing breaches, focusing on causes and responsibilities to identify measures to be taken in order to eliminate them and to bring the controlled phenomena within the limits of established parameters. Guidance control brings the phenomena back to the established parameters and influences their future evolution, thus contributing to the prevention of disturbing factors in the managed system.

Mircea Boulescu and Marcel Ghita associate to financial management control a predominantly financial component, and this way financial management control is considered to be an organizational type of “internal control inherent to the economic institution”, together with preventive and hierarchical financial control.

It is especially recommended to consider “Financial Management Control Beyond the Surface”, in which Titus Aslau accomplishes a thorough study on the financial management activity and even succeeds in departing from standardized analysis. He defines financial management control as “ a device in management allowing the making of decisions upon the entrusted basis and the leading of activities towards the accomplishment of established objectives in compliance with the fundamental interests of each enterprise.” Lately, enterprises operate in conditions of uncertainty and in unstable media. As a consequence, control is seeking its inclusion in this new field, that of financial management sciences, as there may be problems related to financial management only where there are imperfections in making decisions. Under these circumstances, we consider that the concept of control must be associated, above all, with that of financial management.

Financial management control may be considered operational methodology using tools based on an entity’s organization, evolving from the production of information to its organization and analysis, thus being complex control, focusing both on the correct administration of property and on the assessment of performance within each entity, irrespective of the juridical aspects. Financial management control involves taking into consideration all the activities fulfilled within an entity in order to increase its economic performance.

Managing an enterprise means, on the one hand, thorough knowledge of its current activity and interference with operative decisions in guiding it, and on the other hand foreseeing its future development and stating prognoses shaping the direction of its further development. Financial management control implies consideration for all the activities fulfilled inside an enterprise for the purpose of increasing its economic performance. Thus, financial management control corresponds to:

- a better organization and fulfillment of the entire activity in the respective field;
- increased order and discipline;
- a more efficient administration of material, human and financial resources;
- maintenance of the activity within normal standards;
- intelligent and competent solutions to problems that may appear during the proposed activity;
- identification of the causes leading to drawbacks and breaches from normality;
- deciding on and applying measures to solve possible problems.

2. The necessity, objectives and functions of financial management control

Financial management control has an essential role in supporting enterprises to adjust and pass from a type of activity to another or from a product to another, as a response to the signals of a changing market, leading to the necessary flexibility in economic adjustment.

The objective necessity of control is determined by the following aspects:

- + the existence of property whose integrity must be protected against likely actions contrary to the purposes of the enterprise;
- + insurance of corresponding management of financial, material, human and informational resources;
- + the existence of a system of regulations, norms and laws whose correct observance and application could only be ensured by control;
- + setting methods of assessing performance and results obtained by a particular entity.

Financial management control includes in its area, in legal, theoretical and practical terms, the complex issues specific to the economic and financial field, in its mutual interaction and conditioning with the technological, juridical or other fields.

The subject of financial management control consists in the examination of the manner in which the anticipated established programme was fulfilled and of the way in which the established principles are followed, with the purpose of revealing the errors, breaches, drawbacks or deficiencies to be addressed and avoided further on. Financial management control comprises in its field the financial relations, phenomena and processes, the process of management and administration of property, the results of social economic activity, all the moments, institutions and locations where material and financial goods are administered and expenses are made.

The objectives of financial management control may be grouped into the following:

- the elaboration of some general foreseeing variants concerning the security, financial convenience, development and reliability of an entity;
- observation of the application of the strategic variant of development, both financially and on the basis of pre-established indicators and of the so-called “key success factors”;
- the assessment of performance using those indicators and criteria, which facilitate the assessment of results, considering the influence of inflation on accountancy and the correct interpretation of figures;
- the strict observance of the rules and procedures of efficient financial management of property;
- the application of correction measures for the use of resources in compliance with the strategy and the general assumptions, etc;

The objectives of financial management control can be diversified depending on the type of activity of every particular property unit. Financial management control ensures the fulfillment of some specific, operative, real and practical functions, which coexist within a homogeneous environment, conditioning and completing each other, and this way:

+ **The preventive and perfective function**, which works on preventing the appearance of some deficiencies or damage during the fulfillment of financial and economic activities, which supposes their improvement. Prevention of the tendencies and phenomena that need corrective decisions ensures the improvement of the modality of

financial management of property, organization and management of activity. The control has the mission of orienting the job towards major objectives, in a ranking of efficient and further priorities, which could prevent and remove the waste of human and material effort and also ensure economic and social efficiency;

✚ **The investigative and corrective function**, in case some disorders appear. Control supervises the way in which management decisions are made with reference to the activity of an entity and ensures observance and protection of its interests, the financial balance between incomes and expenses and favourably influences the fulfillment of the economic tasks. For the accomplishment of these functions, methods and techniques specific to control are used in identifying breaches, malfunctions and deficiencies and in processing the findings by correcting and adjusting the identified situations within normal parameters;

✚ **The function of cognition and assessment** of the situation existing at a given time, of the results obtained at the end of a period of management, of the way of fulfilling the activity under normal circumstances of legality and efficiency, as well as solvability. The function of cognition implies an accurate analysis of all the deficiencies previously identified and of possible negative tendencies. It is completed by the function of assessment which, in realistic and legal conditions, establishes and, if possible, particularizes the managerial, property-related, financial, budgetary, fiscal and social consequences;

✚ **The educational and motivational function** of all the participants in the accomplishment of the managing process. Through the accomplishment of the other functions of control, especially the corrective one, control acquires an educational function for further periods, on the basis of the latest results and the way they are used. Based on the principle according to which “even control can be controlled”, it contributes to the motivation of all the factors involved in the managing process. At the same time, control acts as a positive leading factor that motivates the efforts to overcome critical situations and to obtain further performance;

✚ **The coercive function** takes into account the fact that, in order to contribute to the prevention and eradication of deficiencies, control must establish responsibility and this is accomplished through a set of administrative, civil or legal measures that are proposed or applied to those who are responsible for the identified deficiencies.

Through these functions, financial management control contributes to the maintenance of property units in the pre-established programme, through an optimum adjustment of the economic financial activity performed by identification of breaches, of their proportions and the eradication of their economic financial consequences, fulfilling the function of adjusting the system, inherently related to the others through the interception of influences from internal and external factors.

In this context, the function of adjusting the system, the status of property, on the basis of the results of control, aims to eliminate the distracting factors, the maintenance of balance and the insurance of the enterprise functioning within pre-established parameters, in order to reach the strategy of pre-established objectives.

This function involves both the elimination and operative recovery of deficiencies, of identified damage, of malfunctions that may appear, and the generalization of positive aspects. At the same time, financial management control also fulfils a set of specific functions which emerge from its objectives and nature, such as:

✚ the function of ulterior measurement of previously planned breaches;

- ✚ the function of diagnosis for financial errors on the basis of symptomatic previously planned breaches, which affect or threaten the activity of the economic agent;
- ✚ the function of revising objectives or further anticipation based on the financial diagnosis;
- ✚ the function of interfering within competence to overcome or solve the problems of the property unit;
- ✚ the function of regulating the entity's activity by ensuring coherence in control according to its objectives, focusing on the on-going activities;
- ✚ the function of preparing the entity management for decision-making based on the results of previous control;
- ✚ the function of learning and assimilation of realities that control presents permanently through its coercive action, with reference to the appropriateness of the legal frame and norms it uses.

Due to these functions, control is not a purpose in itself any longer, but instead it is more of a means, a way of increasing the flexibility and efficiency of the system in which it operates. In practice, specialists in the field recommend that more emphasis should be placed on the preventive function, with its foreseeing nature, and less on those with a coercive nature, as this leads to the accomplishment of substantial savings.

3. Views on financial management control

Taking into account the fact that the manager is responsible for the management of resources, both on decisional level and on that of ensuring systems of internal control appropriate to financial management control, he has to consider the following principles:

- independence;
- responsibility (in terms of channels in reporting);
- liability (in the juridical sense);
- efficiency (based on two directions: simplification and decentralization);
- transparency.

In the field of financial management control, s/he has to clearly establish the objectives by taking three types of action, this way:

- clearly defining the tasks;
- understanding responsibility by the parties involved;
- honesty and trust in observing the rules (by creating a managerial culture).

Financial management control must aim at attaining the following objectives:

- reliability and accuracy of information;
- conformity to policies, plans, procedures, rules and regulations;
- the safety of assets;
- the efficiency and profitability of resource use;
- the fulfillment of objectives and aims proposed through operations and programmes.

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APPLICATIONS OF THE SUBTLE SETS IN THE VALUE ENGINEERING

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Abstract

To apply the subtle sets in the value engineering is necessary to specify the main elements of a value engineering problem. The concept of value engineering modeling must be adapted to the methods from the utility theory and the vague sets theory. Considering the actual trend in modeling, we propose to also use the subtle sets, which have the advantage of being operated in a uniformly concept with the determinist, fuzzy and random magnitude. Also, regarding the high analogies between biology and technique (seen through bionics), we'll use in some cases, terms and examples from the mentioned scientific area.

Keywords: *value engineering, subtle sets, fuzzy and random magnitude*

Given m functions (functionality criteria, abilities) and n marks (organs, units). Each function $i \in 1, m$ is accomplished by the mark $j \in 1, n$ with an appurtenance degree $u_{ij} \geq 0$ (of function i to the property to be accomplished by the mark j , evaluation being made by the observer o). Some functions can represent multi functionalities obtained from “groups” of “marks” .

It is so acquired a subtle set S_0^F (F - function, o - observer) in a fuzzy form:

$$S_0^F = \begin{Bmatrix} f_1 & f_2 & \dots & f_n \\ \mu_{11}^0 & \mu_{12}^0 & \dots & \mu_{1n}^0 \\ \dots & \dots & \dots & \dots \\ \mu_{m1}^0 & \mu_{m2}^0 & \dots & \mu_{mn}^0 \end{Bmatrix} \quad (1)$$

$U_{ij} \in [0,1]$ or under probabilistic form:

$$S_0^P = \begin{Bmatrix} f_1 & f_2 & \dots & f_n \\ p_{11}^0 & p_{12}^0 & \dots & p_{1n}^0 \\ \dots & \dots & \dots & \dots \\ p_{m1}^0 & p_{m2}^0 & \dots & p_{mn}^0 \end{Bmatrix} \quad (2)$$

In which: $p_{ij}^0 =$ the probability that function $f_j (j \in 1..n)$ to be fulfilled by the mark $R_i; i \in 1..m$, estimated by the observer O .

The simplest form is the deterministic one:

$$S_0^D = \begin{Bmatrix} f_1 & f_2 & \dots & f_n \\ b_{11}^0 & b_{12}^0 & \dots & b_{1n}^0 \\ \dots & \dots & \dots & \dots \\ b_{m1}^0 & b_{m2}^0 & \dots & b_{mn}^0 \end{Bmatrix} \quad (3)$$

In which: $b_{ij}^0 =$ Boolean variable defined like:

$b_{ij}^0 = 0$, if observer “O” considers that the mark R_i doesn’t fulfill (respectively isn’t necessary to fulfill) function f_j .

1, if observer “O” considers that the mark R_i fulfill (respectively it *must* fulfill) function f_j

Also, there could be use more complicated forms, named *hybrids*, in which the matrices (1), (2) or (3) are becoming hyper matrices. An example of a hybrid hyper matrix it is obtained in case where the objective is the unification in just one model of the fuzzy and probabilistic character of the magnitudes which intervene in the design when the value engineering is used. It is obtained a hybrid subtle set in this form:

$$S_0^H = \begin{Bmatrix} f_1 & f_2 & \dots & f_n \\ H_{11}^0 & H_{12}^0 & \dots & H_{1n}^0 \\ \dots & \dots & \dots & \dots \\ H_{m1}^0 & H_{m2}^0 & \dots & H_{mn}^0 \end{Bmatrix} \quad (4)$$

In which h_{ij}^0 represent a random variable with a normal distribution of an average that is u_{ij}^0 and a mean square deviation σ_{oij} .

The observer “o” is one of the “actors”, interested in the matter of design/redesign of a function, which is: the final user, the designer, the executer, the state a.o. In some cases it is possible to decompose an “actor” in two or more “actors”. For example, the executer could be decomposed in: employer (as business man), technical manager (master chief) and worker. Every “actor” has different objectives and individually evaluates their own data which intervene in the subtle sets (probabilities, appurtenance degrees, averages, etc.).

The theory of the subtle sets imposes an antithetical criteria application. In case of value engineering, the antithetical functions are disabilities f_j ($j=1,n$). In case where the actual knowledge doesn’t allow the finding of antithetical function, it is temporarily allowed a fictional function with this propriety. In the fictional function case, the appurtenance degrees will be = 0. In this way, for each subtle set S_0 it could be associated the opposite subtle set (antithetical) \bar{S}_0 . It is so obtained the next antithetical subtle sets:

&the disabilities subtle set under fuzzy form:

$$\bar{S}_0^F = \left\{ \begin{array}{cccc} f_1 & f_2 & \dots & f_n \\ 1 - \mu_{11}^0 & 1 - \mu_{12}^0 & \dots & 1 - \mu_{1n}^0 \\ \dots & \dots & \dots & \dots \\ b_{m1}^0 & 1 - \mu_{m2}^0 & \dots & 1 - \mu_{mn}^0 \end{array} \right\} \quad (5)$$

&the disabilities subtle set under probabilistic form:

$$\bar{S}_0^P = \left\{ \begin{array}{cccc} f_1 & f_2 & \dots & f_n \\ 1 - p_{11}^0 & 1 - p_{12}^0 & \dots & 1 - p_{1n}^0 \\ \dots & \dots & \dots & \dots \\ 1 - p_{m1}^0 & bp_{m2}^0 & \dots & 1 - p_{mn}^0 \end{array} \right\} \quad (6)$$

&the disabilities subtle set under deterministic form:

$$\bar{D}_0^D = \left\{ \begin{array}{cccc} f_1 & f_2 & \dots & f_n \\ 1 - b_{11}^0 & 1 - b_{12}^0 & \dots & 1 - b_{1n}^0 \\ \dots & \dots & \dots & \dots \\ 1 - b_{m1}^0 & 1 - b_{m2}^0 & \dots & 1 - b_{mn}^0 \end{array} \right\} \quad (7)$$

&the disabilities subtle set under hybrid form:

$$\bar{S}_0^H = \left\{ \begin{array}{cccc} f_1 & f_2 & \dots & f_n \\ \bar{H}_{11}^0 & \bar{H}_{12}^0 & \dots & \bar{H}_{1n}^0 \\ \dots & \dots & \dots & \dots \\ \bar{H}_{m1}^0 & \bar{H}_{m2}^0 & \dots & \bar{H}_{mn}^0 \end{array} \right\} \quad (8)$$

in which H_{ij} represent a random variable with a normal distribution of an average that is $1 - u_{ij}^0$, and a mean square deviation σ_{oij} .

A very sensitively theoretical problem, but from the encouragement of unexpected discoveries till present point of view, with very beneficial implications, is the application of the *duality* principle, well known in mathematics and philosophy. According to this principle, it could be admitted that, if the subtle sets S₀F, S₀P, S₀D, S₀H are considered to be primal, by changing the “marks” with the “ functions” and backwards, are being obtained new subtle sets S*₀F, S*₀P, S*₀D, S*₀H, called duals. In consequence, by using *the duality principle* results the next dual subtle sets:

&the dual subtle sets under fuzzy form:

$$S_0^F = \left\{ \begin{array}{cccc} R_1 & R_2 & \dots & R_n \\ \chi_{11}^0 & \chi_{12}^0 & \dots & \chi_{1n}^0 \\ \dots & \dots & \dots & \dots \\ \chi_{m1}^0 & \chi_{m2}^0 & \dots & \chi_{mn}^0 \end{array} \right\} \quad (9)$$

With the propriety of

$$x_{ij}^0 = \mu_{ji}^0 \quad (10)$$

That means that because of duality, in the matrix given by the relation (1) the lines are changing with the columns.

& the dual subtle set under probabilistic form:

$$S_0^{*P} = \left\{ \begin{array}{cccc} R_1 & R_2 & \dots & R_n \\ q_{11}^0 & q_{12}^0 & \dots & q_{1n}^0 \\ \dots & \dots & \dots & \dots \\ q_{m1}^0 & q_{m2}^0 & \dots & q_{mn}^0 \end{array} \right\} \quad (11)$$

where analogical

$$q_{ij}^0 = p_{ji}^0 \quad (12)$$

& the dual subtle set under deterministic form:

$$S_0^{*D} = \left\{ \begin{array}{cccc} R_1 & R_2 & \dots & R_n \\ G_{11}^0 & G_{12}^0 & \dots & G_{1n}^0 \\ \dots & \dots & \dots & \dots \\ G_{m1}^0 & G_{m2}^0 & \dots & G_{mn}^0 \end{array} \right\} \quad (13)$$

Where analogical

$$c_{ij}^0 = b_{ji}^0 \quad (14)$$

& the dual subtle set under hybrid form:

$$S_0^h = \begin{pmatrix} R_1 & R_2 & \dots & R_n \\ I_{11}^0 & I_{12}^0 & \dots & I_{1n}^0 \\ \dots & \dots & \dots & \dots \\ I_{m1}^0 & I_{m2}^0 & \dots & I_{mn}^0 \end{pmatrix} \quad (15)$$

Where analogical

$$I_{ij}^0 = H_{ji}^0 \quad (16)$$

The building of the antithetical dual subtle set is the most difficult problem. And this because the actual technical and biological knowledge, allow us, in very rare cases, to find examples of “antithetical marks”.

Here are some examples of these rarities:

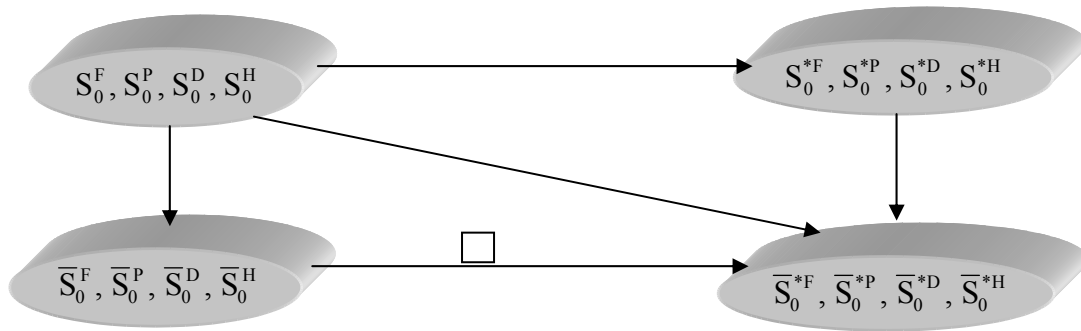
- in the road building: “rambleu” with the antithetical “debleu”
- in the isolation area: “marks from isolation materials”, vs “marks from conductors materials”
- in the groundwork area: “hole” vs “hillcock”(as Yin-Yang= full-empty)
- in the optics area: ”microscope- telescope” etc.
- in biology the organs that differentiate between sexes are as Yin-Yang

Looking upon the perspectives that could open to the invention area by searching the “antithetical marks”, we consider that if we don’t possess the necessary knowledge to define the majority of the antithetical marks, we could still use the “fictional antithetical marks”. Like “fictional functions”, to the “fictional marks” correspond appurtenance degrees =0. In consequence, there can be defined antithetical dual subtle sets $\overline{S}_0^{*F}, \overline{S}_0^{*P}, \overline{S}_0^{*D}, \overline{S}_0^{*H}$, that will have at the initial time appurtenance degrees 0 or 1 (the set \overline{S}_0^{*D} will have definitive parameters or 0 or 1 through its nature). As discoveries will be made (eventually by brainstorming, innovations, inventions etc) there will be multiplying the definitive parameters with the subunit levels in the $\overline{S}_0^{*F}, \overline{S}_0^{*P}, \overline{S}_0^{*D}, \overline{S}_0^{*H}$ sets.

With this trick we can affirm that the T transformation of a primal subtle set in a dual subtle set and t transformation of a subtle data set given in antithetical subtle set have proprieties asked to a functor and satisfy the conditions of a tetralemma, as the figure shows.

This happens because:

$$\begin{aligned} \overline{S}_0^{*F} &= (\overline{S}_0^F)^* \\ \overline{S}_0^{*P} &= (\overline{S}_0^P)^* \\ \overline{S}_0^{*D} &= (\overline{S}_0^D)^* \\ \overline{S}_0^{*H} &= (\overline{S}_0^H)^* \end{aligned} \quad (17)$$



This propriety makes the even if in case of composed succession imposed by the T and t transformation, the order to be changed without changing the results.

$$T \circ \tau = \tau \circ T \quad (18)$$

For defining a possible solution of a value engineering problem, it is considered one or more functions that the final user observe, also the restrictions which must be satisfied (technological, ecological, psychological etc.). It imposes next the cost restrictions. It is estimated the proportion between the marks utility which satisfy the called functions and the restrictions and it is reported to the total cost. It is presented next, in detail, the selection procedure of the solution marks. If there will be considered only a function f_j ; which is satisfied by a mark R_i with a succeeding degree u_{ij}^0 , then will be necessary to verify the restriction under the next form:

$$\mu_{ij}^0 \geq \mu_{aj} \quad (19)$$

Where μ_{aj} = admitted satisfying degree appointed in regulations for the function f_j .

From the m marks are selected only those that satisfy the (19) restriction. Are obtained m_j marks ($m_j \leq m$). It's marked MR_j , the selected marks set for satisfying function j .

If there are n function that should be satisfied, then there are obtained n sets: MR_1, MR_2, \dots, MR_n , by applying the same procedure written above. The MR_x marks set that simultaneously satisfy all the functions from the actual regularization point of view, is:

$$MR^x = MR_1 \cap MR_2 \cap \dots \cap MR_n \quad (20)$$

It is calculated for each mark $R_i \in MR_x$, the global appurtenance degree u_{gi}^0 to the propriety to simultaneously satisfy all the n functions (at least in the u_{aj} , $j \in \overline{1, n}$ satisfaction degree), helped by the relation:

$$\mu_{gi}^0 = \prod_{j=1}^n \mu_{ij}^0 \quad (21)$$

α_j = exponents that are determined by the expert consideration, after the function importance (if there is an unnecessary function, $\alpha_j=0$, if there is a maximum functionality function then $\alpha_j=1$). Estimating the i mark's C_i cost, it could be obtained a global efficiency indicator of R_i mark, like:

$$EG_i^0 = \frac{\mu_{gi}^0}{C_i} \quad (22)$$

It's choused : $\text{Max } EG_i^0, i / R_i \in MR^x$

More relevance has the global efficiency EGD_i^0 , calculated using the Δ_{0i} discrepancy between global appurtenance degree of function u_{0gi} and the dysfunction degree $\overline{\mu}_{gi}^0$ (using the antithetical subtle set).

$$\Delta_i^0 = \mu_{gi}^0 - \overline{\mu}_{gi}^0 \quad (23) \text{ from where:}$$

$$\Delta_i^0 \in [-1,1]; \quad \mu_{gi}^0 \in [0,1]; \quad \overline{\mu}_{gi}^0 \in [0,1] \quad (24)$$

It's choused $\text{Max } EGD_i^0, i/R_i \in MR^x$

The final user is the most important observer. Implicating the state's interests, it is also estimated the profit and the levy is being calculated, but must be regarded the environment restrictions, restrictions that could change the initial selection given at the (19) relation.

Conclusively, the use of the subtle set in the value engineering implies the use of scientific areas like: philosophy, mathematics, logics, techniques, economy, biology, linguistics, etc. All the disciplines that collaborate grow rich. More than that, through repeatedly applications in prolonged time, all of these are evolving in a positive way.

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THE IMPACT OF TECHNOLOGIES AND COMMUNICATION UPON FINANCIAL REFFERENCES

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Abstract

The Enterprise Resource Planning Systems are information management systems concerning the financial refferences, which integrate and automatize a large part of the activities done in an enterprise. A lot of the problems the firms have with an ERP system are generated by the inadequate investments in the entire staff's continuous instruction and also by the lack of integrated policies that affect the way in which the system's financial data is used and maintained in accordance with reality.

Keywords: *informational system, informatic system, Enterprise Resource Planning System (ERP)*

1. The informational system in an enterprise

The nowadays conditions that define the environment in which the enterprises develop force them to find new and more efficient methods of structure and function. The emergence of computers was a very important step in identifying such methods. The possibility of using them in any domain without too many restrictions generated new openings, hard to imagine otherwise. The processes and activities taking place inside an organization are not fortuitous, but they unleash because of the processed information that serves to some persons which take decisions that set working other persons in order to

perform a series of actions. The modern management of any entity that generally develops in a changing environment can not be imagined without the existence of an informational system able to provide the necessary information to the substantiation of decisions.

In fact, all the activities that take place in an economical entity represent the result of the concerted action of three inter-related sub-systems, which together make up the informational system, and these are:

- the management sub-system with the role of ordering and directing the activity to realize the prescribed objectives;
- the operational sub-system (managed) with the role of accomplishing the taken decisions and supplying the data concerning the unfolding activities;
- the informational sub-system, which realizes the both-ways connection between the management system and the operational system.

In economic literature an enterprise is often compared to a biological organism. Like this one it has to adjust itself to the existing environment. But the adaptability is a feature, having as bases the possibility of transmitting information about the environment very fast from the different parts of the organism to the center of decision and the other way round. Regarding the biological organism this fact is provided by the nervous sub-system. For an economical organism the support is provided by the informational sub-system. While in the case of a biological organism, no matter its dimension, the integration degree is maximum and the constituents of the system are dedicated, in the case of an economical organism the integration degree is smaller and the constituents are not always dedicated.

Therefore we consider the definition given by the theorists as being complete enough, saying: "the informational system represents the organizational and integrated ensemble of methods and procedures, of technical means of gathering, recording, processing, transmitting and hoarding the data and information regarding the activity of the management system and of the environment in which it works"¹¹. When the informational system requires especially the use of automatic means of processing and custody of data the notion of informatic system emerges. The relation between the informational system and the informatic system is like the one between whole-part, this fact being underlined by the figure 1 which points out interrelation between systems in any firm.

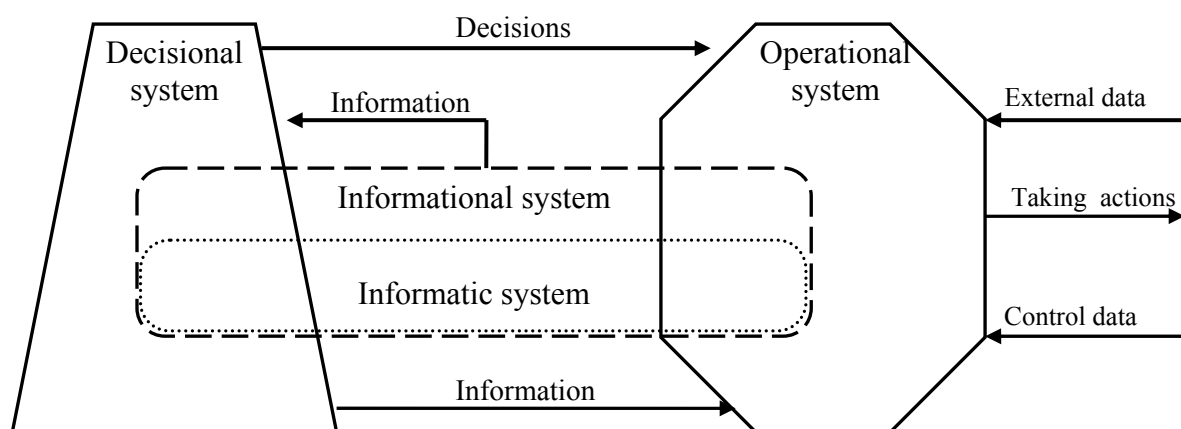


Figure 1

¹¹ Constantinescu D.– Managementul întreprinderii (The Management of the Enterprise), Ed. Universitaria, Craiova, 1997, p. 152.

The most general definition presents the informatic system like a gathering, memorizing, processing and distribution of the information that uses the computer¹².

The most general definition presents the informatic system as “a system of gathering, memorizing, processing and distribution of information that uses the electronic computer,¹²”.

From the functional point of view, the informatic system includes a data processing system presented on different memory supports and the processing methods are materialized in procedures executed with different calculation technique equipments, that are used at collecting and transmitting data and information.

The structure of the informatic system is suggestively presented in the next figure¹³:

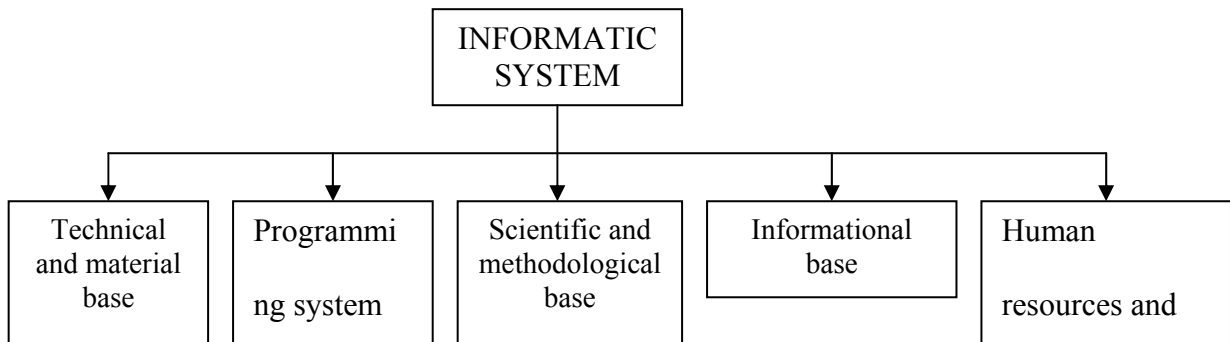


Figure 2

The emergence of the informatic system as an essential component of the informational system of the entity and also the necessity of the automatic processing of data from the economical field are the conjugated results of more factors, of which we mention the following:

- a) the high degree of mechanization automatization of the production processes;
- b) the production high rhythm;
- c) the necessity of raising the productivity of the administrative work;
- d) the desire to obtain economic information of a higher quality;
- e) the need of creating integrated systems;
- f) the rational use of high qualification personnel.

The development of automatic processing of data systems represents a complex and long process that needs specific analyzing, projecting, programming, implementation and exploitation.

The creation of an informatic sub-system related to the financial reports imposes, among other things, the fulfillment of at least three conditions:

- the existence of a global conception about the activities that take place in the analyzed field of activity;

¹² Lițoiu V. – Sisteme informatice bancare (Informatic banking system), Ed. Sitech, Craiova, 1998, pag. 97.

¹³ Sabău G.și Lungu I. – Sisteme informatice și baze de date (Informatic systems and databases), ASE, București, 1993, pag. 229.

- the forming and thoroughly following a clear conception regarding the requests of the management process;
- the knowledge and use of methods and techniques that permit the design and application in informatic language of all the solutions.

We consider that in order to be put in practice, in detail and a high qualitative level, these major conditions need a vast activity that requires a high amount of work and teamwork.

The critical analysis of the existing informational system is the first step in making an informatical system regarding the financial reports. It takes into account the following stages:

- the presentation of documents in which there are mentioned the operations connected to the elaboration of financial reports;
 - the description of the informational wave regarding the financial reports.
- a)** Presenting the justified documents used to elaborate the financial reports must reveal the function every document has, the compartment that makes it, the circulation way inside the informational system and also the place in which it is archived.
 - b)** The analyses of the informational wave regarding the book-keeping information categories, as a component element determinative of the informational system of an economical unit, ensures the establishment of the documents' circuit and takes into account the description of the informational wave through some lists in which the displayed activities, the implied compartments, the operations and the documents' circuit inside a compartment are stated .
 - c)** From the critical analyses of the informational system existing at the entities' level there can be stated some limits which this has and which, in our opinion, negatively influence the decisions adopted in the enterprise.

Raising the reaction speed in the case of the economical organisms can be done if the entire informational sub-system is computerized. To this end they try to find cheap and therefore accessible solutions for anybody to computerize all the constituent components. Until a few years ago the computerizing of some compartments of firms gave the requested results, accelerating and making more efficient their activity. The necessity of integrating these already computerized compartments into a common system became more acute in time and, as an answer, the preoccupations for realizing integrated computerized systems accentuated. Their realization is possible with the help of some integrative software for the firm's activity. This software category is called ERP (Enterprise Resources Planning). A priority for any firm is making one program necessary to the personnel from the financial-booking compartment and also for the human resources and supplying compartment. Each one from these departments usually has its own computerized system made better for the use of the department. An ERP combines them into one system that uses one database, that any department can access and through which they can separate information.

An ERP system replaces all those computerized departmental systems with one module. Each department has the ensurance of the necessary software by an ERP module, only that these modules are integrated and they can communicate.

In the 90's the first ERP systems developed but they were like a monolith. They could only be bought integrally with all the modules, no matter if the firm that bought them needed all the modules or not. Later this inconvenient was removed by realizing ERP systems that

can be bought by modules, without buying the whole package. This fact has become an advantage because the integration of an ERP system at a firm's level is neither easy nor cheap. This way a firm can plan the way in which it buys the ERP system by modules and also the order in which its departments will be integrated into this system.

The Enterprise Resource Planning systems (ERP) are information management systems that integrate and automate a great part from the activities taking part in an enterprise. The ERP software is an integrated one, including all the functional departments of the firm.

The concept of enterprise resource planning comes from the one regarding the manufacturing resource planning- MRP II, that on its turn appeared by perfecting the initial concept of material requirements planning- MRP.

2. The implementation of the Enterprise Resource Planning System

Usually an ERP system permits the integration of the following components: production, logistics, distribution, inventory, transport, accounting etc. The ERP software helps the control and automatization of a lot of activities like: sales, deliveries, invoices, production, the quality management, the human resources management etc.

An ERP is often called a back office system, pointing out this way the fact that it does not directly imply the participation of partners (suppliers or customers). Therefore this is in contrast with the concept of front office system, like the customer relationship management system- CRM, that works directly with the clients, or the ebusiness systems, like eCommerce, eGovernment, eTelecom and eFinances or the supplier relationship management system-SRM.

Because of the very complex objectives of this kind of software package, this one contains a very high level of programme lines and its implementation at a firm's level implies an entire army of analysts, programmers and users. This happened at least before the appearance and the development of the internet. The internet allowed the developers to have access at a firm's computers in order to install the latest rectification and standard updates.

Implementing an ERP without the use of specialists can be a very expensive project for big companies, especially for multinational ones. The specialized firms in implementing ERP systems can traverse the process of realizing and implementing in less time (approximately six months after some opinions), including here the thorough testing of the pilot software.

The ERP system is often related to the supply chain management software-SCM and to the logistics automatization systems. The supply chain management software can extend the functionality of an ERP system in order to include the relations with the suppliers.

To implement an ERP system the firms usually look for the help of those who sell this kind of systems but also for the assistance of some consultant companies for this domain. The consultancy for implementing an ERP system implies two levels and these are: business consultancy and technical consultancy.

Through the first one the consultancy company studies the current activities of the enterprise that requires the implementation of the ERP system for trying to realise the correspondence between the processes made by this one and the processes usually included

in an ERP system. This way the configuration of the ERP system is really assured at the level of the functional modules, according to the enterprise's needs.

The technical consultancy often implies programming activities through which it tries to adapt the ERP system's modules to the company's traits. The companies that sell ERP usually make the software change to come to the customers' help.

Today we can encounter ERP systems based on the web interface. The companies are interested in this kind of systems because they don't need the installing of customer applications, but only the server application that can be maintained centralized and also it is possible to install in a large variety of operation systems. As long as there is an internet connection the ERP system can be accessed anywhere by the help of a simple browser.

From the specialty practice and literature there can be clearly distinguished three ERP implementing strategies at a company's level and these are:

- a) sudden;
- b) franchising;
- c) slam-dunk.

a) The first strategy, sudden, is the most ambitious and the most difficult way from all the implementing strategies. The companies try to implement the ERP system simultaneously in all the departments. This variant was often used in the period of the first implementations, this fact being favored by the problem of the year 2000 bug for the old systems, when all the companies' compartments needed to change the software. The special problems met at the implementation of the ERP systems, especially at the end of the 90's, drew a signal regarding the use of this strategy. Trying to convince all the employees to cooperate and to accept the new software system at the same time, needs an extraordinary effort generated by the fact that nobody will agree with the implementation of the new system, because they don't know it well enough. Nobody would have the necessary experience to know if this works. Also the ERP systems inevitably need compromises. A lot of the departments already have their well known departmental systems and they proved that they work, at least to a point. In most cases the ERP systems don't offer neither the functionality nor the comfort and the familiarizing that the old system offered, this change being hard to accept. In many cases the speed of the new system can be altered by the fact that it serves the entire company and not only a department.

b) The franchising strategy can be applied to a high diversity of companies that do not develop the same processes in every branch. In this case there can be installed more independent ERP systems at every branch level, that relate these ones only for the common processes like the financial-accounting booking. This is the most often used implementation strategy. In most cases the units have separate instances of the same ERP, practically a separated system with data bases rigorously delimited. The system connects only information that must be separated with the purpose of obtaining performances at the entire company level and not only at a unit's level or only for the processes that do not differ much from a unit to the other. Usually these implementations start with a demonstration or with a pilot installing in a unit that works well and where there is open to change and patient personnel, where there can not take place events that can generate problems. Once the implementation team sets up a part of the system and corrects all the errors it starts the sale of the other modules, using the first implementation as a reference of good functioning very convincing for the customer. The planning of this strategy needs a long time. It is remarkable that a lot of the companies which have initially installed

an ERP by franchising are very tempted to use the sudden strategy for the next units or even for the rest of the company.

- c) Slam dunk represents the strategy through which only a few processes are incorporated the most important being the financial ones. This strategy is used for small companies that are further waiting to develop. The aim is to set up rapidly an ERP and to obtain functionality first of all. The companies that opted for this variant ascertained that the result was special. Most of them use the ERP system like a development understructure. Though a lot of them discovered that this ERP system implementation strategy is better than the tied system because it doesn't force the employees to change their own habits. In fact doing the hard work to rearrange the processes as the system requires, the competition and the productivity are stimulated because the few which realized this work will also feel the benefits brought by the new software.

In the absence of an ERP system a manufacturer can find himself in the situation of having a lot of software applications that don't communicate one with each other. An ERP can offer answers at any moment regarding questions as:

- a) Which is the best variant to realize an investment starting from the necessary components provided by different companies, that are always changing?
- b) How to follow the investment status from the moment of its appearance until the end and the payment, managing the interdependencies of a necessary compounds complex for a real and dynamic world product?
- c) How to say precisely at what date it will be finalized?
- d) How to realize a checking between what had been predicted and what was realized?
- e) How can be accounted all the above and how can be monitored the costs and the final reception?

An ERP includes elements regarding the computers security in order to prevent , on the one hand, the intruders from outside the firm like the industrial espionage for example and on the other hand the ones from inside , for example dilapidation or sabotage. Preventing is an integrated part in constructing the ERP.

A lot of the problems the firms have with an ERP system are generated by the inadequate investments in the continual instruction for the entire personnel, including the ones that occupy with the implementation and testing the changes , but also the lack of integrated policies that affect the way in which the data from the ERP system are used and maintained in accordance with the reality.

The function in good conditions of an ERP system needs at least the effort of all the compartments to keep in touch with reality the existing data from the system.

People don't like to change but an ERP system determines them to change the way in which they do their work. That's why the value of an ERP system is difficult to define. The software is less important than the changes the firms make regarding the way in which they do their business. If an ERP is used to improve the way in which the employees do their work only then its value will be understood. If the software is installed without trying to improve the way in which the employees make their work , no change will be observed. It is also possible that the new software makes slow the employees working pace, compared to the pace of the old software, from the lack of familiarizing with this.

The limits and traps of an ERP include:

- the dependence of the abilities, the experience of the working force and the instruction level regarding the way that makes the system function correctly. A lot of firms lower the costs with instructing the users. Small private enterprises are many times decapitalized meaning that many times their ERP system is used by the personnel with inadequate instruction level;
- the personnel fluctuations – the firms can employ new managers that don't have a corresponding instruction level for using the firm's ERP system and which can propose changes regarding the activities taking place inside the firm, that are not in accordance with the synchronizing possibilities of the ERP system;
- installing the ERP systems can be very expensive;
- the ERP system delivery can ask for large amounts of money annually to renew the using license , which are not in accordance with the dimension of the firm that uses the ERP system or with its profitability;
- the technical support personnel offers solutions that often don't coincide with the structure of the firm having an ERP. There can appear information security problems if for example an employee without knowledge in the computers programming is explained how to change a data base at a firm that needs the evaluation of the changes in order to be in accordance with some standards;
- the ERP systems are many times considered to rigid and difficult to adopt to the specific flux of a firm- this represents one of the most important failure cause;
- the ERP system can be difficult to use;
- the system can suffer from the dependence between the firm's compartments and it is possible that an inefficient compartment to influence the efficiency of other compartments;
- a lot of the connections with other applications need a high precision in order to reach an efficient functioning . A firm can reach the required efficiency function, after which in time, because of the uncorresponding with reality data can lose it.

Ensuring a smooth ERP implement strategy at a company's level should result in a better functionality of the informatic sub-system related to the financial reports.

The ERP software will help the control, automatization and interaction of accounting and financial reporting with other activities: sales, production, quality management, human resources. ERP will replace all computerized departmental systems with modules that are integrated and can communicate.

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APPROACHES REGARDING SMEs AND COOPERATIVE ASSOCIATIONS PERFORMANCE IN INNOVATION

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***Abstract:** Having in view the importance of innovation in the contemporary knowledge based society this paper is focused on underlining some aspects regarding SMEs and cooperative associations' performance. The second part presents a system of indicators that evaluates the SMEs performance in innovation, which has been selected having in view the criteria of innovation.*

***Keywords:** innovation, performance, SME, cooperative associations, indicators*

1. Introduction

For the Romanian SMEs the integration in the European Union means in the first place the access to the European Market. Following the enlargement, EU becomes the biggest exporter in the world, with a quota of 20% of worldwide exports. Inter communion trading will rise with at least 9% due to tariff and non tariff barriers being removed. In this respect, it is vital to increase the competitiveness of Romanian products. Full implementation of communion legislation, high capital investment and expenses in research and development will significantly contribute to increasing productivity.

Innovation is based in Romania according to National Research and Development and Innovation Plan, which implies cooperation between research centers, universities, and business environment (companies). Obviously, a high attention is paid to innovation in SMEs and cooperative associations.

2. Performance in innovation

SMEs represent a motor of innovative activities. Small businesses are strong in respect to innovations, in what regards implementing basic technology, areas destined to innovation and for their implementation, as well as satisfying requests on small areas of the market and residual market. A certain combination of order, flexibility and creativity, stimulates innovation. Small companies are prolific innovators because of several reasons. One reason is that innovation is accomplished in a probabilistic frame in which a company does never know if a result will have or will not have success on the market. For each new succeeded solution of a certain SME, many others fail.

Taking into account that there is a significant economic difference between Romania and the majority of member states, the importance of Research and Development sector (R&D) and of policies in these areas have raised a lot lately

Fundamental measures that stimulate cooperation between research and industry are the programs developed on the basis of the National Research and Development and

Innovation Plan, which are comprised of several programs with satisfactory results regarding partnership between units and research and development businesses.

A set of measures was meant to encourage and support investments in innovating businesses, by using capital instruments with low financial risk and by constituting investment companies for transfer of technology and development.

In what regards adhesion to EU, requests linked to this specific subject are: cooperation development with member states and increase efficiency in participating to research and development programs of EU.

An important contribution to financing activities is played by EU funds, especially by financing open projects for Romanian companies. Thus, as part of Frame 6 Program of EU, there is an initiative in stimulating SMEs for participating to projects. In this respect, a committee has been created for integration and consolidating research at an European level, dedicated to attracting SMEs into this process. The Ministry of Education and Research has, at its turn, set up a work group in order to support SMEs in Romania in creating and deploying projects as part of the Program.

A series of actions have been taken or will be taken in short terms in order to support the cooperative system, namely:

- ⇒ Supporting cooperative organizations (craftsmen, production, services and consumption) in developing organized activities, by legislative and crediting action, in order to create new jobs in sectors with profitable activity;
- ⇒ Accomplishing an institutionalized form which will ensure consulting and a permanent dialogue between representatives of state and cooperative movements;
- ⇒ Setting up of partnership relationship between SMEs and cooperative associations and integrative companies, as well as setting up a system of information transfer.
- ⇒ Promoting performance contracts on product in supply relations of products and financial services from public funds.
- ⇒ Facility for units of the cooperative in participating to community programs, as a cohesion factor. Implementing of projects meant for stimulating craftsmen cooperatives.
- ⇒ Stimulating the development of new types of organizations, in health and assistance sector, public services, out of state control, mixed companies with small and medium enterprises, business cooperatives of all categories, consultancy and community services.
- ⇒ Stimulating the setting up of cooperatives for capitalization of farming products built upon the European Union model.

Orienting research towards innovation represents one of the aspects the most weak of Romanian economy which is still facing a series of difficulties, in what regards transforming research results in products or services. Two are the main causes for this situation. On the one hand, there is a limited interest in the private sector for innovation, and on the other hand there is no system to transfer technology as intermediary infrastructure between research and businesses. Lack of spontaneous associations between investors and lack of public interest in what regards creating such forms of stimulation, seems to represent the main obstacle that Romania is facing in insuring economic development in the following period.

3. Modes of evaluating performance in innovation

The performance indicators considered in present as relevant for the SMEs activity evaluation it is proved, in the first place, more useful in the performance evaluation from the past and less useful in the performance evaluation from the future, and in the second place, the financiers indicators are the tendency to be like inhibiting the innovation, thus offering an ascension for the accouters and financials managers over the technologies and enterprisers.

Because the performance indicators list seems always to be extended, it is necessary for each SME to select a set of adequate indicators to the specific situation, indicators which constitute “the board table” of the SME performance in cause; this board table, as a formula for monitoring the performance is next to be implemented in the SME organizational culture.

A list of innovation indicators proposed by different institutions (such as the Ministry of Small and Medium Sized Enterprises, Commerce, Tourism and Liberal professions and others) was analyzed using the innovation criteria.

The indicators analysis permit the selection of the most suitable indicators for the SMEs and the cooperative associations, thus became a system of indicators that evaluates the SMEs performance in innovation. This system of indicators has input indicators, output indicators and indicators for efficiency activity.

A. Input indicators

(Indicators which are under direct control of the SME management)

1. Concept generation / market identification
 - ⇒ Planning of product life
 - ⇒ Number of clients consultation / market studies
 - ⇒ Number of participants to the seminaries / expositions / clubs of business
2. New products and processes
 - ⇒ Number of years or generations of the products covered by SME planning processes
 - ⇒ Number of development projects of the new products / processes studied in SME
 - ⇒ Number of new products / processes tried in SME
 - ⇒ Number of products / processes tested by customers
3. Projects management
 - ⇒ Number of days for formatting the personnel
 - ⇒ Number of management persons with access to the assisting designing with a computer
 - ⇒ Number of approved projects in the effective time
4. Focus on client
 - ⇒ Number of visits from the clients management persons
 - ⇒ Frequency of benchmarking for the activity sector and good practice
5. Employment
 - ⇒ Information to the employees with regularity
 - ⇒ Number of directors / managers / employees well qualifies.

B. Output indicators

(Indicators which make the results evaluation on medium / short term, the consequence of the taken measures regarding the innovation)

6. Concept generation / market identification
 - ⇒ Number of suggestions from employees
 - ⇒ Number of ideas of products / processes generated in SME
 - ⇒ Number of ideas of products / processes obtained outside of SME
 - ⇒ Number of ideas of important products / processes which SME performed
7. Production and new processes
 - ⇒ Sales of new products (%)
 - ⇒ Benefits from new products (%)
 - ⇒ Projects in the first fourth of life project (%)
 - ⇒ Value of the current innovation work
 - ⇒ Value of the restoring
 - ⇒ Time before initiating an idea of modification a new product / process until the product / process launch
 - ⇒ Time before initiating an idea of modification a new product / process until the utilization of the product / process in production
 - ⇒ Life time of the product
8. Performances in production
 - ⇒ Medium duration for organization the production
 - ⇒ Causes for generating the rebuts
 - ⇒ Recycling process for the rebuts
 - ⇒ Added value in production per employee
9. Project management
 - ⇒ Realization of the project objectives development according to the graphic
 - ⇒ Realization of the project objectives development according to the budget
 - ⇒ Income assurance from grants
 - ⇒ Recuperations of investments (interns and externs)
 - ⇒ Charges of research – development – innovation per product
 - ⇒ Performance charge / benefit for the new products / process innovation / equipments acquisition
 - ⇒ Direction personnel who can work / was effectively working in more then a function
10. Focus on client
 - ⇒ Reduction the number of reclamations
 - ⇒ Reduction the values of reclamations in guaranty and solve the reclamations
 - ⇒ Amelioration regarding delivery on term
11. Employment
 - ⇒ Soaking the regulate information for the personnel
 - ⇒ Number of known and reworded persons for individual or collective contributions to the innovation
 - ⇒ Number of pages from the rapport of the Board, pages dedicated to innovation and technology
12. Extern image
 - ⇒ Number of mass media references regarding to the new developments in the SME
 - ⇒ Participation to the externs competitions and awards
 - ⇒ General intellectual property, for example copyright rights, patents, brands, registered projects.

C. Indicators for efficiency activity

(Indicators which are due only partial to innovation, but they make references to the general objectives of the business)

13. General results

- ⇒ Survival (for example years)
- ⇒ Increasing of turnover
- ⇒ Increasing of profitability
- ⇒ Number of new work places

14. Products and processes

- ⇒ Market quota at regional level
- ⇒ Market quota at national level
- ⇒ Market quota at european level

15. Focus on client

- ⇒ Clients satisfaction determined by mail, phone or direct contacts
- ⇒ Sales for the new customers (%)
- ⇒ Benefits from sales to the new customers (%)

16. Extern image

- ⇒ Extension of brand or name promotion of the SME
- ⇒ Number of references in mass media regarding the SME in cause, such as example for good practice in the field of innovation

The indicator regarding the SME survival is fundamental and it is interested to see how the innovation effort are contributing to this survival because we have in mind an attention watching and an adequate sustain, inclusive financial, if it is necessary.

The management of technologic innovation creates connections between research - development and the structures of technologic development (or the technology acquisitions) and SMEs business strategy. Thus, in EU, politics and programs has been initiated, politics and programs who stimulate the promotion of innovation at regional and national level, industrial competitively, amelioration of technological infrastructure, technology diffusion.

It is worthy of note that most of legal advisers consider their competences in the SMEs field like their own patrimony, in competition one with another and thus, they don't want to spread their experience and expertise. This situation was corrected by some of the EU programs. The realization of direct and constructive change experience between the legal advisers is an important aspect and has the purpose of generalizing the good practice at national, regional and European level.

Also, the private or public financing of advising activity remain an important matter. The private financing is made direct by the SMEs who have many difficulties, their impression being that the advisers charge too much. The public financing is threat by the possibility for some of the legal advisers to use the funds in their interest, without give competent and useful advices in return.

An open matter is that of elaboration methods for benefit calculation and other benefits generated by legal advices and thus to determine the remuneration of the legal adviser.

4. Conclusions

Like a set of conclusive considerations, it is noteworthy that in the case of innovation management, the continuous monitoring for implementation of the corrective and proactive measurements proposed by the legal advisers, and their results evaluation, development of communication network between the legal advisers, who can allow for the SMEs to

accede, in each specific situation, to the most competent legal adviser and finally the diffusion of good practice examples, are the key of success.

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THE OPERATOR OF ACT AND ELEMENTS OF INVISIBLE STATISTICS

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Abstract:

The operator of act can be applied in the conditions of associating to other two operators: the operator of existence and the operator of membership. Starting from these remarks, we can exemplify the acting mode of the operator of act by increasing the capacity of a firm, and then because the incompatibility between the capacity and labor force, we have to apply again the operator of act. One of the elements of invisible statistics is tax dodging. The tax dodging is one of the most complexes social and economic phenomenon of a top importance which countries are faces, and whose unwanted consequences are tried to be tempered. There are three areas of tax payers: “white” area, “black” area and “grey” area. Also we analyze the fiscal pressure.

Keywords: *fiscal pressure, fuzzy set, invisible statistics, legal fraud, operator of act, variable, tax dodging*

1. The Operator of act

The operator of act can be applied in the conditions of associating to other two operators:

- the operator of existence (\exists)
- the operator of membership (\in)

For instance, let us consider the subtle set:

S = enterprises x_i , $i = 1, 2, \dots, n$ which have the P property to be great, whose associated criteria can be:

C_1^i = number of N_i workers

C_2^i = number of N_p^i personnel

C_3^i = production capacity (v.u./year)

C_4^i = CF_i fixed capital

C_5^i = quality of used technology

C_6^i = demand volume

C_7^i = profit magnitude.

In order to describe the context where the considered firm develops its activity, we use a contextual variable (of subtle nature):

C = favorable business environment (inflation, crediting conditions of banks, corruption, locking up, legislation restrictions etc., do not exceed the acceptable limits).

By admitting a favorable context of the business environment, we can consider that parameter C_6 = demand volume, registered at the relations department of the x_i firm (under the form of concrete orders, contracts etc.) becomes an operator of act, which, in several years, causes the following transformations:

- increase of the CF_i fixed capital
- increase of the C_3^i production capacity
- increase of the C_p^i number of personnel
- increase of the N_i number of workers
- improvement of the quality of used technology (expressed with the aid of a C_5^i score)
- increase of C_7^i profit

An “almost perfect” correlation has to exist between the increase of C_i demand and the increases of the other parameters. Any deviation from this principle leads, after a t time, to negative effects upon the efficiency.

A correlation between two Δ_1 and Δ_2 increases is “almost perfect” if, after an δ admissible delay, the technical-economic efficiency of x_i element records a E_{tei}^i noticeable increase.

For the considered example, we can notice that C_i implies a profit increase, up to the moment when the existing production capacity is reached. The firm management, by anticipating the moment of exceeding the production capacity, orders at the department of firm designing (or at a specialized designing institute) a project for firm development, with a C_3^i capacity increase. At the same time, the manager continuously adjusts the firm to the market demand, surveying, if is necessary, the number of technical-administrative and working staff

N_p^1, N_p^2, \dots , respectively $N_i^1, \Delta N_i^2, \dots$, etc. up to the moment of putting into operation of C_3^i capacity, and the manager will make some small changes along the entire period of working out the project (having as a result, a series of ΔC_5^{2i} improvements, reaching the final C_5^i improvement).

$$\text{If: } \sum_{i=1}^n C_{T0}^i < C_{T0}$$

we can consider that there is no competition between firms (C_{T0} = total demand in the initial moment ; C_{T0}^i = demand of firm in the initial moment: n = number of firms). In this case, for calculating the C_3 additional capacity, corrections are not necessarily to be made. Otherwise, for calculating the C_3 additional capacity, the designer makes the corrections, taking into account the fact that there is, at least, a firm x_j ($j \neq i$) which is in competition with firm i . To this end, the designer defines a subtle set A_i = attraction of firm i , which, as a rule, is a Cobb Douglas production function (consequently, of multiplicative nature), of different technical-economic parameters, as: production price, production quality, payment facilities, development of distribution network, firm's image, advertising, quality guarantee etc. The market price of each enterprise is, in this case:

$$CP_i = \frac{A_i}{\sum_{i=1}^n A_i}$$

Starting from these remarks, we can exemplify the acting mode of the operator of act, beginning with the description of the influence of C_i demand upon the C_{3i} production capacity. One effectively operates with C_1 and C_{3i} increases.

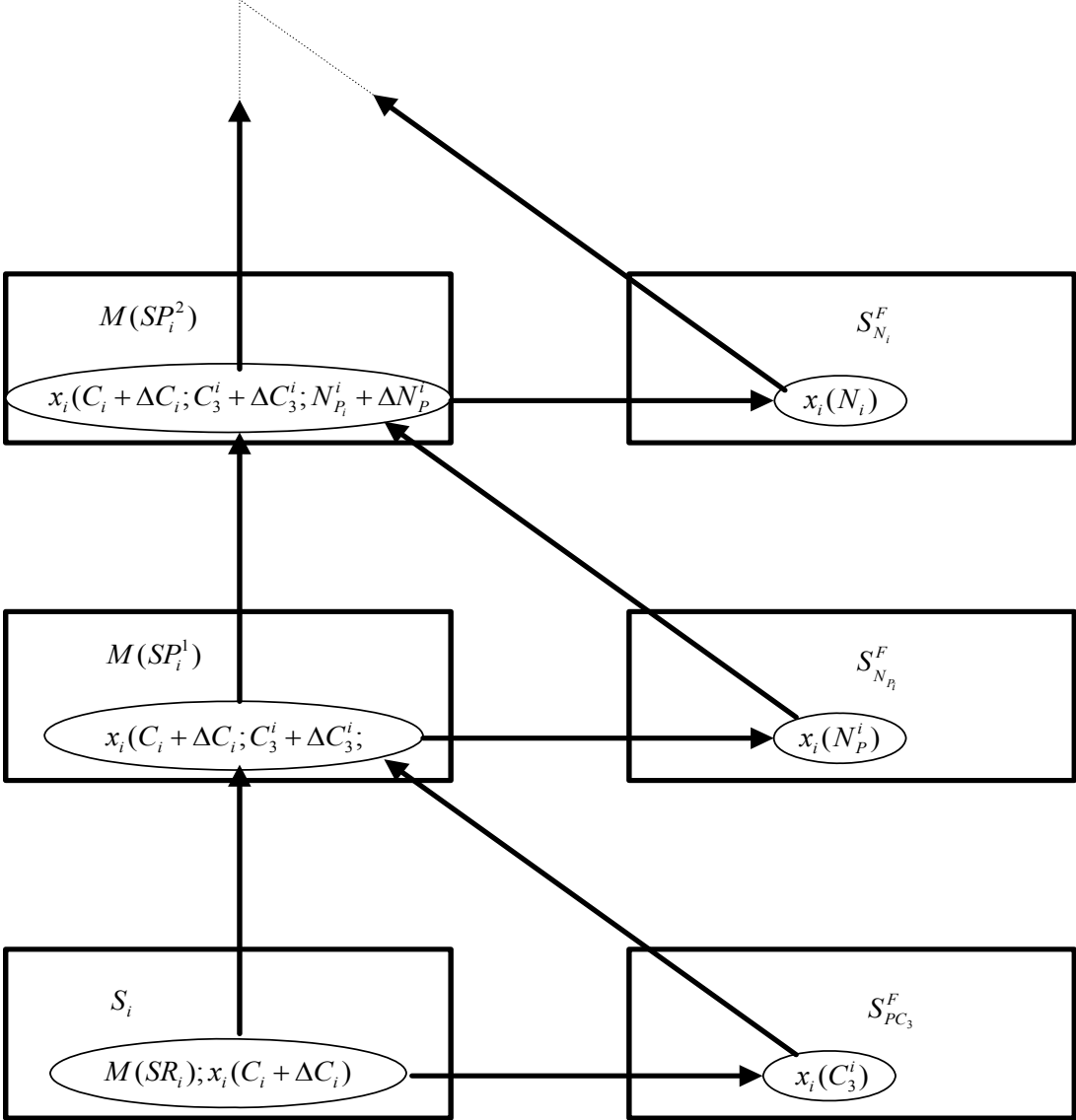


Fig. 1 Diagram of the influences of the operator of act

We consider that there is a SR_i public relations department of x_i firm, having the property that: $SR_i \in x_i$. The $M(SR_i)$ manager assisted by this department, together with the designer make up the support of the operator of act. The support works out the decision for increasing the ΔC_3^i production capacity (namely, referring to that property to be high, according to the criterion of production capacity). If we denote by $A_{\Delta C_3^i}$ = the decision to increase the enterprise production capacity, then, we have the following 3 propositions:

- 1) $(\exists) SR_i \triangleleft x_i$;
- 2) $\exists P/x_i \because S_{PC_3^i}^F \parallel ; S_{PC_3^i}^{F\text{ INCOMP}} S_{P(C_3^i = \Delta C_3^i)}^F$
- 3) $M(SR_i) \wedge C_{3i} \wedge PC_3^i \Rightarrow P(C_3^i + \Delta C_3^i)$

where: $\because Z \parallel$ = the support of the Z subtle set, where: $S_{PC_3^i}^F$ = the S subtle set, approximated with the aid of a fuzzy set, generated by C_3 criterion.

PC_3 = approximation of P property by C_3 criterion. INCOMP = the incompatibility relation. The sequence of these propositions closes the 3 elementary stages of the operator of act, namely:

- I) the existence of a subject, associated to an x_i element, acting to develop P property (in the given example, M manager) and to eliminate the occurred incompatibilities (the incompatibility between demand the existing capacity);
- II) the membership of x_i element to a F fuzzy set, approximated by means of the criterion where the incompatibility occurred (in the given example, the $S_{PC_3^i}^F$ fuzzy set, approximated by means of criterion C_3^i = the production capacity of x_i firm);
- III) The subject acting (together with the associates) to eliminate the incompatibilities and to develop P property (namely, to increase the enterprise capacity by the C_3^i capacity increment).

Finally, we get a $S_{PC_3^i}^F$ fuzzy set, with the property that $C_3^i = C_3^i + \Delta C_3^i$, in this way one achieves the compatibility with the occurred modifications (as a result of demand increase) .

Thus, by increasing the capacity, a new incompatibility occurs, namely, the incompatibility between the capacity and labor force (number of N_p^i personnel and the number of N_i workers). We apply again the actions foreseen into the 3 elementary stages (as it is shown in Figure 1).

2. Tax dodging

Tax dodging is one of the most complexes social and economic phenomenon of a top importance which countries are faces, and whose unwanted consequences are tried to be tempered with, eradication being impossible.

The state should systematically and efficiently try to prevent and limit the phenomenon of tax dodging, but, using its public force, this can incite to tax dodging by following mainly two purposes:

1. a positive purpose: argumentation to the need to stimulate the forming of capital
2. a negative purpose: reflected in sustaining some groups of interest many a time of mafia type.

Tax dodging, in its respect to the law, of being an action to reach the fiscal revenues of the state budget, may be:

- Licit tax dodging – meaning law permitted;
- Tax dodging similar to fiscal fraud.

From the moment of distinguishing a licit tax dodging from an illicit dodging a border must be placed to separate the two domains. Starting from this delimitation it can be asserted that there are three areas or “families” of tax payers:

- “white” area where tax payers are honest;
- “black” area where tax payers are truly dishonest;
- “grey” area in which the tax payers are dodging either licit through abilities, or illicit by schemes or abuse of the law.

The following diagram can be created:

BLACK AREA (ILLCIT)	↑	• FRAUD
GREY AREA		• ABUSE OF THE LAW
		• FISCAL SCHEMES
WHITE AREA (LICIT)		• ABSTINENCY
		• APPLYING FISCAL POLICIES
		• ERROR
		• OBEYING THE LAW

Fig. 2 Degrees of illegality

In conclusion, in Romania tax dodging has been favored by the following causes:

- ⇒ Legislative void in the period 1990-1992;
- ⇒ The existence of a mammoth bureaucratic system, with insufficient income that consolidated the incomes by accepting undue beneficial (bribery);
- ⇒ Involvement of personnel from the Ministry of Finance in audit teams, administrative bodies, and shareholders meetings.

3. Fiscal pressure

The taxes levied by the state from the corporate bodies are basis for fiscal pressure which becomes more and more pronounced when their number expressed in amount becomes higher. The level of fiscal pressure (LFP) a company is submitted to may be calculated using the proportions:

$$LFP = \frac{\text{Taxes paid by company}}{\text{Value charged by company}} \times 100$$

$$LFP = \frac{\text{Profit tax + CAS + other taxes}}{\text{Value charged by company}} \times 100$$

The expression used in the calculation of national fiscal pressure NFP is that of a global indicator that also includes social duties:

$$NFP = \frac{\text{Taxes + duties + social duties}}{\text{GDP}} \times 100$$

The above expression used for measuring fiscal pressure, is one of a quantity and not quality type, and it cannot observe all the faces that are implied by the quality type of influence factors but as a report between fiscal taxation and GNP or GDP it answers to the exigencies of analysis and comparing on the taxation issue.

4. Conclusions

From the principal's point of view, we use the operator of act in the conditions of association to the operator of existence and the operator of membership. Starting from these operators, we exemplify, using formulas and the diagram of the influences of the operator of act for three elementary stages, the acting mode of the operator of act by increasing the capacity of a firm. Then, because the incompatibility between the capacity and labor force, we have to increase the labor force. The manager continuously adjusts the firm to the market demand, surveying the number of technical-administrative and working staff.

Tax dodging is an element of invisible statistics. There is no clear definition of tax dodging, but when fraud is mentioned it actually implies legal fraud, illegal, legal dodging, fiscal paradises, freedom to choose the less value to be levied.

The multitude of obligations that fiscal laws impose to tax payers, and especially the burden of these obligations have stimulated, in all eras, the ingenuity of tax payers in inventing different methods to dodge fiscal obligations.

The effects of tax dodging are found in the level of fiscal revenues, in distortions of the free market mechanism and can lead to social inequities and the state should systematically try to prevent and limit this phenomenon using his powers.

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PERFORMANCE BETWEEN FINANCIAL INDICATORS AND MANAGERIAL ACCOUNTING

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Abstract

The measuring methods of the economic performances of a commercial company closely related with the decision factors represent an efficient management assembly at decision-taking level.

As a result of processing and development of the production factors the evaluation methods of the performances got adjusted to the needs of market economy.

As a result of processing and development of the production factors the evaluation methods of the performances adjusted to the needs of the market economy and also to the needs of the decision factors. The article approaches one of the modern methods to commensurate the profitability through costs by activity.

Key words: *indicators, administration, efficiency, methods*

The financial control process has as main finality checking of achieving the projected performance level. This can be done by means of measuring instruments of financial performances.

Depending on the management methods used, on the decision tree structure, one can set the financial indicators to be used to commensurate the performance. The practice shows that, usually, one does not use more than 10-12 indicators that make an economic entity functional. The talent to manage a trade company consists in identifying these essential indicators, in controlling and improving them. Out of the multitude of the indicators, we distinguish indicators for the cash control, administration of assets, measurement of profitability, financial diagnosis of profitability, control of the overhead charges, indicators of the investors.

On the other hand, we also look for administration tools to permit us the vision of the company as an assembly of processes; we look for that link between the created value and the process. An important step in understanding those links is the one to use the cost type piece of information in taking the decisions, as, based on the cost, one decides the fabrication or not of a product, the relation with the clients is influenced, the costs represent a basis for the substantiation of the prices, by cost analysis one identifies the needs to improve the processes, the design or the products themselves.

Understanding these needs, the cost and value administration is imposed over the whole duration of the life of the products. The life cycle cost can be determined in the defining phase that is why the product represents the basis of an administration of the life cycle over several years, the contribution to the economic performance of the company being achieved during this cycle.

The administration of the life cycle supposes the administration of the economic impact, from the defining phase, processes, sale, and production abandon. The traditional tool formed of the analytical accounting and the budget control can do this. Of course, this is an outdated method that does no longer correspond to the present management needs. One uses administration methods by activities, the organization principles and applying of the costs by activities proved to be efficient as it is considered that the number of orders-clients represent the cost generator for several departments.

This method can be applied in several steps such as: the direct expenses treatment is identical to the one of the traditional methods of cost calculation, the total of the activities being possible to be calculated for each job, the expenses referring to one activity can be regrouped, for each activity one can determine an explanatory factor of the variation of its consumption, all the activity with the same inductors cost are regrouped by regrouping centres, the total cost represents the sum of the direct expenses and the cost of the inductors necessary to carry out the product.

The important contribution of this method consists in the way one treats the indirect expenses according to the principle of setting a casualty between the cost object and the resources or differently said, the products consume activities that consume resources.

For instance, in order to set the price, a complete cost is calculated, for the financial communication a production cost is calculated, for personnel motivation a cost of several functions is used. All this information defines the inter-conditioning effect between departments.

The advantages of this method are those to be able to reduce the cost, the rapid change of the management decisions, to commensurate most precisely the performances, to model by costs, while the disadvantages come from the incorrect identification of the activities and of inductors cost, also the development of a calculation network is very complex and costly. It is certain that from the point of view of the administration accounting due to the activity inductors a good part of the establishment charges become variable over a certain time period.

The use of the cost method by activities in order to improve a business is also called ABM (ACTIVITY BASED MANAGEMENT), this is a challenge for the traditional administration accounting because the administration of the cost is no longer looked upon as a reduction of it but it is evaluated as a relation of the cost-value couple.

The traditional indices of measuring the economic and the financial performances have been severely criticized by the economic analysts as it was considered that it transmitted erroneous information within the decision tree because it was based only on exemplifying one aspect, contained great deviations which distorted the decisions. For instance, the attention being concentrated on costs or on financial results, omitted the production times from the analysis, the quality, reprocessing, clients' satisfaction.

The delay of the reports make inopportune the result of the findings, this led to the conclusion that a daily feedback is necessary because a great part of information are of non-financial nature with many indices from the process and production activity.

In the highly processed mediums use is made of physical indicators and non-financial indices such as:

1. Efficiency of the fabrication cycle: process time/process time +waiting time +transportation time + inspection time
2. Equipment availability; shut-down time of the equipment/total number of machine hours
3. Quality at purchase: rejected items / purchased items
4. Satisfaction of the clients: returned goods/ total sales
5. Delivery performance; delayed deliveries/ deliveries according to the time schedule

If we select as measuring indicator of the performance the profit as being a general approved measure, then, one has to decide what the established target is because this indicator has advantages and disadvantages depending on the evaluation type. As a conclusion, we cannot support the theory according to which there are not perfect indicators, because no matter the effort we make, no indicator of the evaluation of the performance will offer a perfect evaluation on the multitude of aspects within the economic processes.

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MANAGEMENT ACCOUNTING AND DECISION MANAGEMENT

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Abstract

Dealing with the main calculation methods of the costs in the transition economy and function of the specific of the corresponding production cycle leads to a diversity of comments with regard to the anticipated results. The decision process can be influenced by various events, which in turn can distort the results. The macro-economic equilibrium can be achieved if each subdivision is sized up at needs-cost level. The three decision levels are influenced by certitude, uncertainty and risk.

Keywords: *cost, method, calculation, risk, and accounting*

In the specialty literature the management accounting is dealt with as a science that studies thoroughly in various ways the administration accounting, either as an accounting of the costs or of the historical costing, or as a financial accounting transposed into bookkeeping accounts. The reality in the economic practice is that this form of bookkeeping does not yet find its place on one hand, because the current legislation does not clearly stipulates the form of this accounting and on the other hand because it is very difficult to transpose into

practice an unfounded economic reality. The arguments of this reality consist in that in all the economic entities setting up of the development of the activity based on income and expenses budgets as well as based on business plans is a far off desideratum.

Practically in a Romanian economic entity the activity is carried on from one day to other without setting in the most concrete way the prospects, targets and the minimum and maximum levels to be reached so as the investors declare themselves satisfied.

At the same time with the penetration of the strategic investors onto the Romanian market a slight understanding of the thing significance was released based on budgets and on the business plans. For this reason, in view of developing this type of accounting, of making it more easily accessible and more easily handled and interpreted it is necessary to trace from legislative point of view certain directions with regard to the types of management accounting the small and medium enterprises can use. The recommendations might be of a legislative nature or informative nature so as to also satisfy the lowest standards of understanding at managerial level. Thus, one might indicate the overall calculation methods of the costs as being a specific methods of administration accounting for the companies that fabricate one product or in the companies that execute works or carry out services, it can also be applied where there is a production dimensioned by sorts and a coupled one.

The methods consist in collecting all the costs in a determined period. The unit product cost is obtained by referring the sum of the direct and indirect expenses to the total of the products obtained, of the services performed or of the works carried out. The speciality literature differentiates two alternatives of this method, namely:

- Overall calculation by sectors of expenses;
- Overall calculation by types of costs

To translate this methods into the administration accounting is particularly easy and makes it possible to organize the financial accounting from the beginning so when the current accounting recordings are done to also do concurrently the administration recordings. The advantage of this method is that it is fast and easily explainable within the company management, also it can be easily translated into budgets of incomes and expenses and also, by its means, one can work out plausible previsions at macro- level or branch level.

The calculation method by phases can be applied by entities whose production flow is very well defined, where each piece of equipment within the flow has a processing norm established and where one can measure very well the execution procedure or phase. This method is successfully applied by the heavy industry, iron and steel industry, metallurgy but also by the textiles industry or the food industry where the production process is well defined. A conclusive aspect in the practice of this method is that in most of the entities in Romania the production flows are not sized up according to the concept of the efficiency but rather according to the dimensions of the production spaces used and of the equipment in these spaces. Application of this method shall answer the following questions:

- What the calculation phases of the costs are
- What the cost of the semi-finished item is

- How the number of products of the same phases distributes the production expenses.

The problem is raised when delimiting the phases, defining the semi-finished products and dividing the expenses mass by the number of the semi-finished products. This method is heavy from the viewpoint of the accounting management too. The design part of this administration accounting is complex enough and asks the accountants to know in detail the process, the technical and functional characteristics of the equipment and its efficiency in the configuration of a maximum and minimum use. It supposes an intense cooperation with the technical, supply and sales compartment as the efficiency can be established in an optimum cooperation period of time.

The calculation methods by orders can be applied within the entities with complex processes of fabrication, individual and series production where the resulted end product is an assembly of previously fabricated components, which, for some functionality have been combined in a mechanical process. This method is used in the furniture, electro-technical and mechanical engineering industries and has as starting basis the determination, by means of calculation, of the following:

- Cost of the semi-finished products;
- Cost of the processing and finishing operations of the parts;
- Cost of the finished product covering also the assembling expenses thereof.

This implies in the administration accounting the calculation by each order and, within the orders, by each sector separately and within it by calculation items. This method permits the determination of an exact cost but it also has some weak points, such as: non-determination in a time period of the costs, only at the finalization of the order, certain consumptions are not correctly distributed by phases of fabrication, etc.

The standard-cost method is based on anticipating the costs by categories at the beginning of the called period of fabrication and actual costs and comparing them with the actual costs achieved as well as on finding methods to reduce or to annul these differences.

The pre-established costs are scientifically established depending on the production capacities, their efficiency, and the actual standardized consumption. Two concepts of expenses support this method: direct and indirect ones. The direct expenses are standards of expenses with raw material, standard purchase costs for the respective quantities of raw materials, expense standards with direct manpower. The indirect expenses are those with maintenance and operation at actual and constant parameters of the equipment, expenses of section, which summed up at the value of the raw material and manpower represent the standard of the production cost.

Form the point of view of the accounting management it is very efficient but difficult to translate it into practice, it requires adequate logistics, an adequate information technology system, professional accountants capable to face anticipations, previsions and also to correctly compare the errors resulted between facts and records, between estimated and achieved facts. That is why the method is one of the most complex methods and particularly complex as understanding potential at the level of the decisional management.

The tariff-hour-machine (THM) is of a real help for costs calculation as in its application it is necessary to solve some problems such as: the judicial organization and use of the labour, the correct distribution of the indirect expenses in the production cost, watching the use of the machines and equipment at their maximum capacities. The calculation of the hour- machine- tariff as well as the cost by unit of product is the technique of this method. The steps of this method are: setting the production assembly, personnel requirement, operational budget, distribution of expenses included by production centres, tariff calculation, unit cost calculation. By this method one assures the full use of the standardised operation time, the reasonable use of the personnel, machines and equipment but one cannot pursue first the cost of product processing, only after the other costs are determined, what within real time, represents a disadvantage at management level and also at the level of the accounting management

The method of direct costing or have the total costs volume that can be directly modified with the achieved production. From the point of view of the decisions at management level taken on the basis of this method, they can be very conclusive and of a real help in future because a real basis is offered for the previsions of the future costs as well as to anticipate the movements from the viewpoint of the process flow structure by pieces of equipment. This method implies the clear differentiation of the production and sales expenses related to their character against the volume of the sold products. The weak point of this method refers to the period when the process flow has to be changed or when the product fabrication has to be changed by another one. This analysis has to be done with anticipation and has to be correctly sized up at the level of the production capacities. The method offers a series of indices for the company management, such as: equilibrium point, coverage factor, dynamic safety coefficient, and safety interval. The polygraph price-cost-volume diagram is elaborated for the calculation of the equilibrium point.

All these methods of determination of the cost of production in its development are wanted to answer as efficiently as possible the managers' wish to take as viable and profitable decisions as possible at the same time. The management in the accounting plays a determining part in this process, that is, those decisions in accounting management so as to promptly answer the wish of the managers and of the administrators of trade companies. If, at the level of the corporation such approach is possible, at the level of small and medium enterprises the practice of doing out of the accounting management a link of the decisional management is at the beginning and we might say that it does not represent a priority in this process. The causes are multiple: legislative, social, economic and also intellectual ones.

The legislative causes are connected to the non-imposing, in a firm way, of the elaboration of the administration accounting. Some references are made in OMFP 1752 / 2005 without also explaining the need to elaborate this type of accounting; the elaboration of budgets of incomes and costs or of business plans is not imposed from legislative point of view. Also, the law is not restrictive with regard to performing certain activities so that the people not professionally qualified in a certain field come to manage some entities where they cannot take adequate decisions. The management of the small and medium enterprises is done on the basis of some provisions which are not substantiated, which most times implies erroneous decisions which always end with bankruptcy or liquidation of companies.

The social causes are of a nature connected with the insufficient training within the education process of the management staff as well as with not-granting with priority the

necessary attention to the development of the branches of the industry, trade and technology, so as their development be carried out as function of the development of the world markets, of the process and also of the geo-strategic specific of Romania.

The equilibrium at macro-economic level cannot be achieved if each sub-division is not sized up at needs-costs level.

In the decision taking process the structure incomes-costs implies distinct situations, for instance:

- Certainty – what represents the type of management by means of which one can predict, with great precision degree, the expenses, incomes, and the profile of an economic entity?
- Uncertainty – when the achievement of a target is possible but on the way of acting no stress was laid to study it;
- Risk - when the target is possible but the methods are uncertain.

The risk in the decision-making field can be measured and prevented but cannot be absent from any managerial decision. The risk factors that have to be taken into calculation at the level of economic entity and also at level of macro-economy are of an economic nature (increase of inflation, increase of interests for production credits, modification of the exchange rate, investment risk), of financial nature (risk of excessive gearing, bankruptcy risk), of commercial nature (risk of sale, price, transportation), risks of the nature of the fabrication process (the risk to exceed the specific consumptions, the risk of non-complying with the quality, the process risk of defective equipment). That is why the management as a science of immediate applicability refers both to the major field of taking the most efficient decisions at the entity level but only on the basis of the indicators and indices resulted from the accounting management as an expression of applying elaborate economic laws and of some laws issued by the administration according to macro-economy as well as with the international precepts governing the world economy.

Romania has more need for a larger approach of the international laws and to integrate them within the national laws, as well as for the development of the economic and managerial education at all levels in order to agree with the foreign partners. Also, it is recommended to develop those sectors that are specific to the geographical and social area we are located. If from the point of view of commensurate expenses at the level of economic entity some standards can be met, from the point of view of processing and resizing up these costs we are not at world standards; if from the point of view of commensurable production obtained we can be certain, from the point of view of the sales volume we cannot express anything. This can be the lack of balance we are interested in both at the level of decision- making management and the accounting management.

THE PROFITABILITY – RISK RELATIONSHIP AND FINANCING DECISION

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Abstract

The enterprise financial decision is a rational process for option to the optimal variant related to financing and investments. For the capital investment to be justified, the profitability of the invested money must be at least equal with the profitability of the alternative investment opportunities with the same risk on market. The choosing of a way for financing is determined on the one side by their cost and on the other side by the existent capital structure. In this paper I tried to analyse the profitability – risk relationship in the financing decision for the "NIKOS" Ltd.

Key words: *financing decision, profitability, risk, market value of the enterprise, capital structure*

Introduction

The financial decision is a rational process for choosing of the optimal variant related to financing and investments. The objective of each decision had taken to the enterprise level has a financial character that consist in the increasing of the profitability on the product, activity or entire enterprise, assurance of a permanent liquidity state and risk avoiding, the aspects that have placed the enterprise into a leader position on the market.

1. Financing decision

Any enterprise, even the situation where is (in the development activity phase or in the maintaining of the production capacity) needed to attract the resources for the developed activities financing. The substantiation of the enterprise financing decision have supposed the following aspect analyses: the period on the financing sources are needed, the financing sources cost, the financing contract flexibility, the taxation impact on the enterprise financing policy, the agent costs but and the information asymmetry problem¹⁴.

The enterprise ability to evaluate both their products value and its costumer's value in terms of their contribution to enterprise value increasing is peremptorily needed for long term assuring of competitiveness and success. But, how in the present the information volume, complexity and value from these processes are continuously increasing, there is very difficult to evaluate the enterprise performance¹⁵. Usually, to the enterprise performance evaluation is using many financial indicators that are well-knew: the discounted net present value, the economic added, the profitability ratio, the liquidity ratio, long term solvency ratio etc.¹⁶. But the financial decision have an important role in the obtaining the favorable values for these indicators.

¹⁴ Dragotă, V., Dragotă, M. Țătu, L., Ciobanu, A., Obreja, L., Racsc, A. – *Abordări practice în finanțele firmei*, Editura IRECSON, București, 2005, page. 322-324;

¹⁵ Fahy, M., Roche, J., Weiner, A. – *Beyond Governance. Creating Corporate Value through Performance, Conformance and Responsibility*, John Wiley & Sons Ltd., England, 2004, page. 57;

¹⁶ Brealey, M., Stewart, M., Richard, A. – *Principles of Corporate Finance*, Editura Mc GrawHill, 2003, page. 321-329;

The financial decisions that can be taken by the business administration are grouped in two categories:

- *the investment decision* or dez-investment, that is referred to the constituting and administration of the assets portfolio;
- *the financing decision*, that is referred to the financial structure of the enterprise, respectively to the manner of the resources constituting.

The financing decision makes possible the investment decision. If in the neoclassical approach of the international financial management theory, the financing decision don't add value to the enterprise, in the variant of an imperfect market existence of the same theory, there is argued that there is the possibility to create additional value for the enterprise through the financing decision, the manner in which the funds are obtained and the other support decisions.

Thus, because of the some lopsidedness of the incomes fiscal treatment generated by the shareholder and creditors, the financing and dividend decisions can influence the enterprise value and its investment value. There is very important the possibility of the obtaining of an extra value, as well as the identifying of the involved risks.

Generally, the financial structure of the internal and external own capital and of the borrowed capital have determined the fiscal economies according as the increasing of the debt rate. The newest theories in finance (the signal and agent theories) argue that the leverage, the buying of the shares by the managers is urged for enterprise' performance and lead to their rise in value.

Even the additional value achieved through the imperfections' exploitation by the financial markets is rather a bonus of the financing decision than a prior objective for enterprise, we can say about this new unique distinctive feature of the enterprise that the value is created from both investment decisions and financing decisions.

To the international level, the decisions about investment capital obtaining are reflected on the long term, in the *efficiency and competitiveness of the enterprises' activity*. Because of the importance of these decisions, these are included in the international capital strategy, more exactly in the global strategy of the enterprises' financing.

There is well known that the financial politics decisions have referred to the financing adopted by the enterprise in function of the profitability, growth and risk criteria. After the stable financing needs determination is decided the part that can be financed through the permanent capitals as well as the leverage policy, that is the repartition between own funds and debts.

Thus, the financing decision represents the enterprise option for covering the financing needs both through the internal or external own funds and loans and participation. The decision act about financing belongs to the enterprise, because it is the most interested in using with efficiency of the funds and obtaining of the good results.

In the same time, the financing decision doesn't exclusively depend on the enterprise. The financing *depends* on the enterprise and on banks, through the facilities that can obtained in the loans negotiation and on shareholders and their disposable funds for subscribing to

the increases in borrowed capitals, and on the existence or inexistence of the available capitals, possible to be attracted.

Because the financing decision is assumed in the bigger part by the enterprise leading and much little by the capitals providers (shareholders and enterprise creditors), the major objective followed by managers and capital investors is the same: *maximising of the enterprise market value*. Then, this value will be proportional divided between shareholders and creditors. In function of the same value is established and the managers remuneration. In this assembly of interests there are different ways for approaching the enterprise value maximisation.

The capital investors have followed a remuneration of their investment to profitability higher then investment opportunities offered by financial market. In this way, they are obtaining an increase in their final value higher then, in average, the possible value on the financial market. The enterprise managers, acting in the capital investors' interest, respectively the rising of the total value of the enterprise, are forced to follow the reducing of the rally capitals cost. Using this reduced cost as capitalisation factor of the cash-flows that are give off by the enterprise will lead to their increase in value.

2. The determinants factors of the financing decision

The international specialty literature have analyse many *factors*¹⁷ that are influencing the enterprise financing decision. The relative importance of these factors varies from an enterprise to another at a given moment and for an enterprise lengthways, but for an enterprise that has planned obtaining of a capital, taking into account of the following particularities is needed:

a. *the target capital structure*. Generally, the enterprises have established the target capital structures. Thus, to the taking of any financing decision is followed the comparisons between the actual capital structure and target structure;

b. *the concordance between liabilities maturity and assets maturity*. This factor has a larger influence on the type of used debt: for example, for exploitation needs on short term are contracted the short term loans and for the acquisition of the fixed assets are contracted the loans on medium and long term;

c. *the level of the interest rate*. To the making of the financing decision, the financial managers have take into account the interest rates levels, both absolutely and relatively, on the short term and on the medium and long term. When the interest rates on the long term are too higher, the managers are avoiding an issue of securities on the long term that will fix those higher costs for long periods of time. A solution for this problem is using of the long term loans with cancellation clause. The enterprises are based in their financing decisions on the anticipations related to the future interest rates;

d. *the present and predicted conditions of the enterprise*. If the present financial situation of the enterprise is mediocre, the managers can avoid to issue of securities on long term because, the long term debts issued when an enterprise has a mediocre financial situation, have a higher cost and is supposed on the sever restricted conditions then the debts issued in a good financial situation. Thus, an enterprise with a weak situation but that has predicted a good situation in the futures will decide to postpone the permanent financing until to the situation improvement. An enterprise with a good situation, but that have predicted a bad potential situation in the next period, has motives to finance now the activity on long term then wait;

¹⁷ Halpern, P., Weston, J. F., Brigham, E. F. - *Finanțe manageriale*, Editura Economică, București, 1998, page. 792 - 794;

e. *the restriction in the existent leverage contracts.* There are situation when the enterprises are restricted in issue of new primary mortgage redeemable stock by the issue contracts provisions related to debts covering. Also, the current ratio, leverage rate etc. are able to restrict the capacity of an enterprise of using different types of financing at the given moment;

f. *the guarantee availability.* Generally, the guaranteed debts on long term are more little expensive then un-guaranteed debts. Thus, the enterprises that have many fixed assets for general and specialty using with an established reseller value can use a higher value of the debts, especially mortgage redeemable stocks. More than that, each annually financing decision is influenced by the quantity of new fixed assets bought and available as guarantee for new redeemable stocks.

Besides on the mentioned factor, with general character, the appealing to some new financing source more depends on the following factors: the administrative and legal costs of the actual increasing in financing; the cost of the financing duty, for example the paid interest; the level of the obligation for making interest payments and others; the level of obligation of the financing reimbursement; the fiscal deductibility of the cost related to the financing; the effect of a new financing on the control level of the enterprise by the existent shareholders and their freedom in actions.

The decisions related to the establishing of the adequate sources of internal or external funds, have affected both the paid dividends index and the capital structure. Some authors analyse the financing decision to the enterprise level, in the context of theories related to the enterprises that have acted in the industry field, decisions that have referred on the one side, to the relationship between capital structure of an enterprise and the strategy of the market assessment and on the other side the relationship between financing structure and the characteristics of the enterprise inputs and outputs.

This approach was determined by the influence of the leverage on the strategic variables (price and quantity) of the enterprise and on the relationship between providers and consumers. These models have explained theoretically the relationship between capital structure and the characteristics of demand, supply and competition force from a branch or field activity. The studies from this domain had distinguished the following conclusions¹⁸:

- the enterprises that have acted in a oligopoly competition economy have tend to have higher debts then the enterprises that have acted in a monopoly competition economy or in a pure competition economy;
- for the enterprises that have produced unique goods, the achieved reputation on the market through these goods is very important, and it's waiting to have lower debts;
- the enterprises that are organised in consortiums or other forms of group organising as well as the enterprises with employees with easy transferable knowledge are higher leverage.

More than that, it can be taken into account as research domains and the influences wield by other enterprise strategic variables, as: publicity, research-development expenses or the characteristics of the production capacities and of the goods on the capital structure.

¹⁸ Dragotă, V., Ciobanu, A., Obreja, L., Dragotă, M. - *Management financiar*, Vol. II, Editura Economică, București, 2003, page.168 - 169;

3. The profitability-risk relationship in the case of "NIKOS" Ltd.

For the capital investment to be justified, the profitability of the invested money must be at least equal with the profitability of the alternative investment opportunities with the same risk. The choosing of a way for financing is determined on the one side by their cost and on the other side by the existent capital structure. An optimal financial structure has corresponded to a minimum cost of the capital.

To the microeconomic level, the utility of the shared average cost of the capital is recovered in many fields:

☞ of the shared average cost of the capital can be used as a *discounted rate in enterprise cash-flows evaluation*. Both the creditors and shareholders are waiting to be paid starting to the opportunity cost value determined by the investment of their funds into a some enterprise, then in other investment with the same risk;

☞ from the enterprise point of view, there is discussed in terms of "*cost*" that must be supported by it for disposing of financing sources and from the investors point of view, that are wishing to obtain a gain from their investment in enterprise there is discussed in terms of "*profitability*". Thus, from the investors point of view (shareholders and creditors), the shared average cost of the capital represents the minimum level of the total profitability that can be registered by an enterprise through using of their assets for maintain the invested capital value in its assets;

☞ the calculus of the shared average cost of the capital have utility in the investment project selection, and it's considered the minimum breakeven, under which the investors won't accept to be situated, respectively the required profitability for any enterprise investment that have a identical risk with the enterprise risk on the whole.

The capital structure policy has involved the equilibration of risk grade with profitability ratio. The using of the loan capital in a higher proportion have determined the increasing of the risk grade of the enterprise gains, but in the same time a higher leverage rate means a profitability rate estimated to a superior value. The higher grade of risk, associated with a higher leverage rate tends to diminishing of the enterprise stock rate when the estimation of a higher profitability rate leads to the increasing in this price.

The optimal capital structure is realising an equilibrium between the risk grade and estimated profitability rate and in this way there is maximised the market price of the stock. For pointing the relationship between the profitability and risk, we are proposing the following example, using the records concerning to „NIKOS" Ltd., presented in the table no. 1:

Table no. 1 – Records related on "NIKOS" Ltd.

I. Balance sheet on 31.12.2006		- Euros -	
Fixed assets (net value)	140.000	The own capital (3.000 shares)	300.000
Circulating assets	160.000	Borrowed capital	0

II. Profit and lose account (simplified) la 31.12.2006		- EUR -
Turnover		300.000
The exploitation expenses - fixed		50.000
The exploitation expenses - variable		180.000
The total expenses		230.000
The exploitation profit (EBIT)		70.000

II. Profit and lose account (simplified) la 31.12.2006		- EUR -
The interest expenses		0
The imposable incomes		70.000
The profit tax (33,33% ¹⁹)		23.331
The net profit		46.669
The profit on share ²⁰		15,56
The own capital profitability ²¹		15,56%
The economic assets profitability ²²		23,33%

In the next paragraphs we will show how vary the profit on share estimation once with the changes appeared in the financial leverage, taking into account the following value for turnover of the "NIKOS" Ltd., presented in the table no. 2.

The first part of the table has started with a probabilities distribution of the turnover: 0,20, 0,60 and 0,20. For simplifying, we are proposing that the possible turnovers are: 150.000 Euros, 300.000 Euros and respectively 450.000 Euros. Later, there is calculates the exploitation profit (EBIT) accordingly with each of those three turnover, considering that the exploitation expenses – fixed are constant at 50.000 Euros, and the exploitation expenses – variables represent 60% from turnover. In the first case, we are considering that the turnover and operating costs are irrespective of the financial leverage.

The second part of the table has showed the "NIKOS" Ltd. Situation if this enterprise are continuing do not use the loan capital. Thus, to a little turnover, at 150.000 Euros, the profit on share will be 2,22 Euros, but will grow up to 15,56 Euros and respectively to 28,89 Euros, to a turnover of 300.000 Euros and respectively 450.000 Euros.

Table no. 2 – The profit on share variation once with the financial leverage modification

I. EBIT calculation

The estimate turnover probability	0,20	0,60	0,20
Turnover	150.000	300.000	450.000
The exploitation expenses - fixed	50.000	50.000	50.000
The exploitation expenses - variable	90.000	180.000	270.000
The total expenses	140.000	230.000	320.000
The exploitation profit (EBIT)	10.000	70.000	130.000
The economic assets profitability	3,33%	23,33%	43,33%

II. The enterprise "NIKOS" Ltd. situation, if the ratio Liabilities / Assets value = 0%

The exploitation profit (EBIT)	10.000	70.000	130.000
The interest expenses	0	0	0
The imposable incomes	10.000	70.000	130.000
The profit tax (33,33%)	3.333	23.331	43.329
The net profit	6.667	46.669	86.671
The profit on share	2,22	15,56	28,89

¹⁹ in this example was used the profit tax from France, the source: <http://www.icl-directory.com/company-formation.php>;

²⁰ the net profit on share is determined thus: *Net profit / Number of issued shares*;

²¹ the own capital profitability is determined thus: *Net profit / The own capital*;

²² the economic assets profitability is determined thus: *EBIT / The assets value*;

The estimated profit on share (\bar{k}) ²³		15,56	
The standard deviation of the profit on share (σ) ²⁴		8,43	
The percentage deviation (CV) ²⁵		0,54	
The own capital profitability	2,22%	15,56%	28,89%

III. The enterprise "NIKOS" Ltd. situation, if the ratio Liabilities / Assets value = 50%

The exploitation profit (EBIT)	10.000	70.000	130.000
The interest expenses	22.500	22.500	22.500
The impossible incomes	-12.500	47.500	107.500
The profit tax (33,33%)	4.166	15.832	35.830
The net profit	-8.334	31.668	71.670
The profit on share	-5,56	21,11	47,78
The estimated profit on share (\bar{k})		21,11	
The standard deviation of the profit on share (σ)		16,87	
The percentage deviation (CV)		0,80	
The own capital profitability	-5,56%	21,11%	47,78%

The profit on share calculated for each turnover is multiplied with the probability that those turnover to product, for calculating the estimated profit on share, that is 15,56 Euros, if the enterprise doesn't use the loan capital.

Also, there is calculated the standard deviation and the percentage deviation of the profit on share, as indicators of the enterprise risk degree for a leverage ratio equal with nought:

$$\sigma_{Pr/act} = 8,43 \text{ and } CV_{Pr/act} = 0,54.$$

The third part of the table have present the financial results that can be expected by the "NIKOS" enterprise if will use the leverage ratio of 50%. In this situation, the loan capital is 150.000 Euros from those 300.000 Euros – the total value of the liabilities. The interest rate for this capital is 15%.

With a borrowed capital of 150.000 Euros, to a interest rate of 15% on year, the interest expenses supported by the enterprise are 22.500 Euros on year. These are representing a financial cost and is subtracted from EBIT value, previous calculated. After that, it is applied the tax rate for determining the total net profit.

²³ the estimated profit on share (\bar{k}) was calculated thus: $\sum_{i=1}^3 k_i \times P_i$, where k_i represents the profit on share

determined for those three value of the turnover, P_i represents the probability of achieving of each of those three considered turnover;

²⁴ the standard deviation of the profit on share (σ) was calculated with the formula: $\sqrt{\sum_{i=1}^3 (k_i - \bar{k})^2 \times P_i}$,

where \bar{k} represents the estimated profit on share calculated in accordance with the above formula;

²⁵ the percentage deviation (CV) was calculated with the formula: $\frac{\sigma}{\bar{k}}$.

The profit on share is calculated as rate between net profit and the share number. If the loan capital is 0, that means that all 3.000 shares are to the owners. But if a half from the own capital is substituted with the loan capital of 150.000 Euros, then there will be to holders only 1.500 shares, and this will be the number of shares that will be used for determining the profit on share accordingly with each turnover²⁶. With a leverage rate of 50%, the profit on share will be -2,78 Euros, for a turnover of 150.000 Euros, then will rise to 10,56 Euros when the turnover is 300.000 Euros and will attain the value of 23,89 Euros, when the turnover is 450.000 Euros.

Conclusions

In conclusion, the risk grade measured by standard deviation or percentage deviation of the profit on share is increasing continuous, with a positive rise in ratio, when the loan capital have replaced the own capital.

Thus, the financial leverage using has involved an equilibration of the risk grade with the profitability ratio: a higher grade of using of the financial leverage lead to the increasing in the estimated profit on share. In our case, the estimated profit on share have risen from 15,56 in the case of leverage grade at nought, to 21,11 in the case of the 50% leverage ratio, but this rise lead to the increasing of the enterprise risk ratio.

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²⁶ in this example, we are started from the hypothesis that the enterprise is changing the capital structure through the redemption of a part from issued and sold shares, paying for redemption a price equal with the accounting value of 150.000 Euros/ 1.500 shares = 100 Euros;

THE INFORMATIONAL LIMITS OF PROFIT AND LOSS ACCOUNT IN THE PERTINENT SHOWING OF THE PERFORMANCES

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Abstract

The objective of financial statements is to provide information about the financial position, performance and changes in financial position of an entity. The transparency of financial statements is secured through full disclosure and by providing fair presentation of useful information necessary for making economic decisions to a wide range of users.

Keywords: *financial statements, profit and loss account, accrual basis, provisions*

A long period of time the customers of the financial statements were limited in the consulting the profit and loss account to know information about the accounting result, the most significant indicator for measuring the enterprises' performances. Considering the entities can choose, in some limits, the account policies, the obtaining results reflect their objectives and not the reality. In this situation is it credible and relevant the result? The objectives of the account policies are different in concordance with the volume of enterprises and the economic field where they do their activity.

For example, it can be mentioned: decreasing the losing published, decreasing the taxable profit, increasing or decreasing the current result, increasing or decreasing the profit which is going to be distributed, the temporary arranging of the account results so that to diminish the risk in the financial field. By the accounting practice, the debt management decisions are taken, in principal, to present a different image of the result, without to change the enterprises' statements.

The elastic character of the result limited the informational values of the profit and loss account which could be a misunderstanding. A profitable enterprise is in the same time an enterprise which has cash flow. Behind the profitability is hidden some huge problems of the liquidity. The profit and loss account offers information about the financial fluxes of an enterprise at the end of the financial year. These explain how the profit and loss account could influence the cash flow. It is true in a cash accounting and it is false in an accrual basis. The cash accounting presumes to recognize the incomes at the encashment moment, and the costs at the at the payment moment. So that, in the profit and loss account will appear incomings and outgoings which generate cash flow.

In concordance with the accrual basis, the incomes are recognized when they are obtained and the costs at the engaged moment, without to keep count of the encashment or payment moment. The IASB framework includes the financial statements, the profit and loss account in concordance with the accrual basis, so that giving the cash flow with this document can't be realized only through debating its information or changing the incomes or costs in encashment and payment. The financial statements have made on the accrual basis answer at the customers' information and give them details about "not only the past

transaction which generated encashment and payments but and the future payment obligations and resources about the future encashment and payments”²⁷.

Together with the developing of transnational companies, the financial information’s customers are interested in the enterprise’s performance based not on the accounting result but on the economic result. This last indicator can’t be observed in the profit and loss account, because it has a structure larger than the accounting result, including the elements which not pass the profit and loss accounting. The customers of financial information are interested in the profit and loss accounting information that couldn’t obtain. The deciders must appeal of other resources of information to satisfy their needs. Just so, the accounting profession is to create new instruments to eliminate informational limits of the financial statements. The changing situation of the proper capital and the cash flow are “the new products” given by the accounting.

The larger interests of the financial information’s customers, especially of the investors, for the enterprise’s performance, “call” the accounting profession to reflect for discovering some new concepts to respond for informational needs. We could remark the following conclusions about the informational limits of the profit and loss account in the pertinent showing of the performances, table no. 1

Table no. 1. The informational limits of the profit and loss account

The informational limits of the profit and loss account	Characteristics
Overestimation or underestimation of some assets whose values are appreciated by the costs.	Using a different formula for costs components is an accounting policy for entities management and its effect is to obtain different results. The entities management could choose between a complete cost and a partial one in the stocks measurement leading to obtain different results.
The provisions policy	The provisions respect the prudence principles which help to decrease a negative influence of an historic cost about the result. The provisions represent a way for a value treatment of an incertitude existing in the assets and result measurement. The entities use the provisions only they are fiscal deductible. This kind of practice is facilitated by the building provisions technique in the financial session which leading through an increasing of costs and repeated them in a next session like a necessity of increasing incomes.
The policy of the intangible assets amortization	The amortization value of the intangible assets must be delivered in a systematic way in all the utility period. The method of amortization chosen must reflect the rhythm of consuming the economic advantages as a result of using the assets. The economic or accounting amortization is a result of accountants estimations based on calculations and decisions of entities management which affects the value of the assets audit and the costs with amortization from the profit and the loss account. The economic amortization can’t be confounded with the fiscal amortization that is determinate after the applying the amortization law and the methodological rules. It is possible those two identical entities which acting on the market with the different accounting systems: one of them under the accounting international standards and the other which is connected at the taxation will obtain the different results after calculated and booked the amortization.

²⁷ The Framework IASB, paragraph no. 22

The informational limits of the profit and loss account	Characteristics
Using the transfer prices “fit” with the group entities	The prices of goods and services assignment that are between group of the entities can be increasing or decreasing in concordance with the interest to transfer the benefit from one entity to another. This policy is used for entities which belong to the same group and are located in different countries. There are preferred the transfer of the benefit from a country with excessive taxation to another with less taxation.
Increasing or decreasing of subjective incomes or costs	This practice is other kind of adjusting the accounting result (booking some artificial accounting articles at the finish of financial session, anticipating the delivering of the products which not be realized just only after the ending of financial session, etc.)
The capitalizing the costs with the interests	The entities have the possibility to choose between two alternative of accounting treatment for the relative interests at the investing moment. On the one hand it can consider the interests which affect the profit and loss account or choose at their capitalization what leading to increase the result. On the other hand, if the entity prefers a big capital, the result can be better on the long term.
Undervaluation the purchase price of assets	The leading of the entities can increase the difference between the accounting value and the purchase price of the assets with undervaluation the bought assets. The difference can be imputed by the bought assets if the legal rules permit this thing. This procedure is made for the future advantages when the undervaluation assets produce it like future advantages as a result of the missing amortization, obtaining plus values at the realization of the assets moment.
Lease-back operation	This operation is to sell an assets and imminent assuming it in the location. The real statement of the entity isn't changed but it allowed to determine a plus value in the selling year which will be annihilate by the future rent. More, putting the rent contract in the leasing operational category can avoid some debts so that decreasing the indebted rate.

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METHODOLOGY OF DIAGNOSING ENTERPRISE ACTIVITY AND TECHNIQUES OF DIAGNOSIS

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Abstract

The diagnosing methodology, on one hand, should allow liberation of the main elements for elaboration of the survey and, besides that, for thorough research in case of abnormalities and, on the other hand, should neglect the accidental elements which do not have an utility to the studied field. This double necessity drives the analyst's efforts in eliminating the difficulties of diagnosing method, which should avoid two possible limits, that is: performing a very analytical and expensive survey when compared to the information it provides or elaborating a too global survey, which can cause some omissions, among which some important issues for the final consideration and for the action plans which are to be set can be lost. Therefore, only a rigorous activity diagnosis method can convince the study beneficiary as to the competence and value of the specialist expert called and of the fact that the result of analysis does not include a multitude of useless, unessential information. In this paper the author aims at making a short presentation of the techniques that can be used and of the stages required to putting into practice of the enterprise diagnosis.

Inspecting the premises

Visiting the enterprise premises involves examination of production and storage installations, laboratories, commercial or administrative departments. This offers an overall image of the *enterprise operation* and at the same time provides an evaluation of *its internal climate*: staff activity, dynamism, inter-individual and collective relationships, etc. Moreover, this stage offers the possibility of practical learning of the enterprise, very useful for the *understanding of actual signification of documents* on which the analyst is about to operate. Inspecting the enterprise also allows making some first judgments on the *enterprise running situation*: volume, quality, age, equipment maintenance, conditions of hygiene and security, importance and quality of stocks, organization, existence of “bottlenecks” in the production process, value and quality of administrative means utilized (staff sheets, documents, materials) etc. Moreover, visiting the enterprise premises *draws analyst's attention to the specific aspects* (apparent abnormalities, unbalances; for instance, in some shops, in which stocks in production accumulate, there are difficulties in the movement of staff and products, scrap and important rejects etc). Visiting the installations offers *knowledge of order of magnitude* which facilitates distinguishing between the normal and abnormal phenomena and detecting the abnormalities with the occasion of subsequent surveys of files provided.

Examining the market share, by segments

In this stage, the diagnose essence consists in *analyzing the file* with gathered documents and information. Elaboration of the analysis file requires getting together the following elements, at least:

- *legal documents* regarding the enterprise (statute and statutory modifications; statements of Administration Board reunions, minutes of Shareholders General Assembly, annual reports of the administration and of the account commissioners, etc);
- *accounting and financial documents* (balance sheets and result accounts of latest 3-5

- years, usually treasury tables, financing and investment plans, budgets, cost analyses, margins, board records etc); *organization documents* (enterprise organization chart and charts of various positions and departments; procedure manuals; documents regarding definition of jobs and job specifications; accounting and financial organization; organization of inventory control; organization of information processing system, copies of various documents (receipts, tickets) received, issued and sent by the enterprise; diagrams of documents circulation etc);
- *commercial documents* (catalogues, delivery conditions, rates, consumption notes, published and advertising documents, statistics of sales, customers and suppliers etc). Depending on necessities and enterprise particularities, some additional documents can also be required. Moreover, during the survey, the analyst will be led, according to the elements that need to be studied thoroughly, to other documents and materials. Independent of the enterprise-related documents, setting a diagnosis also requires gathering information by *fields* (professional statistics, survey reports), information regarding the *main competitors* in order to allow performance of some comparative diagnoses. All centralized documents will be subject to variable exploration according to their content: legal analyses, plausibility and coherence tests, estimations, verifications, surveys, calculation of rates, statistical surveys, comparative tables, reference to norms, standards, range analysis, graphics etc.

Meetings and discussions

With the occasion of the initial visit to the enterprise, the analyst wants the explanation of *how the main departments work*. This is a stage that follows the examination of documentation, which he or she can use effectively in the thorough discussions with the main responsible persons.

The objective of meetings and discussions with the appropriate persons of the enterprise can refer mainly to:

- determination of the actual organization characteristics and operation of each department, including comparison with those included in the documentation;
- identification of organization weak points;
- clearing up the abnormal situations occurred at the moment of initial visit, when studying the file or when filling in the questionnaires;
- knowing the opinion of each responsible person on its own activity, on the operation of analyzed department and on his/her relationship with other bodies, on the enterprise etc.

Questionnaires

Analyst's interviews can be guided by questionnaires. Quality of analysis report that is to be issued, as well as the correctness of decisions within the action plan which aims at rectifying the enterprise activity, largely depend on the degree of information and knowledge of company by the analyst. His or her discussions with the management team and with the responsible persons for various enterprise departments or objectives play a determinant role. Especially important in analyst's documentation and information are the *sociological methods*, as well as the questionnaire and the interview, which can represent both a supporting technique of discussions with various responsible persons, and a way of *specific approach*, being used as independent representative methods. In this case, the questionnaire can be distributed to the various enterprise departments, adapted for each of them and filled with a range of information additionally gathered by communication with certain people from the studied system. These data are separately interpreted and complete

the information gathered by the questionnaire technique. Questionnaires *interpretation* can be done in different manners.

These data are separately interpreted and complete the information gathered through the questionnaires technique. Questionnaires *interpretation* can be done in several manners:

- either by studying, separately, the answers of each department considered of interest for the economic activity diagnosis (for instance, if the inventory control department of an enterprise in the industrial field answers that it is not possible to know the time of individual work for each order, this answer can be enough for identification of a week point of the enterprise). The answers can also be judged by checking the evidences brought by other information elements, gathered from other sources (visit notes, accounting information, statistics, radios etc);
- or questionnaires processing can be done by studying the answers of various departments, regarding the same subject (called procedure of processing by comparison);
- an initial questionnaire, handed to all departments, will focus on gathering general information on enterprise operation, on the way in which each of them conceives their role, on the image which they generate on each other and on the enterprise in general. At the same time, this questionnaire offers the possibility to collect some numerical information that can fill accounting documents;
- functional questionnaires, used for detail study of each enterprise position;
- thorough questionnaires, that offer depth investigations, as they are adapted to the specific issues discovered by previous studies.

The discussions with specialists, as well as the questionnaires can be, by the nature of questions asked and answers expected, of two kinds:

- closed, in which the interviewed person must offer a precise answer (an example of such a question could be “What is the average number of monthly invoices?”);
- open (without direction), which refer to a general issue for which the interviewed person can freely build his/her answer (for example “What do you think about the stock management system?”).

Check-lists

The technique of check-lists can be used on the occasion of visiting the installations, for setting up the enterprise file, for the control of discussions/meetings with the specialists, for creation of questionnaires and for the exploration of assembly of gathered information. It consists in performing an *exhaustive enumeration* of operations that are to be fulfilled (documents gathered, observations made, interrogated persons, issues raised, processing of collected information etc). This method also allows a systemic approach and a warranty against omission. Each specialist, when diagnosing the enterprise, has his/her own check-list.

Synthesis table

During information gathering, the analysis requires and generates an important data volume (facts, numbers, values, options) and, in the end, implies integration of these data in order to create a synthesis table, which should allow:

- concentrating the information of the same nature, which derive from various sources;
- confronting the information;
- appreciating the strong points and the week points on the whole of enterprise.

Some synthesis tables can be created for each great function of the enterprise (management, financing, supply, production, commerce, research) as well as *for each of the important non-functional aspects* of the enterprise (environment, profitability, offer, increase, organization etc). It is understood that each of the tables achieved has a specific content, adapted to the characteristics of each enterprise or activity. Any table analyses various aspects of management pertaining to the researched field (supply for instance). For each aspect, operation of the enterprise complies with one or the other of the following systems:

- rating / framing each researched element into one of three operation categories: “normal”, “strong point”, “weak point”;
- rating each aspect according to a rating system (from 1 to 20 for example); in this case, if a weighting system is also there for the importance of each of the investigated phenomenon of inventory, there is the possibility of synthetic summarizing of each studied function through a note. At the same time however, although they are not easy to put into practice and they accentuate a natural tendency, the rating systems also have some drawbacks. They sometimes determine a decrease of the role of certain quality data as a result of applying some weighing coefficients to them, whose seize is arbitrarily determined. There is therefore the risk of distorting the reality creating an illusive accuracy impression.

Diagnose stages

Methodical performance of diagnose implies a certain number of stages, absolutely necessary in elaborating a pertinent study. After presenting the main techniques of diagnosing in a succinct manner, we have considered useful to enumerate the main stages of diagnose, with the purpose of forming an image of importance and complexity of the economical and financial analysis. These would be:

- *gathering the information elements*, required to draw up the enterprise file, involves: reuniting the documents, visiting the enterprise premises, creating, diffusing and re-grouping the questionnaires, discussions with the responsible persons from various departments etc;
- *analysis of gathered information* with regard to the enterprise: global analysis and analysis of various functions. Usually, in this stage, certain phenomena that recently occurred are identified such as abnormalities, deficiencies or weak points, which require gathering some additional information (new document requests, new discussions and questionnaires);
- *identification of determined facts*, includes an evaluation of situation of enterprise operation as a whole and by departments. A critical comment is done here on various aspects analyzed, pointing out the activity strong and weak points;
- *inventory of possible improvement* of enterprise organization and operation: modification of activity structure, application of established procedures, instituting new procedures, creation or modification of some documents, performing some changes in the general policy and in the enterprise running policies;
- *critical examination of various improvements proposed*, each of them being the object of some discussions with the responsible persons of directly involved departments and with the enterprise management with the purpose of:
 - knowing their *objections* and appreciating the validity, which can lead to abandoning or to application of proposed solutions;
 - obtaining the *adhesion* to the proposed changes;
 - choosing, when there are *several alternatives*, the ones considered more appropriate for the situation of enterprise;

Establishing the action plan. This stage takes place when the improvements proposed for achievement are definitely adopted. In this case, they must be inserted into the **action plan**, including:

- laying out the reasons;
- defining the objectives to accomplish;
- necessary means;
- scheduling in due time of their accomplishment (including breakdown into stages);
- defining the practical ways of accomplishment: purchase of equipment, staff training, occurrence of innovations and of other novelty elements proposed etc;
- putting into practice the means of pursuing the achievement of the measures proposed and of tracing their effectiveness on various stages anticipated as well as establishing some methods of adopting new action plans in case of occurrence of unforeseen events.

Editing the diagnose report, which involves performance of a synthesis regarding the above mentioned aspects. The main elements which the analysis report must include are:

- evocation of reasons for achievement the diagnosis and the proposed objectives;
- indication of methods involved: documents used, responsible persons interviewed, processing procedures for the information used;
- evaluation of the existing situation: strong points and weak points of the general situation and of the enterprise functions;
- critical study of improvements proposed and list of proposals to apply;
- action plan with the description of practical means of application and determination of responsible persons.

Conclusions

Any diagnose involves utilizing several complementary techniques for accentuation and analysis of concerned aspects. The advantage of resorting to a multi-sided approach is double: on one hand it allows *verification of argument evidence* which increase analyze security (for example, inspecting the inventory of stocks is recommended to be done starting from the financial documents and to continue with a study of the stock calculation and observation procedures, as well as with their physical examination: storage conditions, rotation, status of stocks, etc). On the other hand, it allows *identification of the most appropriate procedures*, adapted to the studied fields, as any technique has its limits and can only be used in various percentages for examination of structures, functions or processes inspected.

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THE HUMAN CAPITAL COST IN IAS/IFRS VISION - ACCOUNTING POLITICS REGARDING THE HUMAN CAPITAL

Popa Cristina

Abstract

The world is a varied unit and not even accounting makes exception. Starting with Luca Paciolo's first rule given to accounting, it has developed with a variety of rules and accounting methods getting to standard elaboration through accounting directives, helping the accountant to have a better understanding of the influence made by their use of information in financial situations.

A great number of endogens and exogens factors makes mandatory for the the direct involved specialist to know International Standards of Financial Reports (IFRS) mandatory, because accounting and accounting politics are actually important bases on which the firm's management is built upon, having an impact on all of the other firm's activities.

There is no doubt regarding the global ongoing process to expand the investments beyond traditional borders, the influence of globalization on national economies. Those, together with the creation of regions and the integration in the European Union generated the need for a universal accounting terminology. Thus a huge process of harmonization of the accounting systems took place in the member-states of the European Union; was created a common frame regarding the financial reports based upon the common elements like standard form for financial reports, common evaluation and function rules of different accounts. This, among other measures, will prove to be a invaluable base for a future unified european economy, more and more inter-linked, as we can see, even in this first year as a member state in the European Union.

Therefor, the International Accounting Standards pays also attention to the elements related to the human capital remuneration, in salaries, wages, equities and so on; were developed **IAS 19 Employee Benefits** and **IAS 26 Accounting and Reporting by Retirement Benefit Plans**, but those are complemented by the other standards, especially those involving actives and debts.

The accounting policy consists in the sum of the principles, conventions, rules and methods adopted by the company's managing board for the accounting department and the financial reports. The accounting policy is a fundamental element of the financial reports and must be developed by each company, no matter the type of property, sector of activity or juridical form of organization; still, it has to be in harmony with the national and european laws and regulations.

The project development of the accounting policy can be accomplished by the accounting department, by a special committee, including accountants, financial experts, lawyers, or by the company's auditors. The chosen accounting policy can be examined and adopted through a decision made by the owners from the first place, or by the Board of Management first, being approved by the shareholders in the annual meetings.

The accounting policy is based and cannot exceed the fundamental accounting conventions. The notion „convention” means assumption (hypothesis), a condition from

which the company has to start organizing the accounting activities and conceiving the financial reports. But, until the annual reports, what methods do we apply to emphasize the investments done along the year in the development of the human capital?

The present global economical environment is changing, and doing so with at a ever growing rate; this was observed the american economists as early as the '70's when „The Third Wave” started.

The added value of the products and services sold today is more and more obviously and strongly tied with the „imaterial” factors, and in the center of those stays the individual, who generates the creativity, the imagination, the inventivity, the know-how, judgement, those being reflected in the anual results of each company. In this new era, the profit is the product of knowledge.

In the International Accounting Standards (2000) it is shown the reason why human resources (their value) must not be considered as assets: it is about the ineffective control over the future income; we can ask ourselves, rethorical: “How is it possible the control of the future benefits, estimated to be generated by a group of employees who undertook a vocational training session?”

But, according to the same regulations, an intangible asset is “an asset indetifiable, non-monetary, with no material suportand held to be used in the production or delivery process, to be loaned or for any other administrative reasons.”

We don't agree, in theory, with the fact that it is not possible to control the future benefits because the company controls the revenues generated by the employee's work, final results of the people efforts who work for the firm belonging to the firm, as well as economical benefits; human resources are precisely identifiable, as well as the results, and even if the employees decide to leave the company they will be replaced because the activity will continue with the new, evolved structure, assuming that the new employees will be as valuable as the ones leaving. But, as this is not always the case, sometimes there are invaluable setbacks. And this subtle, invaluable, non-linear variations of the human capital is that makes this process to be clearly and satisfactory expressed by accountancy.

The informations revealed by “The Profit and Loss Statement” includes as distinct elements the expanses with the wages and the expanses with the peyroll taxes and costs. The informations regarding the value of the human resources can be revealed in at least on of the following forms:

1. The informations revealed in the administrator's report that accompany the financial reports includes data about possibly significant expanses with the human resources; those can be especially high in the tertiary sector, actually outweighing material expanses. As an intermediary step, until the introduction of a fully fledged human resources accountancy, in the administrator's report those expanses can be considered investments during the considered period.
2. A second form to show those informations is by revealing them in a aditional to the financial reports note. This approach was sugested for the first time by the Arthur Andersen & Co accountancy company as a method to treat the imaterial expanses, thus including the employee costs. Further

more, the company suggested that most of the imaterial expenses (including the employees costs) to be acknowledged as different features in “The Profit and Loss Statement”. Thus “the companies with huge imaterial expenses, particularly the companies that are in the leading edge of technology and those that supply highly skilled services, plus the companies that grow by merges and acquisitions and have a huge marketing budget should present a situation with the imaterial expenses.” This additional notes should show the expenses on different kinds of imaterial expenses for the studied financial period, as well as for the precedent one. The notes could be utilised to describe the nature of the expanses, the level of the developing projects and their results, in case that those are finished; also can be revealed any other relevant informations. The weak point of this proposal is that the financial reports would be distorted because the total assets would be subevaluated, with no obvious debt.

Therefor we suggest, like a distinct mark regarding employees costs, to exist the duty of computing the specific indicators of the human resources management, an important role to be played by the growth rate, as well as the expanses with the employee’s wages.

3. A third method regarding this issue is to show the informations on the employees costs in the non-audited financial reports. The companies can develop some internal financial reports that aknowledge such investments in growing the skills of the employees, using the proposed conventions in the literature specialized in employees cost accountancy, and including those aditional notes in the annual financial reports. The report should be accompanied by a note stating that this informations had to be considered separated from the conventional, standard financial reports. Also, it must be specified the fact that those reports are not made accordingly with the International Financial Reporting Standards, have not been audited, and have a margin for error – due to the not so precise methods of evaluation in this area – , a rather unthinkable element in regular accountancy.
4. The fourth approach is the total presentation of the informations regarding employee costs in the standard financial reports as a result of a regulated practice.

So there are more opinions regarding the human resources, the information management regarding those, and also about the accounting tratement of this resource. **Though the accountancy resigns and consents veto right to the mathematical rationalization: don’t see a plus, don’t add; don’t see a minus, don’t subtract.**

The continous vocational training sessions for the employees in one of the top priorities of the companies in the last years, caused, on one side by the necessity of having a better qualified staff, and, on the other side, by the employees wishes to be updated with the latest trends in their field. **The knowledge always matter, but never as today.**

In romanian applied accountancy the vocational training expanses – this costs – are considered expanses belonging to the present financial exercise, against their very purpose: to generate, or to increase the profit in the future.

We can conclude with a comparison made by prof. Bernard Colasse who brings into our attention the similarities and the discrepancies between a map and accountancy:

- The map cannot be mistaken with the represented area; so are the financial reports with the company's assets.
- The bi-dimensional map offers a clue for the road ahead; also the financial reports can set a time frame for reaching a company's objectives, this depending on its commitment, capacity and specificity.

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FOREIGN TRADE COMPETITIVENESS AS AN OBJECTIVE FOR THE ROMANIAN MONETARY POLICY

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Abstract

The tight money policy applied by the National Bank of Romania was accused of the significant deficits of the current account from the recent years. The appreciation of the national currency was blamed as being the main factor that stimulated the imports and discouraged the exports. In this paper we analyze the impact of the exchange rates to the Romanian imports and exports. We find out that, although exchange rates have a significant influence on the imports and on the exports, there are other factors with more considerable influence.

Keywords: *exchange rates, imports, exports, monetary policy*

1. Introduction

In the recent years the trade balance deficit increased continuously and a worry arose regarding its support capacity. Mostly for this evolution it was considered responsible the monetary policy applied by the *National Bank of Romania* (NBR). Especially the exporters complained about the nominal appreciation of the national currency that endangers the competitiveness on the foreign markets. There are a lot of theoretical approaches to the impact of exchange rates evolution over the foreign trade competitiveness. The elasticities approach of devaluation concentrates on the influence of exchange rates on the demand and supply for exports and imports (Krueger). The devaluation of the national currency reduces the demand for import by raising the domestic prices for imported goods. It has a contrary effect on the export supply, reducing the equivalent in the national currency of the exported goods prices. The foreign trade sensitivity to the devaluation depends on the import - export demand and supply elasticity related to the prices. According to the elasticities approach to devaluation it is expected imports to be favored and exports to be

discouraged when the national currency is too strong. Other theories highlight certain important factors for the foreign trade competitiveness, such as: productivity, profitability, quality of imported and exported goods or tariffs (Winters). More recent theories stipulate the foreign trade competitiveness is more influenced by the real exchange rates than by the nominal exchange rates (Dornbusch).

In the last four years, in Romania the nominal appreciation of the national currency was significant and the real appreciation was even bigger. In this period of time the volume of the foreign trade increased, the imports more than the exports. As a consequence, many reasons are brought in order to explain the significant appreciation of the national currency, despite the current account deficits and the exporters' complains. Firstly, in the same direction of the inflation decrease efforts, NBR maintained a tight money policy, increasing the national currency attractiveness for the portfolio investments. Secondly, the significant inflows of foreign currency provided by the Romanian workers from abroad and by the foreign investments could support the deficits of the current account. Thirdly, according to the authorities, the devaluation of the national currency would not help very much the exports which are not very sensitive to that.

Table 1 – Evolution of the national currency and of the foreign trade

Year	Yearly average exchange rate		Yearly average inflation rate [% / year]	Import [mil. EUR]	Export [mil. EUR]	Current account [mil. EUR]
	RON / EUR	RON / USD				
2003	3,76	3,32	15,3	19 569	15 614	- 3 060
2004	4,05	3,26	11,9	24 258	18 935	- 5 099
2005	3,62	2,91	9,1	30 061	22 255	- 6 888
2006	3,52	2,81	6,6	37 609	25 850	- 9 973

Source: National Bank of Romania, Annual Reports 2003 – 2006

In this paper we try to analyze the impact of the monetary policy on the foreign trade competitiveness. For that purpose we will study the dependence of exports and imports on exchange rates and other factors, using econometric modelling.

2. Modelling the dependence of imports on exchange rates

Before 1990, in the context of a centralized economy, the influence of the exchange rates over imports was not relevant. The period 1990 – 1993 was characterized by instability and the factors that influenced the imports acted by different mechanisms in comparison with the present ones. In these circumstances we chose the values from the period 1994 – 2006 for the study of dependence of imports on exchange rates. We used the yearly data because the seasonal fluctuations are irrelevant for the main purpose of this study.

Besides the exchange rates, the evolution of Romanian imports was also significantly influenced by other factors such as the Gross Domestic Product (GDP) and the real wages. It is considered that an increase of GDP must be supported by goods imports, especially of raw materials and equipments. Generally, the real wages increase stimulates the consumption goods imports. The study of the dependence on these factors was based on the equation:

$$\ln(\text{IMP}_t) = a + b \ln(\text{RER}_t) + c \ln(\text{GDP}_t) + d \ln(\text{RW}_t) \quad (1),$$

where:

- IMP_t describes the imports from the year t, expressed in USD;
- RER_t reflects the exchange rate in the year t, calculated by multiplication between the nominal exchange rate RON / USD and the rapport between CPI values from Romania and USA;
- GDP_t describes the Romanian Gross Domestic Product from the year t, expressed in USD;
- RW_t reflects the real average wage from Romania in the year t;
- a, b, c and d are the regression coefficients that describe the imports dependence on the exchange rates, GDP and the real wages.

The wish is that changes of the variables could be measured on a cardinal scale. For this purpose we used values of the dependent variable and the independent variables as index numbers. 1991 was chosen as the base year.

The equation (1) can be transformed into a multiplicative model, reflecting the assumed non-separable impact of all the independent variables:

$$\text{IMP}_t = \exp(a) * \text{RER}_t^b * \text{GDP}_t^c * \text{RW}_t^d \quad (2)$$

The multiplicative model has an advantage because the coefficients of the independent variables may be interpreted as elasticities. However, it is easier to estimate these coefficients based on the equation (1). For the econometric model the following equation could be used:

$$\text{imp}_t = a + b * \text{rer}_t + c * \text{gdp}_t + d * \text{rw}_t + u_t \quad (3)$$

+ - + +

where:

- $\text{imp}_t = \ln(\text{IMP}_t)$;
- $\text{rer}_t = \ln(\text{RER}_t)$;
- $\text{gdp}_t = \ln(\text{GDP}_t)$;
- $\text{rw}_t = \ln(\text{RW}_t)$;
- $u_t =$ disturbance / error term.

Some hypotheses for the signs of the regression coefficients were formulated:

- a is positive because even if rer_t , gdp_t and rw_t are zero there will be autonomous imports;
- b is negative because the devaluation of the national currency (reflected by the increase of rer_t) is presumed to lead to an imports decrease;
- c and d are positive because it supposes that GDP or real wage increase would stimulate the imports.

It is assumed that u_t is normally distributed, its mean is zero and its variance is constant. The disturbance terms from different periods of time have to be uncorrelated and the covariance between the disturbance term and the independent variables has to be zero.

In order to calculate the regression coefficients some requirements are imposed:

- time series to be stationary;
- the independent variables to be sufficiently exogenous;
- the series of time not be serial correlated;
- the eventual structural changes to be reflected in the model.

For avoiding the spurious regression, the stationarity of the time series was verified by the Augmented Dickey – Fuller test. It resulted that time series which described the model variables were no stationary. Therefore, these series were made stationary by using the first differences method. The new obtained stationary series were named adding the suffix z to the old symbols: $impz_t$, $rerz_t$, $gdpz_t$ and rwz_t .

The exogeneity of the independent variables was evaluated by applying the Hausman test to the new series of time. It resulted that the regressors $rerz$, $gdpz$ and rwz could be considered sufficiently exogenous for the purpose of this study.

The Breusch – Godfrey Serial Correlation LM tests were used to analyze the autocorrelation of the variables. With a significant level of probability it was rejected the hypothesis of serial correlation.

In order to detect the structural changes in the values of the variables, the Chow Breakpoint tests were conducted. For a significant level of probability, these tests indicate no structural changes.

In this study we analyzed the lagged effects of changes in the exchange rates on the imports. These effects were evaluated by several methods. However, the Student and F tests proved that including them would reduce the accuracy of the model.

Applying the ordinary least squares method, the following regression results were obtained (see table 2), based on the equation (3).

Table 2 – Regression results for the imports modelling

Variable	Coefficient	Value	Standard error
constant	a	0.082 234	0.058 093
rerz	b	- 0.0329	0.082 961
gdpz	c	0.505 776	0.294 885
rwz	d	0.578 965	0.306 266
R - squared		0.613 144	
Standard error of regression		0.097 472	
Observations		13	
Degrees of freedom		9	

The regression coefficients were tested with Student tests and they proved to be significantly different from zero. The representativeness of R – squared was tested with F test which led to the conclusion the influence of independent variables on the dependent variable is significant.

From the imports modelling the following equation resulted:

$$\text{impz}_t = 0.08223 - 0.0329 * \text{rerz}_t + 0.5058 * \text{gdpz}_t + 0.579 * \text{rwzt} + u_t \quad (4)$$

According to that regression, the devaluation of the national currency led to a significant decrease of imports. However, the model indicates that the imports have a bigger sensitivity than other factors such as the gross Domestic Product or the real wages. The R – square value of 0.613 reflects a medium influence of the independent variables on the dependent variable.

3. Modelling the dependence of exports on the exchange rates

For the same reasons as in the case of modelling the imports, the dependence of exports on exchange rates was studied based on the annual data from the period 1994 – 2006. However, in the evaluation of the lagged effects there were used data from 1992 and 1993.

It was considered that, besides the exchange rates, the evolution of Romanian exports was also significantly influenced by other factors such as Gross Domestic Product and foreign direct investments (FDI). Generally, the GDP increase stimulates the exports. Regarding the FDI from Romania, many of them have the production oriented towards the markets from abroad. The dependence of the exports on these factors was analyzed based on the equation:

$$\ln (\text{EXP}_t) = f + g \ln (\text{RER}_t) + h \ln (\text{GDP}_t) + k \ln (\text{FDI}_t) \quad (5)$$

where:

- EXP_t describes the exports from the year t, expressed in USD;
- EXP_t and GDP_t have the same significance as in the equation (1);
- FDI_t reflects the foreign direct investments in the year t, expressed in USD;
- f, g, h and k are the regression coefficients that describe the dependence of exports on the exchange rates, Gross Domestic product and FDI.

The values of the dependent variable and of the independent variables were used as index numbers with the year 1999 as the base year.

Equation (5) can be transformed into a multiplicative model which reflects the presumption of the non – separable impact of all the independent variables:

$$\ln (\text{EXP}_t) = \ln (e^f * \text{RER}_t^g * \text{GDP}_t^h * \text{FDI}_t^k)$$

or:

$$\text{EXP}_t = e^f * \text{RER}_t^g * \text{GDP}_t^h * \text{FDI}_t^k \quad (6)$$

The coefficients of the independents variables from that multiplicative model may be interpreted as elasticities. However, these coefficients were estimated based on the equation (5). The econometric model of exports uses the following equation:

$$\text{exp}_t = f + g * \text{rer}_t + h * \text{gdp}_t + k * \text{fdi}_t + v_t \quad (7)$$

+ + + +

with:

- $\text{exp}_t = \ln (\text{EXP}_t)$;

- $rer_t = \ln(RER_t)$;
- $gdp_t = \ln(GDP_t)$;
- $fdi_t = \ln(FDI_t)$;
- v_t is the disturbance / error term with the same properties of u_t from the import model.

It was formulated the hypothesis that all regression coefficients are positive:

- f is positive because even if rer_t , gdp_t and fdi_t are zero there will be autonomous exports;
- g , h and k are positive because it is presumed that increases of exchange rates, GDP or FDI lead to increases of exports.

In order to calculate the regression coefficients there were imposed the same requirements as at the imports modelling: stationarity of time series; exogeneity of the independent variables; no serial correlation for the series of time and the reflection in the model of eventual structural changes.

The Augmented Dickey – Fuller tests proved that all time series associated with the model variables were non – stationary. These series were made stationary by the first differences method and the resulted new series were named adding the suffix z to the old symbols: $expz$, $rerz$, $gdpz$ and $fdiz$.

Applying the Hausman test led to the conclusion that the regressors $rerz$, $gdpz$ and $fdiz$ could be considered sufficiently exogenous for the purpose of this study. The autocorrelation of the variables was analyzed by the Breusch – Godfrey Serial Correlation LM tests and no significant serial correlation was found. The Chow Breakpoint tests also did not reveal significant structural changes.

The lagged effects of the changes in the exchange rate on the exports were studied by several methods. F tests revealed the best accuracy was obtained for the arithmetic lag method. We considered that it would take less than three years for the full lagged effects of the exchange rates. Including the lagged effects led to the following equation:

$$exp_t = f + g_0 * rerz_t + g_1 * rerz_{t-1} + g_2 * rerz_{t-2} + h * gdpz_t + k * fdiz_t + v_t \quad (8)$$

In order to apply the arithmetic lag model some restrictions are imposed:

$$g_i = (n - i + 1) * \gamma \quad (9)$$

where:

- g_i is the regression coefficient of $rerz_{t-i}$;
- n is the lag length, in years;
- γ is a constant.

$$\text{For } n = 2 \text{ the results are: } \quad g_0 = 3 \gamma; \quad g_1 = 2 \gamma; \quad g_2 = \gamma.$$

We defined the variable $zrerz_t = 3 \times rerz_t + 2 \times rerz_{t-1} + rerz_{t-2}$ and the equation (9) is transformed into: (10)

$$exp_t = f + \gamma * zrerz_t + h * gdpz_t + k * fdiz_t + v_t \quad (11)$$

By applying the ordinary least squares method there were obtained the following regression results (see table 2) based on the equation (11).

Table 3 – Regression results for the export modelling

Variable	Coefficient	Value	Standard error
constant	f	0.016 855	0.058 049
zrerz	γ	0.014 475	0.012 719
gdpz	h	0.685 315	0.232 834
fdiz	k	0.019 003	0.035 772
R – squared		0.53747	
Standard error of regression		0.079 484	
Observations		13	
Degree of freedom		9	

The Student tests found the regression coefficients significantly different from zero. The F test of the representativeness of R squared proved that the influence of the independent variables over the dependent variable is significant.

Exports modelling led to the following equation:

$$\text{expz}_t = 0.0169 + 0.0144 * \text{zrerz}_t + 0.6853 * \text{gdpz}_t + 0.019 * \text{fdiz}_t + v_t \quad (12)$$

According to that equation, the devaluation of the national currency leads to a significant exports increase. A similar impact could have the FDI increase, while the most significant effect corresponds to the Gross Domestic Product.

For this regression it was calculated a R – square value of 0.5375 which signifies a medium influence of the independent variables over the dependent variable.

Introducing in the equation (12) the formula of zrerz_t given by the relation (10), we obtain the dynamic model of the imports:

$$\text{expz}_t = 0.0169 + 0.0432 * \text{rerz}_t = 0.0288 \text{rerz}_{t-1} + 0.0144 * \text{rerz}_{t-2} + 0.6853 * \text{gdpz}_t + 0.019 * \text{fdiz}_t + v_t \quad (13)$$

Conclusions

In this paper we explored the sensitivity of imports and exports to the exchange rates. For this purpose we used the econometric modelling taking into consideration, besides the exchange rates, other factors of influence on imports and exports.

It resulted that both the imports and the exports are significantly influenced not only by the exchange rates but also by other factors. The imports depend mostly on GDP and on the real wage. Besides the exchange rates, the exports are also influenced by GDP and by the FDI. According to the model equation, the exchange rates variation effect on the exports maintains for many years. The equations we obtained justify some critics regarding the effects of the tight money policy of NBR on the current account. However, these revealed that only the national currency depreciation itself is not enough for a massive increase of the foreign trade competitiveness. Moreover, it must be taken into consideration the

possibility of the step by step reduction of the freedom action for the monetary policy, in the context of the foreseen adhesion to ERM II and to the EURO area.

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CONNECTING CHANNEL STRATEGIES TO COMMUNICATIONS STRATEGY

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Abstract

In most companies, there is ongoing conflict between managers in charge of covering costs (finance and accounting) and managers in charge of satisfying customers (marketing and sales). Accounting journals warn against prices that fail to cover full costs, while marketing journals argue that customer willingness-to-pay must be the sole driver of prices. The conflict between these views wastes company resources and leads to pricing decisions that are imperfect compromises. Profitable pricing involves an integration of costs and customer value. To achieve that integration, however, both need to let go of misleading ideas and form a common vision of what drives profitability.

Key words: *decision, pricing, cost*

The third of the five Cs of value-marketing strategies asks managers to communicate the value delivery of their offerings to their target customers. In developing channel strategy, managers have two options to communicate value to their target customers:

- *"Push "strategies*. The focus of communication is on the supplier's next immediate customer. Push strategies are aimed at propelling the supplier's offerings through the channel. For example, some manufacturers of over-the-counter (OTC) drugs and automotive paints do not promote these products directly to ultimate consumers. Instead, they focus on the retailer or auto-repair shops, expecting these channel firms to make the sale to the consumer. Channel firms that carry a variety of competing products may favor push strategies because they permit promoting products that are most profitable to the channel firm (the channel firm's customers frequently do not have strong preconceived

preferences). Suppliers often find push strategies less expensive to implement.

- *"Pull" strategies.* The focus of communication is on the end customer or a channel member closer to the end customer. Such strategies are aimed at pulling the supplier's offering through the distribution channel. For example, Intel maintains brand preference by advertising its chips to end consumers with the "Intel Inside[®]" campaign. The intent is to create a preference for computers with its chips-causing retailers to favor Intel-based computers. Channel members benefit from pull strategies when customers are "presold" for particular brands. Suppliers gain some control over channel firms because it is more difficult for channel firms to switch customers to competing brands.

Push strategies depend on channel intermediaries to carry the value message through the rest of the channel. Pull strategies "presell" the offering to the target customers, who then go to channel intermediaries with brand-specific demands.

Push strategies are essential when the supplier's product and its differential value are not apparent to target customers, or when its value delivery cannot be easily made salient to target customers. For example, most automobile buyers are unaware of the specific machine tools used in the manufacture of their automobile or of the specific brand of paint that covers it. For machinetool suppliers or automotive-paint manufacturers, convincing manufacturer that their products can make automobiles better or cheaper is more effective than trying to convince consumers to buy vehicles manufactured with a specific brand of machine tool or utilizing a particular paint. The main drawback to push strategies is they depend on the distribution channel to convey the value message to ultimate consumers. In some cases, push strategies may require managers to invest in developing the value-marketing skills of the entire distribution channel or risk having the channel not convey the value theme.

Pull strategies carry the value message directly to target customers. A pull strategy often gives a supplier greater control in communicating value to target customers. Further, pull strategies are often favored by channel intermediaries because they often create "presold" customers, thus reducing the marketing effort required by channel firms. More-exclusive retailers who compete with low-price outlets often prefer suppliers who invest in building brand image. Also, effective pull strategies can provide suppliers insurance against channel intermediaries who try to opportunistically sell competing offerings-customers arrive at the channel firm with strong brand preference.

The choice between "push" and "pull" is usually difficult. Push strategies require both costly incentives for the retail channel partners and limited distribution. In introductory and growth markets, channel intermediaries must invest substantial resources in targeting potential customers and communicating value in return for uncertain sales that may occur considerably later. As a result, suppliers have to share a large portion of their sales price with channel firms as an incentive for the selling effort. In addition, when sales are uncertain or do not follow quickly, manufacturers generally must pay high fees for promotional efforts, such as cooperative advertising and in-store demonstrations.

Given these costs, it would seem that a pull strategy might be preferable, but there are three strong considerations recommending the push approach.

1. *The costs are large* variable-being proportionate to the amount of sales and the number of retail distribution outlets. This is a big advantage for a product that is starting out small. The cost of an effective advertising campaign could be prohibitive.

2. *The retailers have pretargeted the market.* In markets where demand is diffuse-few people are potential purchasers-the retailer (who may be a catalog or e-commerce company) has already identified them. Either the target consumers already know where to buy or retailers own a highly coveted customer list. For sales of scuba equipment, aids to the physically impaired and to people interested in do-it-yourself home repair, no advertising outlets exist to reach a majority of the potential buyers. All of the potential purchasers, however, will eventually need to visit a retailer or web site, or read a catalog which, given an adequate incentive, can promote the product.

3. *The retailers or others in the chain "augment" the product.* Few people would pay the prices for Mary Kay cosmetics if they were available on a rack in a drug store. The value is in the Mary Kay experience of being "made up" in the privacy of home. Mary Kay creates that experience with a team of independent distributors who are motivated by, among other things, high margins.

4. *Pull strategies require sophisticated marketing,* expertise that a firm may lack. Managers must know not only who might buy their product, but also understand why. They must connect their offerings to benefits and offerings that these target customers find salient, which may be difficult when channel firms augment the offering in a way that hides the supplier's components, and they must create messages that can be indirectly communicated convincingly in limited space or time.

Still, in most mature mass markets, pull strategies are preferred. They are cost-effective for high-volume, mass-marketed products, and they give the seller control over the message. Moreover, the mass-market channel partners like Wal-Mart, grocery chains, and drugstores prefer pull strategies despite lower margins. They make their money-moving inventory efficiently, not by selling. Moreover, a pull strategy creates a stronger brand identity that increases loyalty.

Pull strategies are an effective counter to brand competition for channel attention. When multiple brand competitors are competing for the same customers, opportunistic channel firms will play them against each other to extract higher margins and fees. Brands that are large enough to support the cost of a pull strategy can undermine the opportunist's ability to do this. Because customers are presold on the supplier's brand, an attempt to switch them to a competing product is more difficult.

Pharmaceutical manufacturers, which traditionally used only push strategies, have in the United States adopted the pull approach for some products. Managed-care practices have encouraged substitution of branded pharmaceuticals with generic products and have discouraged prescribing "quality-of-life" drugs-such as nonsedating antihistamines and drugs for treatment of erectile dysfunction-that have no effect on overall health. The pull strategy educates patients to ask for these drugs by brand name.

Even some suppliers of materials that are not apparent in the finished good have developed "branded ingredient" pull strategies. W. L. Gore, Inc., uses such a strategy to promote Gore-Tex™ apparel, even though W. L. Gore does not manufacture apparel. Similar strategies have been developed by Du Pont (Stainmaster carpet), Intel ("Intel Inside"), and G. D. Searle (NutraSweet in foods and beverages). Branded-ingredient strategies are a special type of pull communication strategy in which a component not immediately transparent to the end user can be linked to benefits and value the target customer highly desires.

The selection of the appropriate channel communication strategy (push or pull) has a strong impact on successful pricing-strategy implementation. This impact is manifested in the ability of suppliers to communicate their value delivery to target customers.

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IMPACT OF THE EU ADHESION ON THE INDIRECT TAXES FOR THE INTRA - COMMUNITY IMPORTS

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Abstract

The adhesion to the European Union imposed to Romania major changes for the main indirect taxes. In this article we study the implications of these changes on the imports from EU. We conclude that the most significant effect the settlements had regarding the payment of VAT for the intra – Community acquisitions.

Keywords: *intra - Community imports, value added tax (VAT), tariff, European Union*

1. Introduction

The impact of the indirect taxes, especially of the tariffs applied on the imports, was approached in a few theories of the international trade. The tariffs are included in the imported goods prices, influencing their competitiveness. When a tariff is raised, the importers have two alternatives: first to increase the price, that could lead to the demand decrease and the second one is to maintain the price unchanged, accepting a profit diminution. Generally, the other indirect taxes have the same rates for the domestic and the imported goods. However, the calculus base of them could also include tariffs of the imported goods.

The tariffs are used by governments in order to protect the domestic producers against the foreign competition. Anyway, the freedom of action in this field is quite limited. Any raise of the tariffs could lead to contra measures from the affected countries (Winters). In the recent decades, the process of international trade liberalization stimulated the general reduction of the tariffs. Trade blocs appeared that include countries agreeing to minimize or to eliminate the tariffs against trade with each other. Some countries are grouped in Customs Unions which have common external tariffs. Depending on the old tariffs levels and on the new common external tariff, a Custom Union could bring major changes on the foreign trade of the member states (Tavares).

The European Union is not only a Custom Union but also a common market and an Economic Union. Inside it was established a common VAT system that is compulsory for the member states. This system includes general settlements regarding the intra – Community acquisitions taxation (Keen, Lockwood).

2. Changes brought by the adhesion in the indirect taxes from Romania

Besides adopting the common external tariff, a new member state of the EU has the obligation to also harmonize the indirect taxes with the ones from the other member states (Diaconescu). For Romania, the adhesion to the EU brought changes for the tariffs, excises and for the VAT.

Beginning with 1st January 2007 in Romania there were eliminated the tariffs for the acquisitions inside de Community and it was adopted the Common external tariff. Before the adhesion Romania had concluded an Agreement of free trade with the EU, according to which the European merchandise benefited of a Preferential Customs Regime. From the tariffs point of view, this situation made that adhesion not bringing considerable changes for the imports of Romania from the other EU member states. On the other side, the imports from the outside EU countries were significantly affected by the Common External Tariff introduction.

The obligation of harmonization of the excises with the ones applied in the rest of the EU will have significant implications on the way of establishing the tax base. However, Romania received a quite long period of time in order to make its excises compatible to the ones from EU.

Until the adhesion VAT for the imported goods, no matter their origin, became, in general, payable at the date the customs duty appeared. In the situation the imported goods were not sold the VAT paid at Customs could represent a claim to the public budget, whose redeeming could last quite long time. By the adhesion Romania became part of a Common VAT system. For the intra – Community acquisitions VAT becomes payable only in the moment the merchandise was sold in Romania.

3. Case study: the effects of VAT change on an intra – Community import

In order to analyze the effects the VAT regime change we present the case of an intra – Community acquisitions, comparing it with the situation before adhesion. We take into consideration an import of merchandise from Italy, with a price Ex Works of 120 000 EUR, realized at 30 October 2007. The total of the auxiliary expenses (transport, insurance, handling a.s.o.) was of 2 000 EUR and the exchange rate at the date of the external invoice issuance represents 3.30 RON / EUR. There are not Customs formalities and it is not due VAT at Customs because the merchandise has an EU origin.

The taxable value for VAT corresponding to the acquisitions is given by the equivalent in RON of the sum between the Italian supplier price and the auxiliary expenses, meaning 402 600 RON. The importer will register in accounting both input VAT and as output VAT a sum calculated by applying the quota of 19 percent on the taxable value, meaning 76 494 RON (see table 1). Registering simultaneously as input VAT and as output VAT will make the importer not have any debts at the public budget until the moment of selling the merchandise.

Table 1 – Calculus of the VAT registered for an intra – Community acquisition

Element of calculus	Value
Ex – Works price	120 000 EUR
Auxiliary expenses	2 000 EUR
Exchange rate	3.30 RON / EUR

Element of calculus	Value
Taxable value for the registered VAT	402 600 RON
Registered VAT	76 494 RON

We suppose that at 24 December 2007 the importer succeeded in selling the whole stock of merchandise to Romanian clients with a price of 150 000 EUR (this price does not include the output VAT).

The taxable value for the output VAT, given by the price multiplied by the exchange rate from the invoice issuance date, will represent 498 000 RON. Applying the quota of 19 percent it results the importer will have after the sale as debt to the public budget the sum of 94 620 RON (see table 2).

Table 2 – The due VAT calculus of the importer for the merchandise sale

Element of calculus	Value
Price of merchandise sale	150 000 EUR
Exchange rate	3.30 RON / EUR
Taxable base for the output VAT	498 000 RON
Output VAT	94 620 RON

In order to compare with the situation before the adhesion we will take into consideration an import with the same price and at the same exchange rate, but realized at 30 October 2006. Being an import from EU a tariff is not paid. The registered VAT will have the same value of 76 494 RON but it will have to be paid at Customs (see table 3).

Table 3 – Calculus of VAT paid at Customs for an imported before the adhesion merchandise

Element of calculus	Value
Ex – Works price	120 000 EUR
Auxiliary expenses	2 000 EUR
Exchange rate	3.30 RON / EUR
Taxable value for the payable at Customs VAT	402 600 RON
Payable at Customs VAT	76 494 RON

We follow our study with supposing that at 24 December 2006 the importer sold the whole quantity of merchandise with the same price of 150 000 EUR. The output VAT will represent 94 620 RON. Deducting from this sum the paid at Customs VAT we obtain the debt of the importer to the budget, meaning 18 126 RON (see table 4).

It resulted in both situations the importer pays the same VAT. The difference is given by the moments of payment. At the import after the adhesion the VAT will be paid only after the merchandise sale. Before the adhesion the importer should have paid at Customs the VAT corresponding to the acquisition expenses while the rest of VAT would have been paid after the merchandise sale. Moreover, if the importer would not have succeeded to sell

the merchandise the VAT redeeming the VAT paid at Customs (by demand of reimbursement or by compensation with output VAT from other operations) could have taken quite a long time. For the importers the fact they do not have to pay VAT at Customs before selling the merchandise could represent a considerable advantage.

Table 4 – Calculus of VAT due by an importer for the merchandise sale before the adhesion

Element of calculus	Value
Merchandise price of sale	150 000 EUR
Exchange rate	3.30 RON / EUR
Taxable value for output VAT	498 000 RON
Output VAT	94 620 RON
Input VAT	76 494 RON
Payable VAT	18 126 RON

Conclusions

In this paper we approached the changes the EU adhesion brought for the indirect taxes applied to the intra – Community imports of Romania. Although our country became member of a Custom Union, the tariffs for the intra – Community imports did not suffer significant changes. The main reason is that Romania had already concluded a Free Trade Agreement with EU giving to the European imports a Preferential Customs Regime. Nor for the excises significant changes did not intervene for now because Romania has a long period of time for introducing the European practices in this field. The most important effect of the adhesion on the intra – Community imports taxation concerns the VAT. The importers have no more the obligation of payment before selling the merchandise, this representing a considerable advantage.

It is very difficult to appreciate the impact of the new settlements of the VAT on the intra – Community imports. Beginning with 1st January 2007 they increased, but for this evolution other factors may be taken into consideration: the transport costs reduction, the Customs formalities simplification a.s.o. Taking all these into account, the impact new settlements of VAT on the intra – Community acquisitions can not be neglected.

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HAW SHOULD THEY AFFECT PRICING DECISIONS? DIFFICULT COMPARISON EFFECT

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Abstract

In most companies, there is ongoing conflict between managers in charge of covering costs (finance and accounting) and managers in charge of satisfying customers (marketing and sales). Accounting journals warn against prices that fail to cover full costs, while marketing journals argue that customer willingness-to-pay must be the sole driver of prices. The conflict between these views wastes company resources and leads to pricing decisions that are imperfect compromises. Profitable pricing involves an integration of costs and customer value. To achieve that integration, however, both need to let go of misleading ideas and form a common vision of what drives profitability.

Key words: *decision, pricing, cost*

The concept of economic value assumes not only that customers are aware of alternatives but that they can cheaply and accurately evaluate what the alternative suppliers have to offer. In fact, it is often quite difficult to determine the true attributes of a product or service prior to purchase. For example, consumers suffering from a headache may be aware of many alternative pain relievers that are cheaper than their usual brand and that claim to be equally effective, but if they are unsure that a cheaper brand is as effective or as free of unwanted side effects as the one they usually buy, they will consider it an inferior substitute even though it could be chemically identical. Most customers will continue paying a higher price for the assurance that their regular brand offers what the substitutes do not: the confidence accumulated from past experience that their brand can do what the others only promise to do.

Even price itself can be difficult to compare across brands, thus reducing price sensitivity. Catalog and Internet retailers often divide their prices into two parts: one part for the items plus a fixed or variable charge for "shipping and handling." Research shows a wide variance among customers in their ability to make accurate comparisons with the single prices offered by traditional stores. Similarly, branded grocery products are often packaged in odd shapes and sizes, making price comparisons with cheaper brands difficult. When, however, stores offer unit pricing (showing the price of all products by the ounce or gallon), grocery shoppers can readily identify the cheaper brands. In one study of unit pricing, the market shares of cheaper brands increased substantially after stores ranked brands by their unit prices.

Companies with new products for which they are trying to build cash flow often make the mistake of building the start-up cost of acquiring and servicing a new customer into a large, up-front fee. Because high uncertainty undermines perceived value, such companies lose potential sales and win sales only at lower prices than they otherwise could. By absorbing the up-front cost in higher monthly fees, the seller communicates confidence

that customers will be satisfied and enables customers to pay as they enjoy a known value from product usage. Consequently, the seller should close more sales and, assuming that the product or service delivers the promised value so that the customer continues to buy it, the seller can ultimately expect a greater cash flow and a higher net present value (NPV) per customer acquired.

Switching Cost Effect

The greater the added cost (both monetary and nonmonetary) of switching suppliers, the less sensitive buyers are to the price of a product. The reason for this effect is that many products require that the buyer make product-specific investments to use them. If those investments do not need to be repeated when buying from the current supplier, but do when buying from a new supplier, that difference is a switching cost that limits interbrand price sensitivity.

This is the *switching cost effect*: The greater the product-specific investment that a buyer must make to switch suppliers, the less price sensitive that buyer is when choosing between alternatives. Since this effect is often attributed simply to consumer "inertia", it is easy to underestimate its predictability and manageability.

Aspiring suppliers often absorb part of the switching cost in order to eliminate this effect. They should not do this simply by offering a lower price, however, since then they must give the discount even to previous customers who are not incurring a switching cost. The key is to target the discount selectively to new customers without lowering the price expectation. New suppliers do this by providing free training, by giving generous "trade-in allowances" to customers who replace competitive equipment, or by giving a discount on the first order placed under a long-term contract.

Price-Quality Effect

Generally, price represents nothing more than the money a buyer must give to a seller as part of a purchase agreement. For a few products, however, price means much more. Such products fall into three categories: image products, exclusive products, and products without any other cues to their relative quality. In these cases, price is more than just a burden; it is also a signal of the value a buyer can expect to receive. In such cases, price sensitivity is influenced by the *price-quality effect*, which states that buyers are less sensitive to a product's price to the extent that a higher price signals better quality.

Often, the perception of higher quality at higher prices reduces price sensitivity *even when* consumers seek *neither* prestige nor exclusivity. This *occurs* when potential buyers cannot ascertain the objective quality of a product before purchase *and* lack other cues, such as a known brand name, a country of origin, or a trusted endorsement to guide their decision for example, the name of a restaurant in a strange location, a folk artist at a fair, or a totally new brand with which the buyer has no prior experience. In such cases, consumers will rely somewhat on relative price as a cue to a product's relative quality, apparently assuming that the higher price is probably justified by corresponding higher value.

As an illustration of how strong this effect can be, researchers have reported cases where a new synthetic car wax faced strong consumer resistance until its price was raised. Similarly, sales of new creamy-style cheesecake were poor until the company raised the price to equal that of its heavy (and more costly to produce) regular-style cheesecake. Buyers could not judge the quality of either product before purchase. Consequently,

buyers played it safe by avoiding cheap products that they believed were more likely to be inferior.

Extreme cases such as these, where sales respond positively to a higher price, are admittedly rare. They lead one to expect, however, that in other cases sales simply respond less negatively to a higher price than they would if buyers did not associate a higher price with higher expected quality. Numerous studies have shown that, even when the objective quality of a brand is unaffected by its price, consumers use price as a quality cue to the degree that:

1. they believe qualities differ among brands within the product class.
2. they perceive that low quality imposes the risk of a large loss.
3. they lack other information (such as a known brand name) enabling them to evaluate quality before purchase.

The more consumers must rely on price to judge quality, the less price sensitive they will be. For most purchase decisions, consumers can either examine a product before purchase or infer its quality from past experience with the brand (the difficult comparison effect). Studies indicate that under these conditions, price is not used as a quality cue. Nevertheless, the conditions for using price as a quality cue occur in one very important case: when new products are first offered to a market.

Expenditure Effect

A buyer's willingness to evaluate alternatives depends also on how large the expenditure is relative to the effort necessary to reduce it. For businesses, this effect is determined by the absolute size of the expenditure; for households, it is determined by the size of the expenditure relative to the available income. The *expenditure effect* states that buyers are more price sensitive when the expenditure is larger, either in dollar terms or as a percentage of household income. The more a buyer spends, the greater the gain from carefully evaluating the expenditure and attempting to find a better deal. This explains why the same person will sometimes shop at an expensive convenience store (for a small purchase) but be very sensitive to price when deciding where to go for the weekly shopping excursion. This partially explains why heating insulation costs much more when sold to maintenance men in lots of twenty-five feet than when sold to building contractors by truckloads of tens of thousands of feet. At the other extreme, small "impulse purchases" are simply not worth any effort to ensure that the price is a good deal. Consequently, percentage price differences across suppliers are often very large.

The effect of the expenditure size on price sensitivity is confounded in consumer markets by the effect of income. A family with five children may spend substantially more on food than a smaller family, yet still be less price sensitive if the cost of food accounts for a smaller portion of the large family's higher income. This relationship between a buyer's price sensitivity and the percentage of income devoted to the product results from the trade-off buyers must make between conserving their limited income and conserving the limited time they have to shop. Higher-income buyers can afford a wider variety of goods but cannot always afford more time to shop for them. Consequently, they cannot afford to shop as carefully as lower-income buyers, and so they accept higher prices as a substitute for time spent shopping.

The expenditure size relative to income is also a constraint on both a business's and a household's primary demand for a product. A young man may long for a sports car,

believing that a Porsche clearly has differentiating attributes that justify its premium price relative to similar cars. An economic value estimationTM of sports cars would reveal his decided preference and belief that the Porsche offers a "good value" relative to other sports cars. At his low income, however, he is not making purchase decisions among competing sports cars. Expenditures in other purchase categories (housing, food, and education) are of higher importance than a sports car, and those categories currently consume his income. Until his income rises, or the price of sports cars becomes much less, his brand preference within the category is not relevant.

End-Benefit Effect

An individual purchase is often one of many that a buyer makes to achieve a single benefit. Cream cheese is one of several products that a cook must buy to make a cheesecake. Software is just one component of a computer system, the cost of which may be minor compared to the cost of processor, modem, data storage, etc. The relationship of a purchase to a larger benefit is the basis of the *end benefit effect*, which can be divided into two parts: the derived demand and the price proportion. *Derived demand* is the relationship between a desired end benefit and the buyer's price sensitivity for one of the products that contributes toward achieving that end benefit. The more sensitive buyers are to the cost of the end benefit, the more sensitive they will be to the price of products that contribute to that end benefit. In the examples above, the more price sensitive the buyer is about the decision to make a cheesecake or build a computer system, the more price sensitive she will be to the cost of cream cheese or disk storage devices. *Price proportion cost* refers to the percent of the total cost of the end benefit accounted for by the product's price. The smaller the proportionate share accounted for, the less sensitive the customer will be to price differences.

Derived demand is most obvious in business markets. The more (less) price sensitive the demand for a company's own product, the more (less) price sensitive that company will be when purchasing supplies. A manufacturer of office furniture purchases sheet steel from which it makes desks. The more desks it can sell, the more steel it will buy. If desk buyers were highly price sensitive, any attempt to pass on steel price increases to the price of desks would cause a large reduction in sales. Consequently, the high price sensitivity of desk buyers would force the desk manufacturer to be highly sensitive to the cost of its desks and, therefore, to the price of steel.

Imagine how the manufacturer's purchase behavior would change, however, if booming demand were to cause an order backlog to lengthen and customers to lose leverage in negotiating desk prices. Since the manufacturer could now more easily pass on added costs to the customer, its goal in purchasing would become less to save money on supplies and more to ensure on-time and defect-free deliveries to keep the manufacturing process running smoothly. It is essential for salespeople in business markets to understand the end benefit that drives a customer's purchase decision (is it cost minimization, maximum output, quality improvement, civic mindedness, or what?) in order to infer the importance of price in the purchase decision.

The relationship between price sensitivity for a product and for the end benefit to which it contributes is not simply an economic phenomenon. There is a strong psychological component that depends on how a buyer perceives the absolute price, or price difference, in proportion to the total cost of the end benefit.

To fully appreciate the marketing implications of the end-benefit effect, managers need to recognize that it is both an economic and a psychological phenomenon. Consider how you would react if, after celebrating a very special occasion at a nice restaurant, your beloved paid for it with a two-for-one discount coupon. Unless you are an economist, this action would probably be seen as rather unromantic. Most people think it tacky to make choices based on price when an end benefit is emotionally important to them. Moreover, one must also recognize that the "total cost" of the end benefit need not be only monetary. Dieters are less sensitive to price than nondieters when treating themselves to chocolates or ice cream because the dollar expenditure is only a small part of the total cost (both monetary and nonmonetary) that they pay for this treat. The psychological aspects of this effect make it an excellent target for promotional activity. Once a brand is established in customers' minds as somehow "better," advertisers can increase the value of that perceived difference by relating it to end benefits to which the customer already attaches a high value.

Shared-cost Effect

Although the portion of the benefit accounted for by the product's price is an important determinant of price sensitivity, so also is the portion of that price actually paid by the buyer. People purchase many products that are actually paid for in whole or in part by someone else. Insurance covers a share of the buyer's cost of a doctor's visit or a prescription drug. Tax deductions cover a share of the cost of publications, educational seminars, and travel related to one's profession. Businesses usually compensate employee travelers for all or part of their travel and entertainment expenses.

Fairness Effect The concept of a "fair price" has bedeviled marketers for centuries. In the Dark Ages, merchants were put to death for exceeding public norms regarding the "just price." In the more recent dark history of Communism, those who "profiteered" by charging more than the official prices—those very prices at which the state was unable to meet demand—were regarded as criminals. Even in modern market economies, "price gougers" are often criticized in the press, hassled by regulators, and boycotted by the public. Consequently, it is well worth a marketer's time to understand and attempt to manage this phenomenon.

Buyers are more sensitive to a product's price when it is outside the range that they perceive as "fair" or "reasonable" given the purchase context. But what is fair? Managers should note that the concept of fairness appears to be totally unrelated to issues of supply and demand. It is related to perceptions of the seller's profit, but not entirely. Oil companies have often been accused of gouging, even when their profits are below average. In contrast, popular forms of entertainment (for example, Disney World, state lotteries) are very profitable and expensive, yet their pricing escapes widespread criticism. Recent research seems to indicate that perceptions of fairness are more subjective, and therefore more manageable, than one might otherwise have thought. Buyers apparently begin by making an inference about the seller's likely margin relative to what they expect the seller earned in the past, or relative to what others earn in similar purchase contexts. The effect of margin on fairness is strongly mitigated, however, by another factor: the inferred motive of the seller. Explaining the action with a "good" motive makes the price more acceptable than a "bad" motive. Finally, the research indicates that companies with good reputations are much more likely to be given the benefit of the doubt that their pricing decisions have good underlying motives, while those with unpopular reputations are likely to find their motives suspect.

The Framing Effect

The preceding discussion about prices and price increases being more objectionable for "necessities" follows from a stream of research called *prospect theory*, which has many important implications for managing price sensitivity. The essential idea of prospect theory is that people "frame" purchase decisions in their minds as a bundle of gains and losses. Moreover, how they frame those decisions affects how attractive they perceive a choice to be. The *framing effect* states that buyers are more price sensitive when they perceive the price as a "loss" rather than as a forgone "gain," and that they are more price sensitive when the price is paid separately rather than as part of a bundle.

Many marketing implications of prospect theory have been suggested that seem consistent with both common observation and controlled research:

- To make prices less objectionable, make them opportunity costs (gains forgone) rather than out-of-pocket costs. Banks often waive fees for checking accounts in return for maintaining a minimum balance. Even when the interest forgone on the funds in the account exceeds the charge for checking, most people choose the minimum balance option.
- When your product is priced differently to different customers and at different times, set the list price at the highest level and give most people discounts. This type of pricing is so common that we take it for granted. Colleges, for example, charge only a small portion of customers the list price and give everyone else discounts (a.k.a. scholarships). To those who pay at or near the full price, the failure to receive more of a discount (a gain forgone) is much less objectionable than if they were asked to pay a premium because they are not star students, athletes, or good negotiators.
- Unbundle gains, bundle losses. Many companies sell offerings that consist of many individual products and services. For example, a printing company not only prints brochures but helps design the job, matches colors, schedules the job to meet the buyer's time requirements, etc. To maximize the perceived value, the seller should identify each of these as a separate product and identify the value of each one separately (unbundle the gains). However, rather than asking the buyer to make individual expenditure decisions, the seller should identify the customer's needs and offer a package price to meet them (bundle the loss). If the buyer objects to the price, the seller can take away a service, which will then make the service feel like a stand-alone "loss" that will be hard to give up.

Anyone who thinks only in terms of objective economic values will consider these principles far-fetched. One might argue that buyers in these cases could easily think of the same choices as entirely different combinations of "gains" and "losses." That is precisely the point that prospect theorists make. There are many different ways to frame the same transactions, and each way implies somewhat different behavior. Researchers have presented research subjects with many objectively identical choices, changing only the framing of the presentation. They have found that changing how people think about the choice in terms of "gains" and "losses" consistently and predictably changes the choices they make.

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THE QUESTION REGARDING THE EVALUATION OF THE ELEMENTS WHICH MAKE UP THE FINANCIAL REPORTS

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Abstract

In a changing economical environment, complex, insecure and risky, the exclusive use of the historical costs for the purpose of assessment of the patrimonial elements, which build up the financial reports, it is not enough to picture a realistic image about the enterprise.

*In this context, by harmonization of the Romanian accounting regulations with **The European Accounting Directions**, Romanian enterprises will have the opportunity to use both a main treatment and an alternative one in the evaluation of the patrimonial elements.*

In a developing economical environment **The Annual Accounting Reports** must include information whose estimation must take into account both past and present time. Therefore, the previous costs which are the basis for the recognizing the actives and the passives, costs and incomes, can't be analyzed only in the light of patrimony but they also must be adjusted taking into account **The Conceptual Accountant Basis of IASB**. It must be taken into account the two known criteria:

- Probability of realizing of future economical benefits
- Credibility of evaluation

1st criterion deals with the complex reality, dynamic, insecure and hazardous where the enterprise works. It refers to the degree of insecurity regarding the realization of future economical benefits. In this context, the Accountant Situations become useful only if it help the beneficiary to have a realistic evaluation of the capacity of enterprise to generate sure treasure flows.

2nd criterion obliges that the recognized element must have a cost or a value which can be assessed in a credible way. About this aspect, **The Conceptual Accountant Basis of IASB** insists that in certain situations, the accounting treatment made at present must have as basis estimation about the evolutions of future situations.

E.g.: we will take into account the expenses for amortization which are recognized in the account of profits or lose, taking into account a rational or systematical allocation of the depreciable value of the active on its useful lifetime.

For this aspect **IAS 16** mentions that the useful lifetime chosen must be systematic and, thus, reflect the way in which the general economic benefits of using the actives are consumed or quitted, showing that the useful lifetime of an active is defined on the basis of usefulness in which the enterprise estimated for those assets.

In the case in which new information referring to the used assets come up, different information than those already present, then it is necessary a revising of the present estimations, accordingly with the real situation.

In the situation when the amortization method must be used for the real situation, the enterprise is, so that the future economical benefits will be realized in different way than they were thought, then it's change is necessary. In this situation we'll have to respect the **IAS 8** regulations: "gross benefit or gross loss of a period, fundamental errors and changes of the accounting policies.", which mentions that the revisions have not an retroactive character.

The recognizing of the elements mentioned in paper **The Conceptual Accountant Basis of IASB** in which are mentioned the following ideas:

Assets represent existing resources at present, which came up due to past events and which will generate future benefits, which will be transformed into flows to the enterprise. Therefore an asset will be recognized in the balance sheet when:

- There is a possibility for a future economical benefit to enter the enterprise too
- The active has a value or a cost which can be realistic evaluated

The debts represent existing obligations at present, resulted due to past events and which will generate flows of benefits from the enterprise. As a result, a debt will be recognized in the balance sheet when:

- There is a probability of a going of the generating resources of economical benefits
- Evaluating can be fulfilled in a realistic way.

Own capitals, named funds of the stockholder, represent "residual interest in the assets of a commercial society after the debts were deduced."²⁸

The own capitals help us to find out the financial position of the enterprise on the following correlation:

Assets-debts-own capitals

Judging carefully these patrimonial structures, we realize that the size of own capitals are strictly connected to the size of the assets and debts admitted, taking into account the criteria previously mentioned and the assessor's good will.

Looking parallel the assets and debts, we can see a parallelism between the "future economical coming benefits", generated by the assets and "future leaving benefits", generated by expenses, each of these having a cost, respectively a value realistic calculated.

We think that this information are essential in the activity of an enterprise, being useful mainly for the enterprise's management which can improve the level of the debts only if there are future economical benefits which will be able to support. Contrarily it is necessary the reduce of the debts as a factor of assurance of the financial balance.

Example: which will be given forward is to underline the correlation between the benefits which enter leave from the enterprise in order to assure a financial balance, taking into account the precarious and complex reality in which the enterprise works.

²⁸ Porter G. , Financial Accounting. The Impact en decision, Second Edition, The Dryden PRESS, 1998, pag.47

Example:

A farming exploitation specialized in getting vegetables study the possibility that in the future it can extend the lands cultivated with ecological vegetables, without preservatives or other chemical substances. In this respect it will be taking into account the setting of some fields for the next ecological crop which, although quantitatively less than the previous one may generate much benefit, as these products may be sold with higher prices.

In this combination, we must also take into account the risk which such products can generate. Nevertheless these products has superior quality, they could generate problems in selling them because of an inefficient promoting, because of the low financial possibilities of the customers or because of the already existing similar and cheaper products in the market.

That's why we consider that such activity, due to the risks, can work with small steps and only when serious and realist marketing was done in order to certify the degree in which the market accepts and recognize these products, making possible for the enterprise to get "economical future benefits" providing that the minimizing of risks.

The realistic situation in which our country found itself after 1989 proved us that excessive using of the historical costs in assessment of the patrimonial elements which make the financial reports, is no longer enough to get an exact image towards the patrimony of the enterprise and of the financial taking results.

To liquidate all these disadvantages, the accounting assessment policies must appeal for one or more measurement basis. Some specialists in the field thought: "the bases of measurement are monetary attributes of the elements which compound the financial reports; assets, liabilities, debts, lose winnings and evolutions of the capitals funds".²⁹

In the context of a dynamic economical environment, complex, risky, unsecure, the model of the historical costs, used immediately after 1989, became outdated again and due to the lack of an inflation accounting was necessary to periodically proceed at reevaluations so as the accounting reports may reflect as well as possible the reality.

By harmonization of the **Romanian Accounting Regulations** with the **European Accounting Regulations** and **The International Accounting Standards**, accordingly with **OMFP nr. 1752/2005**, the Romanian enterprises will have the opportunity to choose for:

- a. fundamental accounting treatment which stipulates that, after recognizing the initials as assets, an immobilization must be registered at cost, less than any cumulated amortization and that any loss by depreciation, cumulated;
- b. the alternative permitted accounting treatment, which proves that, subsequent to the initial recognition as assets, a corporal immobilization, respectively unincorporated assets, must be registered at the residual value, which represents the right value in the moment of re-evaluation, except of any cumulated anterior evaluation, and ulterior loses cumulated from depreciations.

²⁹ Feleagă N., Malciu L., "Politici și opțiuni contabile" (Fair accounting versus bad accounting), Editura Economică, Bucuresti, 2002, pag.15

Re-evaluations must be realized with enough regularity, so that the accounting value will not be in a significant grade from the value which can be deduced on the basis of the right value at the date of writing the balance sheet. In the same respect, **OMFP nr.1752/2005** shows us that “entities can proceed at the re-evaluation of the corporal immobilizations existing at the end of the financial procedure”, and “this thing must be presented in the explicate notices together with the elements for re-evaluation, as well as the method by which were calculated the values as well as the element affected from the profit or loss account.”

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THE MANAGEMENT AND THE AUDIT OF THE NON-REIMBURSABLE FUNDS

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Abstract

Having in mind the structural and cohesion funds granted to our country, it is necessary to have a global and unitary vision over the whole Picture of the social and economical development of the country and, at the same time, an improvement of the management of these funds by the potential structural adjustment or by a re-establishment of the priorities for their allocation, whenever necessary.

Keywords: *audit, control system, non-reimbursable funds*

The general purpose of conceding grants is the economic and social development through the rehabilitation / development of the infrastructure, the creation of new work places, the raise of competitiveness of products and services, the improvement of the living, the support of the groups in difficulty, etc. Most of the funds are directed to the local public institutions and to the non government organizations with the aim to do certain activities for the support of the community: children protection, of the disabled persons, the assurance of the right to education, the fight against discrimination and exclusion, infrastructure, environment protection, etc. We should not neglect the funds destined to the commercial companies for a great variety of activities and investment: production spaces,

equipments, outfits, installations, innovative technology, participation at fairs and expositions, implementation and certification of quality systems, promotion through internet sites, catalogues, brochures, qualification / specialization courses of human resources. It must be stated that there are sporadic chances to receive a grant for the authorized physical persons (one of the explications is the fact that they cannot create new work places, one of the implicit, but essential purposes of the grant programs) or the newly founded enterprises, with no experience in managing such type of projects.

We consider that, both the superior management and especially the medium level management, which is directly involved in the administration of these funds, will have to develop control systems that offer good management security. The control system must be performing enough to assure the personnel from the ministry levels that any expense, regardless of their placement in the country, was made according to the foreseen destination and the work/service was performed according to the technical specification. The personnel from the ministry level must be aware of his responsibility for the funds received – in the sense that he has the obligation to account before an authority (e.g. The minister has to report to the government) – that is why he must develop his control system and the personnel from the implementation structures is responsible for the enforcement of the respective control system.

Nowadays, the present control system does not assume the liability at the level of the credit issuer. This liability is transferred at the level of the secondary or third party issuers, being wrongly considered that it is their responsibility to decide the corresponding control system.

Usually, these funds present a high risk from two points of view:

- on the one hand, there is the risk of the non-utilization of the external credits;
- on the other hand, there is the risk of their inappropriate use.

The risk of the non-utilization of the credits is small, due to the fact that the use index was appropriate, but there is still a potentially high risk concerning their use. This is due to the variety of the works these funds are destined for and to the fact that the implementation of the projects is performed by structures outside the ministry and the ministry has not demanded yet to these structures to present a control system for the administration of the received funds.

The non-reimbursable funds, most of them proceeding from the European Union by means of the programs PHARE and ISPA, were destined to the ministry for the development of projects mainly concerning the training of specialists as well as the acquisition of equipments and services.

The extent of the potential risk of the incongruous use of these funds is low taking into account their destination and the fact that there are strict proceedings for the development of these programs. We still believe that it is the responsibility of the accounting factors from the ministry to assure the mechanisms of the non-reimbursable absorption as a performance indicator of the former as a whole or of the unrolling of the projects financed by the European funds.

The main ways to defraud the European funds which were uncovered in 2006 are: the use of false justifying documentation (54%), the change of the fund's destination (24%) and

the non-observance of the norms for public acquisitions, including the interest conflict (28%). If in the case of PHARE program the frauds appear at the level of the consultancy – the beneficiaries have good skills of paper work, in ISPA the causes are mainly technical and in the situation of the SAPARD the fault may be caused by the reduced understanding of the regulations from the part of the beneficiaries.

For the financed projects, the audit is based on a complete study and the understanding of the causes established in the Agreement for the non-Reimbursable Financing; special attention is given to the qualitative aspects of the project, to the testing of the conformity with the procedures and to the demands established by the contractual financing clauses or in any other document, approved by the financier.

This way, it is accomplished:

- the analysis and the verification of the nature, legality and accuracy of the expenses;
- the checking of the use of the amounts received as an advance;
- the audit of the third parties' accounts;
- the comparison of the expenses with the special designated account and with the project budget;
- the checking of the project incomes (including the advances received from the financier, interests to the advances, co-financing and other incomes generated by the project);
- the precise localization of the head office where the original justifying documents are, in the event of their verification by the European Commission or by the Account Court.

The main objective of the support offered by the European Union is the development and modernization of the country, for the purpose of bringing Romania to the standards of the other member states. We believe that the experience offered in the administration of the funds is useful for all the institutions involved, regardless of the fact that this process has not had only positive aspects, but it also had to face a large number of inherent difficulties, specific to a transition period.

1. Audit procedures

The implementation of the audit in Romania was and is still an important accomplishment which perfects the Romanian economical integration as part of the European Ones.

The existence of the audit leads to the obvious improvement of the patrimonial entities' performances, the effectiveness of the activities, the reduction of the costs and the avoidance of the losses generated by the frauds or by the insufficient verification of the company's resources.

The audit procedures are as follows:

- preliminary discussions with the representatives of the units for the management of the projects referring to the understanding of the internal control procedures, of the bookkeeping procedures and of those used by the beneficiary;
- the testing of the concordance with the financier's procedures and demands;
- the detailed testing of the amounts from the financial situations of the project, the expenses centralizer table and the special account, with the purpose to gather sufficient and proper audit evidences in order to allow the issuing of the audit opinion concerning the financial situation with special destination, elaborated in accordance with the accounting principles and with the financier's demands.

The possible defalcations identified are to be informed in a letter addressed to the director board which must contain: the weak points of the internal control system; the inappropriate bookkeeping politics and practices; the aspects related to the discordance with the general clauses, such as the project implementation under conditions of economy and efficiency; any other aspects that the audit consider to be relevant to be brought before the consortium.

The Audit Authority is an entity distinct and independent from the other authorities implicated in the management of the structural and cohesion funds. In our country it was considered that the best place is as party of the Account Court. The Attributions of the Audit Authorities mainly assume the performance of the following activities:

- the audit of the system consists in auditing the bodies involved in the management of the structural and cohesion funds (that is management authorities, intermediary bodies and the authority for certification and payments), from the point of view of the way these activities are organized in order to assure the fact that the administrated funds are spent properly, in accordance with the notified demands.

- the audit of the operations, which assumes the effective verification of the expenses operated as part of the projects, by the investigation of the correctness and veracity of the payment appliances as well as of the other justifying documentation afferent to the implementation of the projects. The activity of the Audit Authority implies the elaboration and issuing of the annual audit reports concerning the way the communitarian funds afferent to each project have been spent and their delivery to the European Commission.

2. Audit objectives

In the course of the time, the audit activity saw a permanent evolution both under the aspect of the foreseen objectives and of the positive aspects as part of the organizations.

The specific objectives of the audit activities are: the correct and efficient use of the public funds; the development of a solid financial management; the correct accomplishment of the administrative activities and the communication of the information to the public authorities and to the population by means of the publication of objective reports.

The above mentioned definition includes the audit functions, respective the examination of the activities of those charged with leading activities, with the double purpose to improve the results of the respective activities and to inform the tax-payer concerning the use of the public funds by the authorities.

In the context of the separation of the powers that usually characterizes the implementation of the national budgets (the funds management is apart from the monitoring of their use), the intern control is performed independently, ex ante and ex post, as part of the institution responsible with the administration of the funds. When there is performed an ex ante, as it is normally the case of the communitarian system, its role is to check in advance the legality of each income and expense source and to assure the responsible authority that the goods are administrated properly and that the evidence lead is correct.

The external audit, on the other hand, implies the existence of an institution that is entirely separated and independent from the authority responsible with the management of the funds. The respective institution usually covers the entire public sector and its activities include complex audits which combines the control of the accounts and the examination of the legality of the incomes and expenses, closely bound to the solidity of the management.

This type of audit may be global, as its final purpose is, first of all, to offer the assurance of the transparency, safety and legality of the operations resulted and, secondly, to evaluate the results obtained in relation to the established objectives and the engaged resources.

These two types of control are mainly complementary: the external audit observes the results of the internal control and performed a proper evaluation, using it a starting point for more crossed controls avoiding thus the unnecessary duplications, under the circumstances of a satisfactory internal control.

This type of analysis offers the auditors an overview of the situation, making it possible for them to place the various shortcomings and detected errors into a global context as well as to identify the basic weaknesses of the management system that generated these shortcomings.

It is not the obligation of an external audit to launch judgments over the policies that the responsible authorities are going to follow. Its duty is to debate the implementation method and the real results of these policies, as well as to request the necessary changes by means of indicating the place and the moment they have to be operated. In accordance with the principle of the separation of the powers, the external audit will leave at the disposal of the authorities responsible with the management of the public funds the method they perform the respective changes.

In conclusion, the audit, in its largest sense, does not imply only the detection of the mistakes or the grant of sanctions: it is, first of all, an efficient means of improving the management and the results this management intends to attain.

The existence of an Autonomous Budget of the European Union, apart from the one of the member states and the fact that this budget is administrated independently by the communitarian institutions, are two arguments in favor of the foundation of a distinct institution that should have as its specificity the responsibility for the control of the communitarian incomes and expenses.

The external audit represents an optimum instrument for the identification in time of the possibilities of the problems related to the communitarian funds administration; this activity may lead to the ascertaining and recovery in time of the possible damages, so that the financial interest and the budget of the European Union were not jeopardized.

Conclusions

Nowadays, our country is subjected to a period of profound social and economical transformations. The objective followed is the accomplishment of a modern economy with multiple performances.

In order to attain this objective it is necessary to modernize all the economical structures, according to the European and international exigencies.

It is compulsory the existence of a legislative frame that would assure the investors of the fact that they may have complete trust in the accuracy of the audited financial results, with the purpose to prevent the appearance of interest conflict and of the fraud phenomena.

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TAX HAVEN UTILIZATION BETWEEN FISCAL EVASION AND FISCAL FRAUD

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Abstract:

States considered to be tax havens represent a shelter for all types of societies having the purpose to permit their beneficiaries to reduce even to cut out totally taxes at which are subdued, within a complete legality and of a manner practically impossible to be controlled by the fiscal services in the original country. A very well known form to use these fiscal facilities is “ offshore” investment.

Off-shore entities created have only one purpose which constitutes the main objective for the management of any commercial society: maximization of the profit through any legal means. Off-shore practices are numbered among techniques of fiscal avoidance named “ legal fiscal evasion”.

Off-shore companies are subdued to regulations in original jurisdiction. Choosing of the most suitable jurisdiction, either referring to commerce or international investments, may often be difficult and necessitates a very attentive analysis.

In order to choose a tax haven it should be taken into consideration some general criteria, like: pseudo tax havens; types of business which are going to be developed through off-shore company; political and economical stability of the country; definition of the notion for domicile and residence; Fiscal regime continuity at the residence and domicile changing; patrimony authorization for capital transfers; tax havens reputation; geographical area and the study of infra-structure development, especially communications and telecommunications; the way in which it is assured the secret of attracted investors.

To invest in off-shore appears as a last chance for those who try to preserve their patrimony. We can say that these tax havens represent real “launches” for prosperous business and getting fortune.

Keywords: *tax haven, jurisdiction, off-shore, taxes*

Tax havens are countries or territories within which physical or juridical persons established here are under a privileged regime, either the incomes are not subdued to taxes, or they pay taxes on income or benefits much smaller than that normally paid in the

country they are coming from. They represent social, economical and political entities created to attract investments.

Coming into being of the tax havens have been determined by the lack of internal resources, compensated by authorities through assuring fiscal facilities to firms and interested financial institutions, aiming their attraction within territory.

States considered to be tax havens represent a shelter for all types of societies having the purpose to permit their beneficiaries to reduce even to cut out totally taxes at which are subdued, within a complete legality and of a manner practically impossible to be controlled by the fiscal services in the original country. A very well known form to use these fiscal facilities is “offshore” investment.

“Off-shore” is a company whose executive capacity is reduced as space. In fact “off-shore” term means at its origin “ far from the dry territory”. Practically an off-shore company cannot develop commercial activities but out of the country border where it was matriculated. If the country in which it was registered is a tax haven and the company does not activate but out of the fiscal territory of the residence country, the respective firma is either absolved of the tax, or it pays only a fixed tax, established by the respective state.

“Off-shore “mechanisms consist in establishing the domicile of a juridical entity, a corporation , foundation , holding – through which are developed affairs with other entities having their domicile outside of the respective state. These entities are generically denominated “offshore firms” and they offer profit tax-exempt on capital increase, on distributed dividends or on interests.

Off-shore entities created have only one purpose which constitutes the main objective for the management of any commercial society: maximization of the profit through any legal means. Off-shore practices are numbered among techniques of fiscal avoidance named “legal fiscal evasion”.

An off-shore company is subdued to all normal regulations in original jurisdiction, at which it is added the obligation of respecting some supplementary conditions connected by its off-territory domicile activities. In a normal way these conditions are the following:

- Development of the affairs out of the territory in which the company was incorporated, this being the main reason of tax –exempt;
- To assure, maintain and sustain of a residence within respective jurisdiction, which may be a postal address or the residence of an advocate/management firma, that maintain the connection with firma management and is handing in postal correspondence;
- Engagement of a local representative/agent and/or of a company secretary domiciled in the respective state, aiming a permanent link with authorities;
- Avoiding of some activities like: assurance and reinsurance, banking operations , pensioning programs or common investments (mutual funds) or brokerage of mobile titles.

There exist approximate 73 of fiscal paradises in the world divided into five types:

- Tax Havens within which it is possible to choose the fiscal domain;
- Tax Havens in which may be chosen the installation place for operative base.
- Tax Havens in which it is possible to live;

- Tax Havens in which it is possible to win money;
- Tax Havens in which is possible to gain citizenship.

Acting through an off-shore firma an investor gets the following facilities:

A. Zero fiscal taxes or near to zero.

B. Minimal accountancy formalities;

From the point of view regarding accountancy evidence, depending on the place where they have their social residence, the off-shore firms are divided into companies which have not to keep any kind of accountancy, being obliged only to the payment of a fixed tax (Bahamas, Belize etc;) and companies which are obliged to keep accountancy. As an example Ireland, Cyprus, Uruguay.

C. Flexibility and dynamism in the company matriculation process;

Off-shore companies are subdued to regulations in original jurisdiction:

In some Tax Havens there are restrictions regarding the name of an off-shore company. There will not be accepted names which contain words like “Crown, Royal”, and words like “International, European, National“ are accepted only within certain conditions. Words like Bank, Insurance, Investments, Fond, require a certain award procedure besides the fulfillment of some material conditions before receiving award.

As regards social capital, it should be made the distinction between the jurisdiction based on Anglo-saxon juridical system and the continental ones. Anglo-saxon juridical system is much more flexible. This flexibility is the most expressed in the Caraiibe. In the continental juridical system, the dimension of the social capital and the modality of putting it at the firm disposition is rigorously regulated. As an example, in Lichtenstein, firm shares should be subscribed and paid. Company shares – these may be registered at the bearer.

Sharers of registered shares are registered in the company documents, also in public evidences of the Commerce Register. Shares at the bearer are not nominated.

There is an Association memorandum which is a signed document by the firm sharers through which are established the domain in which this will develop his activity. The company will be authorized to develop only nominalization activities in this document. In some tax havens it is permitted to be written in this document of a general paragraph in which it is stipulated as the firm has the right to develop those activities that can bring important profits.

Company sharers can be both physical persons and juridical persons. These are legal owners of the company.

Company directors are responsible of the whole activity of the company, both in front of the sharers and in front of authorities.

Company Secretary may be a physical person or a juridical person. This keeps all documents of the company and is responsible in the company relationship with Commerce Register and governmental organizations.

For coming into being of an off-shore firm there are necessary the following:

- social residence in the respective country/territory;

- firm accountancy to be kept within the respective country/territory (Andora, Hong-Kong);
- the owner to be non-resident in order to be beneficiary of the offered fiscal advantages (Bahamas, Jersey, Bermude);
- organizing a general assembly each year (Ireland, Hong-Kong, Nauru, Bermude);
- a representative in the respective country/territory (British Virgin Isles);
- administration installment and leadership in the respective country/territory (Uruguay);
- development of the greatest activity abroad;
- sharers banking referring profs (Gibraltar);
- at lest a resident secretary (Cook).

Company matriculation may be made very rapidly (within 24 hours) without being necessary owner presence. Although, to be able to come into being and to be able to function, these companies have to respect supplementary conditions referred to their out-territory activities and their domicile

D. Absence of controls and customs restrictions.

As a general, off-shore companies develop their financial transactions in any currency and they may keep their financial reserves in any currency without being necessary of a special admittance. In this way it is possible a considerable reduction of lost as a consequence of currency exchange course. Accountants in convertible currencies and banking secrets can make easier administration obligations over the fluctuation period of coinage and tax on interests;

Choosing of the most suitable jurisdiction, either referring to commerce or international investments, may often be difficult and necessitates a very attentive analysis. The most off-shore jurisdictions avoided external changing controls and introduced proper legislations to the companies in order to satisfy an increased diversity of solitudes in connection with international affairs. It is indicated the choosing of a jurisdiction more suitable for the personal needs of the firm.

Anterior condition for everyone who desire to place his off-shore business is to choose a jurisdiction able to offer a political stability, so as the business to be certain coordinated, trustfully and sure for the company.

At the present there exist over 50 jurisdictions in the world which regulate off-shore companies legislations. Some of these have already introduced new and modern normative within corporation legislation, destined specially for international business, while the other have improved the existent legislation , in order to satisfy sollicitations coming from exterior.

Essential criteria are modernity, flexibility and legislation adaptation to the problems like capital in small shares, minimum obligations, possibility of hosting the meeting of members and that of directors anywhere, possibility of sharers and directors nominalization, avoiding the accountancy obligation. More than that, the legislation should assure complete confidentiality of the clients business.

Internal administration of all off-shore organizations necessitates not only juridical services, but also accountancy ones. So that it is essential the choosing of a jurisdiction

able to offer a comprising selection of firms for juridical and accountancy consultations, to offer efficient services at the international standards.

It is important for a jurisdiction to master the art of communication: to include the transport par-plane of correspondence, postal services and telecommunications so as the business to be coordinated efficiently and rapidly.

As the suppliers are able to furnish services in many languages, the ability to realize the business in English is useful. This may be considered a help in assuring ourselves that the clients requirements are fully understood, without existing the risk of any mistakes.

While the abroad companies are able to offer banking services anywhere in the world, some clients prefer to open their accounts as juridical persons within the jurisdiction where the residence of the company is. In such cases, availability of some comprising banking services and access to international banking facilities is of a great importance.

Jurisdictions in the world can be divided in the following way:

- Jurisdictions part of treaties
- Jurisdictions which are not part of treaties

The clients who try to benefit of the exoneration for double imposing should have a company in a jurisdiction which is part to such a treaty. This fact is essential for minimal tax payment on dividends and dues from the contractual states. Jurisdictions part to treaties do not expose an image of off-shore company and in this way they offer an attractive image.

Jurisdictions which are not part to treaties are mainly utilized owing to the absence of tax-exempt of the company, asking as a rule only the payment of a fixed annual tax for license.

It is consequently important the evaluation of implications which taxes bear within business following to be mastered and it is important to decide if it is necessary of a jurisdiction part to treaty regarding double tax or not. Within normal conditions, such a jurisdiction wouldn't be asked for international of the goods circulation and majority of services. Although, investments done in certain countries could ask the choosing of a jurisdiction within which it is applied such of a treaty, having the purpose of minimal impact the taxes may create.

The forms the off-shore entities may express are different, within a jurisdiction being admitted one or some of them.

1) Nonresident company – may be incorporated into a certain off-shore center with domicile in another country aiming its sharers interests. In this way the obligations towards the state in which the matriculation was realized, are considerably reduced, it is avoided the obligation to maintain a residence and personnel into the state of incorporation, it is not necessary an accountancy balance, and obligation towards authorities consists in an annual tax of some hundreds dollars. The main inconvenient is represented by the lack of company protection, which though it is registered into a zone with reduced fiscal, it will subdue to fiscal legislation in the country of domicile.

In order to avoid surprises, usually nonresidential companies are also domiciled in off-shore jurisdictions.

2) Excepted companies or absolved (from the normal fiscal provisions) are ordinary firms, which benefit, in jurisdictions with normal fiscal regime of awarded facilities within certain conditions. Exceptions (absolve) is annually awarded based on a firm representatives declaration, who engage themselves that they will not do business in/or with matriculated firms within that state, other than those nonresidents or excepted.

Companies within this category benefit of the whole protection offered by the laws of the state where they were incorporated, but are obliged to maintain a representation in the territory: residence, management, agent, secretary, sharers registry etc.

3) International company (International Business Company). Among the attributes of this company we say: flexibility and operational to incorporation, admittance of companies with only one sharer, option of emitting shares at the bearer, simple insurance obligations of the residence (a postal address and an agent).

4) Association having a limited responsibility (Limited Liability Company) – it is a sort of a partnership (an association of physical persons), in which partners are considered sharers and they have limited responsibilities to the percentage of participation to the social capital.

5) Trust (into an approximate translation = foundation) – juridical entity through which the owner of some values (immobile or mobile) renounce temporary, from succession or fiscal motives, his property right to a n administrator.

6) Sole trader – Romanian equivalent of a physical person. There exist states which have never applied taxes on personal incomes and they still don't have this intention (Andorra). Other states have intentionally created a special juridical frame, attracting physical persons having substantial incomes

7) Company of captive insurances – used for collecting insurance taxes for a certain number of commercial societies, by which is juridical connected (holding) or through common owners. These companies do not issue insurance documents in exterior of their range of activity and are in fact closed investment funds, in the favor of a fixed number of participants, respectively tax beneficiaries of insurances required.

8) Consultancy and service firm – assures different services (consultancy, projecting, marketing services, recruiting and personnel engagements), cashing off-shore honoraries.

In order to choose a tax haven it should be taken into consideration some general criteria, like:

- Pseudo tax havens;
- Types of business which are going to be developed through off-shore company;
- Political and economical stability of the country;
- Definition of the notion for domicile and residence;
- Fiscal regime continuity at the residence and domicile changing;
- Patrimony authorization for capital transfers;
- Tax havens reputation;

- Geographical area and the study of infra-structure development, especially communications and telecommunications;
- The way in which it is assured the secret of attracted investors.

Within territories with normal fiscal conditions and those without taxes there was made a real defending wall, each part trying to protect proper interests, respecting international law norms. A means of defending of the developed countries which create their budget on cashed anticipatory incomes under the form of taxes consists in avoiding the double duty aiming to encourage income declaration got abroad through guaranty of a nondiscriminatory treatment. On the other side, fiscal paradises try to guaranty a maximum confidentiality to attracted investors through sustaining the specific legislation and sanctions for any escaping of information.

To invest in off-shore appears as a last chance for those who try to preserve their patrimony. We can say that these tax havens represent real “launches” for prosperous business and getting fortune. One of the most important activities of an already registered company within a zone with reduced taxes is international commerce. There can be obtained significant tax-exempt by integration of an off-shore company into an international transaction. In such a case when an off-shore company wishes to buy some produces from a country and to sell then to other country, it may do such an operation, being absolved by taxes to the off-shore center.

For transactions made by European Union, Man Isle and Madeira, became very popular locations, proper to off-shore commerce activities. Both Man Isle and Madeira are capable to obtain registration of the tax on the added value, an imperative thing for transactions within European Union. As an example, if a company in Man Isle wishes to get produces from France in order to sell them in Germany, this company will inform French Company on the added value it practices, so that to be able to issue invoices for the selling at zero rate. French company will not owe tax on the added value company in the Isle.. At its turn, the later will get the value on the added tax to German company in order to be able to introduce invoice for selling at zero rate

This transaction types could not be possible in a normal way in other types of jurisdictions, without requirement of establishing of an extended office or engaging a tax agent in UE, fact that can lead ulterior to supplementary taxes.

As a rule, both firms, and physical persons use off-shore companies as means of preserving investment portfolio. Such portfolio consist of storage, mortgage, liquidities and a large range of other investments. Liquidities preserved by off-shore companies can get wins at the raw interest and can be distributed in the collective funds.

Physical persons having high incomes appeal to off-shore companies so as to preserve the made investments on a number of markets in different countries. Personal holding companies assure confidentiality and absolve taxes connected by creation and maintaining entities in a number of different structures. Within this context, foreign companies are often used for planning successions and with the purpose of costs reduction and delaying associated with testament truthfulness.

Selecting a stabile residence, within an economical and political favorable context, reduces the risks which both firms and physical persons could confronted in the country of origin

and the third country. Many engaged persons in constructing activities, engineering, aviation, finance, information or film and entertainment industry can do considerable economies from tax exonerations through establishing of a link with an off-shore company for personal services.

Off-shore companies engage themselves in offering services to physical persons, outside of the country where these are resident, and the taxes got can be accumulated off-shore, without any duty in those off-shore centers. Payment to physical persons can be structured in this way that perceived taxes and duties to be minimal.

Corporations, off-shore trusts are often used in order to preserve investments, in branches or/and associated firms, public ranked or in private firms or in the frame of cooperation projects between two companies. In many cases, capital wins, resulted from available of particular investments, can be made without owing taxes and duties. In the case of dividend payments, the reduced tax level in the case of a holding can be obtained through utilization of a registered company into a jurisdiction with zero tax, or with a reduced level, which has accords of double taxation with contract states. An example in this direction is an off-shore Mauritan company, which can invest in Indian companies and can benefit of advantages in this way according to the treat of double taxation that exists between these two countries. More than that, there exist no regulations of duties on capital wins coming from investments made in India.

Many firms and companies wishing to invest in countries where do not exist accords regarding double taxation between the investor country and the country where is going to be made the investment, will do it through intermediary of a company from a jurisdiction where such a treat is in force. For example, SGPS Company in Madeira was intensely used for UE investments because the corporative entities registered there are generally accepted to use Directive UE mother firm/branch.

Cyprus has an extended net of the double treat taxation with many East-European countries and CIS countries, and utilization of Cyprus companies for internal investments in these countries determine an efficient taxation.

Off-shore companies can have property right on some territories or properties, they are getting in this way many advantages regarding taxation, as could be legal avoiding of duties on wins, successions and taxes on transfer of propriety. As an example, an off-shore company under propriety of a Great Britain non-resident, aiming an investment purpose, and ulterior the propriety was sold to the third person. The won capital from transaction will not be subdued to tax system regarding capital win of the Great Britain. Besides this, making a structure of a better financing by financing of a reciprocal borrowing, the foreign company may reduce the effective level of tax-exempt from renting that could happen.

Many firms address themselves to off-shore companies for personnel engagements for different positions abroad. This contributes to cost reductions associated to the salary payments and the expenses generated by delegations, offering at the same time to employees possibility to make economies from taxes and social insurances.

Off-shore companies can administrate or can receive rights of intellectual properties including software for computers, technical knowledge, registered marks, patents and author rights. Based on these acquisition of rights, off-shore companies can then conclude

license contracts with interested firms to exploit such rights, all over the world. Incomes got from such contracts can be off-shore accumulated, through a selective attention of a suitable jurisdiction; retaining of duties on received bill can be reduced through applying in commercial of the treats regarding double taxation. Great Britain Holland, Madeira, Cyprus, and Mauritius are examples of suitable jurisdictions for preserving the right of intellectual property.

Having into consideration political and economical lack of certitude in some countries, numerous firms pursued to attenuate the risks, moving off-shore property to goods and operational bases. Luxemburg and Bermuda hosted many companies wishing to move their operational centers.

Off-shore firms are generally engaged to collect money through borrowings or obligations. Through such practice, there can be reduced tax collections on interests payment. As an example stats like Great Britain increase retaining the taxes on the paid interests for obligations without participation of nonresidents. Planning of the strategy of avoiding double taxation is vital in such cases .

Off-shore financing companies may be obliged to fulfill management function of inter-grouped wealth. Payments from profits of inter-grouped companies may be considered object of taxation but often these taxes are different from normal rate of taxes perceived to corporations. Tax-exempt could be a deducted tax, and in this way consolidation of the duty on the profit in companies of external financing could produce a benefit , through reduction of taxes.

Many large companies make their own off-shore firms in order to mix dividends from their branches, getting in this way maximum advantages from credits for taxation.

In some certain countries, loses from foreign changing are not deducted for taxes. If an off-shore financing branch was made then suffered a lost through a foreign change and later it was liquidated, investment tax could be deducted for mother-company. Off-shore companies are often used right parts from mechanism and structures necessary acquisition of foreign entities: international corporation re-structure , properties and other investments besides other projects connected by finance of these great companies.

Leasing – is another method of off-shore structures, as a rule when the off-shore firma possesses large funds, which if they are not invested, they will be send back to the country and subdued to regulation of corporation taxation.

Starting with 20-th century, off-shore company utilization for acquisition of commercial ships constituted an important function of some off-shore jurisdictions, as were Panama or Liberia.

Many other important off-shore jurisdictions facilitate procedure of commercial ships registration, through reduced costs of registry taxes and absolving taxes for obtained income from naval activities. Within these jurisdictions are included Man Isle, Madeira, Jersey, Gibraltar, Cyprus, Bahamas, Belize and Mauritia.

It should be mentioned the fact that ship owners without commercial purposes, who develop their activity within Europe Union maritime territory for long periods of time, are in need of special advise regarding taxation on the added value.

Within Romanian economy the presence of societies of off-shore type was considerably amplified in the last years. Up to the present Romanian state authorities didn't take into consideration the danger represented by these off-shore societies, mainly in the context of integration into Europe Union and the new standards of international security imposed by the United States of America

To NATO partners. Not by random, American Govern Agencies made pressure for blocking of some accounts from diverse tax havens, after events at 11-th September 2001 on American territory

Over those 18 years of "prolonged transition" in Romanian economy there were drained billons of dollars redistributed ulterior towards other accountants and societies belonging to tax haven in the world. Nobody puts the problem of stopping this phenomenon, nobody asked who hide at the back of "postal boxes" although cases are so many.

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THE IMPACT OGF MANAGING THE EXTERNALN DEBT ON THE MACRO ECONOMIC VARIABLES

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Abstract

External debt is a very important element of the economic system, which in terms has a high influence on other economic elements such as: budget, monetary and exchange system, level of inflation, level of people savings, international investments and others. External debt also influences a countries economy as a whole, but an efficient management of it is determined by the level of economic development and practical refers to all the elements of the economic system. In the case of a lack of economic growth or a small level of it, the current case of Romania, for solving the problem of its external debt there must be directed minimal budgetary resources.

Keywords: *external debt; external debt service; the export of goods and services; commercial deficit; current account; capital account; external currency reserves; external payment balance.*

In certain periods of time, the government attracts external resources because of the unbalance situation between expenses and incomes. The short term strategy of attracting credits in these purposes is oriented towards obtaining the necessary incomes in order to pay for the external debt and the interest.

But, a more efficient way is attracting credits for undertaking vast programs either social or for investment that would stimulate economic growth, along increasing the level of living of the population on a long term.

At state level is much more rational to split the credited sums on some budgetary periods with the purpose of leveling the pressure on payments.

At this moment, in Romania resources for crediting are use for consumption and for serving the payment of external debt. As a result, the policy on external credits does not stimulate structural reforms in economic and social world.

The impressing demand for resources in order to solve the external debt, contributes to diverting resources from the circuit of production and creating an impossibility to finance investments.

Although the necessities of the state cannot be satisfied with the sums from the state budget, the policy to attract external credits must be a rational one. More than this, it is necessary to determine the limits of rational crediting, so they can be used for economic development and not for paying the external debt.

In a contrary case Romania might lose its position on the international financial markets and may end up in a default situation (an incapacity for paying the external debt) – situation in which, in a way Romania was in 1999, when the International Money Found had placed Romania on a monitoring list, a list with countries close to default situation.

Although necessary to determine the maximal level for attracting external credit, thus this level shouldn't influence in a negative way the indicators for social and economic growth.

It should also be mentioned that there is no unique or general accepted strategy for the management of the external debt.

External debt constitutes an important element of the economic system, which, in its term, has a direct and indirect influence on other elements, like budget, monetary – crediting system, exchange system, level of inflation, level of savings for the population, international investments and so on.

External debt influences the economy of a country in its whole, and an efficient management of it is determined by the level of economic development and practical refers to all the elements of the economic system.

In international practice, the management cycle includes the following steps: attracting, using and reimbursement. Ensuring a continuous reimbursement cycle of the external debts is influenced by certain problems.

For Romania it's impetuous to determine the internal and external debts. In the case of lacking economic growth or for a low level of it, minimum budgetary resources must be allocated to pay the external debt.

In fact, the problem is not actually in the absolute value of the external debt, as it is in the different indicators such as economic development, the size of the GDP, the level of living for the population.

It is definitely forbidden to use external resources for consumption or paying the already contracted external debt, in the scenario in which the macro economical indicators are decreasing.

The classical debt management model does make any reference to the report between the debt policy and the monetary- credit one. It describes the optimal taxation process in dynamic, when through credits the state programs the taxes on a schedule.

This is possible if the fiscal power has sufficient means in order to create financial pressure. But, in reality the level of the fiscal pressure can only be generic examined, as an instrument of the macro economic policy.

This is why debt management is more reasonable and the government opts for a policy of issuing debts that allow the finance of the deficit through inflation, and minimizes on a long term the losses due to inflation.

We shall not take into consideration the currency in which the loan has been made in, we shall consider the currency the main instrument of the debt policy. Under statistic aspect the currency in which the loan has been made and inflation are switch able.

Thus in the case of a concrete budgetary deficit, increasing the level of debt decreases budgetary issue and vice versa.

Also original is the interpretation of the link between the dynamic of inflation and state debt, which is based on „the fiscal theory of inflation”. According to it, the level of prices trims the nominal obligations of the state and the real evolution of the budgetary profit.

$$B_t / p_t = v_t$$

where: B_t = nominal debt of state;
 p_t = level of prices;
 v_t = forecasted flow of profit.

So, we can observe that there is a direct relation between the nominal debt of the state and the level of prices. Increasing the nominal debt in the case of a concrete evolution of the real profit flow generates a rise in the level of the prices.

The limit of this theory consists in the fact that state debt can be expressed in foreign currency, and in this case the fiscal theory cannot perform an analysis of the price level. Still this aspect is very important in the analysis of the external debt management.

State objectives are:

- To reimburse in full the external debt according to the calendar of payments avoiding the effects of the inflation pressure on the economy;
- State must elaborate its own policy of debt through which establishes the limits of debts in case of a still economy.

The government has the possibility to be credited on external markets thus the optimal level of monetary issuing must be determined by the long term objectives for diminishing external debt

In case of efficient debt management policy, contracting new credits will be accompanied by an inflationist financing of the budgetary deficit.

The growth of the external debt of a country has as a direct consequence the increase of the deficit of the current account which will have to be financed from external funds.

Utilizing national accounts the causes of the deficit of the current account are reflected in the following equation:

$$(X - M) - R_f = (S - I) + (T - G)$$

Where: $X - M$ = current account;

R_f = paying interest externally;

$S - I$ = net savings of the private sector;

$T - G$ = net savings of the public sector.

This equation reflects the fact that if external debt doesn't increase, the surpluses from trade should be sufficient to finance the payment of the external interest rates.

A sine qua non condition for reimbursing the debt is the positive evolution of the net public and private economy. In the case $S > I$ and $G > T$ then the external debt increases.

Until this moment there hasn't been found an optimal level of external debt. Still it is an indicator admitted and used both by international finance institutions as well as specialist and scientist in this field of expertise, being called the external debt burden (BDE). When this indicator grows over 25% this means that the country is vulnerable to trade, exports or to a modification of the international rate of interest..

The primary obligation of a country is to reimburse external credits, fact that implies a growth of the national interest rate, loans will decrease, which will lead to a decrease if the economical performance.

$$DSR = DS / X \quad (1)$$

DS – external debt service;

X – export of goods and services;

$$dDSR / DSR = dDS / DS - dX / X \quad (2)$$

The rate of the external debt service increases if the external debt service increases faster than the incomes from the exports of goods and services.

In what concerns the value of the export of goods and services it is important to take into consideration:

- The extent to which the incomes from the states exports come from a limited range of products or from a limited range of resources :
- Past evolution and in perspective of prices and volume of exports:
- A variability of prices and export volume in report to their tendencies.

Absolute annual growth of the external debt services (dDS) depend on four factors:

1. annual commercial deficit (with a plus);
2. an increase of the interest payments to external debt;
3. a fluctuation in the debt payment for external debt at the beginning of the year;
4. modifying principal payments (amortization).

The rate of the external debt service increases if the commercial deficit increases the interest rate and the annual amortization rate increase or if the external rate of exports decreases.

The fluctuation of the annual amortization is determined by the aging of the debt. Reevaluating external debt places a current amortization in the future, thus reducing its present level (dA/dDS – is negative).

The rate of economic growth for indebt countries is low because of the large scale capital exode. As a result of this evolution it is necessary to carefully asset the level of external government debt. The causes of increasing external governmental debt are illustrated as follows:

$$\Delta F = BOP = \text{current account surplus} + \text{capital account surplus}$$

Where: ΔF – increase of the external debt;
BOP – external debt balance.

The capital account surplus is made of three elements:

1. the private capital influx on long term (with plus);
2. external governmental credits (with plus);
3. private capital exits on short term (with minus).

The reserves equation will look like this:

$$\Delta F = \text{current capital surplus} + \text{private capital input on short period} + \text{governemntal external credits} + \text{private capital exits on short period}$$

$$\text{External goverment credit} = \text{deficit of current account} + \text{private capital exits on short period} - \text{private capital input on short period}$$

Thus:

As long as the level of external governmental credits increases, as so the deficit of the current account increases or the external reserves or private capital exits, and the capital influxes on long term will decrease.

More the this, an increase of the net countries debt is determined first of all by the evolution of the current account deficit, because the net inputs of capital on long term will not influence this deficit, but will enter in the external reserve or will turn out into private capital exits.

If the private capital exits are important, the government will have difficulties in reimbursement external debt, even if the net debt has not increased so much.

This takes place because the government is incapable of utilizing the incomes of the residents or foreign private investments in order to honor the external debt.

A possible way through which the indebt countries can act in order to diminish the burden of external debt is lowering the real interest rate.

One of the strategic objectives of indebt countries is maintaining the real rate of economic growth, whilst the external debt is one of the braking factors of this process.

This can be explained:

- reimbursing the debt absorbs incomes that might be reinvested and could contribute to capital accumulation;
- when the level of the external debt is big enough the external resources of a economy fade, and if they are replaced with internal economies, the real interest rate for internal credits increases;
- promoting an inadequate macro economic policy and the impact of adverse external events increase the degree of incertitude in indebt countries.

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PUBLIC FINANCIAL CONTROL INDICATORS OF PERFORMANCE

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The main malfunction as regards the phenomenal public control derive from the cultural problems associated to the specific factures of the public phenomenal control,that pornt aut the fact that not the encadiag ,but the implementate on and development of the systemis the one creating problems.

A number of managers an not convinced by the usefulness of t5he internal public audit,as a project means of checking the innew control as well as a permanent authorized advisor in the field of the managerial performance(mainly regarding the management of the public money and public heritage).

Many managers of the public internal audit structures consider that this is another name geven to the coomon internal control (the former bodres of the internal managerial control).

Many managers do not have a clear representation of tje role,functions and means of internal control,as a main managerial function; as a result, many authorities are designed and organized as simple registrate on structures.

From the point of view of the progress registered as well as from the tendences that were noticed,we consider that the external audit has the most effective dynamics and the best orientation,being followed by the internal audit and the internal control, in fact, we consider that as regards the internal control. There are not only some considerable logging behind but also a certain lack of interest at ministry level for ending,methodological regulation and proceding development.

There are no viable systems of dynamic evaluate on of the progress registered in the field of public financial control(they should be implemented in the internal public audit),this can lead not only to disrespecting some deadlines or govern mintal engagements but can also generate some wrong directions under certain circumstances(as happened with the emergence or central maintaining of some financial control obligations or structures.)

As for the internal control,the system of information should be seriously revised,at the manager level,in order to design some measures of clear and permanent responsibilities,meant to enhance the responsibility of the manager as well as to help the manager design this own control systems(information/reporting).

At all levels of the financial control(internal control,internal public audit,external public audit) the central structures should have an advisory part,metodologic standardizing,maintaring and evaluation:these should not have direct control attributions or coordination of some control actions;exceptional situations should be treted with ad hoc created structures,without a permanent character).

Firstly,we can identify the categories of indices that can characterise the prousses in the field of financial control.Therefact is necessary as establish the criteria to delineate these closses of indices.

The criteria can be the following:the state criteria:it refers to the effective gap between the implementation of the financial control in Romania and the benchmark compared to a strategy or an European level.

The trend criterion-it refers to the clear tendency,the tendency with an irreversible character regarding the elimination,deepening the effective gap between the implementation of the financial control in Romania and the European or strategic benchmark.

The capacity criterion-at refers to the fulfilment of the administrative capacity at the level of the institutions and public authorities,to overtake effectively the „norms”of the financial control.

According to the above mentioned criteria we shall have three types of indices regarding the evaluation of the financial control(with is specific indices).

- indices of position(3 indices):indices that measure the position of the legislation and the implementation of the financial control in Romania according to the European benchmark or the strategic one.
- indices of process(4 indices)-indices that measure the speed and direction the gap between the financial control in Romania and the European benchmark or the strategic one is implemented.
- the irreversibility index-measures the quality of the general institutional construction thatensures the overtake and implementate on of the financial control norms effective,without the risk of dipping the process.
- the selfevaluation index-measures the capacity of the financial control in Romania to acieve periodical self evaluations that lead to feed back reactions meant to improve the direction speed and structures involved in the overtake of the rules or the financial control targets,according to the European benchmark or the strategy in the field.

The resource indices are as follows

- the legislation index-measures the degree in wchich the European benchmark on the strategie one is covered on the internal plan with coresponding primary, secondary, tertiary legislation.
- the institutional index-measures the degree in which institutional elements are present and contribute to the progressive and irreverssible implementation of the financial control, according to the European a strategic benchmark (qualification, salaries, structures etc).
- the cultural index-measure the degree to which the selfstudy mentality and capacity contributes to the development of a permissive and encourragng cultures regarding the financial control implementation according to the European benchmark or the strategie one
- indices of resources(3 indices):indices that measure the administrative capacity (of all kinds-human resources, organizational,informational, financial, institutional, cultural) in Romania to reach the „target” of the financial control.

For all classes of indices we will be able to determine an aggrgate index,using special evenghts of importance,suggested by experts or the research team,on the bases of some linera functions.

The position indices are as follows

- the balance nicush index-measures the degree to which a special form of financial control(out of the 3 components) manages to achieve the role and the specific functions presented in the European or strategic benchmark.
- the efficacy index-measure the performance with which the role and the specific functions present in the European or strategic benchmark are achieved,in other words,the efficiency measures the quality of the effectiveness.
- the efficiency index-measures the rapport between the benefits of any kind,triggered by the acievenement of the role and specific functions of the European or strategic benchmark and the cost of its achievement and its specific functions.

The process indices are as follows:-the direction index-measures the evolution in the field of financial control which is convergent with the direction it developed.

- the speed index-measures the speed the financial control begin, is implemented (on the three financial control aspects, respectively primary, secondary, tertiary legislation).

First we shall mention some general things:

a)each of the above mentioned indices well be determined by vectors, so that they will represent the three financial control categories: internal control, public internal audit, external public audit; in this respect each of the 10 indices will have a general form where

I(c_i) is the axis :measuring the external control situation from the perspective of the analysis

I(a_{pi}) is the axis :measuring the public internal audit from the perspective of the analysed index.

I(a_{pe}) is the axis of the external public audit from the perspective of the analysed index.

b)the numerical values of each index axis : willtake the form

Where

I(.) is one of the axis.b)represents the numerical value ,between 0-1, the authors consider that it can take any of the coordinates of the analyzed index,according to the quality achieved analysis.The difference towards the unitary value is explained by the fact that once the financial control functions at the European Union level,it is considered abenchmark for the financial control implemented in Romania,therefore it is natural to consider that ,itcan assume the maximum value,that is 1,with the evaluation of the implemented financial control in Romania takes the value of at most 1.

Acording to the above mentioned things The 10 indices will make up the measure matrix withthe following form.

M represents the resource matrix with the respectiv indices.The authors represented the indices and the indices matrix that as the measurements at a certain moment:

Ceart between the financial control implemented in Romania and the European benchmark or the strategic one.It is absolutely necessary to determine he dynamics of this ecart,which based on some values attributed to speed and direction,can sender a image of the convergence/divergence,the administrative capacity of reaching an European benchmark that arese in this proces.

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AN INTELLIGENT KNOWLEDGE MANAGEMENT SYSTEM FROM A SEMANTIC PERSPECTIVE

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Abstract

Knowledge Management Systems (KMS) are important tools by which organizations can better use information and, more importantly, manage knowledge. Unlike other strategies, knowledge management (KM) is difficult to define because it encompasses a range of concepts, management tasks, technologies, and organizational practices, all of which come under the umbrella of the information management. Semantic approaches allow easier and more efficient training, maintenance, and support knowledge. Current ICT markets are dominated by relational databases and document-centric information technologies, procedural algorithmic programming paradigms, and stack architecture. A key driver of global economic expansion in the coming decade is the build-out of broadband telecommunications and the deployment of intelligent services bundling. This paper introduces the main characteristics of an Intelligent Knowledge Management System as a multiagent system used in a Learning Control Problem (IKMSLCP), from a semantic perspective. We describe an intelligent KM framework, allowing the observer (a human agent) to learn from experience. This framework makes the system dynamic (flexible and adaptable) so it evolves, guaranteeing high levels of stability when performing his domain problem P. To capture by the agent who learn the control knowledge for solving a task-allocation problem, the control expert system uses at any time, an internal fuzzy knowledge model of the (business) process based on the last knowledge model.

Keywords: *knowledge management, fuzzy control, semantic technologies, computational intelligence*

1. Introduction

Today's organizations are continuously faced with the challenge of complexity and urgency in their core business activities. The business environment is very chaotic and organizations need to be able to cope with many different kinds of business, technological, social, and human requirements. There is an inherent need for organizations to improve their business activities. In order to be able to solve complex problems the individual (agent) and group problem-solving processes involved in computer-mediated communication systems need to be integrated. On the basis of their studies of Japanese companies, Nonaka and Takeuchi proposed their widely known model of the knowledge-creating company [11]. They argued that much of the innovation created and accumulated in a firm is actually based on tacit knowledge, i.e. arising out of experience, and cannot be easily communicated by workers within excessively formalized management procedures.

This paper presents in order the basic properties of KM (section 2), present and future intelligent technologies for KM (section 3), a case study based on a fuzzy intelligent control solution for a task-allocation problem (section 4) and conclusions (future researches). An example for task-allocation problem is a virtual organization (VO) or an electronic institution (EI). They are composed of a number of autonomous entities (representing different individuals, departments and organizations), each of which has a range of problem-solving capabilities and resources at its disposal. The question is "how a VO or an EI are to be dynamically composed and re-composed from individual agents, when different tasks and subtasks need to be performed?". This would be done by allocating them to different agents who may each be capable of performing different subsets of those tasks [1].

2. The basic properties of KM

KM is an emerging, interdisciplinary business model dealing with all aspects of knowledge within the context of the firm, including knowledge creation, codification, sharing, and using these activities to promote learning and innovation. It encompasses both technological tools and organizational routines of which there are a number of components. These include generating new knowledge, acquiring valuable knowledge from outside sources, using this knowledge in decision making, embedding knowledge in processes, products, and/or services, coding information into documents, databases, and software, facilitating knowledge growth, transferring knowledge to other parts of the organization, and measuring the value of knowledge assets and/or the impact of knowledge management [10].

KM is becoming very important for many reasons. To serve customers well and to remain in business, companies must reduce their cycle times, operate with minimum fixed assets and overhead (people, inventory and facilities), shorten product development time, improve customer service, empower employees, innovate and deliver high quality products, enhance flexibility, capture information, create and share knowledge. Knowledge management draws from a wide range of disciplines and technologies. These include cognitive science, artificial intelligence and expert systems, groupware and collaborative systems, and various other areas and technologies [8,9]. In summary, we can describe knowledge management as an audit of *intellectual assets* [7,10,11].

KM is typically implemented through the performance of knowledge tasks, e.g. create, distribute, reuse and refers to the rational (re) allocation of knowledge assets by means of effective and efficient organizing, planning, leading, controlling, and coordination. KM goals are also described in terms of knowledge, such as knowledge sharing and leveraging. In fact, KM goes far beyond knowledge. It refers to a number of human abilities (referred as KM abilities) that allow them to interface with a dynamic world, learn, evolve, reason, adapt, and keep performing tasks they are intended to deliver. Recent interest in this field has shown that although humans are equipped with a series of KM abilities that allow them to adjust to the world's changing conditions; they lose these abilities when organized in systems. Such a fact represents one of the KM's biggest challenges, i.e. transferring individual KM abilities to organizational contexts. Not surprisingly, few strategies have resulted in success [3,4,5]. The problem is that systemic KM outside humans has to be artificially conceived, implemented and managed to succeed.

One of the difficulties is in trying to incorporate KM processes into existing systems i.e. that were conceived without it. Better results can be obtained when KM processes are part of the original and integral design and development of systems. Although challenging to conquer, KM abilities allow systems to learn, evolve, adapt, and successfully perform in the context of a dynamic world. Similar challenges are faced by computer systems designed to deliver tasks in the context of the same dynamic world. Therefore, it is reasonable to assume that knowledge systems can also benefit from KM strategies. The needs and respective benefits are directly proportional to the complexity of the system's task and to the assurance levels a problem context requires. A reliable knowledge-based system should be able to learn, evolve, and adapt in order to guarantee its successful performance in the context of a dynamic world.

The simplest form of KM in a computer system occurs when it is maintained. Reasons for maintenance may originate from flaws or changing conditions. When a computer system monitors its own performance and is able to learn from it, it can guarantee longer periods of response without the need for maintenance. This self-monitoring also gives the system the ability to recognize when it fails and cannot learn, flagging its need for maintenance.

Fast adaptation to changing conditions has the potential to increase assurance levels, justifying the incorporation of KM strategies into high assurance systems.

3. Technologies for Knowledge Management

The great majority of the KM and search tools on the market are server-based enterprise systems. As such, they are often designed top-down, centralized, inflexible and slow to respond to change. There has been numerous articles published on the role of IT and KM systems in organizations but there is a lack of research into KM tools for individuals and server-less KM tools/systems. By adopting a bottom-up approach, this research focuses on tools that assist the Individual Knowledge Worker (IKW) who, in today's competitive knowledge-based society, has a constant need to capture, categorize and locate/distribute knowledge on multiple devices and with multiple parties. Furthermore, knowledge sharing between IKWs often extends across organizational boundaries. As a result, personal KM tools have very different characteristics to the enterprise KM tools mentioned above. At the group level, the impact of Peer-to-Peer (P2P) computing on Knowledge Management has been specifically identified as file sharing, distributed content networks, collaboration, and search. Potential applications for P2PKM systems include, among others, E-Learning in higher and distance education, real-time collaborations and battle simulations in defense, collaborative product development, business process automation, and E-business payment systems, and many others.

From an organizational perspective, people, process and technology are commonly regarded as the three fundamental components underpinning the success of any KM program. People and cultural issues, in particular, are seen as the two crucial factors in determining the adoption and sustainability of any enterprise-wide KMS (whether technical or not). Cultural issues may include, but not limited to, the norms and values shared by individuals and groups, as well as trust between peers in an organization. Up to now, technology has been generally perceived as an enabler in supporting the various KM processes i.e. capturing, categorizing, storing, searching, and distributing. Business capability exploration focuses on reaching agreement about basic concepts and terms that different groups use. As a vehicle for reaching agreement between stakeholders, an ontology supports multiple points of view as well as different vocabularies.

Developments in the field of Semantic Web Services show the opportunity of adding higher semantic levels to the existing frameworks, to improve their usage and ease scalability [9,12]. Semantic models are inherently multi-perspective and can generate controlled vocabularies and taxonomies as needed by different business problems, functional units, or communities of practice within the enterprise as well as across the supply chain. Building an *intelligence layer* allows delivery of capabilities and business value to users by building composite services. The knowledge plane models the essential business context, integration, relationships and business rules between applications, databases, and processes. Applications and data sources link to and interact with each other in real time and in context through the business ontology layer. Dynamic semantic models can be reasoned over. Connections can be inferred and ontologies can be consulted by different applications at execution time, make ongoing integration costs more linear rather than exponential.

Semantic technologies

Semantic technologies have emerged as a central theme across a broad array of ICT research and development initiatives. The four major development themes in the semantic wave are [2]: networking, content, services, and cognition.

- *Networking* — Semantics to enable computers to configure and manage dynamic, persistent, virtual systems-of-systems across web, grid & P2P.

- *Content* — Semantics to make information interoperable, improve search, enable content discovery, access, and understanding across organization and system boundaries, and improve information lifecycle economics.
- *Services* — Semantics to enable computers to discover, compose, orchestrate, and manage services, and link information and applications in composite applications.
- *Cognition* — Semantics to make knowledge executable by computer; augment capabilities of knowledge workers; enable robust adaptive, autonomic, autonomous behaviors.

Semantic technology functions are to create, discover, represent, organize, process, manage, reason, explain with, present, share, and utilize meanings and knowledge in order to accomplish business, personal, and societal purposes. Semantic technologies represent, organize, integrate and interoperate resources, content, knowledge and logic reasoning. Organization of meanings makes use of taxonomies, ontologies and knowledge-bases. These are relatively easy to modify for new concepts, relationships, properties, constraints and instances. Because semantic technologies integrate data, content, applications, and processes via a shared ontology, this minimizes development and maintenance costs. Semantic capabilities enhance value and improve the lifecycle economics of information and knowledge. Semantic enablement of information can enhance authoring, search, discovery, access (or sharing), aggregation, understanding, and communication of information. It imparts new capabilities for knowledge work automation and knowledge worker augmentation.

The *interoperability* and *logic reasoning* are the capabilities of semantic technologies, from search to knowing:

- From bottom-to-top, the amount, kinds, and complexity of metadata, modeling, context, and knowledge representation increases.
- From left-to-right, reasoning capabilities advance from (a) information recovery based on linguistic and statistical methods, to (b) discovery of unexpected relevant information and associations through mining, to (c) intelligence based on correlation of data sources, connecting the dots, and putting information into context; to (d) question answering ranging from simple factoids to complex decision-support, and (e) smart behaviors including robust adaptive and autonomous action.
- Moving from lower right to upper left, the diagram depicts a spectrum of progressively more capable categories of knowledge representation together with standards and formalisms used to express metadata, associations, models, contexts, and modes of reasoning.

Information intelligence

Semantic capabilities enable information intelligence (information in context of need) through aggregation, integration, and interpretation of diverse data sources. The spectrum of requirements includes [2]:

- *Sense-making* — Extract knowledge and tag metadata based on statistical, language-based, semantic, and knowledge-centered approaches. Enable sharing and interoperability at this level through data services that parse formats, match patterns, distinguish features (such as parts of speech), apply linguistic and statistical methods, etc. Intelligent adaptation services mine and extract knowledge and semantic from data sources, or otherwise add semantic metadata of various kinds to the data. Semantic integration services link information, metadata, and semantic models.
- *Information sources* — discovery, access, and understanding of structured, semi-structured, unstructured information sources. Sources are federated and distributed.

- *Information structure levels* — Signal, data, content, metadata, model, and semantic model; sharing and interoperability span a continuum of contexts.
- *Search contexts* — Semantic query services access, navigate, and reason over semantically enabled content to be provisioned to various client applications. Retrieval, discovery, intelligence, question-answering, and decision-support reasoning, and thus a need to enable exploitation of content interoperability at increasing cognitive depths
- *Sharing contexts* — encompasses: (a) general search, (b) task or context-based search and line of thought navigation, (c) composite applications providing, integration of structured and unstructured information in context of need, and interaction with information in user-determined context involving processes, tracking; and (d) mission and time-critical situation awareness, reasoning and trade-off assessments, and decision-support, and (e) autonomic, adaptive, and autonomous system behavior.

Computational intelligence

Computational intelligence systems (CIS) use a variety of techniques, e.g. evolutionary computing, to derive solutions to real world problems. They make good candidates for a KM approach because they build new solutions at every execution. Intelligent systems in general only learn from experience when they are designed with this specific purpose. Some learning systems are designed to learn from inputs but not from their own executions. Computer systems that deliver tasks interfacing with a dynamic environment can only be considered reliable if they are prepared to learn, adapt, and evolve. The KM frameworks allow CIS to learn, adapt, and evolve; potentially resulting in continuous improvement and increased reliability because it is designed to enhance a system's capabilities. Managing knowledge in CIS means giving these systems the ability to learn from their own executions. The KM framework represents an additional effort to guarantee a system performs as required; therefore, reaching the core of high assurance. In addition, systems engineering pursues high assurance in systems interfacing with a dynamic world where task environments evolve. Consequently, enabling systems to respond to dynamic environments and behave in conformity with the context's changes is beneficial to high assurance systems engineering. A system that incorporates a KM framework evolves because it observes its executions and uses metrics to evaluate its performance. For example, in a CIS that trains an artificial neural network (ANN), its accuracy can be used as a measure of its performance. The resulting system can be configured to submit every new thing it learns to be validated by humans, so it will not act in unexpected ways. KM solutions are typically presented through KM processes that detail knowledge tasks.

An analysis of different KM processes described in the context of technological KM solutions resulted in the conceptual cycle; it consists of the tasks *create*, *understand*, *distribute* and *reuse*. The *create* task refers to applying different methods to collect or generate knowledge (and information) within the application's context. The *understand* task is responsible for performing all necessary steps (e.g. validate, represent, store) to make collected knowledge ready to be distributed. The *distribute* task matches stored knowledge to the knowledge needs of its proper recipients. The *reuse* task oversees that knowledge is properly reapplied back into the application's context.

Universal knowledge technology

Over the next decade, we can expect rapid progress towards a *universal knowledge technology* that can provide a full spectrum of information, metadata, semantic modeling, and advanced reasoning capabilities. Very large-scale knowledge-bases, complex forms of situation assessment, sophisticated formal logics and reasoning with uncertainty and fuzziness (for example case-based reasoning, fuzzy logic with generalized modus ponens, description logics,

etc.), and autonomic and autonomous system behavior pose challenges that exceed the capabilities and performance capacity of current open standards approaches. Second, no good reason exists for settling for only a portion of the capability spectrum when we can just as easily have the whole thing.

For this we have: $Knowledge = Theory \odot_1 Information$, $IKMS = Knowledge \odot_2 Reasoning$, where \odot_1, \odot_2 are two metaoperators (where IKMS – Intelligent KMS)

- *Theories* are the conditional constraints that give meaning to concepts, ideas and thought patterns. Theory asserts answers to “how”, “why” and “what if” questions. For humans, *Theory* is learned through enculturation, education and life experience and represents 85% of knowledge content.
- *Information*, or data, provides situation awareness — who, what, when, where and how-much facts of situations and circumstances. Information represents only 15% of knowledge and requires *theory* to define its meaning and purpose.

Case-based reasoning is a reasoning methodology inspired by the human process of reuse a previous similar episode to solve a new problem [6]. The act of being reminded of a previous episode is modeled in case-based reasoners by comparing a new problem with a collection of stored cases (the *case base*), often based on indexes describing the contents of the stored cases. The most similar cases are then retrieved, and can be used as references to classify the new case or the solutions from the retrieved similar case(s) can be adapted to fit the new problem. If the adaptation results successful, a new case has been created and is retained in the case base. However, adaptation is one way of acquiring cases. Other case bases consist exclusively of real experiences, where adapted cases are not learned. Cases can also describe prototypical situations or be artificially authored.

What distinguishes universal knowledge technology is that it enables both machines and humans to understand and reason with any form of knowledge, of any degree of complexity, at any scale.

4. A case study

Problem solving can be seen as a process consisting of problem space search and knowledge search. Expert systems were introduced as an intelligent tool for diagnosis and it is now widely used in classification and control tasks in a variety of human activity fields. Fuzzy logic is an attempt to capture valid reasoning patterns about uncertainty. In addition to modeling the gradual nature of properties, fuzzy sets can be used to represent incomplete states of knowledge. In general, a more complex model may provide the capability to obtain a better representation of a system and may facilitate design, but it may not lend itself to straightforward analysis.

If a simpler model is used, one may ignore some of the dynamical behaviour of the plant (problem domain) and be able to get more analytical results, but such results may only be valid in an approximate way for the real system. There will be different analysis techniques that are appropriate for different models (conventional, discrete event models, distributed architectures etc.).

Our Intelligent Knowledge Management System is a multiagent system used in a Learning Control Problem (IKMSLCP). The IKMSLCP consists of [9]:

- **the controlled process agent (CPA)** is defined by a class of discrete event system, with a precisely goal and represents the domain problem;

- **the control expert system agent (CESA)** of the plant and learning process, which includes more fuzzy knowledge models M_i , $i=1,k$. The existence of a number of fuzzy knowledge models $M_0 \subset M_1 \subset \dots \subset M_k$ means a gradual and incremental learning process [9]. The **CESA** agent of **IKMSLCP** has to be designed so that it can eliminate the undesirable system behaviours. There is a need to specify the initial state of the closed-loop system to reduce the combinations that may complicate the model. In analysis, the focus is on testing the closed-loop properties: reachability (firing a sequence of rules to derive a specific conclusion), cyclic behaviour of the fuzzy inference loop, stability (the ability to concentrate on the control problem).
- **the diagnosis agent (DA)** used in the generation of plausible explanations. The **DA** activates a certain intern knowledge model of the **CPA** that will be used by the **CESA**. Based on the generated explanations, the observer learns the used knowledge model of the **CPA**. If these explanations are valid, then they represent the sum of knowledge that permit the observer advance in the learning process.
- **the observer** or the human agent (**HA**).

To capture by the agent who learn the control knowledge for solving the problem P , the control expert system uses at any time, an internal knowledge model of the process $M_i |_{i=0,k}$ based on the level of the last knowledge model. The output of the controlled process is compared with the reference (goal) and, if this output doesn't satisfy the required criteria, it will represent a fuzzy qualitative error (i.e. a set of manifestations). These $k+1$ qualitative errors represent the unique activated inputs in the **DA**, having the characteristics of a dynamic system [9].

The fuzzy logic inference refers to the problem of possibilistic and temporal reasoning in **IKMSLCP**. Let $s_0 \in U$ denote the unknown current state of process under consideration. U may be viewed as the cartesian product of domains $U^{(i)}$, attached to attributes $P^{(i)}$ that are chosen to characterize s_0 . We suppose that s_0 is a n -tuple $(s^{(1),0}, \dots, s^{(n),0})$ of attribute values $s^{(i),0} \in U^{(i)}$, $i=1, \dots, n$. The definition and application of fuzzy expert systems consists of four phases, which can be distinguished conceptually as follows: **i)** In the first phase the knowledge acquisition which leads to appointing the attributes $P^{(1)}, \dots, P^{(n)}$, $n \in \mathbb{N}$ and their domains $U^{(1)}, \dots, U^{(n)}$. Fixing the universe $U = \Pi(U^{(i)})_{i \in \mathbb{N}_n}$, $\mathbb{N}_n \subset \mathbb{N}$ provides the representation structure for the expert knowledge and forms the set of all states that are a priori possible; **ii)** In the second phase rules are formulated that express general dependencies between the domains of the involved attributes $P^{(1)}, \dots, P^{(n)}$. The single rule R_j , $j=1, \dots, m$, $m \in \mathbb{N}$, do not concern all attributes normally, but only a small number $P^{(i)}$, $i \in M_j$, which are identified by an index set $M_j \subseteq \mathbb{N}_n$ of low cardinality.

The matching window is either a point, or a rectangle, depending on whether the matched fuzzy proposition holds at a time point or in a time interval. First, we should determine the time domains of variables in the database, or in other words, determine the size of the matching window and its position, by giving priority to the temporal matching. In the case that the event described by a fuzzy fact has appeared or is appearing, we can continue to perform the numeric matching. The application of the fuzzy formulation is advantageous in cases when small violations of specific constraints may be tolerable for the decision-maker with the goal to achieve a more reasonable objective.

Therefore, there exist some unique problems in the fuzzy reasoning procedure: the successful pattern-matching of a fuzzy rule not only requires that all the fuzzy propositions in the rule's premise should match the data in the database in a fuzzy sense, but also requires that the

temporal relations among these fuzzy propositions should match the temporal relations implicitly formed by the corresponding dynamic situations in the database in a fuzzy sense.

A model associated with a possibilistic expert system and which is also based on a temporal reasoning should meet the following requirements, as outlined in the following algorithm.

Context - *A fuzzy compiled rulebase, to which time descriptors have been associated*
-Fuzzy database reflecting the state of the controlled process in conjunction with fuzzy temporal relations

1. Find a time range associated with the time variable $X^{(i)}$, $i=1,\dots,n$ from the database according to the fuzzy descriptor DT, where $\Delta T = \left(\int_{\tau} \frac{\mu_1(t)}{t}, \int_{\tau} \frac{\mu_2(t)}{t} \right)$, the sentence P_i associated with variable $X^{(i)}$ is assumed to be within on interval DT formally described by $DT \left(P_i, \int_{\tau} \frac{\mu_1(t)}{t}, \int_{\tau} \frac{\mu_2(t)}{t}, m \right)$. In this way we can find the size and the position of the matching window, priority been given to the temporal matching
2. Perform the temporal pattern-matching in compliance with the existing temporal attributes. **If** (the temporal pattern-matching is successful) **then** compute its degree of confidence and proceed to step 3 **otherwise** rejected situation
3. Perform the numeric pattern-matching by using the pair Π and N . **If** (the numeric pattern-matching is successful) **then** continue the fuzzy reasoning algorithm based on compiled fuzzy rulebase **otherwise** rejected fact. The numeric pattern-matching calls for the synthesis of $X^{(i)}$ based on associated values $x^{(i)}(t)$, $t \in DT$ into a single value
4. Complete the global pattern-matching with both new facts derived from the process and already with the inferred facts. More specifically finish the fuzzy reasoning process starting from a given fuzzy state up to its (finite) limit passing through a sequence of internal states of the possibilistic expert system
5. Defuzzify outputs to obtain the the results for all output variables

It is assumed that the **CPA** can be represented with the following model [9]: $\mathbf{CPA}=(X, E, f_e, \delta_e, g, E_v)$, that can represent certain class of discrete event systems, where X is the set of **CPA** states denoted by x , E is the set of all events, f_e are the state transition map, $f_e: X \rightarrow X$, $e_k \in P(E)$, $k \in T$, δ_e are the output maps, $g: X \rightarrow P(E)$, and E_v is the set of all valid event trajectories (that are physically possible).

Note that E is the union of the command-input events (E_u), the disturbance input events (E_d) and the output events (E_o) of the plant. When discussing the states and events at time k , $k \in T$ or k is a fuzzy instant or a fuzzy time interval, $x_k \in X$ is the **CPA** state, $e_{uk} \in E_u$ is a command input event of the plant, $e_{dk} \in E_d$ is a disturbance input event of the plant, $e_{ok} \in E_o$ is an output event of the plant, that is equal to input event $e_{pk} \in E_p$ for **CESA**. Each $e_k \subset g(x_k)$ is an event that is enabled at time k , and it represents a set of command and disturbance input events of the plant. If an event $e_k \in E$ occurs at time k and the current state of **CPA** is x_k , then the next state is $x_{k+1} = f_{ek}(x_k)$ and the output is $e_{ok} = e_{pk} = \delta_{ek}(x_k)$. Any sequence $\{x_k\}$ such that for all k , $x_{k+1} = f_{ek}(x_k)$, where $e_k \subset g(x_k)$ is called a *state trajectory*.

The **CESA** has two inputs: the reference input events $e_{rk} \in E^{CES,r}$ (user inputs) and the output events of the **CPA** $e_{ok} = e_{pk}$, $e_{rk} \in E^{CES,p}$. Based on its fuzzy state and these inputs, the **CESA** generates enable command input events to the **CPA** $e_{0k}^{CES} \in E^{CES,0}$. Hence the **CESA** models how the observer in the loop coordinate the use of feedback information from the **CPA**, reference and user inputs (modeling the current control fuzzy objectives), and information in its memory (the fuzzy **CESA** state). This inference loop constitutes the core of the **CESA**

where the knowledge is interpreted by the inference engine, actions are taken, the fuzzy factbase is updated and the process repeats.

Usually, the fuzzifier may transform the measured value (e_{pk}) of the measurement into a corresponding universe of discourse for each input variable, as an input fuzzy fact. Fuzzy rules $R_i \in R$, are used to express knowledge. Three kinds of variables are used: input, output and intermediate variables. The defuzzification process decides for each output variable a single value. The **CESA** is modeled by:

$$\mathbf{CESA} = (X^{\mathbf{CES}}, E^{\mathbf{CES}}, f^{\mathbf{CES},e}, \delta^{\mathbf{CES}}, g^{\mathbf{CES}}, E^{\mathbf{CES},v}),$$

where $X^{\mathbf{CES}} = X^b \times X^{\text{int}}$ is a set of fuzzy **CESA** states $x^{\mathbf{CES},k}$ (X^b is the set of fuzzy factbase states and X^{int} is the set of possibilistic inference engine fuzzy states), $E^{\mathbf{CES}}$ is the set of events of the **CESA** (reference inputs $E^{\text{PES},r}$ user inputs, output **CESA** events $E_0^{\mathbf{CES}}$, the set of fuzzy rules R and the **CPA** output events $E_p^{\mathbf{CES}}$), so that: $g^{\mathbf{CES}}$ is the enable function, $f^{\mathbf{CES},e}, e_k \in P(E^{\mathbf{CES}}) - \{\emptyset\}$ is the state transition map, $\delta^{\mathbf{CES}}$ is the output map of **CESA** and $E^{\mathbf{CES},v}$ is the set of all valid inference loop trajectories that are possible.

The input events inclusion in the fuzzy knowledge model (**FKB**) allows the **CESA** designer to incorporate the **CPA** feedback and the reference input variables directly as parts of the **FKB**. This is analogous to the use of variables in conventional rule-based expert systems. It is important to note here that the consequent formulas of the rules represent how the fuzzy state x^b in the fuzzy factbase changes, based on the occurrence of input events, and they can be defined in a recursive manner.

The fuzzy decision-making capabilities of the **CESA** are more sophisticated than those of the standard fuzzy control systems. The **CESA** has to be designed so that it can eliminate the undesirable closed-loop system behaviors. There is a need to specify the initial state of the closed-loop system to reduce the insignificant state combinations that may unnecessarily complicate the model.

The operation of the **CESA**, at the inference level, proceeds by the following steps:

- *Acquiring the CPA outputs and reference input events at time k ;*
- *Forming the conflict set in the fuzzy match phase from the compiled set of rules in the fuzzy knowledge-model M_{KF} based on e_{uk} , the current status of the truth of various fuzzy facts, and the current values of variables in the knowledge-base;*
- *Using conflict resolution strategies (refraction, recency, distinctiveness, priority, and arbitrary) in the select phase, find one rule r to fire;*
- *Executing the actions characterized by the consequent of rule r in the act phase.*

Although every occurrence of an input event of the **CPA** always affects the **CESA**, the occurrence of an input event of the **CESA** does not necessarily immediately affect the **CPA** state. In qualitative analysis of our **CESA**, we focus especially on testing if the closed-loop **CESA** satisfy certain properties, as follows: reachability, cyclic properties and stability [9]. In our **IKMSLCP**, the learning process is supervised and the goal of this problem is that human agent **HA** can assimilate in a gradual way the fuzzy planning knowledge so that he becomes, as far as possible autonomous in a restricted time t_T (the learning time).

The results for the learning problem shows that: **i)** The most cases of unsolved problem is represented by disregarding the control strategy; **ii)** The increasing or decreasing of the probability attached to the causes influence in the same direction the importance of an hypothesis in comparison with the others. Even if the probability of the hypotheses varies in the same direction, they can increase or decrease as importance according to their trend. The predictability of our **IKMSLCP**, from the practical point of view, simulates only the diagnosis

component but include knowledge models of the considered planning problem in different stages of its development. The diagnosis model involve diagnostic entities (disorders, manifestations), causal associations relating these entities (the causal network), the notion of diagnostic explanation and the process of hypothesize reasoning. The algorithm works in a sequential and constructive manner. It takes one present manifestation for each time and than incorporates its causes into the existing hypotheses. The process continues until all present manifestations are processed and the learning time is less or equal with I_T . The **DA** accept as inputs a set of manifestations and supply outputs that represents explanation.

5. Conclusions

Tomorrow's organizations will need to be more mobile, agile, competitive and learning oriented than ever before. Increasing competition at home and abroad has created a sense of urgency for organizations to be mobile and innovate at a quick pace. Creating knowledge suggests the need for improved knowledge flows internally within the organization and externally to the customers and stakeholders. Leveraging knowledge through the connection and collaboration of others may lead to critical success factor in whether a mobile organization is successful.

One technique that is gaining prominence for determining knowledge flows in organizations to facilitate the communication, collaboration and innovation of others is Social Network Analysis (SNA). SNA deals with mapping knowledge flows between actors, whether individuals, departments, companies, and so on. It is a powerful technique that has been used in many applications, ranging from education, business, international trade and government.

Semantic development will enable solutions with new capabilities, such as: i) virtual infrastructure, semantically modeled middleware; ii) netcentric services and operations that reduce integration costs; iii) linking multiple information sources through an ontology that allows users to search and access any source using their own business vocabulary; iv) real-time integration and system-of-systems interoperability (internally, across supply chains) to provide advanced capability; v) composite applications that enable knowledge workers to put information in context, interact with information and applications in the context of their business process; vi) business aligned, rapid tactical implementation of strategic capabilities such as: enterprise IT integration, consolidation, and modernization, knowledge-centered customer-facing process; business intelligence; exception management, case management; command and intelligent control.

Future research might include a more comprehensive study about what components make an impact to collective work and learning in Internet environments. Studies would combine multiple perspectives such as technological environments, organizational structure and external barriers. Organizations need to modify their recognition and reward systems as a part of their knowledge and learning strategies. The knowledge that is gained from the sharing process can then be leveraged and feed-back into the organization as a part of its knowledge and learning strategy.

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MACROS IN OFFICE 2007

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Abstract

In Word and Excel the automation of the work is possible by using macros that are registered and which can be edited. By the "Recording" procedure one can define a macro to which a button in Quick Access Toolbar can be associated. It can be stocked Store macro in any open pattern (it becomes available for any document in which the pattern is used) or in any open document (it will be possible to be used only in the respective document). Such a button can become useful in more documents. Visual Basic for Applications language associated with the Office editing environment offers you the possibility of editing macros.

Key words: *Word, Excel, Basic, VBA, Macro, Recording*

The *Visual Basic for Applications (VBA)* language, which is implemented in *Microsoft Office's* editorials applications (*Word, Excel, PowerPoint, Access, Outlook*), stand for a strong programming feature, closely related to *Visual Studio (Visual Basic, C++, Java, etc.)*. The user's actions (for instance: the introduction and the formatting of a text, the launching of menu commands and of dialog boxes' options and so forth) can be registered by transposing them into *Basic* instructions sequences, which defines a *script*, called *macros*. Macros may permit the administration of the Office document's content, to which the **VBA** may communicate. Thus, through the *macros* introduction, one may *automated* the launching of routine or repetitive actions.

■ The recording of a VBA macro command

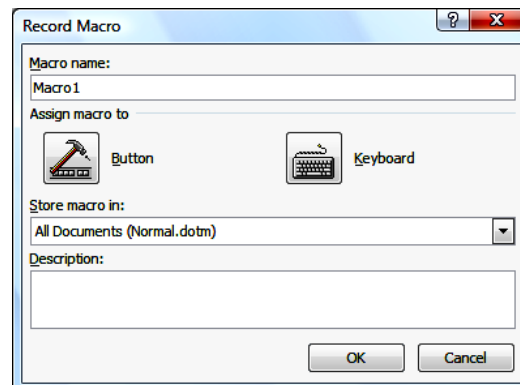
The simplest method of creating a macro is the utilization of the *Macro Recorder* resource. Through this method, the operations which are desired to be automated, are recorded step by step (text editing, menu commands, dialog boxes etc). The *Macro Recorder* transforms all operations into adequate Basic instructions (*VBA modules*).

Within *Word*, *Excel* or *PowerPoint* (the other *Office* applications do not possess macros recording functions) the recording of a *macro* starts with the establishment of its name (*Macro1* for instance), but this name may also change into another one by using the **Macro name** text box.

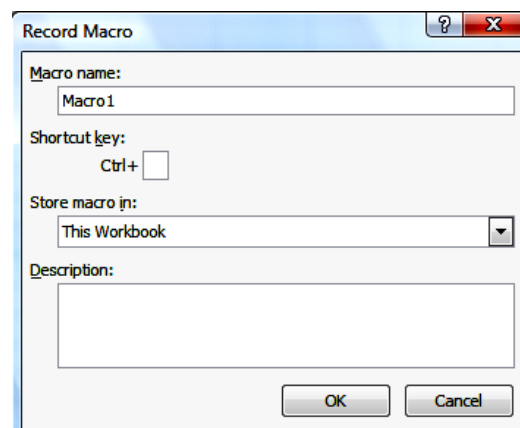
- Names are not allowed to have more than 225 characters; is recommended to specify short and easy accessible names.
- The first character must be a letter or a low line/underscore (_).
- Gaps or dots are not allowed within the names.

📖 (Examples)

Within *Word*, a macro can be associated a button (**Button**) from an instrument tab, or a key combination (**Keyboard** → **Alt+**, **Ctrl+**). The macro can be stored in any open pattern (**Store macro in** - thus it becomes available for every document which uses the pattern) or in any open document (it only may be used in the respective document). The Description text box contains optional depiction of the macro.

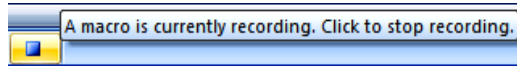


Within *Excel*, the macro will be placed into the actual work register, a new work register or the *Personal Macro Workbook* register (the macros will be available within all working registers).



🔔 (Observations)

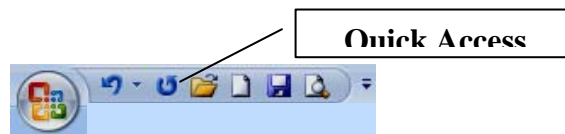
Given that the macros recording mode uses to record all of the user's activities, it can indicate the non-execution of the useless commands. The 'Recording' condition is stated within the *Office's* status bar:



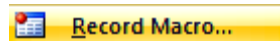
This button will be pressed when the recording is done. Within *PowerPoint*, the macro may be memorized in any open presentation. It may be created by using the VBA editor.


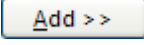


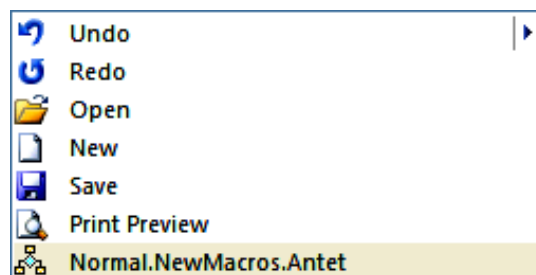
The adding of a button that launches a macro command in *Quick Access Toolbar*:

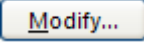



- ✓ A document for editing should be opened
- ✓ The recording of a macro is initiated:




- ✓ One may establish the name of the macro (*Antet* for instance) which it will be assigned to a button (*Assign macro to, Button*).
- ✓ In *Word Option* windows, *Customize*,  **Normal.NewMacros.Antet**, .
- ✓ The new button will appear on the Quick Access list:





- ✓ The  button should be pressed.
- ✓ From the *Modify Button* window one may select a symbol ( for instance).
- ✓ in the *Quick Access Toolbar* the new button will show up:

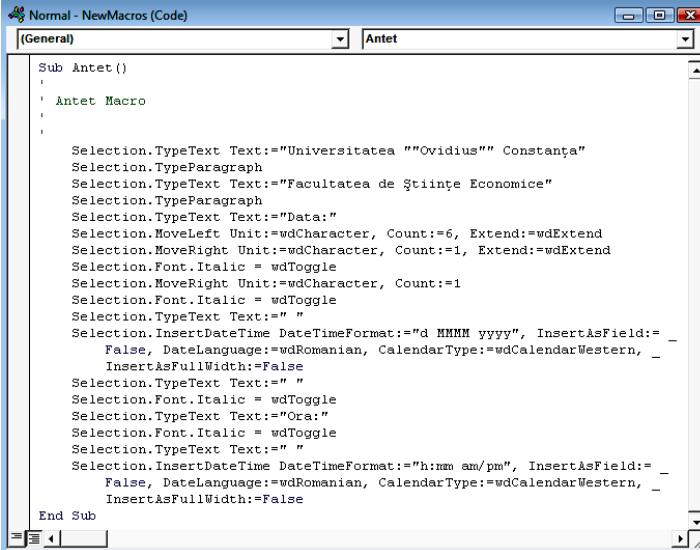


- ✓ A text is introduced within the document's window (for date and time, one may select  **Date & Time** from the *Insert* tab) :

Universitatea "Ovidius" Constanța
Facultatea de Științe Economice
Data: 17 octombrie 2007 Ora: 11:24

- ✓ The recording is stopped by pressing the  button from the status bar.
- ✓ Being attached to the document, the macro can be used anytime by pressing the  button (please notice date and time adjustment):
Universitatea "Ovidius" Constanța
Facultatea de Științe Economice
Data: 19 octombrie 2007 Ora: 17:16

- ✓ The visualization of the macro content , *Edit* in VBA Editor:




```
Normal - NewMacros (Code)
[General] Antet
Sub Antet ()
    Antet Macro
    Selection.TypeText Text:="Universitatea "Ovidius" Constanța"
    Selection.TypeParagraph
    Selection.TypeText Text:="Facultatea de Științe Economice"
    Selection.TypeParagraph
    Selection.TypeText Text:"Data:"
    Selection.MoveLeft Unit:=wdCharacter, Count:=6, Extend:=wdExtend
    Selection.MoveRight Unit:=wdCharacter, Count:=1, Extend:=wdExtend
    Selection.Font.Italic = wdToggle
    Selection.MoveRight Unit:=wdCharacter, Count:=1
    Selection.Font.Italic = wdToggle
    Selection.TypeText Text:" "
    Selection.InsertDateTime DateTimeFormat:="d MMMM yyyy", InsertAsField:= _
        False, DateLanguage:=wdRomanian, CalendarType:=wdCalendarWestern, _
        InsertAsFullWidth:=False
    Selection.TypeText Text:" "
    Selection.Font.Italic = wdToggle
    Selection.TypeText Text:"Ora:"
    Selection.Font.Italic = wdToggle
    Selection.TypeText Text:" "
    Selection.InsertDateTime DateTimeFormat:="h:mm am/pm", InsertAsField:= _
        False, DateLanguage:=wdRomanian, CalendarType:=wdCalendarWestern, _
        InsertAsFullWidth:=False
End Sub
```

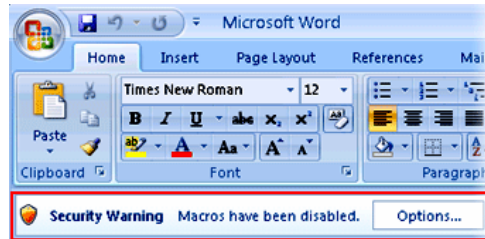
Instructions of Visual Basic programming language appear inside a macro-instruction where the user's actions may be transformed. These instructions have more or less significance, especially for a beginner. What is considered to be important is the fact that they can be modified.

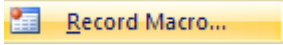
A usual macro owns the following elements:

- The key word **Sub** (the abbreviation from *subroutine*) – this key word marks the beginning of a new macro.
- The *macro name* – after the keyword **Sub**, the name of a macro is placed between brackets.
- *Comments* – rows that begin with an apostrophe ('). The comments are not processed when the macro is processed.
- *The instructions of the macro* – the entire part of the macro (the rows between the keywords **Sub** and **End Sub**).




If the macros implementation in the messages bar is noticed to be forbidden for security reasons, the user may act properly by pressing the  button. The processing of a macro may also be introduced by the **Alt+F8** shortcut.



- ✓ A document for editing should be opened (*Excel*).
- ✓ The cursor might be placed into (for instance into the B2 cell).
- ✓ The recording of a macro-command is going to be initiated, .
- ✓ One may establish the name of the macro command (*Data for instance*) which it will be associated to the **Ctrl +d** combination key.
- ✓ In the current cell one may introduce the TODAY() cell:

	B2				
	A	B	C	D	E
1					
2		17.02.2007			
3					

- ✓ The spreadsheet is going to be saved: **Save as type, Excel Macro-Enabled Workbook**.
- ✓ An Excel document will be opened, giving the permission to execute the macro-commands: , **Enable this content**.
- ✓ The current date may be introduced in any of the cells (for instance in D4) by using the **Ctrl+d** shortcut:

	B3			
	A	B	C	D
1				
2		17.02.2007		
3				
4				17.02.2007

- ✓ The visualization of the macro content , *Edit* in the VBA Editor:

```

Sub Data ()
'
' Data Macro
'
' Keyboard Shortcut: Ctrl+d
'
ActiveCell.FormulaR1C1 = "=TODAY()"
Range("B3").Select
End Sub

```

- ✓ By performing the macro, one may realize that a current date has been introduced, but the cursor will move constantly into the B3 cell (while recording the macro, the *Enter key* has been pressed after the date function had been introduced). If the **Range("B3").Select** interaction will be deleted in the VBA editor, the activation of the B3 cell will be canceled.



The macros are associated to *Office* documents. They may be saved together with these documents: from the *Save as type* list, one may select the folder which contains the *Macro-Enabled* mention. For security reasons, by launching the Office applications, one may notify the existence of the macros, their action wouldn't be allowed in an implicit manner.

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E-GOVERNANCE FRAMEWORKS: AGENDA AHEAD

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Abstract

Electronic governance may be defined as the delivery of the government services and information to the public using electronic means. Use of IT in the government facilitates an efficient, speedy and transparent process for disseminating information to the public and other agencies, and for performing the government administration activities.

Perceived to be a technological solution for a better, more efficient and more effective government, e-government has been presented and implemented in nations around the world as one of the most compelling advances for government since the mid-1990s. Many governments have begun various e-government initiatives to develop and advance their online functions by providing public information and services to citizens and businesses, and by interacting with citizens to obtain policy inputs. E-government has also been hailed as a means of promoting more effective intra- and intergovernmental relations. For explaining the interrelationship among various constituencies of governance, authors and researchers have designed different frameworks. In this regard, this paper makes an attempt to

1. Introduce the concept of E-Governance.
2. Present the scope of E-Governance.
3. Provide a useful insight into various E-Governance frameworks.
4. Pinpoint certain gaps identified in the existing frameworks, and
5. Highlights certain strategic directions for bridging these gaps in terms of a comprehensive framework.

1. Introduction

E-Governance is the use of the information and communication technology (ICT) to conduct government business and provide public services. It marks the most dramatic shift in governance and offers a fundamental restructuring of the way, government operates and interacts with citizens. It enables government to guide the society, out of the industrial age into the information age. (Holmes, 2001) At the level of service, e-governance promises a full service available 24 hours a day and seven days a week, greater accessibility, the capability to obtain government services without visiting government offices, and reduced service cost. At the level of basic factors (government accountability and general acceptance of state institutions), e-governance contributes to the functioning of democracy by online provision of government information which would otherwise be difficult to obtain or unavailable, and through online debates and plebiscites. According to International Centre for E-Governance, UK – “*E-Governance implies Electronic Governance, which is the application of Information and Communication Technology (ICT), to the process of government functioning to bring about Simple, Moral, Accountable, Responsive, and Transparent government.*”

With its ingrained transparency and openness, given the principles of internet, Electronic governance or E-Governance brings governments more closer to their citizens. Therefore E-Governance has a larger social angle, as it ensures a more wide and representative democracy. (Holmes, 2003) Effective implementation of E-Governance leads to establishment of democracy in the society. (Bhatt, 2003) Other benefits of E-Governance are faster decision making, reduction of duplication of work, detection of corruption and illegal transactions, prevention of knowledge drain and crisis handling. E-Governance brings urban and rural together and breaks the barrier of distance to lead an efficient administration. E-Governance possesses the potential to bridge the gulf between the urban ‘technology haves’ and rural ‘have nots’, within and among the countries.

Mostly, e-Governance projects are designed with some of the following objectives:

1. Minimizing distance to access
2. Extending access to un-served groups
3. Introducing transparency
4. Simplifying transaction procedures
5. Minimizing cost to citizens and government
7. Increasing the government revenue
8. Improving the time to transact (citizen, government)
9. Offering new services
10. Modernization / adoption of Best Practices

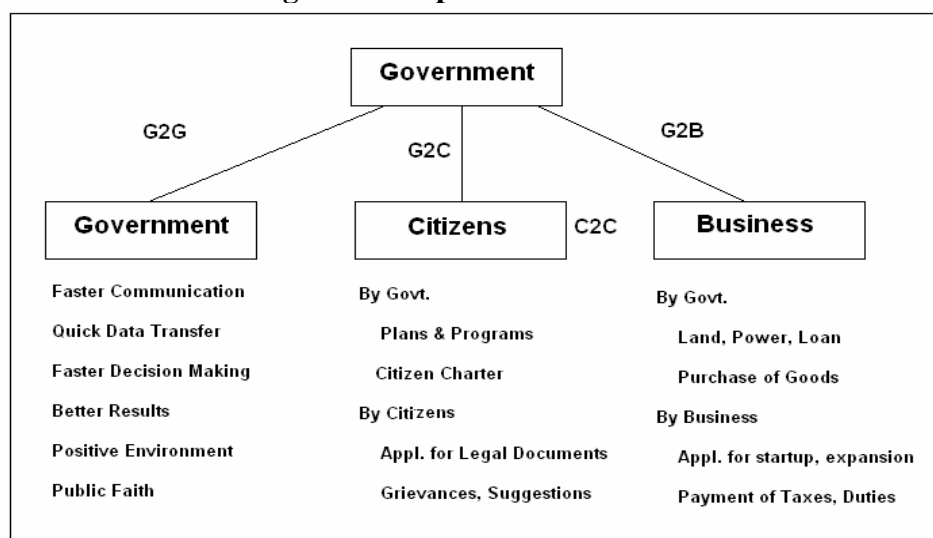
2. Scope of E-Governance

In carrying out various functions, government departments come in contact and engage in various transactions with general public (citizens), other government departments and with businesspersons. Thus communication and other transactions of government with these three entities gives rise to following combinations of possibilities, which highlights the scope of E-Governance.

- Government to Government (G2G)
- Government to Citizens (G2C)
- Citizens to Government (C2G)
- Government to Business (G2B)
- Citizens to Citizen (C2C)

All these possibilities are presented in figure 1, designed by author himself.

Figure 1: Scope of E-Governance



From last couple of years, scope of e-governance has been extended to a new dimension 'Employee to Employee (E2E), which links effective communication between employees of various departments and geographical regions.

In spite of the promises of e-governance, many of the e-governance initiatives in many countries have not been able to deliver them. Often this is because the implementation of e-governance applications suffers from the common drawback of treating it as a techno-centric project and losing track of the "governance" (or excellence) focus.

While the above mentioned functioning, advantages and scope of e-Governance are uniform, however different authors and agencies worldwide explained it using different perspective. Majority of them have applied existing methodologies, techniques and approaches used in information system, general management or philosophy. Various frameworks are given below:

3. E-Governance Frameworks

This section presents various frameworks propounded by different authors.

3.1 Mansell (2002) provided a knowledge management¹ based framework for the development of information and communication technology (ICT) in knowledge driven development, which covers gamut of e-governance issues like strategies for human resource development, technical infrastructure of E-government and improved governance. He argues that E-governance is one step towards enabling measures to address the "digital opportunities" and the "digital divide" to set out the issues that should guide such initiatives. An enabling environment and the championing of ICT development and usage are essential to reduce the "digital divide" and to take advantage of ICT opportunities.

3.2 Arora (2004) affirmed that Knowledge Management (KM) as a formal discipline of management in e-Governance can be very helpful for creation, transfer, documentation, storage and utilization of knowledge comprising administrative processes and decisions, in digital form. He also proposed few initial measures for performance evaluation of e-Governance projects. These include ICT infrastructure investments, ROI from E-Governance projects, duration of project, new users registered, average usage of services and their satisfaction, satisfaction of employees, training, e-Governance 'Vision', extent of integration of e-Governance with policy objectives, Public image of department, change in corruption level etc.

3.3 Model of Ashraf, Ali and Ashraf (2005) is built on KM cycle of Knowledge capturing, Knowledge sharing, Knowledge enhancing, and Knowledge preserving and therefore shares knowledge that supports the law of knowledge dynamics. E-Governance is a combined process of *integration and interaction*. E-Governance needs to maintain a powerful integrated hardware and software network. This is the *integration part of E-Governance*. He also called it as *infrastructure management system* of E-Governance. A

¹ Knowledge Management is an emerging set of processes, organizational structures, applications, and technologies that aim to leverage the ability of capable, responsible, autonomous individuals to act quickly and effectively. KM requires an integrated approach to identifying, managing and most importantly sharing the company's information assets, including database, documents, policies and procedures (explicit knowledge) as well as undocumented expertise resident in individual workers (tacit knowledge). (www.gartner.com)

good E-Governance model provides a platform where various communities and special interest groups (SIG) represent themselves. It provides an easy way for individuals to find the groups and communities of interest to them. It builds an environment with specialized expertise that can help answer questions, and guide them to find solutions. This is the *interaction part of E-Governance*.

Authors assert that E-Governance is a transition process from conventional to people-oriented proactive electronic system. To accept this transition process, the communities need to be trained and educated. They also termed it as *transition management system* of E-Governance and *community management system* of E-Governance. The minimum and basic features of E-Governance are to store and retrieve the information, records and documents of a government. Advanced features are to extract statistical reports to predict future, to help decision-making and to provide intelligent forecast for planning. This is called *knowledge management system* of E-Governance.

A KM based e-Governance can be promoted towards sharing of both explicit and implicit knowledge by developing collaborative work groups and several autonomous bodies that facilitate government to business relationships (G2B). (Wadhwa, Saxena, Kumar, 2004)

3.4 Gupta (2004) applied the concept of ‘Nirvana’² (enlightenment) to the domain of government as one stop on-line government and necessitated a need to identify the balanced path for government to achieve nirvana. He also suggested effective public private model in governance for reforms and reengineering and called for transformative leadership. He specified some of the requirements that have to be fulfilled in an integrated one-stop government platform. Some of them are as follows:

- Smoothly adapting traditional processes to modern technology
- Single window access to public services
- Access via different media channels & devices (Internet, PDA, Call centres etc)
- Guaranteeing the necessary level of security, authenticity and privacy in communications and transactions via the internet
- Adapting & smooth coordination of technology at both internal (G-2-G) and external (G-2-C) level to facilitate seamless government
- Providing help in filling in online forms etc and clarifying and updating underlying legal issues
- Keeping track of the process, handling ‘freedom of information’ requests and other ‘due process’ requirements

3.5 Kitiyadisai (2004) narrated the Buddhist perspective in e-governance for bridging digital divide.³ He explained the four noble truths i.e. *Dukkha, Samudaya, Nirodha and Magga* and the *Noble Eightfold Path or the Middle Path* consists of right understanding, right intention, right speech, right action, right livelihood, right effort, right mindfulness,

² Infrastructure management covers the domains like Security management, Software management, Network management and Resource Management. Term ‘Nirvana’ was first coined when prince Sidharth became Budha and attained Nirvana (a sense of total or super consciousness) in the end after spreading his teachings of the noble path to nirvana.

³ Digital divide refers to the gap between individuals, households, businesses and geographic areas at different socio-economic levels with regards to their opportunities to access information and communication technologies and their use of the Internet.

and right concentration. The other often cited Buddhist concept, *Brahma-Vihara or the Four Sublime States of Consciousness* was also discussed.

He cautioned the decision-makers to be mindful of considering the 'Four Requisites gap' before narrowing the digital divide. He also mentioned that in order to effectively exploit the myriad of sophisticated affordances offered by ICT, people need to have the requisite capabilities and skills which can be redressed by relevant education policy. So, the 'educational gap' needs to be considered in parallel to process of digital inclusion. Similarly, in devising public policy on digital projects, right understanding of the different levels of Dukkha can be enhanced by encouraging people's participation, public seminars or hearing.

3.6 Jutla, Bodorik and Dhaliwal (2002) presented a conceptual model for use by governments in creating and sustaining an appropriate climate that facilitates the national adoption of e-business. Here the need was emphasized for following infrastructure components and associated processes for government facilitation to build a knowledge-based economy.

1. knowledge and innovation process-based economy;
2. e-government leadership;
3. regulatory, trust, and financial infrastructure;
4. content infrastructure (including content management processes);
5. human infrastructure including skills distribution network; and
6. communications and information systems infrastructure and access.

3.7 Janssen and Joha (2004) discussed the conceptual framework of shared service centers (SSCs), a form of e-governance, which are gaining importance in public administration as a means to innovate, reduce costs and increase service levels. The SSC provides a range of services varying from applications service provisioning, help desk, web hosting, application development to maintenance.

This framework discusses the strategic intent (input) of various agencies for shared services as necessity, legitimacy, efficiency and reciprocity. Configuration and process phase of the model is composed of structure, interaction, behavioural and contract components. Ultimately it results into customization, increased customer satisfaction and reduction in transaction cost and uncertainty.

3.8 Peristeras and Tarabanis (2004) proposed governance enterprise architecture (GEA), consists of following high-level models.

GEA mega-process model covers aspects like formulation of public policy, identification of society needs, provision of services and support operations aiming at facilitating either the formulation of public policy or service provision.

GEA interaction model identifies three basic governance actors i.e. society, administrative system, political System and their interactions. Following a systems' perspective, the model depicts the transformation of the governance system's inputs (society needs) to outputs (services) with detailed descriptions of the participating actors, stages and inherent controls.

GEA public policy formulation object model is composed of six main components, represented by several objects:

- Culture (e.g. Vision, Value, Power Structure)
- Environment (e.g. Political System, Society, Public Sector, Technology)
- Knowledge (e.g. Core Competence, Strategic Information)
- Organization (e.g. Organizational Agent)
- Resources (e.g. Technology, Financial, Human)
- Functions (e.g. Process, Activity, Task)

GEA service provision object model is layered into two sections i.e. operational (transactional) layer and knowledge (planning) layer.

GEA object model for the overall governance system covers the path that leads from the conceptualisation of administrative action to the realization and process execution in the real world, in correspondence with the “Formulate Public Policy” and the “Provide Service” mega-processes model.

3.9 Janssen and Cresswell (2005) presented Enterprise application integration (EAI) methodology for e-governance. It combines an EAI⁴ perspective with process simulation tools to understand, represent and evaluate solutions to government integration problems. The analytical framework of **Sol (1990)** classifies design methodologies by ways of thinking, working, modeling, and controlling and is already used for describing design methodologies in various fields (**Sol, 1982; Meel and Sol, 1996; Janssen, 2001**).

Way of thinking starts with a structured analysis of the current situation. Authors focused on adoption of relatively small steps and stakeholders participation so that they can gain the necessary knowledge to formulate their own incremental improvements. *Way of working* concerns the steps that need to be taken and is based on the problem-solving process to handle the design of organizational change. The *way of modeling* is based on discrete-event simulation and animation. *Way of controlling* should ensure that the right stakeholders are involved in the process of model building and in the evaluation of the impact. They discussed public sector structure, Division of labor, lack of IT know-how at senior management levels and involvement of multiple stakeholders as major barriers in reengineering the public sector.

3.10 Davison, Wagner and Ma (2004) discussed the strategic transformation to e-government. Accenture started its annual surveys of e-government development in 2000, characterizing e-government progression via a multi-stage “publish, interact, transact” model (e.g. **Accenture, 2000b, 2001**). Later, the model was extended to incorporate the notion of the transformation of government – redesigning processes so as to put the citizen at the centre (**Accenture, 2002**). This transformation involves structural and cultural change within government. In 2003, the model was further revised to five stages i.e. online presence, basic capability, service availability, mature delivery, and service transformation.

Another transformation model (**Hodgkinson, 2002**) suggests that e-government progresses through a learning curve for its back-end (e-business) activities, similar to the learning curve of data processing maturity of a six-stage growth model proposed by **Nolan (1979)**. A more comprehensive six-stage model (i.e. adhocracy, starting the foundations, centralised dictatorship, democratic dialectic and cooperation, entrepreneurship

⁴ Enterprise application integration (EAI) is an emerging approach to architecture design linking previously separated and isolated systems to give them greater leverage (**Themistocleous, 2004**).

opportunity, and integrated harmonious relationships) was given by **Galliers and Sutherland's (1991)**. Similarly, the strategic alignment maturity matrix proposed by **Luftman (2000)** consists of five conceptual levels (i.e. initial, committed process, established focused process, improved/managed process, and optimized process) and six IT business alignment maturity criteria (i.e. communication, competency/value measurement, governance, partnership, scope, and architecture and skills). According to **Hodgkinson (2002)**, interoperability, which is required for inter- and intra-departmental sharing and a common interface to citizens, will precede data management (and therefore knowledge management).

Authors emphasized the importance of transformed & mature e-government. Mature e-government is characterized by high levels of capability and performance on multiple dimensions. Performance dimensions include the government's ability to offer the vast maturity of suitable services with an e-delivery option, and a large number of citizens and organizations making use of them. Capabilities include the ability to share data and information across government units, reduce process times through workflow and ERP systems, and the ability to capture and share knowledge of government employees.

3.11 Davison, Wagner and Ma (2004) also suggested E-government alignment model which combines the insights of both the maturity and the strategic alignment models. In order to illustrate the complexities of e-government evolution, authors developed a multi-stage model. This model has been developed out of the work of **Henderson and Venkatraman (1993)**, **Hodgkinson (2002)**, **Nolan (1979)** and **Chen (2002)**. In the spirit of **Nolan's (1979)** model, it is designed to be descriptive and indicative: it can be used to describe or illustrate the current position of an e-government with respect to other e-governments

3.12 Zwahr, Finger and Mueller (2004) stated the transformative potential of E-Governance. along the three major functions of state, namely policy making (political process), regulation and service delivery. According to the authors, information and communication technology (ICT) can act as a *creative destroyer* of traditional institutions of governance and therefore is one of the drivers of the transformation of state functions.

They provided two perspective of E-Governance. Macro Perspective consists of variables institution of governance, functions of state and impact of ICT. Institution was classified into hierarchy, hybrid and market. All the functions were broadly classified into policy making, regulation and service delivery. Impact of ICT was identified as incremental, transformative and disruptive. Under the micro perspective, three traditional functions of state were identified as shaping of the political process, the regulation of the behavior of the various actors (government policies), and the provision of specific public services.

Out of the three functions, authors felt that “e”-initiative positively shall have positive impact on provision of services to the stakeholders of the state which leads to a new ‘hybrid’ form of governance. They further evaluated the impact of e-governance along two dimensions: the *modes of transaction* and the *transformative dimension*.

3.13 Ebrahim and Irani (2005) presented E-government architecture framework which focus that despite significant differences in the composition of organisations, there are a number of technologies and systems infrastructure that many organisations need to adopt

in common to provide facilities for the integration of their systems in a way that enables them to build a platform for sharing their knowledge resources. For example, an e-government portal requires a common and integrated architecture⁵ framework that allows different organisations, provinces, and municipalities to share and exchange data, independent of formats, devices and underlying architecture (**Sharma and Gupta, 2002**).

Architecture framework of e-government is divided into following four layers:

Access layer: Involves the channels that users can access for availing various government services.

E-government layer : This layer is about integrating digital data of various organisations into a web-portal of government services, in the form of a one-stop e-government portal.

E-business layer: This layer is focused on using ICT applications and tools to harness a networks of trust, knowledge sharing and information processing that takes place both within and between organisations (**Moodley, 2003**). Practically, it integrates front-end e-government layer applications, in the government portal with back-end activities such as existing databases and data warehouses.

Infrastructure layer: This layer focuses on technologies that should be in place before e-government services can be offered reliably and effectively to the public.

Authors also classified various barriers into dimensions like IT infrastructure, security and privacy, IT skills, organisational issues; and cost and demanded their quick resolution. **Li and Steveson (2002)**, also confirmed these barriers and asserted that to maximise the potential offered by an e-government initiative, government organisational culture, management strategy and individual attitudes within the organisation need to be changed.

3.14 Murthy, Kumar (2003) applied the architectural design model⁶ in architecting, designing and implementing e-Governance systems. It has four conceptual layers, which are given below:

1. Business Process Architecture Layer
2. Data Architecture Layer
3. Application Architecture Layer and
4. Technology Infrastructure Layer

The *business architecture* identifies the functions, process, organization, and information flow for accomplishing the mission of an organization. *Governance data architecture* defines various types of data needed for the functioning of the system. *Application architecture* defines applications & supporting capabilities to effectively manage the data & information needed to support business & performance objectives. (security, user authentication, access control, access devices-kiosk, mobile, pda etc). *Technology*

⁵ In order to explain the interaction between business strategy, information strategy, and corresponding business and IT structures, **Henderson and Venkatraman (1993)** proposed a model of strategic alignment. This model presents four domains of strategic alignment, as applied to corporate strategy.

⁶ The e-government architecture defines the standards, infrastructure components, applications, technologies, business model and guidelines for electronic commerce among and between organisations that facilitates the interaction of the government and promotes group productivity.

infrastructure layer defines the technologies and infrastructure required for implementing e-Governance applications.

3.15 Ramarao, Rao, Bhatnagar and Satyanarayana (2004) of 'Center for E-Governance' of Indian Institute of Management, Ahmedabad developed an E-Governance assessment framework to accomplish the following objectives:

- To assess whether and to what extent a given e-Governance project has the characteristics of a good e-governance project delivering "Value" to stakeholders.
- To guide in funding of e-governance projects at various stages of their life-cycle (newly starting, roll-out, scaling up, replication)
- To provide guidelines for mid-term assessment of ongoing initiatives, so that mid-course corrections, if any, can be applied
- To provide guidelines for shaping future e-governance projects
- To provide material for e-governance training programs
- To enhance the trust and confidence of stakeholders by enabling creation of a knowledgebase of all e-Governance projects rated as per a trusted framework.

It was felt that too much of resources shall be required in comprehensive assessment by any agency; therefore two tiers of instruments were developed. First tier of instruments was designed for a summary assessment (SA) of the project while the second set was designed for a detailed assessment (DA). Essentially both frameworks provide authentic and unambiguous answers to questions like the following:

- a) How far has the Project succeeded in achieving its purpose and objectives?
- b) Has the Project been designed and developed with all the technological features that are elegant and conform to widely accepted architectures and standards?
- c) Is the Project sustainable over long periods of time, with or without the motive force that initiated the Project?
- d) Is the Project cost-effective in terms of return on investment or in terms of cost per transaction?
- e) Is the Project replicable in other geographies?

Above mentioned instruments are comprised of various attributes like Service Orientation, Technology, Sustainability, Cost Effectiveness attributes and Replicability, which are further composed of many sub-attributes.

3.16 Moon, Welch and Wong (2005) presented different model designed by various agencies for benchmarking various e-governance projects operating at different countries worldwide. These models are given below:

Web Presence Index, Benchmarking of E-Government (BMEG)

A global e-government project jointly conducted by the American Society for Public Administration (ASPA) and the United Nations Division for Public Economics and Public Administration (UNDPEPA) (2001) developed a web presence measure that represents five different developmental stages of e-government such as 1) emerging stage, 2) enhanced stage, 3) interactive stage, 4) transactional stage, and 5) seamless stage. The ASPA and UNDPEPA report found that there are 32 countries, 65 countries, 55 countries, and 17 countries categorized at the emerging, enhanced, interactive, and transactional stages respectively. No country was categorized into the seamless stage.

E-Government Index, Benchmarking of E-Government (BMEG)

Using three different indices including the *web presence measure* described above, *ICT infrastructure measures* and *human capital measures*, ASPA and UNDPEPA developed a global e-government index. National ICT infrastructure capacity is measured using six proxy indicators (PCs/100, Internet hosts/10000, percentage of pop online, telephone lines/100, mobile phones/100, TVs/1000). In order to “capture a country’s and its citizens’ facility, opportunity and willingness to use online government” three variables – United Nation Human Development Index, Information Access Index, and Urban as Percentage of Population – are used as human capital measures.

E-Government Index, World Market (WM)

West conducted a global e-government survey and ranked 196 countries based on 28 features in the areas of information availability, service delivery and public accessibility. Some of the leading features include online publication; online database; external links to nongovernmental sites; audio clips; video clips; nonnative languages or foreign language translation; user payments or fees; subject index; privacy policy; security features; presence of online services; links to a government services portal; digital signatures; credit card payments; search capability; comment form or chatroom; automatic email updates; and having an English version of the websites.

Authors cited two major forces that drive the evolution of e-government among nations: 1) pulling factors and 2) pushing factors. The pulling factors refer to the e-government driving forces that emerge within governments or politics through administrative reform initiatives, strong political or administrative leadership of e-government champion, or political reform initiatives. The pushing factors refer to non-governmental or non-political forces that facilitate or promote government from the outside of the public sphere (politics or administration). Unlike pulling factors, pushing factors are societal forces (nonpolitical and nongovernmental) that promote and facilitate the advances in e- government. They might include economy-pushing and technology-pushing forces.

3.17 Zwahr, Rossel and Finger (2004) propounded a model which uses three distinct and static variables, namely actors, levels, and functions, to capture a snapshot of such a governance system. Actors can stem from different backgrounds, such as State, non-State, public or private actors. The level variable identifies the various organizational or political levels on which collective problem solving processes take place. Levels can be local, regional, national or above national. Function represents three core functions, namely policy-making, regulation, and service delivery. The variable describes the process, which the actors are involved in.

However, governance systems are in a continuous development and change process. Therefore, the e-governance model contains a fourth variable, the *technology variable*. There are four different values, this variable can have. *Mirroring* outlines that in the current status of the governance system, ICTs are used to mirror (and eventually monitor) the existing reality of the system (actors, levels, functions).

– *Governance Analysis* means that the physical reality of the governance system has already been mapped into a logical system and that ICTs are now used to explain the mechanisms, the structures, and the dependencies in this system.

– *Implementation* means that ICTs are currently used to implement revised governance mechanisms or newly created measures of governance back into the physical reality of the governance system.

– *Regulation* means that ICTs are currently being used as a means to steer and control the functioning of the governance system.

3.18 Consultancy firm, Accenture provided essential components for a robust eGovernance model. According to it, adopted model should not only be appropriate for today but also focus on how to build adaptability into that model so that it can evolve along the changing times and meet future challenges. The change in governance model should track its life-cycle maturity curve which is composed of three primary phases of the curve—launch (emerging), growth (scaling) and maturity (structured) phase. The correct eGovernance model responds to the needs of the enterprise as it proceeds along the maturity curve.

This model seeks following three primary components in a robust eGovernance model:

Leadership: The roles, responsibilities and decision processes of senior executives that shape the organization's strategic vision, culture, goals, metrics and plans for action.

Organization Structure: The organizational relationships that support decision making, foster appropriate culture and build essential skills so that the company can marshal resources effectively.

Process Alignment: The alignment of operational processes on which the eBusiness depends with various stakeholders.

3.19 Saxena (2005) gave E-governance engineering model and names it as ‘excellent e-governance (e²-governance)’ model. Excellence in organisations has been perceived to have attributes like purpose-driven (i.e. goal-centric); customer (i.e. citizen)-centric; process-oriented; and structure-supported. (**Emersen and Harvey, 1996**). Thus, excellence in e-governance is characterised by exploitation of governance processes, structure and technology to provide an administration, which is efficient, effective (outcome-driven), politically manageable, and open and democratic (governance-centricity). This is essentially “governance-centric” e-governance, which achieves the desired integration through the following stages, and the activities involved in each of these stages:

Planning:

- establish commitment and governance procedures;
- identify stakeholders – users (citizens), politicians, bureaucrats;
- define and review current mission and values;
- identify governance issues – efficiency, effectiveness and governance-centricity – through engagement with stakeholders; and
- determine e-governance process scope and structure needs.

Definition:

- define and map e-governance process architecture;
- define performance indicators for efficiency, effectiveness and governance-centricity;
- collect information about performance in respect of the indicators identified;
- measure and analyse indicators, and set indicators improvement targets;
- analyse process performance gaps and prioritise processes for improvement/redesign; and
- define e-governance business and technology architectures.

Implementation:

- develop process improvement/redesign projects plan; and

- for each project, model and analyse process, design process for improvement/redesign, develop resources for the improved/redesigned process, manage the transition to the changed process.

Evaluation and management:

- monitor process performance and report;
- audit process and performance reports;
- communicate reports and obtain feedback; and
- establish and embed systems for creating ongoing performance monitoring and improvement

4. Gaps in the Existing Framework: It is clear from studying various architecture that each framework, seeks similar benefits of transparency, accountability, efficiency and accountability. However, various authors have adopted different routes for reaching the final objectives. Study of these frameworks indicates following gaps which need academicians, practitioners and researchers attention:

- Lack of Empirical Ground:** Some frameworks are framed just on conceptual ground and therefore lack detailed empirical evidence. A few of them are designed on the basis of limited study in a certain geographical area, thus offers limited applicability in other areas.
- Limited Scope:** Further, all frameworks do not encompass complete scope of e-governance (G2G, G2C, G2B, G2E etc).
- Narrow Applicability:** Very limited attempts have been made to explain and analyse various e-Governance projects at global level.
- Obsolescence:** E-Governance, like many other disciplines is a dynamic discipline. Many frameworks are based on old and established models related to information system. Due to changes in the overall environment, some of these models have become obsolete. Therefore e-governance frameworks also suffer from the same syndrome.
- Isolation of non-state actors:** Globally, non-state actors are providing vital support to governments in carrying out basic functions of governance. But majority of e-governance frameworks have not incorporated this public-private partnership in the modeling of e-governance framework.
- Focus on harder aspects:** Successful implementation of E-Governance largely depends on attitude of government machinery but existing frameworks concentrate on technology, rules and other harder side and ignore the softer side.

5. Roadmap for Comprehensive E-Governance Framework: This section presents various strategic inputs for bridging the gaps identified above. Author has provided some directions for bridging each gap separately.

- Before designing framework for e-governance, adequate research must be conducted. This research may be conducted through both primary and secondary research. Research design should cover both successful as well as failed projects for deeper understanding of system. Similarly, study must be conducted in different geographical regions for wider applicability.
- A wide range of frameworks explains only one or two facets of e-governance. While government to citizen (G2C) aspect has been at the core of almost all the frameworks, remaining facets i.e. government to government (G2G), government to employees (G2E), government to business (G2B) and citizen to citizen (G2C) models are not adequately covered. All the facets needs comprehensive frameworks both at an individual level as well at integrated level.

- c. E-Government has become a buzzword today. Every country has initiated some e-governance projects at various levels. Nonetheless, all the countries are at different ladder of achievement in terms of achieving the objective of SMART governance due to wide difference in scope, applications, facilities, resource commitments, success rates of various projects. Due to the nascent status of e-governance throughout world, very few attempts have been made to design a comprehensive framework, which can act as a benchmark for evaluating each country on a weighted scale. Like human development index (HDI) and consumer price index, e-governance index (EGI) should be created for evaluating e-readiness and e-governance status of various countries. This may include variables like presence of e-governance vision, number of citizen information kiosks, range of online services, percentage of automated and non-automated processes, abandonment rate & accuracy rate, average response time, awareness & attitude of political & bureaucratic machinery, awareness of citizens about e-availability and confidence, e-mail response system availability; degree of inter-agency integration, infrastructure status, training to employees, PC-penetration both at government department and household level etc.
- d. E-Governance aims at bringing significant transformation in the governance. This requires robust design before implementation. But large set of frameworks are based on old frameworks which have lost their relevance in modern context. Thus, old framework must be integrated with contemporary developments in society, technology and overall environment.
- e. Successful implementation of e-governance depends not only on accountability and efficient services at individual department level. It also requires active collaboration and support of other government departments. World over governments are increasingly relying on non-state actors (NGOs and private sector players) for implementation related issues. Therefore E-Governance framework needs appropriate inclusion for larger acceptance and accurate portrayal of modern governance.
- f. Essence of e-governance lies in the positive mindset of employees towards electronic mode of delivery. Thus, many experts demand effective change management for achieving the desires results of e-governance.

Conclusion

E-Governance is still in nascent stage and therefore, needs many more such frameworks and perspective before reaching to a mature e-Governance framework acceptable to masses. Strategic action on the part of government within their own departments and in co-operation with other organisations is likely to help to facilitate the overall process of constructing a citizen centric system. In all these instances, considerable effort is needed to focus on the purposes and goals of SMART governance for citizens, rather than on the short-term interests of individual stakeholder organisation. Academia and research community also have to play a significant role by appropriate conceptualization in form of comprehensive framework of modern e-governance system.

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IMPLEMENTING THE APPLICATION FOR DISTANCE EDUCATION STUDENT ACTIVITY MANAGEMENT

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Abstract

The informational product must induce the optimum knowledge transfer from trainer to student through the web network. The main objectives of this research were: to design an online informational system to evaluate knowledge;- to design the environment for planning the organizational structure; to design the interactive environment for students training. These objectives enforced a multi-disciplinary survey on the different research approaches involved in the web training systems: individual-computer interaction, computer assisted communication, informational environment features. The main objective of this system is to develop an environment that can be easily used both by teachers and students. The success of this application is related to the teachers' availability to populate this system with a high-quality educational content and a set of questions relevant in number and content. Through this system, teachers can provide students both learning units in digital format and self-evaluation questions.

Keywords: *e-learning platform, secretariat, students, teacher, evaluation, communication*

The created e-learning platform is developed on the Microsoft Active Server Pages technology and can be used in any network based on a Windows server. In order to view the created ASP files, an Internet Information Server 5.0 or 6.0 must be installed, and the directory where the ASP file is, must be activated with Web Sharing for writing and

scripting. The connection to the database is an operation which is carried out by the system, the user being responsible only with the delivery of the connection parameters(the name of the database, for example IdTests and driver) . The database is created with Microsoft Access Application and contains 30 tables and in 16 of them there are different types of relations .The remaining tables are meant to keep information regarding : user names and passwords, grades, general and annual grades , different statistics concerning the passed examinations , the failed ones, the credit points, the numbers of chapters to be given in the online tests for each subject, the date of the last access of the site to warn the students to be attentive at the training process , etc.

Regarding the logical structure of the application, this is organized in 5 linked modules, unidirectional :

- the public modulus which provides information concerning the way of displaying this form of distance education (the major for each faculty , the applying mode , admission methodology, educational offer.)
- the administrative modulus which provides functionalities necessary to administrate the university organizational structure and the account administration.
- the secretariat modulus which provides functionalities necessary to administrate the course organizational structures of the specialities , as well the students activity
- the teacher modulus which provides the functionalities necessary to administrate the course organizational structure , the evaluation, as well the administration of the student activity
- the student modulus which provides to the students the possibility to access the course support, the information concerning the their activities during the course, to communicate with their trainers and colleagues by e- mail or chat.

The public module provides information concerning the educational offer, the applying mode, as well the user guide. This module provides the list of the existing faculties within the university, the major for each faculty and the vacancies, tuition and what a student has to do to become a student. This module also offers information concerning the education syllabus for each specialty for the annual university year, the number of the applications and the school records. Here one can find the annual events (conferences and seminars) where teachers and students can take part in.

The administrative module. The functionalities this modules provides are very important as they are vital for the functionalities of the other modules. They can be divided in the following categories: the ones necessary for the management of the university organizational structure, faculty updating, major updating, teachers updating, account administration, administrator's personal account updating, teachers'account updating, secretaries'account updating, communication, forum administration. The forum administration board is the place where most of the configurations take place. Here the administrator controls the forum drawing up and all the categories and he can perform the configuration of the forum name , the description and the auto-cleaning set up.

The administrator has an account designed for this application and he will fill in the name of the account and the password and after pressing the OK button, the application will check if these account and password exist. Depending on the result of the check up, the administrator will be allowed to access the functionalities suitable to his account or he will receive an error message

The secretariat module provides the necessary functionalities for administrating the major organizational structure as well the students' activity (updating the university years and school years , students, school syllabus).

The data is organized on calendaristic years. There are links to the study years for every calendaristic year. On the first adding of a calendar year the 1st study year is created automatically.

Since there are no major structural changes from one year to the next one, all the data from the past year is transferred to the newly created year in order to help the secretary. This data is about the curricular areas copied for the first year, the eventual differences are to be manually operated by the secretary later on. Even more, the students which accumulated a certain amount of credit points established by the secretary, are going to be automatically transferred to the new study year. This is the reason why the operation of adding a new study year is possible only from the moment of finalizing the previous calendar year. The students in the final years are going to be transferred to the next year which does not exist in the educational system so for these students is going to be automatically generated the registration certificate after the graduation of the licence (degree) exam.

The secretary can display all the students taking the specialization he is in charge of, as well as the data containing the registration number, student's class, e-mail address, account username and password (as seen in figure 1). The account username and the password are given to the student in the moment of registration. These fields are automatically generated by the application and are no subject of alteration by the student or the secretary. The username consists of student's family name, the „_” character and student's given name. The password is generated using the fields: specialization abbreviation, registration number and the calendaristic year code. The data is saved in the tbl_studenți table, the username and password being encoded.

Facultatea de Stiinte Economice, Juridice si Administrative								
Specializarea :Contabilitate si Informatica de Gestiune								
Anul universitar: 2004-2005								
Anul de studiu: Anul I								
CNP Student	Nr. Matricol	Numele si Prenumele	Grupa	Nume Cont	Parola	Adresa Mail	Modificare	Stergere
13	34	A A. A	Grupa 1	A_A	CIG341	a_a@upit.ro	Modifica	Sterge
14	35	B B. B	Grupa 1	B_B	CIG351	b_b@yahoo.com	Modifica	Sterge
17	31	C C. C	Grupa 1	C_C	CIG311	ce@upit.ro	Modifica	Sterge
18	30	D D. D	Grupa 1	D_D	CIG301	d@yahoo.com	Modifica	Sterge
20	57	E E. E	Grupa 1	E_E	CIG571	y@yahoo.com	Modifica	Sterge
21	89	F F. F	Grupa 1	F_F	CIG891	f@yahoo.com	Modifica	Sterge

Adauga Student

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Fig. 1. Students' display

Always, before passing to a new calendaristic year, in order to execute the right data transfer, the secretary has to access the „Academic situation” page. When this page is accessed, the data of each student are updated as follows:

- the number of passed (taken) exams is calculated;
- establishing the number of the not passed exams;
- establishing the number of credit points acumulated;
- the calculation of the year's graduation average mean

There are two information categories offered:

- a statistical situation concerning the number of passed exams, the number of not passed exams, the graduation mean of the previous study year, the total amount of credit points acumulated by the students registered for the distance education. The data can be displayed using the following selection categories:

- students in alphabetic order
- students in decreasing mean order
- students grouped in classes (study groups)
- searching students by their names (this option is particularly useful for the

people knowing students registered to the distance education such as parents, mates, friends)

- the academic situation of a student in a specific university study year and the graduation mean for the year. Here are also available the credit points obtained for for each subject in the curricular area, the university term of study and the manner of evaluation. This information is available in a printed version as well. (as seen in figure 2)

For the graduates, the academic situation for all the study years is contained in the diploma/certificate supplement. The secretary is filling data in this supplement only in some specified fields, the rest being automatically generated according to student's academic results. The supplement may be filled on line and printed or saved as a Word document, saved completely and printed eventually.

Specializarea :Contabilitate si Informatica de Gestiuine

**SITUATIA SCOLARA PE ANUL UNIVERSITAR
2004-2005
Anul I**

Student :A A.A

Nr. Crt.	DISCIPLINE DE INVATAMANT (Examen(E) / Verificare(V) / Colocviu(C))	Credite	Forma verificare	Nota	
				Sem.I	Sem.II
1	Macroeconomie	7	E	7	-
2	Bazele Informaticii	6	E	8	-
3	Contabilitate de gestiune	5	E	8	-
4	Bazele contabilitatii 1	5	E	6	-
5	Bazele Contabilitatii 2	4	E	-	9
6	Birotica	5	C	-	6

Media: 7.33

Fig. 2. Academic student's situation

The teacher module provides functionalities necessary to administrate the course organizational structure(the materials divided in chapters), the examination schedule, evaluation forms and students'activity. This module includes the students'communication by chat or mail.. The functionalities provided by this module are divided in the following categories:

- to administrate the course organizational structure: material transmission, chapter preview, virtual laboratories updating ;
- to test the students : the evaluation mode, for the online tests to establish the chapters used in the process, to update the evaluation forms
- to administrate the students' activity : their marking during the examination

The hand filling in of the catalogues. Taking into account the groups of students, the teacher can complete the catalogues by introducing the marks in a form. First of all, each student has 5 spaces for marks (the student can repeat the examination 5 times). The teacher must first choose the date for the examination and the number of marks of which the final mark is formed (a mark if the teacher chooses only one summative evaluation or more if more examinations are wished).

For each student in a group there are three columns representing the obtained mark, date of examination as well as the possibility of improving the mark. This last column after the first passed examination, appears a cassette of validation. If the student asks for improving the mark, the teacher fills this cassette of the respective student, giving him this possibility(see figure 3). This is an important aspect because after the first exam session, the teacher can mark only those students who haven't passed the exam or who have chosen to improve the mark. At a new examination, the teacher has the possibility to mark only those students who haven't passed the examination or who wanted to improve the mark, if the validation cassette was filled, the teacher having thus a clear situation of the passed examinations and of the re-examinations.

Facultatea de Stiinte Economice, Juridice si Administrative
Contabilitate si Informatica de Gestiune
Anul universitar: 2005-2006
Anul de studiu: Anul I
Grupa de studenti: Grupa 1
Disciplina: Bazele Informaticii
Profesor: Serbanescu Luminita

Revenire

Nr. Crt.	Numele si Prenumele	Nota	Data	Marire Nota
1	A A.A	8	23.02.2006	<input type="checkbox"/>
2	B B.B	7	23.02.2006	<input type="checkbox"/>
3	C C.C	Absent	23.02.2006	
4	D D.D	Absent	23.02.2006	

Completarea manuala a cataloagelor

Listare cataloage

Fig. 3. Filled in rolls

After each exam session, the teacher has the possibility to list the catalogues and to save them in a file on PC.

The automatic filling of the catalogues. The teacher has the possibility to complete the catalogues in accordance with the obtained grade sat the on-line tests at the first exam

session or at the re-examination sessions. Thus, after filling in the date of the examination and the number of marks, the teacher must fill in the dates when the examinations took place and the percentage of each mark(see figure 4).

Data1	08/28/2006	Data2	09/20/2006
Procent1	40	Procent2	60

Nr. Crt.	Numele si Prenumele
1.	A A.A
2.	B B.B
3.	C C.C
4.	D D.D

Genereaza catalog

Fig. 4. The form for filling in rolls with many marks

At the first examination, all students will be listed who didn't pass the on-line examination or the missing students, and at a new examination all will be generated automatically in the catalogue only for those students who haven't passed the examination or asked the improving of the grade. If the student tries to sustain the examination for several times at the established date because he is not satisfied with the grade, all his marks are saved in a table in the data base, and when the catalogue is generated(see figure 5), the obtained mark of the first testing is taken into consideration.

Universitatea din Pitesti - Microsoft Internet Explorer

Discipline, Juridice si Administrative

CATALOG

Facultate si Informatica de Gestiune
Anul I Grupa 1

Disciplina: Bazele Informaticii
Semestrul: Semestrul I
Puncte de credit:6
Forma de verificare: Examen
Profesor: lector univ Serbanescu Luminita
Tutor: lector univ Serbanescu Luminita

Nr. Crt.	Numele si Prenumele	Nota		Data	Semnatura
		cifre	litere		
1	A A.A	8	opt	23.02.2006	
3	B B.B	7	sapte	23.02.2006	
4	C C.C	A	Absent	23.02.2006	
		5	cinci	30.03.2006	
5	D D.D	A	Absent	23.02.2006	
		A	Absent	30.03.2006	

Decan: prof.univ.dr. Barbu Nicolae

Fig. 5. Catalogue

The titular teacher or the subject tutor must provide the distance education students all the necessary materials for each subject. Each tutor has an account name and a password, designed by the application administrator. He can perform the necessary operations with the help of the account. He can have access only to those pages containing the subject he is teaching.

The student module provides the students the possibility to access the course materials, the information concerning their activity in that course during the year and also the possibility to auto-test at the end of each chapter of the course, to communicate with their teachers or colleagues by chat or e-mail, to see the project theme that he has to accomplish and the composition of his group. This module provides to the student who has an account for the application the following functionalities:

- the possibility to access the materials for all the subjects for the current semester
- all the chapters for each subject(see figure 6)

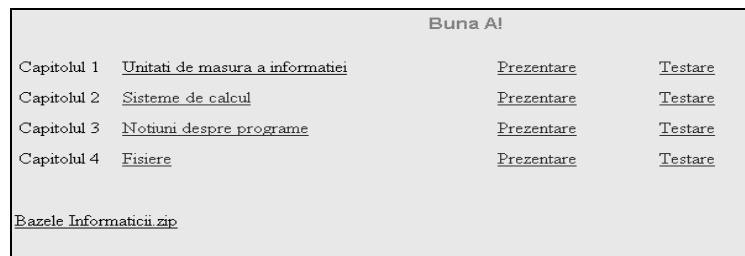


Fig.6. Access to materials

- virtual and online laboratories (for certain disciplines)
- online tests and auto tests for each chapter(see figure 7.)

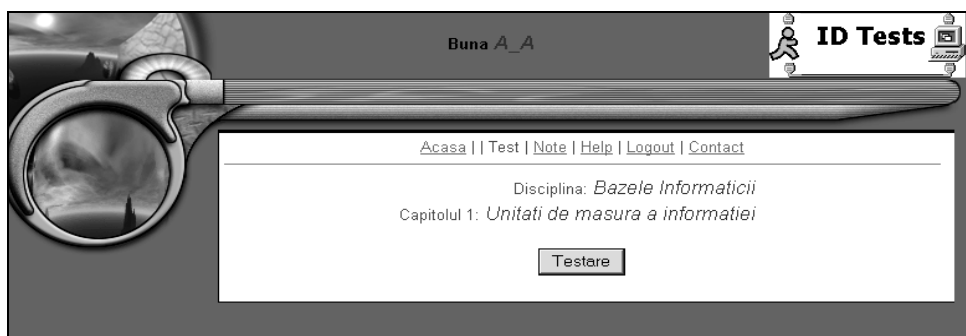


Fig. 7. Online Testing

- final grades display for each course during the current semester(see figure 2.),
- filling up the evaluation forms of the project themes,

Buna A A!

Fisa de evaluare pentru disciplina: **BAZELE INFORMATICII**
Studentul evaluat: **D D**

Nr. Crt.	Intrebarea	Insuficient	Suficient	Bine	Foarte bine
1	Tema propusa ofera posibilitatea de a implementa abilitati si idei noi?	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>
2	Tema stimulează studentii sa-si exprime si sa-si sustina ideile, opiniile si punctele de vedere proprii ?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>

Fig. 8. Evaluation form

- communication with their colleagues and the discipline tutor(see figure 9).

Buna A!

Studenti:

B.B.B

C.C.C

D.D.D

Tutor:

Serbanescu Luminita

Fig. 9. Communications

The application presented in this article brings a few new elements comparing to the similar ones: building up the student-oriented teaching-learning process, group projects, building up a student community, whose feedback is able to provide useful elements for validating and improving the courses. The teacher moves from the traditional method of transmitting knowledge to the one in which facilitates the knowledge building up in students' teams and administrates the learning process, process seen as a guided interaction.

Conclusions

The e-learning platform has a unitary structure, from the conceptual point of view, and was implemented with specific procedures so as to provide the virtual drawing up of administrative and educational activities and in the population that interacts with the application, it has the following types of users:

- secretariat for students' administrative activities and teaching process performing;
- teachers to support the teaching process;
- students, direct beneficiaries of the activities performed by the other user groups;
- database administrator to insure the optimum functionality of the platform.

The interactive application has as a general purpose to provide the logical support (software) from the procedural and functional points of view, all the activities carried out

by an educational institution using the methods in a virtual environment(computer networks connected to the internet). The educational process supported by the platform refers to a whole studying cycle in an authorized curriculum structure distributed to licence domains and organized on studies forms. The focus was on designing an application which is easy to maintain and low-cost in case it is necessary to extend it. The convergence of the tendencies that evaluate in a society based on knowledge in the realm of technology and education represents the fusion of all the activities involved in the knowledge assimilation and administration, learning and performance. Thus, these 4 elements represent the link between the learner and the technology , in the effort to support the life-long process in a society and economy based on knowledge. In order to accomplish this visionary perspective it is peremptorily necessary to develop and apply the standards in the educational technology.

The internal usage of this e-learning system by the companies that need to train their personnel can be a success for them and for the society and more and more managers will be aware of this.

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RISK MANAGEMENT STRATEGIES IN E-LEARNING

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Abstract

The aim of the Information and Communication Technologies support services for the university is to not only improve the student experience of learning with ICT, but to also manage the risks brought to learning when ICT is involved. Faculties are responsible for integrating ICT in teaching and learning goals into their teaching and learning plans. The main quality assurance mechanisms for the quality of ICT-supported student learning experiences are the helpdesk support provided to the students and the evaluation of the learning experience by the students themselves.

Keywords: *risk management, security, strategies, E-learning*

The rapid development of computer and Internet technologies has dramatically increased the ways of teaching and learning. Among these new approaches, online Web-based

education has become a promising field. In online education, there are presently a number of technologies and instructional activities used to promote course interactions.

Frequently used technologies in online courses include textbooks; multimedia that combines text, images, and audio either through Internet or CD Rom; streaming audio and video; and synchronous and asynchronous communication tools, such as discussion boards, instant messaging, and voice chatting, and file-sharing.

In brief, security in E-learning is relevant because:

1. E-learning systems are introduced as projects and all projects have security risks
2. E-learning systems are no longer research prototypes but production systems that need to be secured
3. All new electronic systems add new threats
4. Trust in an electronic system is a prerequisite for user acceptance.

There are four basic security requirements to which all real-world requirements can be traced:

Secrecy: Users may obtain access only to those objects for which they have received authorization. They are not granted access to information they must not see.

Integrity: Only authorized users or processes are permitted to modify data (or programs).

Availability: Availability is a requirement that is often neglected when thinking about security. However, productivity of users decreases dramatically if network-based applications are not available or too slow because of denial-of-service attacks. If, for example, a web-based e-learning system is slow, users do not only require more time to do their work, but they also become frustrated, increasing the negative effect on productivity.

Non-Repudiation: Users are unable to deny having carried out operations. For instance, whenever grades of students are changed, it must be possible to reliably trace who has performed the modification.

Security Risk Analysis

As previously mentioned, a risk analysis needs to be part of each project. It will cover all risks that are relevant to a project including also non-security risks. Typical non-security risks are uncertainties concerning the budget or personnel planning. To systematically analyze security risks, it is essential that a security risk analysis is performed.

Even though there are many different ways of conducting a security risk analysis, the following five steps are common to most approaches:

1. Identification of assets
2. Estimation or calculation of threats and risks
3. Setting priorities
4. Implementation of controls and counter measures
5. Monitoring of risks and of the effectiveness of counter measures

The first step is to identify what might be worth protecting. In this step it is not necessary to consider whether the asset is really valuable enough to protect. The goal is to simply create a list of all assets.

In the second step we identify the threats and risks that are related to the assets. For instance, fire is a threat to the asset "computing hardware." Once threats are identified one tries to estimate the probability that a threat will turn into a real problem and the damage that it will cause. Once all the probabilities and damages have been estimated, the third step is to set the priorities. Simply multiplying the values gives an impression of their relative importance. In the penultimate step, risk controls are implemented. The final step is to evaluate whether these controls really work and to record incurred costs in order to improve future estimates.

It is important to know the requirements of and the threats to e-learning projects so that they can be addressed in a security risk analysis.

- *Unauthorized Use of Digital Content*: There are basically two different groups of people who might use digital content in ways not intended by the author: (1) People with legitimate access (2) People who access the content without authorization.

Users who have legitimate access to the content may copy or modify it without permission and hand it to friends or make it available on the Internet. Addressing this threat is very difficult. It is much easier to prevent people without authorization from accessing content. Almost all e-learning systems provide mechanisms of access control that limit access to content. Nonetheless, even if the e-learning system prevents unauthorized use, underlying layers such as the operating system or the database system on which the e-learning system is installed may allow unauthorized users to gain access. It is therefore necessary to ensure that access control is enforced on all layers. This also includes physical access to the servers.

- *Trust*: In the context of learning, trust is essential. Since undergraduate students tend to trust all sources of information and accept whatever they read as true, the integrity of content, including the author's identity, is of paramount importance. The essential security requirements in this context are that students must be able to rely on the accuracy of the content and they want to read unobserved. It is therefore relevant to protect the content of an e-learning platform against unauthorized modifications. The implementation of security mechanisms and a policy that clearly states what will be stored for how long can reduce this risk for students. A good approach is to openly state how long a discussion will be archived (including backups) and which measures will be taken to delete the content. In some cases, synchronous discussions such as chats that are not stored or the use of pseudonyms can be helpful to ensure free discussions.

- *Exams*: When the term security is mentioned in context of e-learning, everyone thinks of exams. Clearly, security considerations are extremely relevant to exams because the involved stakes are high. Students have a lot to gain from cheating and their drive to sabotage the system might be much larger than in e-learning systems which they use to learn. All exams start by checking students' identities, a process referred to as authentication. In this special context the users might collaborate with other people who help them cheat.

- *Organization*: Security is not so much a technical issue but mainly an organizational one. By using simple procedures that everyone understands and that impose little additional effort, the compliance of users can be significantly increased. Non-compliance is the greatest security risk, and it is likely to occur if complicated security concepts are enforced.

Risk Management Strategies

There are a number of risks associated with using Information and Communication Technologies (ICT) in teaching and learning. The following summarises some of the main risks, their likely impact and the associated risk management strategies being established.

Risk	Likely impact	Risk Management Strategies
Unsustainable resource requirements for faculty ICT goals	High	- The proposed reporting mechanisms by the central/college model of ICT services support. - Resource allocation mechanisms for faculty ICT goals
Duplication of key services for ICT support	High	- Usage regulation (approval study contract) - Unit of Study Website tracking system
Use of ICT not led by a focus on learning outcomes	High	- Team-based approach to the development of units of study using ICT - University evaluation service
Wastage of staff time in development of websites	Medium	- Web helpdesk, - Staff development workshops
Access problems for enrolled students	High	- Web helpdesk
Poor navigation design for unit of study websites	Medium	- Continuous development application
Unsustainable student support required for online learning	High	
Technically unstable websites	High	
Copyright issues	High	- Library digitisation service
Access to restrictions? information	High	- Making accounts with passwords

Table 1. Risk management in E-learning

Conclusions

There is a list of benchmarks that are essential to ensure quality in Internet-based distance education:

Institutional Support Benchmarks:

- A documented technology plan that includes electronic security measures (i.e., password protection, encryption, back-up systems) is in place and operational to ensure both quality standards and the integrity and validity of information.
- A centralized system provides support for building and maintaining the distance education infrastructure.

Course Development Benchmarks

- Guidelines regarding minimum standards are used for course development, design, and delivery, while learning outcomes—not the availability of existing technology—determine the technology being used to deliver course content.
- Instructional materials are reviewed periodically to ensure they meet program standards.
- Courses are designed to require students to engage themselves in analysis, synthesis, and evaluation as part of their course and program requirements.

Teaching/Learning Benchmarks

- Student interaction with faculty and other students is an essential characteristic and is facilitated through a variety of ways, including voice-mail and/or e-mail.
- Feedback to student assignments and questions is constructive and provided in a timely manner.

Course Structure Benchmarks

- Before starting an online program, students are advised about the program to determine if they possess the self-motivation and commitment to learn at a distance and if they have access to the minimal technology required by the course design.
- Students have access to sufficient library resources that may include a “virtual library” accessible through the World Wide Web.

Student Support Benchmarks

- Students receive information about programs, including admission requirements, tuition and fees, books and supplies, technical and proctoring requirements, and student support services.
- Throughout the duration of the course/program, students have access to technical assistance, including detailed instructions regarding the electronic media used, practice sessions prior to the beginning of the course, and convenient access to technical support staff.
- Questions directed to student service personnel are answered accurately and quickly, with a structured system in place to address student complaints.

Faculty Support Benchmarks

- Technical assistance in course development is available to faculty, who are encouraged to use it.
- Faculty members are assisted in the transition from classroom teaching to online instruction and are assessed during the process.

Evaluation and Assessment Benchmarks

- The program’s educational effectiveness and teaching/learning process is assessed through an evaluation process that uses several methods and applies specific standards.
- Data on enrollment, costs, and successful/innovative uses of technology are used to evaluate program effectiveness.

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ASYMMETRIC INFORMATION – ADVERSE SELECTION PROBLEM

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Abstract

The present paper makes an introduction in the contract theory starting with the definitions of asymmetric information and some of the problems that generate: moral hazard and adverse selection. We provide an insight of the latest empirical studies in adverse selection in different markets. An adverse selection model, based on Rothchild and Stiglitz is also present to give a perspective of the theoretical framework.

Keywords: *asymmetric information, adverse selection model, efficient contracts*

1. Introduction

A *contract* is a promise that two parts make and, where there are stated both parties' obligations for all possible situations. In particular, a contract includes the payment mechanism used to compensate the Agent for the effort he used to accomplish the objective of the contract. The contract is based only on *verifiable variables* that can be analyzed by an independent part, and which are a guarantee that the contract will be not be broken.

The contract parties' are called, in the scientific literature, a Principal and an Agent. There is a contractual relation between the principal and the agent, where the first contracts the later in order to work or to help him take a decision. A well known relation of this kind is the one between a manager (the agent) hired by a firm (the principal) to run the business. The manager's contract will specify the payment received by the agent, as well as his duties. The agent will decide whether he will sign or not the contract offered to him by the principal and he cannot make a contra-offer – this situation is known as a *bilateral bargaining problem*. The agent will accept the contract only when his expected utility form the contract is larger then the utility he has when he doesn't sign the contract, known as reserve utility level. So, the principal is the party with all the bargaining power and he will decide the contractual terms.

In the Game Theory framework, the relation between a principal and an agent is a Steckelberg game, where the principal is the *leader* who offers the contract and the agent is the *follower* who accepts it or not.

If he decides not to sign the contract, the relation between the two doesn't take place and the problem is over. If the agent decides to accept the contract, according to the terms of the contract, he has to take certain actions.

The principal – agent relation has the following characteristics:

- The principal designs the contracts, he decides upon the effort level he expects from the agent and he pays him accordingly;
- The agents accepts or not the contractual terms and he makes the efforts he is expected to;
- The agent works or takes some actions for the principal.

Hence, the agent's objectives are opposite to the one of the principal: the salary is a plus for the agent but a minus for the principal while the agent's effort is a plus for the principal and a minus for the agent itself.

2. Asymmetric information – applications in insurance: literature review

The studies made till now or that are on their way to be finalized underline the most important problems in the insurance market. Millions of people in Europe have health or car insurances. The economic importance of this facts pressures over a better functioning of the insurance market. In this context, economists are concentrated over this subject, which is proved by the winning of Nobel Prize for Economics in 2001 by George Akerlof, Michael Spence and John Stiglitz. They received the prize for their research in markets with asymmetric information.

In economics and contract theory, an **information asymmetry** is present when one party to a transaction has more or better information than the other party. (This is also called a state of **asymmetric information**). Most commonly, information asymmetries are studied in the context of principal-agent problems. (<http://en.wikipedia.org>)

In order to analyze the asymmetric information, one can start with the hypothesis of perfect or symmetric information. So, all the parties that are included in an economic process and have access to the same amount of information are considered in an analysis.

Many economists, such as Arrow – Nobel Prize in 1972, underlined the importance of the hypothesis of perfect information that can be found in most models. Using this information, the three economists that received the Nobel Prize in 2001 offer a better understanding of the market mechanisms. Their models can be used in different areas: industrial organization, economics of development, insurance or finance. These allow us to understand the institutions that can influence the negative effects of asymmetric information.

In 1996, the prize for Economics created by the Bank of Sweden for A Nobel was received by James Mirrlees and William Vickery for their contributions to the incentive theory under asymmetric information.

Market theory in asymmetric information is based mostly on the studies of George Akerlof, Michael Spence and John Stiglitz. Their applications started with the traditional agricultural markets and were followed by studies on financial markets. They showed that the phenomena encountered on different markets can be better understood by adding the hypothesis of asymmetric information that assesses that a market participant is more informed than another one. Examples are a car seller that knows better the car quality than the buyer, the insureds that know better their attitudes towards risk than the insurance company, etc.

Their work can be synthesized as it follows: Akerlof showed that asymmetric information can induce the presence of adverse selection in the market, Spence showed that informed agents can be determined to signal their private information to the uninformed agents and Stiglitz demonstrated that the less informed agents can get the information indirectly from the informed agents by offering them contracts that can be substituted one by the others in a transaction and auto-select the necessary information.

The asymmetric information in insurance market is a situation where the consumers are better informed than the insurers (Rothschild and Stiglitz, 1976). But, the insurance

companies have a hole different opinion about the definition of asymmetric information, considering that the individuals have a limited experience while the statistic methods used to estimate their knowledge have progressed.

Adverse selection is a process that takes place when the individuals that are expected to lose must pay the same insurance premium while the individuals that are expected to win or lose less will chose not to be insured so the insurance company will only have clients that will bring her great losses. Due to the presence of adverse selection, the insurance markets encounter a lot of difficulties. (World Bank, 2000)

Moral hazard is the loss suffered by an insurance company after a probable luck of honesty or prudence from the insurants. (www.cogsci.princeton.edu)

The hypothesis of the adverse selection show that, while the insurance companies know better the risk, the insurants have certain personal information, unobserved by the insurance company, and which are relevant to find the risk.

Chiappori and Salanie (2000) state that it is possible the adverse selection can not be present in some insurance markets. Further more, if we assume that the insurance companies are better informed about the insurant risk, and then the former are better informed about the risk. Based on this, Villeneuve (2000) proposed an analysis of better informed insurants that will study the way in which the information is transmitted.

The results of adverse selection and moral hazard were studied in different situations that are related to:

- Different market structure: monopoly, oligopoly and perfect competition (for instance: Arnott and Stiglitz (1991), Jack (1998))
- Different types scanning variables (Chernew et al (1999));
- Different time moments: static and dynamic insurance (Janssen și Karamychev (2001));
- Different sources of agents' homogeneity: from the classic differences between random probabilities till the differences in the degree of risk aversion and the accidents flow (Eckhoudt et al. (1988), Fluet (1992));
- Models specific to insurance markets based on genetic algorithms (Sellgren (2001)).

The presence of adverse selection and moral hazard in the insurance market was empirically tested. Wolfe and Goddeeris (1991) studied the demand of a certain type of life medical insurance, Medigat and discovered a very wick presence of adverse selection.

Pueltz and Snow (1994) tested the same this in the US car insurance market and they discovered that the agents with a large risk loving coefficient choose the insurance with a larger coverage, which is consistent to the adverse selection.

In 2001, Godfried studied the dental insurance demand in Holland, which was included in the standard medical insurance package in 1995. The conclusion was that the agents with a large inclination toward risk tend to buy a supplementary dental insurance. Other studies came to different conclusions.

Chiappori and Salanie (2000) studied the car insurance market in France and Cordon and Hendel (1999) studied the health insurance market. Cawley and Philipson (1999) studied the life insurance market in US. These studies showed that there is no explicit presence of adverse selection and moral hazard in these markets.

Similar studies were done by Dionne and Vanasse, Chiappori and Salanie (2000), Dionne, Gourieroux, and Vanasse (1997), Richaudeau (1999) and Dionne et al. (2001), some of them being interested by the car insurance market.

The life insurance market was also studied by Chiappori and Salanie (2003), Chiappori, Geoffard and Kyriadizou (1998), Cardon and Hendel (1998) as well as Hendel and Lizzeri (1999). Poterba and Finkelstein (2003) studied the annuity contracts and Chiappori (2000) made different attempts to distinguish between adverse selection and moral hazard in empiric tests.

At the moment, the asymmetric information is studied empirically and it brings the most interesting results that will lead to improvements of the theoretical models. Everything that is written our day on adverse selection and moral hazard is mainly a base for the future development of this domain.

3. The basic adverse selection model – Macho-Stadler, Castrillo (2005)

Based on Mirrlees (1971), Spence (1974), Mussa and Rosen (1978), Baron and Myerson (1982) and Guesnerie and Laffont (1984), Macho Stadler and Castrillo (2005) presented the adverse selection problem considering the general Principal-Agent model.

The principal is risk neutral and he hires an agent that can be neutral or risk adverse in order to work for him. It is assumed that the effort e will lead to a principal's expected profit $\Pi(e)$. The effort is assumed to be a verifiable variable and because the principal is

risk neutral, the profit will be given by: $\Pi(e) = \sum_{i=1}^n p_i(e)x_i$, where x_i is the result that can be obtained by the principal with the probability $p_i(e)$ that depends by the effort e .

In order for the objective functions to be concave, it is assumed that $\Pi'(e) > 0$ and $\Pi''(e) < 0$.

The agent can be of different types and the principal cannot distinguish between these. The two types of agents (a "good" one, that is willing to work and a "bad" one that will work less) have only a different disutility function of the effort, $v(e)$ for the "good" agent (or type 1) and $kv(e)$, where $k > 1$ for the "bad" agent (or type 2). The disutility given by a known level of effort is larger for the agent of type 2. This is why the type 1 agent will be considered to be the "good - G" or "bad - B" agent and the principal will pay less for the type B agent. Knowing these, the agents' utility functions will be:

$$U^G(w, e) = u(w) - v(e),$$

$$U^B(w, e) = u(w) - kv(e).$$

The optimum problem for the principal will consist in maximizing the expected profits under the condition that the agent will chose the contract accordingly to his type:

$$\begin{aligned} & \underset{[(e^G, w^G), (e^B, w^B)]}{Max} q[\Pi(e^G) - w^G] + (1-q)[\Pi(e^B) - w^B] \\ \text{subject to } & u(w^G) - v(e^G) \geq \underline{U} \quad (1) \\ & u(w^B) - kv(e^B) \geq \underline{U} \quad (2) \\ & u(w^G) - v(e^G) \geq u(w^B) - v(e^B) \quad (3) \\ & u(w^B) - kv(e^B) \geq u(w^G) - kv(e^G) \quad (4) \end{aligned}$$

The first two restrictions show that the agents will chose the contracts that are destined to them and they are called participation constraints. The last two constraints are the conditions that make each type of agent to accept their own contract instead of the contract intended for the other type. These are known as the auto-selection or incentive constraints. Before solving the optimum problem, the inequality (1) can be obtained from the relations (2) and (3):

$$u(w^G) - v(e^G) \geq u(w^B) - v(e^B) \geq u(w^B) - kv(e^B) \geq \underline{U},$$

so we can eliminate it. Actually, this is a characteristic of adverse selection problems. The only participation constraint important for the principal is the one corresponding to the less efficient agent because this agent has an incentive constraint that shows he wishes to be considered as if he is of the either type. The participation constraints show that all types of agents have at least the reserve utility, even the efficient agent.

We can observe that for the participation constraints to be saturated, the optimal contracts must be the one where the most efficient agent works with high level of effort: $e^G \geq e^B$, because relations (3) and (4) show that:

$$v(e^G) - v(e^B) \leq u(w^G) - u(w^B) \leq k[v(e^G) - v(e^B)] \quad (5)$$

that leads to $v(e^G) \geq v(e^B)$, because $k > 1$.

Let λ, μ and δ be the Lagrangean multipliers associated to the constraints (3), (4) and (5). The Lagrangean associated to the optimum problem is:

$$\begin{aligned} L(e^G, e^B, w^G, w^B, \lambda, \mu, \delta) = & q[\Pi(e^G) - w^G] + (1-q)[\Pi(e^B) - w^B] \\ & + \lambda[u(w^B) - kv(e^B) - \underline{U}] \\ & + \mu[u(w^G) - v(e^G) - u(w^B) + v(e^B)] \\ & + \delta[u(w^B) - kv(e^B) - u(w^G) + kv(e^G)] \end{aligned}$$

The first order conditions are:

$$\frac{\partial L(\cdot)}{\partial w^G} = 0 \Leftrightarrow -q + \mu u'(w^G) - \delta u'(w^G) = 0 \Leftrightarrow \mu - \delta = \frac{q}{u'(w^G)} \quad (6)$$

$$\frac{\partial L(\cdot)}{\partial w^B} = 0 \Leftrightarrow -(1-q) + \lambda u'(w^B) - \mu u'(w^B) + \delta u'(w^B) = 0 \Leftrightarrow \lambda - \mu + \delta = \frac{1-q}{u'(w^B)} \quad (7)$$

$$\frac{\partial L(\cdot)}{\partial e^G} = 0 \Leftrightarrow q\Pi'(e^G) - \mu v'(e^G) + \delta kv'(e^G) = 0 \Leftrightarrow \mu - \delta k = \frac{q\Pi'(e^G)}{u'(w^B)} \quad (8)$$

$$\begin{aligned} \frac{\partial L(\cdot)}{\partial e^B} = 0 \Leftrightarrow & (1-q)\Pi'(e^B) - \lambda kv'(e^B) + \mu v'(e^B) - \delta kv'(e^G) = 0 \Leftrightarrow \\ & \lambda k - \mu + \delta k = \frac{(1-q)\Pi'(e^B)}{v'(e^B)} \quad (9) \end{aligned}$$

Summing the relations (6) and (7), we get:

$$\lambda = \frac{q}{u'(w^G)} + \frac{1-q}{u'(w^B)} > 0 \quad (10)$$

and adding the relations (8) and (9) we get:

$$k\lambda = \frac{q\Pi'(e^G)}{v'(e^G)} + \frac{(1-q)\Pi'(e^B)}{v'(e^B)} > 0 \quad (11)$$

that shows the constraint (2) has to be satisfied: $u(w^B) - kv(e^B) = \underline{U}$, and the less efficient agent will get exactly the reservation utility \underline{U} .

From the relation (6), $\mu > 0$.

We assume that $\mu = 0 \Rightarrow \delta = -\frac{q}{u'(w^G)} < 0$, which is impossible. From here, we obtain the relation (3) to be satisfied:

$$u(w^G) - v(e^G) = u(w^B) - v(e^B),$$

which means that the most efficient agent will get exactly the reservation utility.

Before we present the characteristics of the optimal contract, we shall demonstrate that it can't be optimal to offer a contract that requires the same effort from both types of agents. If $e^G = e^B$, then from the relation (5) we get: $u(w^G) - u(w^B) = 0$ and, accordingly, it results that $w^G = w^B$.

From the relations (10) and (11), we can get:

$$\lambda = \frac{1}{u'(w)} = \frac{\Pi'(e)}{kv'(e)},$$

for some values of e and w , common to both types of agents. Finally, the equations (6) and (8) lead to:

$$\begin{aligned} \mu &= \frac{q}{u'(w)} + \delta = q\lambda + \delta \\ \mu &= \frac{q\Pi'(e)}{v'(e)} + k\delta = qk\lambda + k\delta = k(q\lambda + \delta), \end{aligned}$$

which is impossible because $\mu \neq k\mu$ for $k > 1$ and $\mu > 0$. As a conclusion, the optimal menu of contracts will include two different contracts for the agent.

Because $e^G > e^B$, it is not possible that both relations (3) and (4) will be saturated simultaneously. $k > 1$ shows that one of the two inequalities from the expression (5) must be strict. The equation (3) can be rewritten:

$$\begin{aligned} u(w^G) - v(e^G) &= u(w^B) - v(e^B) = u(w^B) - kv(e^B) + (k-1)v(e^B) \\ &= \underline{U} + (k-1)v(e^B) \end{aligned}$$

which means that the contract is destined to the most efficient agent and it allows him to get a profit strictly higher than his reservation utility. Because $\delta = 0$, the equations (6) and (8) show that:

$$\frac{1}{u'(w^G)} = \frac{\Pi'(e^G)}{kv'(e^G)},$$

which is the condition that makes the contract (e^G, w^G) to be chosen and is called the efficiency constraint. Finally, knowing that the relation (7) is equivalent to:

$$-\mu = \frac{1-q}{u'(w^B)} - \lambda,$$

And the equation (9) can be rewritten using the equation (10):

$$\frac{(1-q)k}{u'(w^B)} + \frac{q(k-1)}{u'(w^G)} = \frac{(1-q)\Pi'(e^B)}{v'(e^B)},$$

that leads to:

$$\frac{q(1-k)}{(1-q)} \cdot \frac{v'(e^B)}{u'(w^G)} + \frac{kv'(e^B)}{u'(w^B)} = \Pi'(e^B)$$

which is the fourth condition that defines the optimal contract. *q.e.d.*

Hence, the optimum menu of contracts $\{(e^G, w^G), (e^B, w^B)\}$ is defined by the following equations:

$$\begin{aligned} u(w^G) - v(e^G) &= \underline{U} + (k-1)v(e^B) \\ u(w^B) - kv(e^B) &= \underline{U} \\ \Pi'(e^{G^*}) &= \frac{v'(e^{G^*})}{u'(w^{G^*})} \\ \Pi'(e^{B^*}) &= \frac{kv'(e^{B^*})}{u'(w^{B^*})} + \frac{q(k-1)}{(1-q)} \frac{v'(e^B)}{u'(w^G)} \end{aligned}$$

4. Conclusions:

The optimal menu of contracts $\{(e^G, w^G), (e^B, w^B)\}$ has the following characteristics, as they are presented by Macho-Stadler and Castrillo:

1. the participation constraint is satisfied only for the agent with larger costs, while the other agent receives an *information rent* $(k-1)v(e^B)$. This means that the most efficient agent receives a higher utility than the reservation utility due to the private information. This is a characteristic of the adverse selection contracts;
2. the incentive constraint for the most efficient agent is satisfied for the optimal solution while the incentive constraint for the other type of agent is not;
3. the efficiency constraint is satisfied for the type G agent. This property is known as the “no distortion at top” constraint and it shows that, for an adverse selection problem, the only efficient contract is the one for the agent nobody wants. If the agent is *risk neutral*, the efficiency constraint is not a function of w^G because $u'(w^G)$ is a constant. So, $e^G = e^B$. If the agent is *risk adverse*, then the efficiency constraint is a function of w^G . The optimal payment w^G in an adverse selection problem is different of w^{G^*} , which leads to $e^G \neq e^{G^*}$. But, the contract designed for the G type agent is efficient in both cases.
4. a distortion is included in the efficiency constraint for the B type agent. This is explained by the fact that a contract (e^B, w^B) is designed to be less attractive to G type agent. By this distortion, the principal loses some part of his efficiency due to the B type agent but he pays informational rents smaller than the ones to G type agent. This trade between these two effects is favorable to the distortion process.

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BUSINESSES INTEGRATION WITH WORKFLOW AND WEB SERVICE TECHNOLOGIES

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Abstract

If businesses want to benefit from the power of the Internet, web sites have to evolve. It is often no longer beneficial for them to only provide static information. It is necessary for these web sites to find ways that allow them to interact with other websites, operating systems, and applications. With Web services it is finally possible to create functions that can easily be accessed over the Internet by both internal and external parties. In other words, with Web services it is possible to integrate different value chains from different organizations with ease. On the other hand, workflows provide tools and mechanisms for managing the interaction between people, systems, applications and business functions. The combination of these two technologies offers a very powerful solution for businesses integration.

Keywords: *Workflow, Web Service, Integration, Windows Workflow Foundation (WF), Service Orientated Architecture (SOA)*

Introduction

Workflows provide a mechanism for modelling and implementing a business process as a series of activities that manage the interaction between people and back-end systems to carry out a business function. Business processes (or business applications) that require intense human involvement normally are executed over long periods of time due to the complex coordination of multiple entities. Using workflows to implement such business processes provides a mechanism for coordinating, aggregating, and routing business data.

Due to the distributed nature of a business process, coordinating information coming from multiple sources across an organization, it makes sense for a workflow to be deployed as a distributed application.

Web service definitions are designed to abstract how applications communicate with each other. They are used to model the types of interactions a workflow requires in order to carry out a business function. By using Web services, it is possible to implement these interactions as distributed interoperable services that support application-to-application communications in a standard manner. These services allow the decoupling of business logic from client application code. This mechanism can be used to generalize and publish service implementations and have them consumed by multiple clients.

Combining these two technologies provides the ability to expose business processes as Web Services.

1. The power of the Web Services

Web services are a set of protocols based on XML (Extensible Mark-up Language). The following base protocols formed the initial specification for Web services [2],[11]:

- *Simple Object Access Protocol (SOAP)* - defines the runtime message that contains the service request and response. SOAP is independent of any particular transport and implementation technology.
- *Web Services Description Language (WSDL)* - describes a Web service and the SOAP Message. It provides a programmatic way to describe what a service does, preparing the way for automation.
- *Universal Discovery, Description, Integration (UDDI)* - UDDI is a cross industry initiative to create a standard for service discovery together with a registry facility that facilitates the publishing and discovery processes.

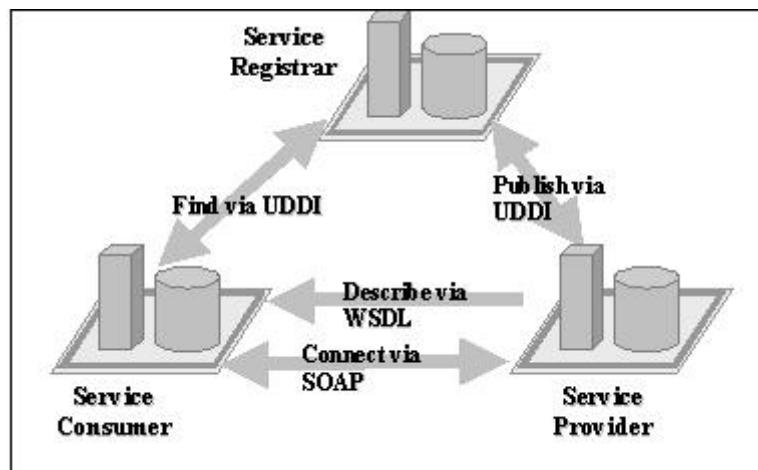


Figure 1. - Base Web Service Protocols [11]

These have effectively become de facto standards, with effectively universal acceptance and widespread implementation by vendors. Figure 1 shows the way their application is typically illustrated.

The main goal of Web services is to enable software developers to easily integrate different kinds of applications and services with each other, without having to worry about the underlying protocols, interfaces, environmental conditions, etc.

2. The power of the Workflows

In a collaborative application built of Web services, where the business process is really a set of tasks whose participants are Web services, workflow control is overwhelming and interaction of disparate workflows is inevitable.

For fulfil its role of integration, a workflow software must accomplish at least the following functions[10]:

- The workflow application must have the capability to update workflows easily when processes and organizations change. Also, a workflow application must help the enterprise adhere to government and organizational regulations by standardizing and monitoring business processes. For industries like Manufacturing for example, workflow applications must enhance production flexibility and enable production system load-balancing.
- In order to work well with application integration software APIs, a workflow application must provide flexible Java support that allows that workflow application to be integrated with Web applications and other IT applications, and must support integration with existing business applications. For example, the workflow application must be able to support a nested workflow within an external host workflow system.
- Workflows can be made available as Web services and can also control the flow of a set of Web services that make up an application.
- Workflow applications must be the binder for collaborative applications. Collaborative applications most often refers to applications that are built of other applications/Web services required to perform tasks and that manage all of the interaction and data flow. Collaborative applications can also mean the automating and streamlining of people-based business processes so that the people involved in the workflow become more productive individually and, more significantly, as a team.

3. Integrating the Workflows with Web Services in Windows Workflow Foundation (WF)

When building applications today the call of using Web services is strong. Web services provide an easy way to build distributed applications because of their use of open protocols and data formats (generally HTTP and XML).

Service Oriented Architecture is a new way of thinking about how to build distributed applications in this new Web services world. The ideas of SOA are actually fairly simple and straightforward. They are based around four basic principles [1]:

- boundaries are explicit;
- services are autonomous;
- services share schema and contract, not class;
- service compatibility is based on policy.

Some say that SOA is missing one importance piece: Workflow. We'll explain here, how Windows Workflow Foundation can integrate workflows and Web services.

Calling a Web Service

Calling a Web service from .NET code is fairly straightforward. The .NET framework provides the *SoapHttpClientProtocol* class (found in the *System.Web.Services.Protocols* namespace). This class knows how to invoke Web services. It is able to turn a .NET call stack into a SOAP Envelope that can be sent to a Web service using HTTP, and receive a corresponding response SOAP Envelope, deserialize the response, and return it to the

caller as a .NET type. In order to call a Web service from a .NET project, a *Web Reference* must be added to the project. Adding a Reference to a project adds a .NET assembly-level reference to whatever assembly is specified.

Adding a *Web Reference* causes VS.NET to generate a code that allows it to call upon a Web service in the same way that it would call into any .NET object referenced from an external assembly. The *Add Web Reference* command in VS.NET is a code generation tool that is available from the Project menu, or from the context menu of the project node in the Solution Explorer. The generated code allows to call upon a Web service that uses the definition provided by a *Web Service Description Language (WSDL)* file. When the *Add Web Reference* command is used, a dialog appears and an URL can be typed in the address bar. This can either be an URL to a WSDL file (which can either live on the local machine or on the network) or the URL to an ASMX Web service. When finished, this functionality takes care of generating a new class that can invoke a Web service that implements the specified document (this is done by running a code that lives in an SDK tool named WSDL.exe—so this can be done from a command line as well).

SoapHttpClientProtocol is a class that is programmed to call any basic Web service. The derived class that is created from the *Add Web Reference* is generated to facilitate the ease of calling the Web service by creating a set of wrapper methods that closely mimic the operation or the operations that the WSDL defines. This base class knows how to turn the call stack from the .NET method that is called from (like *Add*) into the appropriate SOAP call to the Web service. It uses the *XmlSerializer* class and other classes in the *System.Xml* namespace to accomplish this.

Using *Web References* is the general way of programming against Web services from any .NET based project in VS.NET.

Calling a Web Service from a Workflow

In order to call a Web service from a workflow, the *InvokeWebService* activity must be added to the workflow. The *InvokeWebService* activity allows to do this by building on top of this typical .NET facility for calling a Web service - the *SoapHttpClientProtocol* class. *InvokeWebService* activity requires four (or more) properties to be set for it:

- *ReturnValue*: This is a bind property that must be set to a field in workflow to keep the value that is returned from the Web service method;
- *MethodName*: Name of Web service method that can be chosen from a drop down list;
- *ProxyClassName*: Name of the proxy class for the Web service. Add Web Reference dialogue sets this property automatically but it can be created manually as well;
- *URL*: string value of Web service address;
- *Method Parameters*: The Web service may have none, one or more input parameters with different types. If it has any input parameters then, these must be specified as bind properties for the activity. There are two possibilities: to choose from existing fields (Bind to an existing member) in workflow or to create new field (Bind to a new member). If the second is chosen, then it will generate the code automatically.

When executed, the *InvokeWebService* activity is going to call the method specified on an instance of the proxy class. The call will pass as input parameters whatever the values of

the variables were picked as input parameters at the time of the call, and setting the value of the variable that was picked as the return value with the return of the Web service operation. Such simple workflow looks like in Figure 2.

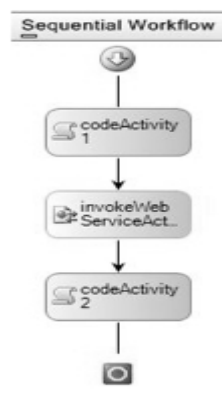


Figure 2. *Invoke WebService from a Workflow*

As it was shown in the above image, there are some basic steps that must be followed whenever the *InvokeWebService* activity is used:

- adding the activity to the workflow and specifying the URL to the WSDL of the Web service that is need to be invoked;
- specifying the *MethodName*, and then specifying the field or property name(s) for the parameters to that method;
- adding the code or activity before the *InvokeWebService* activity that will ensure that the input parameters will be initialised with the correct values;
- adding the code or activity after the *InvokeWebService* activity that will harvest the return value and execute the appropriate code for workflow;

The other aspect of Web services is around sessions. ASP.NET Web services (ASMX services) support cookies sessions via cookies in HTTP protocol out of the box and is not necessary to take care about these details in Web services. In workflows sometimes a Webservice needs to be called several times and needs to keep sessions during all these calls. Fortunately *InvokeWebService* activity comes with *SessionID* property. This property helps to keep sessions for all calls to a Web service from different activities. A unique string may be putted in this property as its value for all activities (more simple, a GUID may be used to ensure its uniqueness between all activities). Windows Workflow will do the rest and makes sure that all activities use the same sessions during all calls.

Such a workflow and the *InvokeWebService* activities properties can be seen in Figure 3. The two *InvokeWebService* activities will have the same value for the *SessionID* property, and so the Web service will be able to keep session state for the workflow between those two invocations.

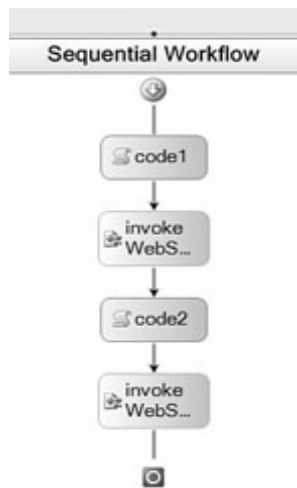


Figure 3. Invoke Web Service with sessions

Exposing a Workflow through a Web Service

The Windows Workflow Foundation framework supports Web service interoperability that includes also the ability to expose a workflow as Web service to ASP.NET clients and to other workflows. Windows Workflow Foundation supports publishing a workflow as an ASP.NET Web service on a Web server. Because Windows Workflow Foundation Web service support is based on ASP.NET 2.0, it inherits most of the features of a standard ASP.NET Web service.

The Windows Workflow Foundation base activity library contains the *WebServiceInput* and *WebServiceOutput* activities, which enable a workflow to be used as Web service end points. *WebServiceInput* enables receiving data from a Web service in a workflow and *WebServiceOutput* enables sending data to a Web service from within a workflow.

To create a workflow as a Web service, in the first place an interface must be created and expose the methods of that interface as Web service methods. Typically the interface and the workflow are hosted in a separate assembly and then referenced from within the ASP.NET Web service project. However once the interface and workflow are created, it is not necessary to manually create the ASP.NET Web service project as Visual Studio can auto-generate the ASP.NET Web service project.

There are three key activities which are going to have to work with in order to be able to expose the workflow as a Web service:

- *WebServiceInput* activity. Each workflow based Web services require at least one *WebServiceInput* activity and one or more *WebServiceOutput* activities. As the name suggests, the *WebServiceInput* activity accepts the input parameters for future processing by the subsequent steps in the workflow;
- *WebServiceOutput*. This activity completes the Web service's processing by returning the return value identified by the *MethodName* in the *WebServiceInput* activity. For this reason, the *InputActivityName* property must be set to one of the *WebServiceInput* activities present in the workflow.
- *WebServiceFault*. This activity allows to bind the exceptions generated during the Web service execution and translates them into *SoapException* objects. Closely related to *WebServiceOutput* activity in that it also indicates the termination of workflow processing;

To expose a Workflow through a Web service, the following steps are needed:

1. Creating a new VS.NET Sequential Workflow Library project;
2. Creating the interface that consumers will see when they want to use the service. It defines any methods or properties that will be implemented by the Web service;

3. Dragging an instance of *WebServiceInputActivity* activity onto the workflow designer from the toolbox and configuring the properties of *WebServiceInput* activity as follows:
 - Interface - WorkflowName.InterfaceName;
 - IsActivating – True;
 - MethodName – one of the methods defined in the Interface;

The *IsActivating* property needs to be set to True for the first *WebServiceInput* activity in a workflow. When an application using this web service makes a call to this web service and executes *ProcessWorkflow*, the workflow engine will know to call this *WebServiceInput* activity.

4. Dragging *CodeActivity* from the Toolbox, and dropping it below *webServiceInputActivity1*. (see Figure 4) This *CodeActivity* will include de code for whatever the workflow does.
5. Dragging an instance of *WebServiceOutput* activity onto the workflow designer from the toolbox and setting the *InputActivityName* property to be *webServiceInputActivity1* defined at the step 3. A *ReturnValue* is added to the list of *webServiceOutputActivity1* properties. Now, it is necessary to bind a workflow property to the *ReturnValue* property of *webServiceOutputActivity1*.

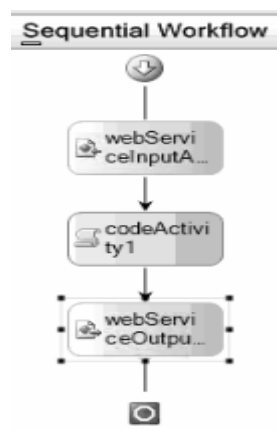


Figure 4. Exposing a Workflow through a Web Service

6. Up to this step, we presented how a workflow can be created. The next step is to expose the workflow as a service so that the client applications can execute the workflow as a service. To publish the workflow as a web service, the *Publish as Web service* property of *WorkflowProject* must be used. As a result of this, a new solution (with .asmx extension) will be created within the Solution Explorer, and all the necessary files are also created. To view the created Web service, the *View In Browser* property of the .asmx solution must be used. This opens the .asmx file in the browser where the Web service can be tested.

Conclusions

With Web Services it becomes possible to overcome the physical boundaries of existing organizations. By using Web Services there are no longer constrains such as: operating systems, object models, and programming models. We've seen in this paper that Windows Workflow Foundation offers rich integration facilities with Web services, allowing the invocation of Web services directly from the workflow using the *InvokeWebService*

activity, as well as offering implementation options for exposing workflows via Web Services using the *WebServiceInput* and *WebServiceOutput* activities. We can take advantage of the rich, declarative Windows Workflow Foundation model to expose the business processes, while leveraging Web Services as a deployment technology for executing them.

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KNOWLEDGE MANAGEMENT IN SMALL AND MEDIUM ENTERPRISES

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Abstract

This paper presents the importance of Knowledge Management (KM) for small and medium enterprises (SMEs) and is explaining why KM in SMEs is distinct from KM in large companies. The concept of knowledge integration (KI) it is introduced by providing an overview of the ideas involved and how these are applied to SME's. However, even the presentation of this concept is not complete, most important concepts (ex: Types of knowledge –general or NPD specific, Sources of knowledge – dichotomies, KI process, KI problems and solutions), will be presented.

Keywords: *Knowledge Management, Knowledge Integration, LSE, SME, NPD, Dichotomy, Models*

1. Introduction

Knowledge management has become a major issue in academia and industry in the last 30 years by identifying at least three roots: Suppliers of information technology and academics in this field have developed opportunities of supporting knowledge reuse and knowledge creation by, for instance artificial intelligence, knowledge-based systems, and Internet applications; second, organization, human relations professionals and academics have recognized the need for academically challenging jobs and for using the opportunities of an increasingly highly educated work force in modern societies; and third, strategic management has recognized that, especially for firms in western societies, competition based on motivating people to work harder will not be effective and, instead, the optimal use of intellectual capabilities may be the best source for sustaining competitiveness in our global economy.

Consequently innovations in IT, organization, and organizational strategies jointly realize the development of knowledge management. The aimed-at knowledge leverage mostly cannot be done within a task unit, nor within an organization, but requires inter-organizational collaboration. This is particularly so for high-tech small and medium enterprises (SMEs), which need much advanced knowledge that, because of SMEs (Small and Medium Enterprises) limited organization size, must to a far extent be identified and acquired from other organizations, and be finally internally used. These processes of external knowledge identification and acquisition, and internal utilization of external knowledge represents the concept of knowledge integration (KI).

SMEs often suffer from a lack of resources - tangible resources, such as physical assets, as well as intangible ones, e.g., databases, property rights, and market power. Scarcity of resources also pertains to knowledge available internally at high-tech SMEs. Therefore, SMEs are under strong pressure to identify, acquire and use knowledge generated externally and, therefore, KI is a specific issue of KM by SMEs.

2. The Relevance of Knowledge Management for High-tech Small and Medium Sized Firms

Knowledge management is particularly important to high-tech SMEs, because high-tech SMEs create most of their value-added by knowledge work, like engineering, research, and new product development (NPD). Unfortunately, however, it is difficult to implement KM in SMEs, because SME-specific KM theories, methods and techniques are rare.

Most of the current KM concepts (Knowledge strategy, Knowledge valuation, Knowledge creation, Knowledge acquisition, Knowledge sharing, Knowledge information systems) have been developed in the context of large companies.

If KM and KI are so important to high-tech SMEs, two major questions come up for them: Is it possible to move up into the knowledge management swing and be successful by working smart, or will we become the non-knowledge-based firm that has to succeed by working hard? If we want to pick up KM, how can we - as an SME - do this, given our limited resources?

Most SMEs in western countries quickly found out that, with respect to question 1, there is no alternative.

An increasing level of production overcapacity and (Internet and telecom-based) globalization resulted in fierce competition that was not sustainable in high-wage countries.

Consequently, becoming smart has become the imperative for SMEs as well, and resulted in the occurrence of large numbers of high-tech SMEs in western countries. These high-tech SMEs have high capital investments, the profitability of which can only be achieved by highly educated professionals resulting in high salary costs per employee and the need to invest heavily in personal learning and development. With respect to question 2, becoming smart has been achieved through business process reengineering, resulting in lean production, as well as through superb new product development processes (in high-tech firms), possibly for niche markets.

Although SMEs differ from large size enterprises (LSEs) by their size, it is not size that makes them different. The main effect of their smaller size is that SMEs have less economies of scale and fewer resources than LSEs. This gives them behavioral advantages (for example, rapid decision-making, flexibility, less strict regulations, governmental support, fast internal communication) rather than material advantages (for example, possessing research facilities, access to external capital, professional management, risk spreading).

These characteristics cause SMEs and LSEs to play different roles in society: **Generation of new basic technology:** LSEs (and universities), **Daring implementation in new product/market combinations:** SMEs, **Large scale, efficient production and distributions:** LSEs, **Adaptations for specialized or residual market niches:** SMEs High-tech SMEs distinguish themselves from other SMEs in that they (a) employ more scientific and technically qualified people; (b) face considerably higher rates of product obsolescence; (c) invest larger sums in R&D; (d) focus on developing new products from new technology; and (e) rely more on rapid, efficient new product introductions. Therefore, one of their core processes is new *product* development (NPD), which can account for up to 85

% of the total cost of the product. *Process* development is more likely to take place in LSEs, since it focuses on streamlining processes and cutting down production costs. To understand NPD, it is useful to have a look at a few models of the NPD process.

The innovation adoption model of Rogers, which consists of six phases, is well known: (1) Identification of needs/problems; (2) research (basic and applied); (3) development; (4) commercialization; (5) diffusion and adoption; and (6) consequences. Since external knowledge for product development is mainly relevant in the first three stages, the latter stages are less relevant for this book. A model that focuses on the earlier stages of product development is Pahl & Beitz's engineering design model that discerns four stages: (1) planning and clarifying the task; (2) conceptual design; (3) embodiment design; and (4) detail design. Cooper's model is also well known[1]. It provides decision gates after each of the five phases of (1) preliminary analysis; (2) business case; (3) development; (4) pilot study; and (5) launch and implementation.

Although these models are very helpful for understanding NPD, they offer little insight into the type of knowledge that is needed. A three-stage model that is used by several others offers these insights[2].

This model discerns a creative stage, a selection stage, and a design stage. These are defined as follows: **a) Creative stage or generation of options:** in this stage, knowledge is collected to find product ideas, requirements, etc. This is a diverging stage in which broad and little specified knowledge plays an important role. **b) Selection of options:** alternative options are specified, priorities and evaluation criteria are set and those options are selected that are most promising.

This is a converging stage in which more specified and directed knowledge is needed. **c) Design:** when an option is chosen, design can go into more detail. This is a deepening stage in which detailed and very specific knowledge is crucial. The ordering of these stages should not imply that NPD is a linear process. In practice, the stages occur simultaneously and in various orders. Although high-tech SMEs are distinguished from other organizations, it is to be realized that SMEs are very diverse as well.

The scope of this diversity becomes clear by looking at the official International Standard Industrial Classification (ISIC) of high-tech and low-tech industries:

High-technology industries	Medium – low – technology industries
- Aircraft and spacecraft	- Refined petroleum and nuclear fuel
- Pharmaceuticals	- Rubber and plastic products
- Office, accounting, computing machinery	- Other non metallic mineral products
- Radio, television, and communications equipment	- Fabricated mineral products
- Medical, precision and optical instruments	- Basic metals, Building and repairing ships and boats
Medium high-tech industries	Low technology industries
- Electrical machinery and apparatus	- Other manufacturing and recycling
- Motor vehicles, trailers	- Wood, pulp, paper, paper products, printing and publishing
- Chemical excluding pharmaceuticals	- Food products, beverages and tobacco
- Railroad and transport equipment	- Textiles, leather and footwear
- Machinery and equipment	

Table 1 - International Standard Industrial Classification

3. Types and sources of knowledge

The defining of knowledge is not trivial because, in the literature, there are as many definitions and typologies of knowledge as there are authors that write about it. It is also not value-free because every definition and typology is made for some reason, that is, it allows you to treat various types of knowledge differently. Three types of knowledge were defined and generally accepted: tacit, explicit, and latent. This typology is useful because these three types of knowledge require very different KI processes, involve different problems, and ask for different solutions. In addition to the general definitions and typologies of knowledge there are numerous definitions and typologies of knowledge in the NPD domain. Three main categories that are needed for NPD are distinguished [4]: customer/market knowledge (requirements; what should the product do?), technological knowledge (design; what should the product features be?), and organizational knowledge (process: how should the product be realized?).

These are explained and exemplified in the next table:

Types of NPD knowledge	Example
Customer/market knowledge	
- Design criteria and specifications	- Understanding of user requirements, specifications
- New product ideas	- New product/market combinations
- Knowledge about market	- Trends, needs and demands of market segments
- Socio-economic knowledge	- Economic climate, cultural factors
- Governmental knowledge	- Legislation, political situations, policy changes
Technologic knowledge	
- Scientific and engineering theory	- ‘Laws’ of nature, theoretical tools
- Technical process knowledge	- Required steps in specific chemicals processes
- Properties of materials	- Properties of natural and artificial materials
- Design concepts	- Operating principles, normal configurations
- Design instrumentalities	- Judgment skills, way of doing and thinking
- Design competence	- General and product - specific design competence
- Practical experience	- Best practices
- Experimental and test procedures	- Product testing procedures, computer simulation
- Research instrumentalities	- Ability to use experimental techniques and equipment
- Research competence	- General and specialized research competence
- Experimental and test data	- Results of test procedures
- Operating performance	- Performance of components or materials in pilots
Organizational knowledge	
- Knowledge of manufacturing	- Ability to manufacture, capacity, logistics
- Production competence	- Competence in pilot production/scale up
- Knowledge of support processes	- Management information, principles of organization
- Knowledge of knowledge	- Location and availability of particular knowledge

Table 2 – Types of NPD Knowledge

As table 2 shows, there is a lot of variety in the knowledge that is needed for NPD. For example, on the one hand, NPD requires long-term capabilities, such as design and research competences, while on the other hand; it also requires knowledge that might just be collected instantaneously, like new product ideas or properties of a specific material.

It may seem that knowledge used in NPD is mainly explicit. However, the contrary is the case. It is even said that one core problem in NPD is the over-reliance on explicit rather

than tacit knowledge. It is therefore stress that the knowledge inside the different categories presented above can be tacit, latent, or explicit and is even more likely to be tacit or latent than explicit [5]. The various types of knowledge come from a diverse set of sources, ranging from formal expert systems to informal chats with colleagues. These sources are often characterized by dichotomies, that is, by giving two extremes of a dimension. The most important of these dichotomies are listed below.

A first dichotomy is the distinction between *internal* and *external* sources of knowledge. Internal sources are sources within a company’s boundaries. Examples are colleagues, personal archives, and intranets. External sources are sources outside a company’s boundaries. Mostly these sources belong to other organizations or individuals. Examples are the Internet, public libraries, and customers. A second dichotomy is the one between *personal* and *impersonal* sources. Personal sources refer to direct human contact and include family, friends, and close business associates. Impersonal sources are typically written and include trade publications, newspapers, and management information systems. This distinction resembles the distinction between oral and written sources of knowledge. A related but different dichotomy is the distinction between *formal* and *informal* sources of knowledge. Knowledge from formal sources is usually structured according to strict rules. Collecting knowledge from formal sources requires much expertise and is usually costly. Examples of formal sources are conferences, journals, research centers, and universities. Examples of informal sources are conversations, colleagues, and other companies. A final dichotomy is the distinction between *nearby* and *remote* sources. A core difference between the two types is that nearby sources can easily be visited and remote sources cannot. All conditions equal, knowledge transfer is harder from remote sources than from nearby sources.

In some cases, knowledge can only be collected by someone being physically present at the source, because it is embedded in the structure and processes of a company, or in the machines that are used. With respect to the sources of knowledge that SMEs use for NPD, it has repeatedly been shown that they use mainly knowledge of their close partners, such as customers and suppliers, and that they prefer personal above impersonal sources, informal above formal sources, and internal above external sources. To illustrate the diversity of sources of knowledge that SMEs use for their NPD, table 3 shows a top-10 of sources ranked on their relative importance.

Rank	Source
1	Customer
2	Specialized magazines
3	Production employees
4	Staff
5	Suppliers
6	Sellers
7	Brochures and catalogues
8	Industrial fairs
9	Commercial fairs
10	Business magazines

Table 3 Top-10 of sources [9]

It is remarkable that some sources fall outside of this top-10 and thus are less important than might expected. For example, consultants appear at place 18, the board of directors at

place 24, and universities even at place 26 in this ranking. Although these sources' main role is to provide the SMEs with knowledge or information, it seems that they do not fulfill this role towards SMEs.

There are several processes for managing the various types of knowledge from the various sources described above. To understand these processes, it is useful to see their relation with the NPD process. This relation is depicted in fig. 1, which zooms in on the relation between the KI activities, KI stages and the NPD process

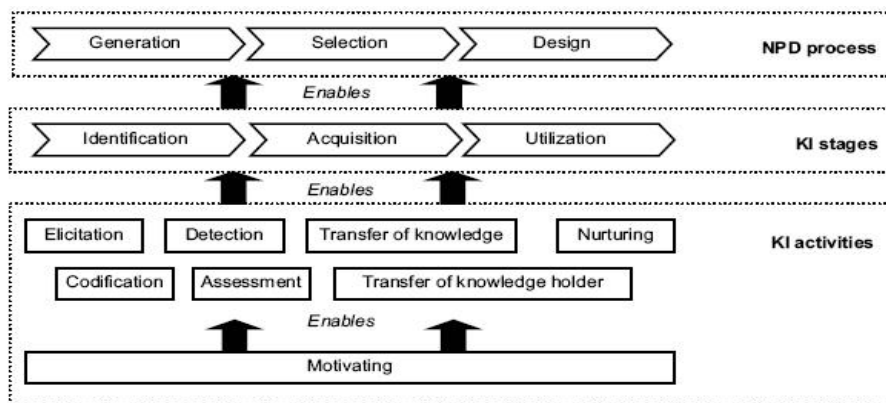


Figure 1 – Knowledge integration relation

Fig. 1 explains that the NPD process is supported by KI activities in three KI stages that are performed when there is sufficient motivation. NPD is defined as the generation, selection, and design of new product (ideas).

In order to execute the three NPD phases, developers need knowledge both from within their firm and from outside their firm in each NPD phase. The middle part of fig. 1 demonstrates that this knowledge needs to be identified, acquired, and utilized in the NPD process.

The internal processes that are the focus of most of the KM literature are called *utilization*. Because external knowledge needs to be acquired before it can be utilized, a stage of *acquisition* (not necessarily commercial acquisition), that precedes the utilization stage, is included in the model.

Acquisition is therefore preceded in the model by a stage of *identification*. A KI process can start in two different ways. *Need-driven* KI starts with a need for certain knowledge. Consequently, companies will actively seek to fulfill their need for knowledge.

On the contrary, *opportunity-driven* KI does not start from a knowledge need (or gap), but from knowledge that is found accidentally or by scanning the environment. The lower part of fig. 1 illustrates that the identification, acquisition, and utilization of knowledge can be realized by eight KI activities, of which motivation supports the other seven activities.

Conclusion

A major challenge for companies is to recognize and solve problems they encounter during their work. The development of new products is not without problems. A considerable

proportion of new products are not being developed in time, within costs, or meeting the original targets of quality and technical performance.

Although there are many potential causes for these problems, part of them is undoubtedly caused by KI deficiencies, for example, by a failure to trace back knowledge that has been in the company.

For solving these problems, numerous amounts of solutions exist. There are techniques, such as brainstorming and storytelling, but also IT-based tools, such as search engines, databases and expert systems.

A solution, as in “we did such and such to solve this KI problem”, is just as valuable (or even more so) for SMEs as is “we used that particular technique to solve this KI-problem”. Since tacit and latent knowledge seem to be more relevant for SMEs than explicit knowledge is, these more ‘soft’ solutions are most likely to be even more significant for them.

Solutions for KI problems are not only solutions when their vendors or original inventors have labeled them as such. On the contrary, every solution that can solve a KI problem can be labeled as a KI solution. For example, a project planning software tool is not designed to support KI. However, if such a tool appears to be of great value to an SME in, for example, their process of acquiring knowledge from another company, it is in fact a KI solution.

No matter how simple or sophisticated some solutions are, the road from KI problems to KI solutions is a difficult one.

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TRENDS IN E-LEARNING TECHNOLOGIES

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Abstract

This article is about the trends in e-learning. With e-learning, the possibilities for getting knowledge and information out to the learner at her/his own pace opened a whole new world for knowledge transfer. In recent years terminology changed and it went from using such terms as “technology-supported learning, distance learning and distance education” to “online learning and web-based training” to “e-learning”.

1. E-learning in context

E-learning has moved through a number of distinct phases – from Computer Based Training through to Learning Management Systems and Courseware Management Systems to now encompass an increasingly broad scope of applications and activity. There are a number of factors worth noting in terms of mapping the evolving e-learning landscape, including the following:

- Ongoing development in dedicated e-learning software applications, commonly known as learning management systems (LMS) or managed learning environments (MLE) has evolved where many of the early LMS vendors now offer their LMS as one application within a suite of products
- E-learning is now facilitated by an increasing range of specialised e-learning applications within the wider infrastructure and is not necessarily delivered by managed learning environment such LMS. Much of this learning happens in context, for example ‘just in time’ in the workplace
- Basic ‘units of learning’ or ‘units of instruction’ are beginning to shift away from the traditional course model (courseware) to typically smaller, more targeted, modules (learningware).
- Portals are widely adopted in e-learning.
- Publishers are now offering value added services to the e-learning market – examples include McGraw-Hill who are offering a free Course Management System (PageOut) and Thomson Learning’s TextChoice provides easy access to digital content from which teachers can create custom learning materials
- ‘M-learning’, or mobile learning, has become established as a significant area of research and development (e.g., through the European MOBILearn project). However, it also brings with it a new set of constraints that impact the design of e-learning content and applications
- Despite the increasingly important role (and diversity) of Web-enabled repositories within e-learning technical infrastructure little learning object/courseware content is contained within them.
- Acquisition and distribution of learning resources is also increasingly taking place in across distributed infrastructures in which metadata and content is shared among multiple repositories.
- Preservation and “future proofing” of e-learning content is not just an archival issue but also involves longer term value on investment. Just as content is being created in larger volumes than ever before it is also being lost through format obsolescence and

poor information management practices. There needs to be consideration given toward backward compatibility and access to content in older or ageing formats

- Applications supporting the flexible use of and reuse of activity-based learning are now appearing in the market. These applications are as equally concerned with processes (activities, sequences of interactions, and workflow) as they are with content.
- Technical systems that support workflow and other ‘knowledge management’ tasks are increasingly convergent in requirements to those that support learning.
- Currently, context is derived from the LMS’s knowledgebase and applied only within the LMS (e.g., Clicking on *My Courses* shows the course for which a learner is known to be enrolled on this LMS). Context is not shared outside of applications. When context is provided by the infrastructure (e.g., as in presence broadcast, as used by instant messaging software) contextualisation information is shared by all tools.
- Aspects of Customer Relationship Management (CRM) are starting to be adopted into learning applications. This is leading to the emergence of learning relationship management systems. CRM generally consists of integrated knowledge bases, cross-departmental communication channels, and customer intelligence gathering and dissemination – all things that can also apply to e-learning, especially of the institutional variety.
- Mind-mapping software (e.g., 3MRT) is being increasingly marketed to educational stakeholders for organizing ideas and information. Objects created from such software can be easily shared.
- Innovative query interfaces for learning object discovery are starting to appear.
- Performance support – particularly within the workplace – is shaping the design and delivery of e-learning and training. Performance support takes the form of a range of tools, including online Help, virtual reference, workflow facilitation, and productivity software, etc.
- With some notable exceptions, games targeted at learners do not appeal to the digital natives, who avidly participate in gaming for leisure. The US DOD DARWARS Training Superiority Program (DARWARS) – is a serious attempt to effectively use leading edge gaming for training (and recruitment).
- There are individuals and small groups in the learning, education and training communities developing innovative teaching applications. Many of these teaching applications are developed in isolation from institutional infrastructure and without regard to standards. These applications tend to be small-scale specialised fit for purpose applications but with limited potential for integration with the e-learning enterprise and broader reuse. The lack of integration capability results from high barriers for entry for individuals to create tools that implement open standards or provide connectivity to enterprise systems. The adoption of service oriented approaches (soa’s), availability of toolkit and lightweight development environments (e.g., konfabulator) should lower these barriers and enable the formal e-learning infrastructure to take advantage of individual innovation and specialist knowledge and the individual innovator to develop standard compliant light applications.
- Despite the existence of innovative individuals and organisations, the formal e-learning community is relatively slow at adopting and adapting to popular leading edge user technologies.
- Adopting evolving infrastructure does not necessarily lead to transformation in learning, education and training.

Simulations in e-learning process

For a number of years, simulations have played an important role in the training activities of certain sectors, like the defense, aviation and aeronautical industries in several countries. They were not adopted until now on a large scale as learning tools due to some factors like the cost of development and the lack of tools for developing high-quality simulations. These days we are in a different situation and simulations are being adopted in other industries and for a broad range of skills and competence development. Technology and cost barriers are continuing to shrink, opening up the potential for wider adoption of simulation technology.

Today, computer technologies, such as Macromedia Flash, have become ubiquitous and e-learning vendors with simulation-development expertise are trying to offer more industry- and topic-specific simulation templates.

There are still barriers to be overcome, particularly in terms of design innovation, but computer mediated simulations are expected to gain a larger share of education and training activities. Simulations may offer advantages over handbooks and they can complement lectures, demonstrations and real world practice opportunities.

The market for these kind of learning services will probably continue to grow as simulation technologies become more sophisticated and more cost effective to build.

Mobile technologies

In the future learning solutions and services will be integrated into mobile technologies as mobile phones, PDAs, digital pen and paper, and in the long term, mobile devices that are not yet on the market. In the long term, learning solutions and services are also likely to be integrated into electronic appliances, machines and information interfaces.

For mobile learning there are two distinct potential markets which are evolving:

- The first one is the market of learning services for people that are without infrastructure (accessibility to internet and e-learning may not be as wide spread in rural or remote areas) and learners in developing economies
- The second one is the market of learning services for people who's jobs require them to continuously move, people learning and receiving information while visiting various sites and locations, certain types students needing individualized learning education, on the move and while on external projects.

The real growth across this sector remains to be seen. Any growth in this market is likely to happen in the medium to long term.

Adaptive learning environments (ALEs)

In the recent years there is an increasingly heightened awareness of the potential benefits of adaptivity in e-Learning. This is happening because the ideal of individualized learning (i.e., learning suited to the specific requirements and preferences of the individual) cannot be achieved, especially at a "massive" scale, using traditional approaches. Factors that further contribute in this direction include: the diversity in the "target" population participating in learning activities (intensified by the gradual attainment of life-long learning practices); the diversity in the access media and modalities that one can effectively utilize today in order to access, manipulate, or collaborate on, educational content or learning activities, alongside with a diversity in the context of use of such technologies.

A learning environment is considered adaptive if it is capable of: monitoring the activities of its users; interpreting these on the basis of domain-specific models; inferring user requirements and preferences out of the interpreted activities, appropriately representing these in associated models; and, finally, acting upon the available knowledge on its users and the subject matter at hand, to dynamically facilitate the learning process.

Adaptive behavior on the part of a learning environment can have several manifestations:

- Adaptive Interaction which refers to adaptations that take place at the system's interface and are intended to facilitate or support the user's interaction with the system, without, however, modifying in any way the learning "content" itself. Examples of adaptations at this level include: the employment of alternative graphical or color schemes, font sizes, etc., to accommodate user preferences, requirements or (dis-) abilities at the lexical (or physical) level of interaction; the reorganization or restructuring of interactive tasks at the syntactic level of interaction; or the adoption of alternative interaction metaphors at the semantic level of interaction.
- Adaptive Course Delivery which constitutes the most common and widely used collection of adaptation techniques applied in learning environments today. In particular, the term is used to refer to adaptations that are intended to tailor a course (or, in some cases, a series of courses) to the individual learner. The intention is to optimize the "fit" between course contents and user characteristics / requirements, so that the "optimal" learning result is obtained, while, in concert, the time and interactions expended on a course are brought to a "minimum".
- Content Discovery and Assembly refers to the application of adaptive techniques in the discovery and assembly of learning material / "content" from potentially distributed sources/ repositories. The adaptive component of this process lies with the utilization of adaptation-oriented models and knowledge about users typically derived from monitoring, both of which are not available to non-adaptive systems that engage in the same process.
- Adaptive Collaboration Support is intended to capture adaptive support in learning processes that involve communication between multiple persons (and, therefore, social interaction), and, potentially, collaboration towards common objectives. This is an important dimension to be considered as we are moving away from "isolationist" approaches to learning, which are at odds with what modern learning theory increasingly emphasizes: the importance of collaboration, cooperative learning, communities of learners.
- One of the problems regarding the adaptive learning environments now is that existing standards do have some provisions for adaptation, but require substantial extensions to accommodate common practice in ALEs. The motivation for seeking standardization in adaptive e-Learning is directly linked to cost factors related to the development of ALEs and adaptive courses.

Open Source initiatives

There has been an important growth in acceptance and support of open source software solutions by large influential stakeholder communities, such as governments and there has been a great deal of activity within academic practitioner communities in developing innovative teaching applications.

At the most general level, there are a number of observations to be made:

- The protocols and obligations associated with development of open source software have proved to be a viable development methodology which can produce high quality software, rapid development and prototyping and matching of real-world user requirements.
- Open source software is already in abundant supply, with many domain-specific applications available. These tools vary in scale from code libraries that perform very specific tasks, toolkits for that supply underlying functions for use by user applications to large applications.
- A variety of business models are emerging for the development of open source software, services around open source software and support for communities that implement open source software.
- In e-learning, the MIT Open Courseware Initiative triggered (re)assessment of business models. The SAKAI project and the SAKAI Educational Partners Program are exploring a consortium lead development can be extended and supported as open source to a general community. These two related projects employ different business models. 2
- There has been some tendency for stakeholder communities to mistakenly view open source software as an alternative to open standards development.
- Some interesting interactions are now occurring between vendors of proprietary products and services and open source solutions.

Standards development

Standard development is meant to knit together disparate groups and interests in the distributed learning community. It is intended to coordinate emerging technologies and capabilities with commercial/public implementations.

Until some time ago, a number of organizations have been working on different but closely related aspects of e-learning technology. These organizations have made great strides in their separate domains, but they have not been well connected to one another. Some of their specifications are general, anticipating a wide variety of implementations by various user communities (e.g., those using the Web, CD-ROMs, interactive multimedia instruction or other means to deliver instruction) and others are rooted in earlier practices and require adaptation to newly emerging approaches.

The idea is now to build a common “reference model” for the foundation of a good Web-based learning. It is generally accepted that all systems, whether commercial or open source, should be built on open standards if the market is to develop. These standards should articulate guidelines that can be understood and implemented by developers of learning content. In the second place, they must be adopted, understood and used by as wide a variety of stakeholders as possible, especially learning content and tool developers and their customers. Thirdly, they must permit mapping of any stakeholder’s specific model for instructional systems design and development into itself. Stakeholders must be able to see how their own model of instructional design is reflected by the reference model they hold in common.

In order to stimulate industry agreement some high-level requirements are established for the development of the e-learning environments. The requirements are:

- Accessibility: the ability to locate and access instructional components from one remote location and deliver them to many other locations.
- Adaptability: the ability to tailor instruction to individual and organizational needs.
- Affordability: the ability to increase efficiency and productivity by reducing the time and costs involved in delivering instruction.
- Durability: the ability to withstand technology evolution and changes without costly redesign, reconfiguration or recoding.
- Interoperability: the ability to take instructional components developed in one location with one set of tools or platform and use them in another location with a different set of tools or platform.
- Reusability: the flexibility to incorporate instructional components in multiple applications and contexts.

Probably standards and specifications (such as IEEE LOM, SCORM and more recently IMS specifications such as IMS LD, IMS LIP and IMS QTI) will successfully evolve and become flexible enough to allow for the integration of real time learning processes, simulations, games, customized adaptive learning, digital rights management by 2010.

Conclusions

The principal aim of this paper was to provide a summary of current trends in the development of e-learning.

E-learning will continue to grow in our organizations. In anticipation of this growth, the governments, business companies and professional associations can start focusing on applications and the effective and efficient implementation of e-learning.

In the end, it is necessary to make a thorough evaluation when it comes to choose an e-learning software for education in order to improve the knowledge of learners, the learning outcomes, the performance outcomes, the business and policy impact and in order to value the money spent.

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CUSTOMER RELATIONSHIP MANAGEMENT – AN IMPORTANT FACTOR IN GLOBAL ECONOMY

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Abstract

What makes different the companies of today's market, a market characterized by hyper competitive and the influence of demand over offers, is the ability of each company to satisfy the preferences and priorities of customers. This means more than knowing and understanding the customer better than the competition. It means implementing in a strategic way this knowledge in each sector of the company, from the higher levels of management to the mere employee, which comes into direct contact with the customer. Establishment and improvement of relationships with clients on a long term is the key to success and it represents the core of a well-structured and coordinated process of client relationship manager. The client relationship management involves more than automation of processes implied by a sale, marketing and customer service and the increase of the efficiency of these processes. It implies a relationship with the client based on information and adaptation of the relationship to client's needs.

Keywords: CRM, operational management, analytical management

1. Introduction

What makes the difference between companies in today's market, a market characterized by hypercompetitive and influence of demand over request, is the ability of each company to satisfy the preferences and priority of customers. This means more than knowing and understanding the client more than the competition. It means to strategically implement this knowledge in each sector of the company, but at the highest level of management to the last employee whom comes into direct contact with the customer.

Establishing and improving the relationship on long term with a customer is the key towards success and represents the middle of a well structured and coordinated process of customer relationship management (CRM).

Customer relationship management implies more than automating the processes involved in selling, marketing and customer assistance and than increasing the efficiency of these processes. It also implies a relationship with the customer who is based upon information and adaptation of relationship to the needs of the customer.

The success of a company depends a lot on the ability of its personnel to integrate in an intelligent way the sales, marketing and services and to derive mutual advantages from this understanding of customer's needs.

The paper is structured on three sections; the first section of the article will present an introduction in what CRM means and its benefits. The second section of the article will consist of a CRM structure together with a description of the components. The final section consists of some conclusions over the paper.

2. The components of CRM and its advantages

CRM is a concept that gathers under the same name more standard or personalized products. But in order to get rich many companies launched on the market some systems that are called CRM, but which have nothing in common with this notion of customer relationship management.

Customer relationship management is usually spread in two categories: operational management of relationship with customers (operational component) and the analytical management of relationship with customers (analytical component). *Operational management* of the relationship with the customers usually refers to those products, services and operational capacities which allow the company to "take care of its customers", for instance: Customer contact management centre, system to aggregate data and web sites. *Analytical management* of the relationship with customers refers to strategies and tools used which determine the taking of some business decisions centered on the customer.

2.1. Operational component of CRM

The purpose of operational management of the relationship with customers should be "integration of people, processes and technology using the perspectives and expectations of the customer as a main element. In other words, it should provide processes and operations which are customer centered.

The operational aspect of the management of the relationship with customers is usually very important because it goes beyond many organizational barriers. It is also the place in which many of these systems fail. The reasons this happen are mainly the following:

- implementing expenses, time intervals necessary and involvement of personnel is usually under evaluated;
- political friction in the organization are stopping the transmittal of information regarding the client;
- initiatives are based upon technology than on the strategy in what regards the customer and a new approach of customer service;
- tendency to push "work" towards customer;
- no measure of success and no liability.

Another trap for the organizations which deliver financial services in what regards CRM is the lack of capability to make a difference between customer relationship and meetings with customers. A *relationship* is built on the principle that a customer will meet with the same service supplier each time and that each of the parties starts from the idea that they will continue on making business together. A *meeting*, on the contrary, is based on the principle that service suppliers and customers are changeable and that a customer will be served by that supplier which is available at that respective moment.

2.2. Analytical Component of CRM

The purpose of operational management of the relationship with customers should be "the development of a good knowledge of customer's needs". Unfortunately, the analytical management of the relationship with the customers is usually implemented starting from the assumption that one must "helped to find out what products and services to sell to the customer". The problem with the interpretation of the latter concept is that it is based on accumulation of income instead of determining the customer to be satisfied.

If the basic premises of the CRM, that is how to take care of your customers, the analytical perspective of this process will allow a company to find out which are the elements that make the customer happy. Then the model of furnishing services can be modified or enriched as pleased. It may also influence the development of products, the prices and even the representation in a certain geographical area. Soon the "cross selling" will become "cross buying" and eventually both parties will benefit from this long term relationship.

2.3. The Benefits of CRM

1. *Centralized Data* – Access one centralized database for a complete view of all customer interactions, from sales and marketing to customer service and support. As your organization grows, this enables all of your employees - whether they are responding to a billing inquiry or conducting in-person sales calls - to have a complete, up-to-date view of each customer.

2. *Marketing Automation* – Utilize robust marketing automation tools to segment customers and prospects, automate campaign activity scheduling and follow-up activities and track response rates. Workflow capabilities for lead routing ensure that no leads slip through the cracks. And, revenues can be tied to specific campaigns so that it's easy to analyze campaign ROI to increase marketing efficiency.

3. *Customer Service and Support Solutions* – With Service and Support solutions, your organization can track and resolve customer questions, issues and technical support inquiries for a high-quality customer experience. In addition, Web Customer Portals empower customers to find the answers they need by allowing them to view, add or edit service and support tickets.

4. *Advanced Account and Opportunity Management* – While contact management applications may allow for company or account hierarchies, they do not provide the ability to track leads from campaign, through the opportunity cycle, to close. Advanced opportunity management allows for tracking by probability of close, products, lead source, status and competitors. In addition, proposals that include products, pricing and discounts can be created for each opportunity.

5. *Robust Forecasting and Reporting* – Accurate, timely revenue forecasts help sales close more deals, bring higher profits to the company and align expenses with revenue growth. Forecasting also gives companies critical visibility into future product and service demand trends. With a CRM solution, opportunities can be segmented by account manager, region or probability of close. Management can analyze historical trends to gauge individual or team effectiveness and guide strategic changes such as territory realignment or redistribution of marketing spend.

6. *Automated Workflow* – Automated workflow enables an organization to automate business rules and processes across departments and employees. Some examples include auto lead capture and distribution, as well as configuring email workflow, escalation conditions and notification routing when these conditions are triggered.

7. *Scalability* – CRM solutions for mid-sized organizations are designed specifically to scale with the growth and changing business requirements of these organizations. A CRM solution is equipped to handle a variety of scalability factors that affect database performance including number of users, records, attachments and documents.

8. *Configuration and Customization Capabilities* – Contact management solutions are adaptable at the end-user level and allow for some layout and database changes; however, CRM solutions enable organizations to expand and customize data tables and other areas of the application globally to meet their business needs. A CRM solution should be able to adapt to your organization's unique sales and customer interaction processes.

9. *Integration* – Integration with existing legacy databases, accounting applications and other company-wide business management solutions is critical for any organization. CRM applications provide robust integration to products that organizations use every day, providing employees and management with a complete view of all the customer interactions for making more insightful business decisions.

10. *Advanced Security* – While sharing knowledge is critical to an organization’s success, the security available in a CRM solution allows an organization to control the fields and views that various individuals and teams can view and modify.

3. The Structure of a CRM System

To fulfill the requests mentioned in the introduction, a theoretical frame for building personalized CRM solutions will be presented. Instead of offering an unitary solution, the frame offers a few basic components. These components may be used together and may be configured by mean of a set of tools for building front end applications which are built to behave like a shield around the company (according to the diagram below). Ideally, each communication with the customer, started both by the customer either by the company, passes through this shield and then it passes through the components of the frame. More than that, there is a set of tools which help in monitoring the CRM software and also the production of personalized reports.

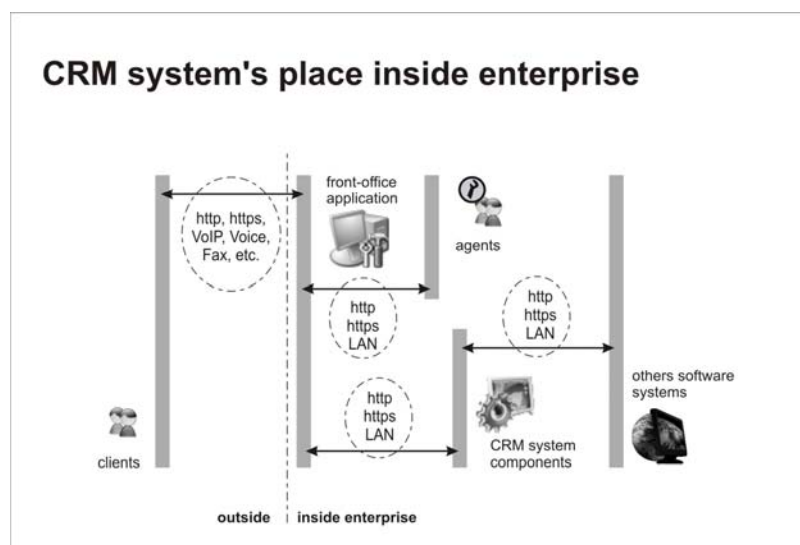


Figure 1 CRM system’s place inside enterprise

3.1. Components and software tools

The basic architecture of the components of this frame are presented in the above diagram. *The communication server* represents the heart of this frame. Ideally, any communication between customer and company must pass through this server. This server might also serve telephone calls from the exterior using Automatic Call Distribution (Call Center option), Interactive Voice Response (IVR), and VoiceMail, and also those originating at the inside, including marketing companies. Also, it should provide support for other communication channels, like e-mail, fax and internet.

The main advantage of a communication server is that it may be used in a call center starting with only 4 employees and an ISDN connection, but it works very well with 180 agents and with possible connections to existing PBX. Another advantage is the fact that it can route

calls in a very intelligent way. For a call to pass to an agent, the agent must be present physically in a certain place; the call may be routed to a telephone number anywhere in the world.

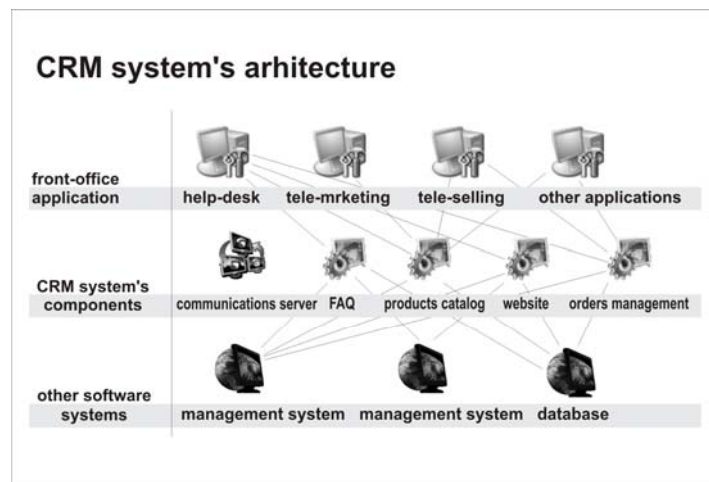


Figure 2 CRM system's arhitecture

To make it easier and to make the customer communication standard, for normal problems, dialog scripts can be used. These scripts are formed by predefined questions which are shown to the agent in the call centre, questions which are addressed to the customer, the agent taking note of the answers (**FAQ** – Frequently Asked Questions). The sequence of questions and answers depends on the answers initially provided by the customer and the information regarding the customer which are stored in the database. More than that, arbitrary actions may be associated to transition between questions and information which will be requested later, like sending an e-mail, updating the financial system, so on. The script engine is used to perform these scripts, and to run these scripts on the web, even if the agent is missing (on a website for instance).

Product Catalog has the role of allowing the customer to get full details regarding the products in the offer, (for instance: technical characteristics, price, transaction conditions, so on). It may be integrated on the web in the company website (and made public) or it may only be accessed by agents during their tele-marketing, tele-shopping, help-desk activities (thus front-office applications).

The Website is the main way that allows a company to keep in touch directly to its customers. All activities implied by the customer strategies which begin or end with an online presence of the companies. A website may contain FAQ elements, electronic catalog of the products, online ordering, as well as elements of order management, of credit given to any customer, discounts so on. Maybe the most important element of a web system is a centralized system of management of content which may allow a quick update of the style content (articles, FAQ, product catalog, etc) but especially the quick access to information.

Order management component is the component which is the closest to the concept of CRM. This component allows the quick management of customer accounts, allowing different treatment of customers according to the history of sales, credit, and discounts offered.

All these components of the CRM component can take its data from a common data base, from the integrated system of management (ERP), or from the Work Flow Management System.

3.2. Tools for Monitoring and Reports

This system must also have some elements of monitoring of the current status of some parameters that monitor the quality evolution of the system (number of customers that accessed the system, number of transactions made, the actual working time, the value of transactions made, value of discounts, so on).

Also, the system must have some reporting tool used to generate statistical reports based upon informations obtained in the past by monitoring the system. These reports may be configured. Example of reporting: evolution of transaction number during a certain time period, percent of customers that made successive purchases, the evolution of the value of transactions as opposed to the quantity of products.

Conclusions

The main purposes of CRM are maintaining the customers of a company and an easier attraction of other new customers. The CRM improves the degree of maintaining the customers by offering a frame which works as a shield around the company, so that each interaction with the customer may be recorded. This allows the maintaining of a constant perspective over his/her problems and the preferences no matter what channels it uses.

The components of the frame are easily configurable using tools of the frame. These allow the adaptation of the frame to the company and not the other way around. More than that, it reduces the cost with consultancy, taking into account that the majority of these configurations may be made by company personnel, and it allows adaptation to changes from the CRM strategy which are imposed by the changes that come in the business and the experience earned by using CRM software.

The model presented is fit for small and medium companies. The communication server does not restrict the physical location of agents, and they can be at any place in the company and they even can work from home and get contacted by a single access point, for instance the telephone number used for customer service. This can be very useful for small and medium companies, taking into account that usually employees fulfill many jobs, as needed there. On the other hand, the communication server can be used very well for a larger number of agents, as required by companies' needs.

The introduction of CRM in a company require some changes in the organisational and cultural structure and also in the business processes of the company, regardless of the CRM solution. A company may benefit by using the CRM software when the business processes and organizational culture have been adapted to CRM strategy.

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ELECTRONIC SERVICE QUALITY (E-SQ) OF WEBSITES - AN ESSENTIAL STRATEGY FOR SUCCESSFUL INTERNET MARKETING IN THE B2C SECTOR

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Abstract

The increasing role of technology in service delivery and the rapid development of the Internet as a platform for commerce triggered a new research field concerned with the delivery of customer service quality in the electronic marketplace .

It is suggested that consumer behaviour in an online environment may differ from the one displayed in the physical world. Therefore, it is important for practitioners to understand the customer needs amenable to fulfilment in an online environment and strive to meet them. Essentially, e-SQ is what differentiates a good-quality website from the customer's point of view and facilitates the process of bringing the customer and company together.

Keywords: *Electronic service quality (e-SQ), website, online consumer behaviour, online customer needs*

A corporate website is a useful tool for addressing customers on the Internet and for shaping customers' online shopping experience. Superior customer Web experience has the potential to influence customers' perceptions, and attitudes and drive additional traffic to sales outlets. The key to delivering a superior Web experience lies in determining the relevant set of Web experience components and understanding their role as inputs in the online customer's decision-making process. This is the first step towards developing and delivering an attractive online presence, which is likely to have the maximum impact on Web users. The quality of the website plays a major role in shaping the consumer's Web

experience. Moreover, it can determine a website visitor's decision to re-visit the website and eventually buy from the company.

The Notion of Website E-Services and Website E-SQ

Companies' quality Internet offerings or website e-services is an essential strategy for addressing customers in an online environment. Internet offerings on a firm's website, or so called e-services, bear a strong resemblance to services and are, in fact, services mediated by the Internet. Moreover, the offering of any physical good or service over the Internet is a service. Regardless of whether physical goods or services are purchased, buying on the virtual marketplace of the Internet can be characterised as service consumption.

Internet offerings (or website e-services) are processes that lead to an outcome (through a direct or indirect satisfaction of a customer need or creation of customer value). Consumption and the outcome of an e-service process is mediated by the Internet, and the company's website is the platform for a customer's e-service consumption. Therefore, the quality of an Internet offering is dependent of the perceived quality of the process of using the Internet as a purchasing and sometimes also consumption instrument, as well as of the perceived quality of the outcome. Marketers who wish to use the Internet to offer their goods or services to customers should take care to design their offerings as service offerings which customers perceive and evaluate as services.

The literature presents many different understandings of commonly used terms, such as website service quality or online service quality. This is often a problem due to the lack of formal definitions. Ziethaml, Parasuraman and Malhorta introduced the concept electronic service quality (e-SQ) and examined the service quality of websites and their role in service quality delivery to customers. They also provided the first formal definition of e-SQ in their working paper "E-Service Quality: Definition, Dimensions and Conceptual Model". They define website quality or e-SQ as "the extent to which a website facilitates efficient and effective shopping, purchasing and delivery of products and services". This definition involves a complete customer's shopping experience and incorporates pre-website, on-website and post-website service aspects.

Factors Impacting on Website E-SQ

Website e-SQ is a novel area of research. There are, however, some factors regarded as vital for website e-SQ. Essentially, these can be defined as the website's ability to address consumer needs in the online environment and its ability to add value to customer operations.

Conformance to Consumer Needs

There are consumer needs that should be addressed online to create a positive overall customer Web experience and contribute to customer satisfaction. The Web can be used for addressing consumers' individual needs and wants, thereby creating relationship bonds between a company and its customers. The commercial success of a firm's website, therefore, depends on a knowledge of the needs of target customers.

Customer perception of overall website quality is strongly influenced by the website's ability to meet these needs. Certain website features or website dimensions, which help a website visitor complete various tasks on the website before purchase, can positively influence the visitor's perception of the website's overall quality and, ultimately, his/her intention to purchase repeatedly or revisit the website.

The awareness of managers of consumer needs (the needs of on-going website customers) is a prerequisite for creating a good website. Recent studies report on the gap between customer needs and online service offerings on company websites. One possible reason for this gap may be the company's lack of resources, which should be allocated to IT-solutions and website maintenance. Another reason could be the difference of quality perceptions and preferences between managers and consumers, when it comes to website features and functionality. It is vital for a company to have the right service design, meaning that usually the service is designed based on management's perceptions of what customers want. He stresses the necessity to base the service design on the needs of customers and customers' perceptions of service quality. Companies should adopt customers' point of view as a basis for understanding the components of e-services, as well as for the requirements of e-service quality.

Adding Value to Consumer Operations

Customer-friendly websites and generic features of websites which contribute to customer value are named by many online consumer behaviour studies as main triggers and promoters of customer satisfaction, customer loyalty and profitable customer relationships.

It is suggested that a website user's satisfaction with a website is very much driven by the number and quality of functions and value-added services offered on the website. Depending on the type and purpose of the website, its level of functionality can vary.

The main impact of information technology on customer value is convenience and control. Thus, adding customer value on the Internet should focus on value-added services adding convenience and control to the customers. Convenience should include value-added services making it easier for customers in their decision process from information search to purchase. Control includes value-added services that reduce the problems of delegating the purchasing process to the customer.

In a non-exhaustive list, we can highlight some types of value-added services offered on the Internet today which add convenience and control to the customers.

Service Aggregation

Services can be assembled horizontally across different suppliers to provide customers with less transaction costs and increased convenience. Service aggregation provides customers visiting a Web site access to information and services not directly related to the core product of the firm and, at the same time, provides the firm the ability to exploit economies of scale and scope. This variety of services may be supplementary services such as financial services or shopping services. By giving customers access to information, services, and entertainment on a Web site, customers will have more information and services available to control their decision and buying process.

Service Integration (Bundling)

Service integration means providing access to a bundle of information and services that are complementary to the core product. Integrated services make up a composite product demanded by the customers. The arguments for more convenience and control offered by the value-added service of service aggregation are the same for service integration, although on a more industry-narrow scale.

Customer Community

On the Internet more and more Web sites are offering customer communities or bulletin boards. The communities make it possible for customers to exchange experiences with other customers. The convenience of communities for customers is the access to third-party neutral information. This extra and neutral information helps customers to make decisions regarding purchase due to reduced risk associated with the purchase, thus giving customers more control of the purchase process.

Search Engine

A search engine makes it possible for customers to make an automatic search for information on a Web site. By entering a word or a phrase into a search engine, customers can search for all or any of the words in a phrase. Compared to information search at the traditional marketplace, information and services search on the Web is more convenient because it can be done from remote locations. Furthermore, a search engine is much faster than manual information search, saving the user search time.

Personalization

Personalization is a method to give customers information and/or services on a Web site that suit the individual visitor. The Web site is adapted to the unique and individual needs of each user. In addition to personalized Web sites, personalization also includes individual adaptation of products sold at the Web site. Personalization adds convenience and control to the buying process by the automatic adjustments of customers' profiles on the basis of buying behavior. Customers do not need to express their preferences each time they make a purchase. Nevertheless, they can be assured that the product is in accordance with their preferences.

Trust

Trust is a crucial part of success of businesses in electronic markets. Trust between two parties is normally built upon how much confidence each one has of the other party. Trust is associated with the misuse of data, reliable product information, secure payment, etc. To increase trust between the Web site (seller) and the customer, several remedial actions can be taken by the offering Web site. Transaction security in general and secure payments in particular, can be facilitated by technologies such as SSL, SET, and PKI. Also, co-branding can be used to build trust online. Implementation of elements increasing customers' trust in the supplier means reducing perceived risk among the customers purchasing on the Web site. Trust elements make customers feel they are more in control, and more relaxed and less afraid of making purchases on the Web site, thus increasing customer convenience.

Main Website E-SQ Assessment Techniques

The majority of scales measuring website e-SQ have been developed in the specific industrial service contexts. Many of the existing scales have been developed in the e-retailing context. It is seen that there is a need for developing different e-SQ measurement scales for different types of websites and services offered. In the following sections, we review three main scales developed for measuring website e-SQ, namely e-SERVQUAL, WEBQUAL, and eTailQ, which appear to be the most comprehensive ones amongst those reported in the literature to date.

E-SERVQUAL

E-SERVQUAL measures website e-SQ as perceived by customers. It is a method for measuring website e-SQ that is based on the same principle as the original SERVQUAL

method and includes some dimensions similar to those of SERVQUAL. The E-SERVQUAL scale contains a core and recovery scale, represented by four and three dimensions respectively. Core scale is used to measure the customers' perceptions of service quality delivered by online retailers. Recovery scale refers to specific situations, when a customer has a question or runs into a problem, in which the three dimensions of the recovery scale become silent. In simpler terms, it can be said that core scale refers to the quality of the website itself, while the recovery scale is more concerned with the actual performance of the company, rather than with website performance.

Four dimensions of core e-SERVQUAL scale are efficiency, fulfilment, reliability and privacy. Efficiency defines customers' ability to effectively access the website, find their desired product and related information, and check it out with minimal effort. Fulfilment refers to a company's actual performance in contrast with what is promised through the website, and incorporates accuracy of service promises, such as having products in stock and timely delivery. Reliability is a technical function of the website such as the extent to which it is available and functioning properly. Finally, privacy refers to the company's will and ability to maintain the integrity of customer data.

Three recovery dimensions of e-SERVQUAL are responsiveness, compensation and contact points, which are mainly concerned with the situations which arise when a problem needs to be solved and "personal service" is required. Responsiveness defines the company's ability to provide appropriate problem-solving mechanisms (online complaint handling, handling returns mechanisms, online guarantees etc.). Compensation involves money-back guarantees, return of shipping and handling costs. Contact points refers to customers' need to speak to a "live" customer service agent online or on the phone, and defines the company's ability to offer such support in real-time via online or other means of communication.

WEBQUAL

WEBQUAL focuses on the website interface and is suggested to be one the most empirically grounded e-SQ scales. WEBQUAL is developed based on the conceptual background of the Theory of Reasoned Action (TRA) and the Technology Acceptance Model (TAM). The main idea behind the use of WEBQUAL is that it is possible to predict the re-visit/re-use behaviour of web users based on their perceptions of overall website quality. The instrument consists of four constructs, namely usefulness, ease of use, entertainment, and complimentary relationship, which include a range of website dimensions, each of which is evaluated by a website visitor according to his/her perceptions of website quality.

Usefulness includes informational fit-to-task, interactivity, trust and response time dimensions. Informational fit-to-task refers to the quality of the information offered on the website, its appropriateness and the method of presentation. Interactivity is the website's ability to allow different flows of communication between the site's users and the company's personnel, interactive search for information, and transactions through the website. The trust dimension refers to maintaining the privacy of customer information provided through the website. Response time is the website's technical characteristics in relation to loading time in a user's browser and the time required to complete transactions with the website. Ease of use includes ease of understanding and intuitive operations dimensions. Ease of understanding refers to the quality of website structure and user interface, such as Web layout, site hierarchy of pages, etc. Intuitive operations refers to the

ability to learn how to operate the website quickly and without great effort. Furthermore, the entertainment construct consists of the visual appeal (presentation graphics and text), innovativeness ("aha"/surprise element associated with creativity and uniqueness), and flow-emotional appeal (the website's ability to deliver enjoyable and engrossing experiences for users) dimensions. Finally, complimentary relationship construct includes consistent image (the website's ability to accurately reflect the company's image promoted through other communication channels), on-line completeness (the website's overall ability to suit customers in their operations), and better than alternative channels (the website's ability to act on the same level or better than alternative marketing channels) dimensions. Overall, it can be said that with WEBQUAL a website is judged for its ability to satisfy customer needs.

eTailQ

eTailQ is the scale for measuring and predicting e-tail quality. The scale was developed in a three-stage study approach: focus group discussions with online buyers (first stage of research); conceptualisation and categorisation of emerged items (e-tail quality dimensions) from the customer's perspective (second stage of research); and an online survey to determine the scale dimensions (factors) (third stage of research). The results suggest that four website quality dimensions (or factors) can predict customer judgements of quality and satisfaction with the website, namely website design, fulfilment/reliability, privacy/security, and customer service. Here, fulfilment/reliability refers to (a) the accurate display and description of a product (what you get is what you buy) and (b) delivery of the right product within the time frame promised. Website design refers to all elements of the consumer's experience at the website (except for customer service), including navigation, information search, order processing, appropriate personalisation and product selection. Customer service refers to a responsive, helpful, willing service that responds to customer enquiries quickly. Finally, security/privacy refers to the security of credit card payments on the website and privacy of shared information (Ibid.). The scale was subjected to several validity and reliability tests, the results of which suggest that the scale performs well. The design logic behind the original eTailQ scale strongly resembles the WEBQUAL scale, offering to test website quality based on the judgements of website users concerning the website's performance. Overall, website users are asked to state how well the website performs, in their opinion, along with 40 statements that can be grouped within the four named factors.

Conclusion

The examination of consumer satisfaction in an online context follows the growing consensus that in Internet retailing, as in traditional retailing, consumer satisfaction is not only a critical performance outcome, but also a primary predictor of customer loyalty and thus, the Internet retailer's endurance and success.

Successful online companies tend to direct their attention to customer satisfaction and retention, using surveys to identify customers' needs; offering a website that is simple, accessible and affordable to use; honesty regarding disclosure of fees and charges; offering additional communication channels to clients; ongoing improvements of the website; providing tools online to enable clients to conduct transactions and manage their accounts independently), with distinctive focus on increased segmentation and fine-tuning of value propositions. Quality is one of the factors which satisfy customers. Since website is the link between customer and company, companies should show in their websites all the efforts about improvement of quality. Customer satisfaction has been recognised as an

essential factor affecting long-term relationships between firms and consumers in both the traditional and e-commerce business environments.

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A MULTIAGENT PLATFORM FOR DEVELOPMENTS OF ACCOUNTING INTELLIGENT APPLICATIONS

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Abstract

AOP – Agent Oriented Programming – is a new software paradigm that brings many concepts from the artificial intelligence. This paper provides a short overview of the JADE software platform and the principal's components constituting its distributed architecture. Furthermore, it describes how to launch the platform with the command–line options and how to experiment with the main graphical tools of this platform.

Keywords: *JADE, multiagent system, container, message, communication, accounting.*

Introduction

Agent and multiagent technology has been the subject of many discussions within the scientific community, but it is maybe only recent that it has seen significant degree of exploitation in many types of application, including accounting application.

The initial software developments, that later became the JADE (*Java Agent Development Framework*) platform, were started by Telecom Italia in 1998, motivated by the need to validate the FIPA specifications. JADE went open source in 2000. JADE has a website⁷ from where the software, documentation, example code, and a wealth of information about

⁷ <http://jade.tilab.com>

usages of JADE are available. The project welcomes the participation of the open source community with a variety of means to become involved and contribute to the project.

In order to facilitate industrial involvement, in 2003 was defined a collaboration agreement and formed the JADE Governing Board, a not-for-profit organization of companies committed to contributing to the development and promotion of this platform. The Board was formed into contractual consortium with well-defined rules specifying the rights and obligations toward generated IPR. The Board is open with members able to join and leave according to their needs.

When JADE was became public, it was used almost exclusively by the FIPA community but as its feature set grew far beyond the FIPA specifications, so did its use by a globally distributed developer community. It is important to note that this platform contributed to wide diffusion of the FIPA specifications by providing a set of tools and software abstractions that hid the specifications themselves; programmers could essentially implement according to the specifications without the need to study them.

The agent's paradigm and JADE

JADE is a platform that provides basic middleware-layer functionalities which are independent of the specific application and which simplify the realization of distributed applications that exploit the software agent abstraction. An important merit of JADE is that it implements this abstraction over a well-known object-oriented language, Java: providing a simple and friendly API (*Application Programming Interface*). The following simple design choices were influenced by the agent abstraction.

⇒ *Any agent must be proactive and autonomous* – an agent can not provide call-backs or its own object reference to other agents in order to decrease any chance of other entities co-opting control of its services. An agent must have its own thread of execution, using it to control its life cycle and decide autonomously when to perform and which actions.

⇒ *Any agents can always say 'Yes' or 'No', and they are loosely coupled* – message-based asynchronous communication is the main form of communication between different agents in JADE; an agent wishing to communicate must send messages to an identified destination (or more destinations). There is no temporal dependency between the receiver and sender: a receiver might not be disposable when the sender issues the message. There is also no need to have the object reference of receiver agents but just, name identities that the message transport system is able to resolve into proper transport addresses. It is even possible that a precise receiver identity be unknown to the sender, which instead may define a receiver set using an intentional grouping (all the agents that provide the “Accounting information retrieving” service) or mediated by a proxy agent (propagate this message to all agents in a domain).

This type of communication enables the receiver to select which messages to process; and which to discard, as well as to define its own processing priority (read all message, coming from a domain "accounting.com"). It enables the sender to control its thread of execution and thus not be blocked until the receiver processes the message. Also, it provides an important advantage when implementing multi-cast communication as an atomic operation rather than as a consecutive method calls.

⇒ *The system is Peer-to-Peer*: each agent is identified by a unique name (*AID-Agent Identifier*, as defined by FIPA specifications). It can join and leave a host platform anytime and can discover other agents through both yellow-page services (provided in JADE by AMS (Agent Management System) and the DF (*Directory Facilitator*) agents

as defined by the FIPA). An agent can start a communication with other agent at anytime it wishes and can equally be the object of an incoming communication at any time.

- A distributed system inhabited by agents, each running as a separate thread, potentially on different remote machines, and capable of transparently communicating with one another, i.e. the platform provides a unique location-independent API that abstracts the underlying communication infrastructure.
- Compliance with the FIPA specifications – the platform successfully participated in all FIPA interoperability events and was used as the middleware for many platforms in the Agentcities network (Agentcities). A great facilitator of this was active contribution by the JADE team to the FIPA standardization process.
- Transport of asynchronous messages via a location-transparent API. The platform selects the best available means of communication and, when possible, avoids marshalling/unmarshalling Java objects. When crossing platform boundaries, messages are automatically transformed from JADE's own internal Java representation into proper FIPA-compliant syntaxes, encodings and transport protocols.
- Implementations of yellow page services. Federated systems can be implemented to represent domains and sub-domains as a graph of federated directories.
- A simple agent life-cycle management – when agents are created they are automatically assigned a globally unique identifier and a transport address which are used to register with their platform's white page service. Simple APIs and graphical tools are also provided to both locally and remotely manage agent life cycles, i.e. create, suspend, resume, freeze, thaw, migrate, clone and kill.
- Support for agent mobility – agent code and agent state can migrate between processes and machines. Agent migration is made transparent to communicating agents that can continue to interact even during the migration process.
- A subscription mechanism for agents, and even external applications, that wish to subscribe with a platform to be notified of all platform events, including life-cycle-related events and message exchange events,
- A set of graphical tools to support programmers when debugging and monitoring. These are particularly important and complex in multi-threaded, multi-process, multi-machine systems such as a typical JADE application. Conversations can be sniffed and emulated, and agent execution can be controlled remotely and introspected, including remote step-by-step debugging of agent execution.
- Support for ontologies or content languages. Ontology checking and content encoding is performed automatically by the platform with programmers able to select preferred content languages and ontologies (XML and RDF-based). Developers can also implement new content languages to performance specific application requirements.
- A library of interaction protocols which model typical models of communication oriented toward fulfilling any goal. Application-independent skeletons are available as a set of Java classes that can be customized with application-specific code. Interaction Protocols can also be represented and implemented as a set of concurrent finite state machines integration with various web-based technologies including JSP, servlets, applets and Web service technology.
- An in-process interface for launching a platform and its distributed components from an external application.
- An extensible kernel designed to allow developers to extend platform functionality through the addition of kernel-level distributed services. This mechanism is

inspired by the aspect-oriented programming approach where different aspects can be woven into application code and coordinated at kernel level.

JADE architecture

Figure 1 shows the main architectural elements of a JADE platform. A JADE platform is composed of agent containers that can be distributed over the network. Agents are in containers which are the Java process that provides the JADE run-time and all the services needed for hosting and executing agents. There is a special container, called the *main container*, which represents the bootstrap point of a platform: it is the initial container to be launched and all other containers must join to this container by registering with it. The UML (*Unified Modeling Language*) diagram in figure 2 summary shows the relations between the important architectural elements of JADE platform.

The developer identifies containers by simply using a logical name; by default the main container is named “Main Container” while the others are named “Container-1”, “Container-2”, etc. Command-line options are available to override this default names.

As a initial point, the main container has the following special responsibilities:

- ⇒ Managing the container table (CT), which is the registry of the object references and transport addresses of all container nodes composing the platform;
- ⇒ Managing the global agent descriptor table (GADT), which is the registry of all agents present in the platform, including their current status and location;
- ⇒ Hosting the AMS and the DF, the special agents that provide the agent management and white page service, and the default yellow page service of the platform.

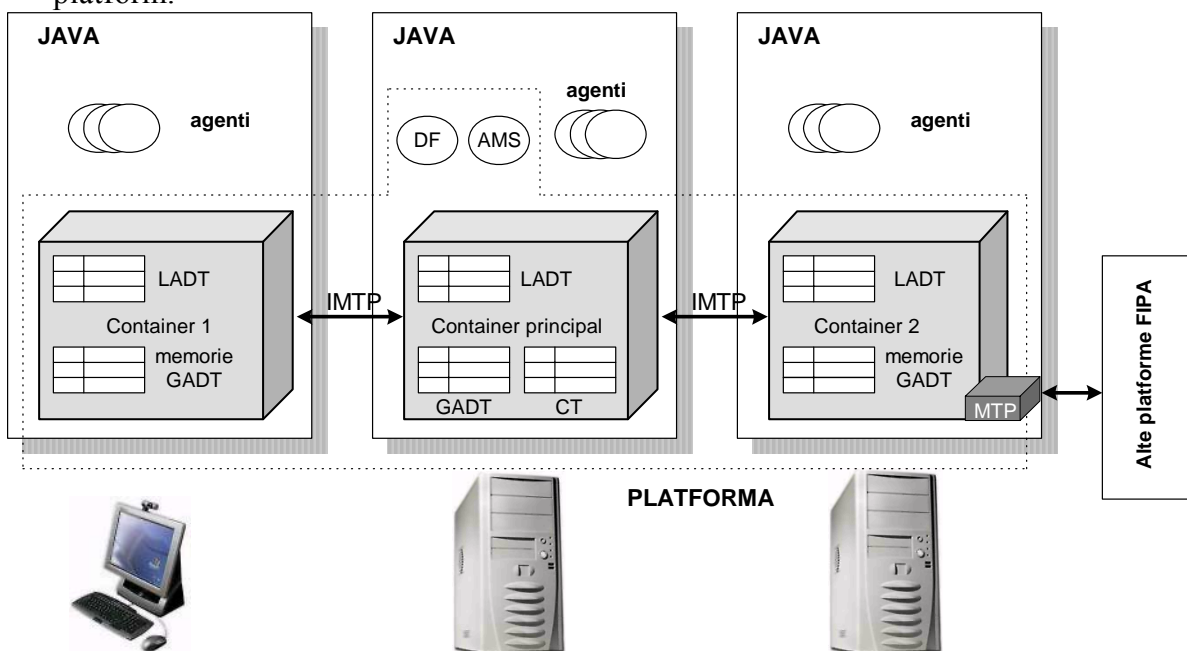


Figure 1 – The main architectural elements of JADE platform

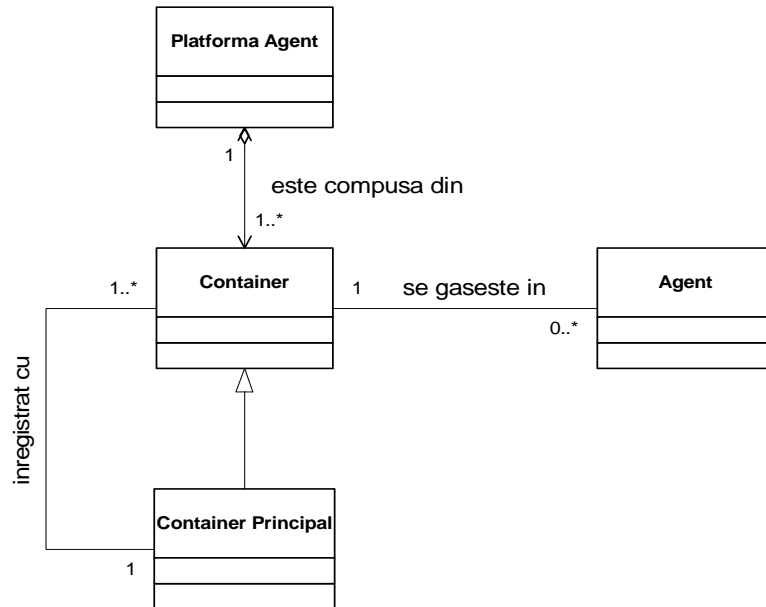


Figure 2 – Relationship between the main architectural elements

A common query is whether the main-container is a system bottleneck. In fact this is not the case as JADE provides a cache of the GADT that each container manages locally. Platform operations do not always involve the main-container, but instead just the local cache and the two containers hosting the agents which are the subject and the object of the operation (receiver and sender of the message). When a container must discover where the recipient of a message lives, it first searches its LADT (local agent descriptor table) and then, when the search fails, is the main-container contacted in order to obtain the proper remote reference which, consequently, is cached locally for future use. Because the system is dynamic, the system may use a stale cached value resulting in an invalid address. In this case, the container receives an exception and is forced to refresh its cache against the main-container. The cache replacement policy is LRU (least recently used), which was designed to optimize long conversations rather than sporadic, single message exchange conversations which are actually fairly uncommon in multi-agent applications.

Agent identity is contained within an Agent Identifier (AID), composed of a set of slots that comply with the structure and semantics defined by FIPA. The most basic elements of the AID are the agent name and its addresses. The name of an agent is a globally unique identifier that JADE constructs by concatenating a user-defined nickname (also known as a local name as it is sufficient for disambiguating intra-platform communication) to the platform name. The agent addresses are transport addresses inherited by the platform, where each platform address corresponds to an MTP (Message Transport Protocol) end point where FTPA-compliant messages can be sent and received. Agent programmers are also allowed to add their own transport addresses to the AID when, for any application-specific purpose, they wish to implement their own agent private MTP.

When the main-container is launched, two special agents are automatically instantiated and started by JADE, whose roles are defined by the FIPA Agent Management standard:

- ⇒ The Agent Management System (AMS) is the agent that supervises the entire platform. It is the contact point for all agents that need to interact in order to access

the white pages of the platform as well as to manage their life cycle. Every agent is required to register with the AMS (automatically carried out by JADE at agent start-up) in order to obtain a valid AID.

- ⇒ The Directory Facilitator (DF) is the agent that implements the yellow pages service, used by any agent wishing to register its services or search for other available services. The JADE DF also accepts subscriptions from agents that wish to be notified whenever a service registration or modification is made that match some specified criteria. Multiple DFs can be started concurrently in order to distribute the yellow pages service across several domains. These DFs can be federated, if required, by establishing cross-registrations with one another which allow the propagation of agent requests across the entire federation.

Compiling the software and launching the platform

JADE-related software is divided into two sections: the main distribution and the add-ons. The add-ons in particular include self-contained modules that implement specific extended features such as codec's for given languages. In many cases these have not been developed by the JADE team directly, but by members of the open source community who decided to return their achievements to the community itself.

The main distribution is composed of five primary archive files with the following content:

- ⇒ *jadeBin.zip* – contains only the pre-compiled JADE Java archive (.jar) files in a ready to use state.
- ⇒ *jadeDoc.zip* – contains the documentation, including the *Administrator* and *Programmer guides*. This documentation is also available online from the website.
- ⇒ *jadeExamples.zip* – contains the source code of various examples.
- ⇒ *jadeSrc.zip* – contains all the sources of JADE.
- ⇒ *jadeAll.zip* – contains all of the four files listed above.

If the above zip files are downloaded and unzipped, the directory structure should be as shown in Figure 3 (only the most relevant files and directories are actually shown). Some of the important files/folders include:

- ⇒ License, the open source license that regulates all use of the software.
- ⇒ The file *jade/doc/index-html* is a good starting point for beginners containing links to a variety of thematic tutorials, the Programmer and Administrator guide, *javadoc* documentation of all the sources, plus several other support documents.
- ⇒ The *jade/lib* folder contains all the *.jar files which must be included in the Java CLASSPATH in order to run JADE. It includes the *lib/commons-codec* subdirectory where an external Base64 codec is distributed that should also be included in the Java CLASSPATH.

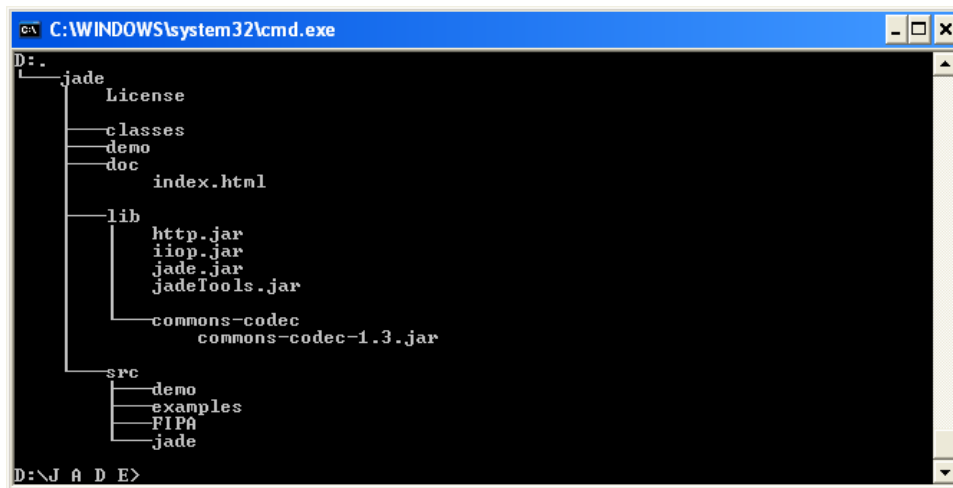


Figure 3 – JADE directory structure

- ⇒ The *jade/src* directory contains four subdirectories. Demo contains the sources of a simple demo. Examples contain several useful source code examples of various agent fragments. FIPA contains the sources of a FIPA-defined module. Jade contains all the sources of JADE itself.

The JADE sources can be compiled using the ant tool (ANT). The most important ant targets are the following:

- ⇒ *jade* – to compile the sources and create the .class files under the classes subdirectory;
- ⇒ *lib* – to generate the Java archive jar files under the lib subdirectory;
- ⇒ *doc* – to generate the javadoc documentation files under the doc subdirectory;
- ⇒ *examples* – to compile all the examples.

Experienced users might find it useful to directly access the source code repository for which read-only access is available to the JADE community. The repository is maintained and kept up to date by an administrator; instructions on how to access it are available on the JADE website. The lib directory contains the five archive files containing the classes needed by JADE:

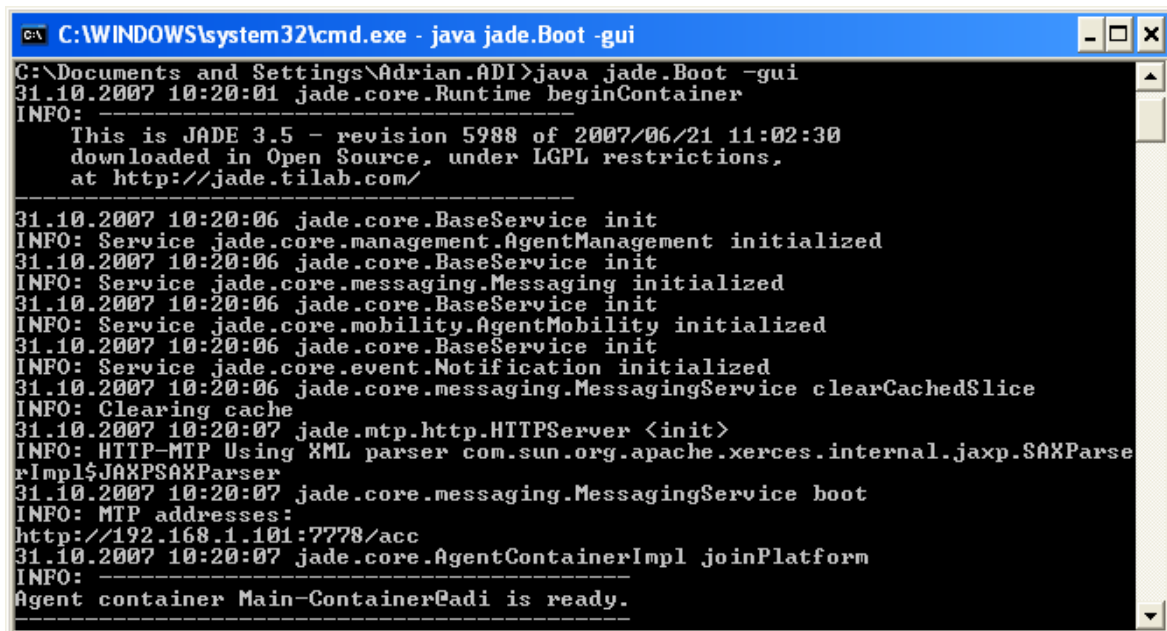
- ⇒ *jade.jar* contains all the JADE packages except add-ons, MTPs and graphical tools;
- ⇒ *jadeTools.jar* contains all the graphical tools;
- ⇒ *http.jar* contains the HTTP-based MTP which is also the default MTP launched at the platform start-up;
- ⇒ *iiop.jar* contains the IIOP-based MTP. This is not often used, but is the subject of a couple of examples later in the book and it implements the FIPA HOP MTP specs (FIPA75);
- ⇒ *commons-codec\commons-codec-1.3.jar* contains the Base64 codec used by JADE.

The *classes* directory contains the class files of the examples. Note that to reduce the size of the distribution files, the examples are distributed as source code and must therefore be compiled prior to use with the command ant examples.

To launch the platform, the user must first set their local Java CLASSPATH, i.e. the set of directories and Java archive files where the Java Virtual Machine will look for byte code (i.e. the .class and .jar files). Issues relating to the CLASSPATH remain the

topic of many questions received from JADE beginners, with the most typical concerning *ClassNotFoundException* exceptions caused by incorrect configuration of the CLASSPATH parameter.

The main-container can be launched with the JADE GUI using the command: `java jade.Boot -gui`. The result of this should be as shown in Figure 4.



```
C:\WINDOWS\system32\cmd.exe - java jade.Boot -gui
C:\Documents and Settings\Adrian.ADI>java jade.Boot -gui
31.10.2007 10:20:01 jade.core.Runtime beginContainer
INFO:
-----
This is JADE 3.5 - revision 5988 of 2007/06/21 11:02:30
downloaded in Open Source, under LGPL restrictions,
at http://jade.tilab.com/
-----
31.10.2007 10:20:06 jade.core.BaseService init
INFO: Service jade.core.management.AgentManagement initialized
31.10.2007 10:20:06 jade.core.BaseService init
INFO: Service jade.core.messaging.Messaging initialized
31.10.2007 10:20:06 jade.core.BaseService init
INFO: Service jade.core.mobility.AgentMobility initialized
31.10.2007 10:20:06 jade.core.BaseService init
INFO: Service jade.core.event.Notification initialized
31.10.2007 10:20:06 jade.core.messaging.MessagingService clearCachedSlice
INFO: Clearing cache
31.10.2007 10:20:07 jade.mtp.http.HTTPServer <init>
INFO: HTTP-MTP Using XML parser com.sun.org.apache.xerces.internal.jaxp.SAXParser
Impl$JAXPSAXParser
31.10.2007 10:20:07 jade.core.messaging.MessagingService boot
INFO: MTP addresses:
http://192.168.1.101:7778/acc
31.10.2007 10:20:07 jade.core.AgentContainerImpl joinPlatform
INFO:
-----
Agent container Main-Container@adi is ready.
-----
```

Figure 4 – Standard output at the JADE start-up

The first part of this output is the disclaimer printed out each time a JADE run-time is started. Following that, all the standard JADE platform services are initialized, which implement the various functionalities provided by the container. Since this instance of the JADE run-time is a main container, an HTTP MTP is started by default and its local address printed. Finally, a notification indicates that a container called “main container” is ready; the JADE platform is now ready for use.

As mentioned, the command-line option *-gui* has the effect of launching the primary JADE graphical interface, shown in figure 5. This GUI is actually provided by a JADE system agent called the Remote Monitoring Agent (RMA) and allows a platform administrator to manipulate and monitor the running platform.

It should be noted that use of the RMA GUI, and all other graphical tools, can negatively impact system performance. This is one reason why the *-gui* option is provided. If performance is a concern, it is suggested not to use the RMA GUI at deployment time, rather to limit its use to system monitoring as required.

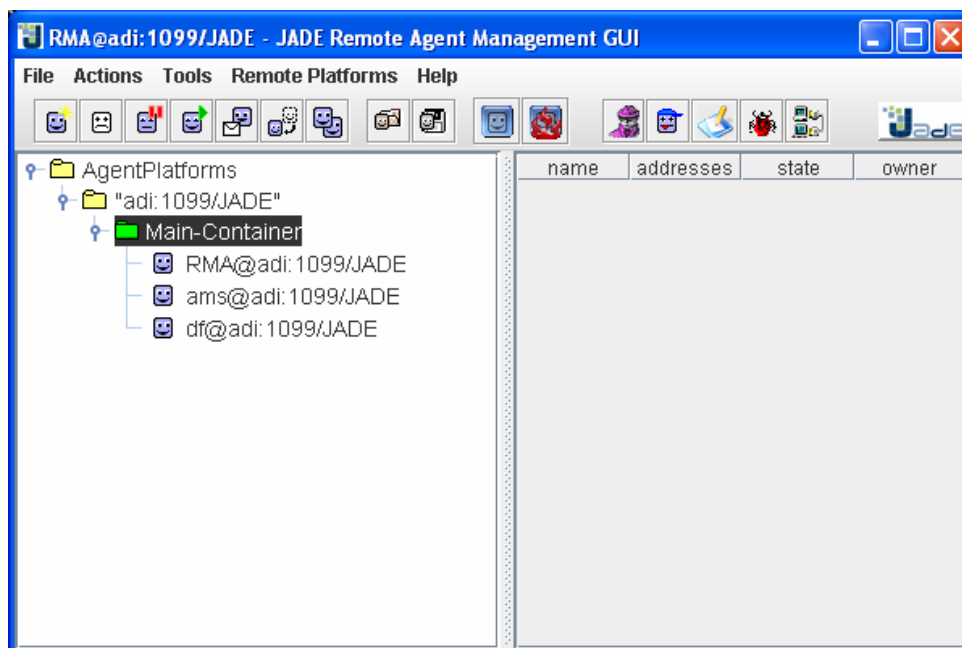


Figure 5 – GUI of the JADE RMA

Now that the main-container has been initialized, any number of other containers can be launched on the various hosts composing the platform.

Conclusion

Agent Oriented Programming models applications as a collection of components – agents that are characterized by autonomy, proactivity, and ability to communicate. In this paper I made a short overview of JADE, maybe the most wide agent oriented middleware in use in our days. This platform is a completely distributed middleware system with a flexible infrastructure that allows extension with add-ons modules. JADE facilitates the development of complete agent-based applications and because it is written in Java language, it benefits from the huge set of programming abstractions allowing constructing JADE multiagent systems with minimal expertise in multiagent theory.

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THE IMPACT OF THE NEW INFORMATION AND COMMUNICATION TECHNOLOGIES ON THE PERFORMANCE CONTROL INDICATORS SYSTEM

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Abstract

Our paper emphasizes the way in which the information and communication technologies offer a real support to the managers which have a global vision on the key factors that assure business performances. The simulation of a Total Performance Scorecard reveals the advantages and opportunities of the software - Balanced Scorecard Designer in the determination of the project efficiency, based on four integrated dimensions: financial perspective, customers' perspective, internal business perspective and organizational learning.

Keywords: *Balanced Scorecard, performance control, strategy, organizational learning*

1. General considerations concerning the design of a performance control system (Balanced Scorecard)

The global economy enters in a new era, in which the new information and communication technologies accelerate the companies' expansion in e-business, modifying the components of competitiveness and management performances. The strategic goals of the organizations like the business processes are influenced by significant changes, which determine the necessity to implement a performance control system.

Performance control provides to the top-management information concerning the business vision and supports the strategic and tactic decision making process. The performance control function creates the framework for the planning, budgeting and monitoring the performance in all its departments. In the same time, it assures the adequate usage and the traceability of company's resources, determining transparency in decisions and contributing in this way to the profitability increase.

The **Balanced Scorecard** represents a set of indicators that assures a unitary presentation of the management vision regarding the performance control and supposes the relational approach on **four dimensions: financial perspective, customers' perspective, internal business processes and organizational learning and growth perspective.**

In the design and the implementation of a performance control management system – especially when we take into account the information system – the aspects concerning the definition of goals and the setting of the results measurement become essentials. There aren't methodologies generally accepted for the automation of a performance control project, but the practice of the companies reveals **six stages** (figure no. 1)

In the following, we will present the main characteristics of each stage.

1. The setting of the vision in view to implement the performance control

A project focalized on the implementation of the performance control requires the top-management support of the company that launches the initiative of a Balanced Scorecard.

In this first stage, the managers investigate the way in which the company should develop its activities without a performance management system.

2. The development of the performance control project based on Balanced Scorecard

In this stage, the project manager has the responsibility to build the team which will participate to the project and to set the performance indicators that will be measured. The strategic management system must concentrate on the success key indicators.

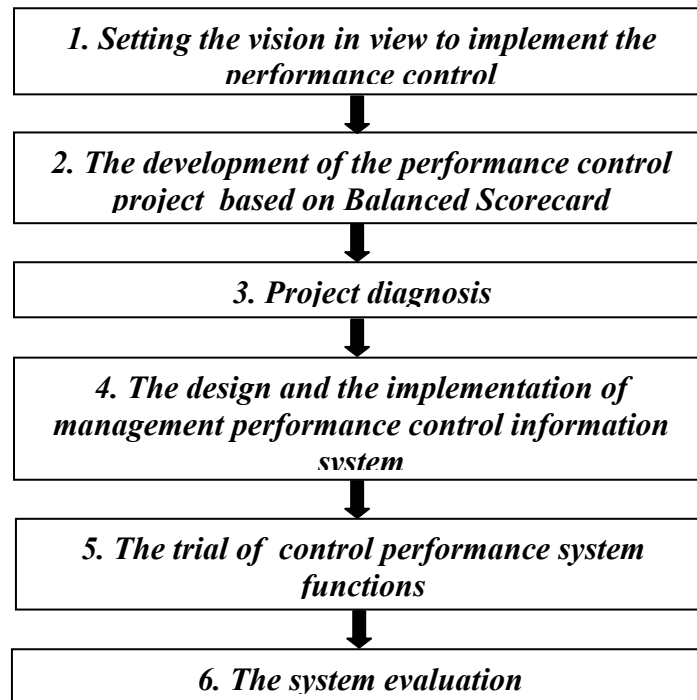


Figure no. 1 – The stages concerning the performance control management approach

3. Project diagnosis

On the basis of performance criteria, the project manager realizes a detailed analysis of the strategic aspects that will be processed in the information system. He will emphasize the aspects that cause low performance (inefficient workflows, high level of costs, the lack of the added value for customers due to an inefficient service or customer care etc.). Performance indicators are created in order to set the targets and to measure the results in the critical factors of the strategy. Balanced Scorecard is a useful tool for the strategic planning and the implementation of performance control evaluation system.

4. The design and the implementation of management performance control information system

Defined as a set of actions in which analysts, information system designers, users and beneficiaries are involved; the project concerning the implementation of the information system – support for performance control management needs an approach in a structured and formalized framework that describes the operations development and the role of specialists, making possible the participation of all the partners to the final objective setting, by means of a common language and rules for the Balanced Scorecard.

5. The trial of control performance system functions

The use of the information technology as a support which helps to the implementation of the methods and techniques referring to global performance evaluation by Balanced Scorecard is one of the steps focalized on the performance control reengineering. Depending on the change situation, the existent system can be just modified or replaced.

6. The system evaluation

The processes identified and implemented must be updated in view to evaluate the global performance. This approach supposes an iterative process, in which the new processes are used like entry data for the next stage of the performance control system.

2. The simulation of performance control system with Balanced Scorecard Designer software

Balanced Scorecard Designer is software realized by AKS LABS that simplifies the processes referring to the creation and the management of the Balanced Scorecard. It provides reports characterized by a set of measures linked to the organizational performance. The managers can be informed quickly when the business performance doesn't correspond to their expectations. The selection of performance control indicators focuses on a set of "strategic objectives" associated to a "strategy map". The managers should identify the goals they have in each perspective of the Balanced Scorecard and must prove the relationships by means of the network links discovery. Arriving to a consensus in what concerns the goals and the inter-relationships, the Balanced Scorecard measures are conceived by the selection of the appropriate indicators. In view to emphasize the performance control automation techniques, we built a Balanced Scorecard that will allow the determination of a sales project performance. The indicators system used for the simulation of the Balanced Scorecard is represented in figure no. 2.

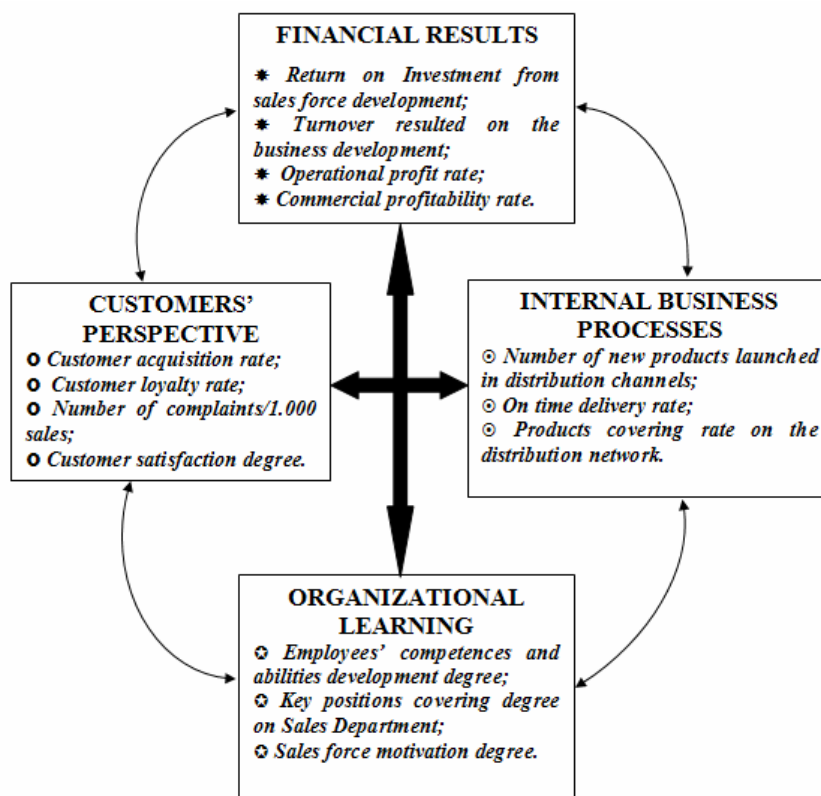


Figure no. 2 – Indicators system for the balanced Scorecard simulation in the case of a sales improvement project

The users of this software dispose of capabilities concerning the creation of indicators system for performance control, the definition of a decision tree which implies relationships between the dimensions of the Balanced Scorecard. It also provides a flexible

support for the measurement of performance control indicators, based on certain target values settled by the decider.

The software allows the creation of a set of key indicators that can be distributed in several categories; each category and each goal defined by the decider receives weights, in function of their importance. For each indicator the decider settles a minimum and maximum value in order to help the optimization strategy to determine the calculation of the indicators associated to the performance control.

Because the sum of the Balanced Scorecard dimensions weights must be equal to 10, we suppose that the company's manager which implements the performance management system allocates the **value 3** to the dimensions: **financial results** and **customers' perspective** (these perspectives are considered to be the most important in the manager's vision and have the greatest impact on the performances) and **value 2** to the other two dimensions: **internal business processes** and **organizational learning**.

The decider must introduce for each indicator the real value, that will be quantified in the Balanced Scorecard, based on an optimization function which requires a lag between a minimal and maximal values.

The optimization lags and the real value for the indicators associated to the **Financial results** dimension are presented in the table no. 1

Table no. 1

*Indicators associated to the **Financial results** dimension*

Indicators	Real value	Minimal value	Maximal value	Weight
Return on Investment from sales force development (%)	165	110	180	3
Turnover resulted on the business development (mil. EUR)	435	320	500	2
Operational profit rate (%)	17	10	20	3
Commercial profitability rate (%)	38	20	50	2

The sum of the weights allocated to each dimension indicators from the decision tree which reflects the Balanced Scorecard must be equal to 10. The minimal respectively the maximal values are planned by the manager before the implementation of the project.

The optimization function implemented in Balanced Scorecard Designer emphasizes the manner in which each indicator contributes to the global performance of the project and depends on the goal pursued in each situation.

In the case of **maximization** goal, the optimization function supposes the following formula:

$$\text{Maximize } RP = MP * \text{Score} / \text{Max}$$

RP – real performance; MP – current value of the indicator had in view

In the case of **minimization** goal, the optimization function supposes the following formula:

Minimize RP = MP*Score/Min

The application of the optimization functions referring to performance control management associated to Financial results leads to a **performance of 69,35%**. (figure no.3)

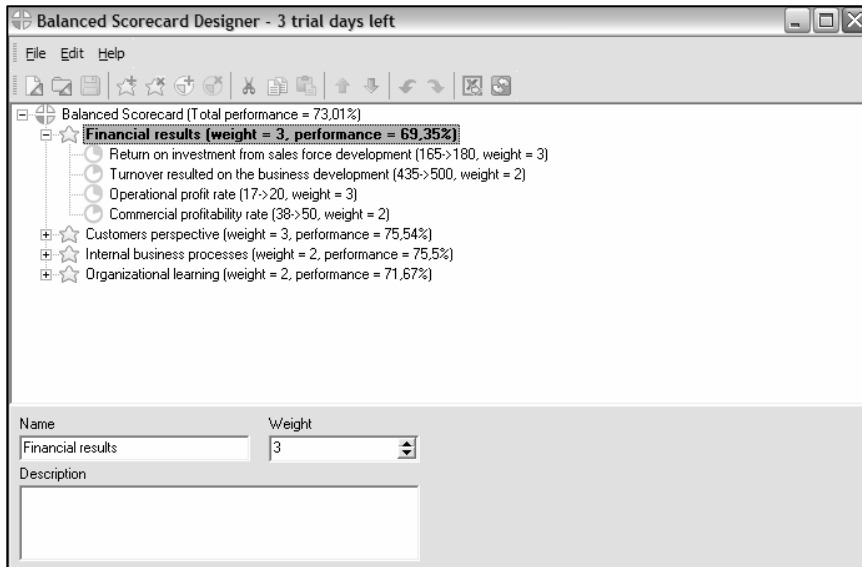


Figure no. 3 – Determining the performance level of the Balanced Scorecard **Financial results** dimension

The optimization lags and the real value for the indicators associated to the **Customers perspective** dimension are presented in the table no. 2

Table no. 2

Indicators associated to the Customers perspective dimension

Indicators	Real value	Minimal value	Maximal value	Weight
Customer acquisition rate (%)	69	30	80	3
Customer loyalty rate (%)	85	55	90	2
Number of complaints/1.000 sales	3	0	10	2
Customer satisfaction degree (%)	91	70	100	3

We emphasize the fact that the indicator “*Number of complaints/1.000 sales*” supposes the application of the minimal target for the optimization function, and the decider concentrates the performance control strategy on customer acquisition rate and customer satisfaction degree.

The application of the optimization functions referring to performance control management associated to Customers perspective leads to a **performance of 75,54%** (figure no.4)

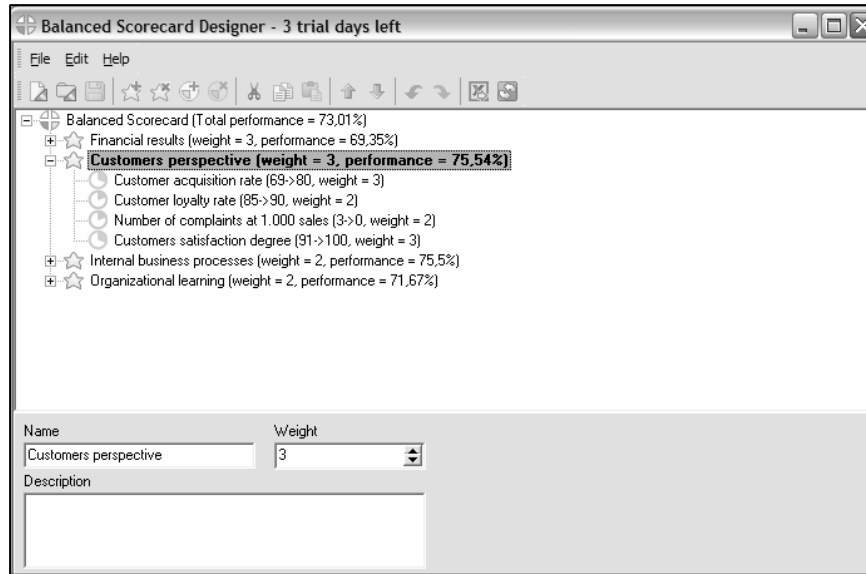


Figure no. 4 – Determining the performance level of the Balanced Scorecard
Customers perspective dimension

The optimization lags and the real value for the indicators associated to the **Internal business processes** dimension are presented in the table no. 3

Table no. 3
*Indicators associated to the **Internal business processes** dimension*

Indicators	Real value	Minimal value	Maximal value	Weight
Number of new products launched in distribution channels	6	2	7	4
On time delivery rate	97	90	100	3
Products covering rate on the distribution network	95	80	100	3

The internal business processes must lead to the project budget update and to the assurance of the periodical performance control, in order to learn how the strategy can be improved. The application of the optimization functions referring to performance control management associated to Customers perspective leads to a **performance of 75,5%** (figure no.5) The optimization lags and the real value for the indicators associated to the **Organizational learning** dimension are presented in the table no. 4

Table no.4
*Indicators associated to the **Organizational learning** dimension*

Indicators	Real value	Minimal value	Maximal value	Weight
Employees' competences and abilities development degree	5	1	7	3
Key positions covering degree on Sales Department	5	1	7	4
Sales force motivation degree	6	1	7	3

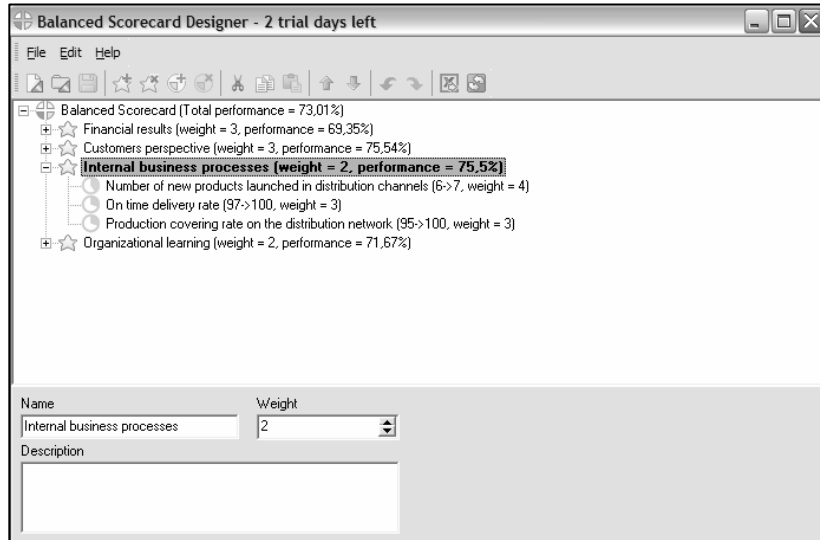


Figure no. 5 – Determining the performance level of the Balanced Scorecard **Internal business processes** dimension

The appreciation scale of these three indicators associated to the **Organizational learning** dimension is the following: 1 – very low ...7 – very high; the decider gives the almost same importance to these indicators, resulting a **performance of 71,67%**. (figure 6)

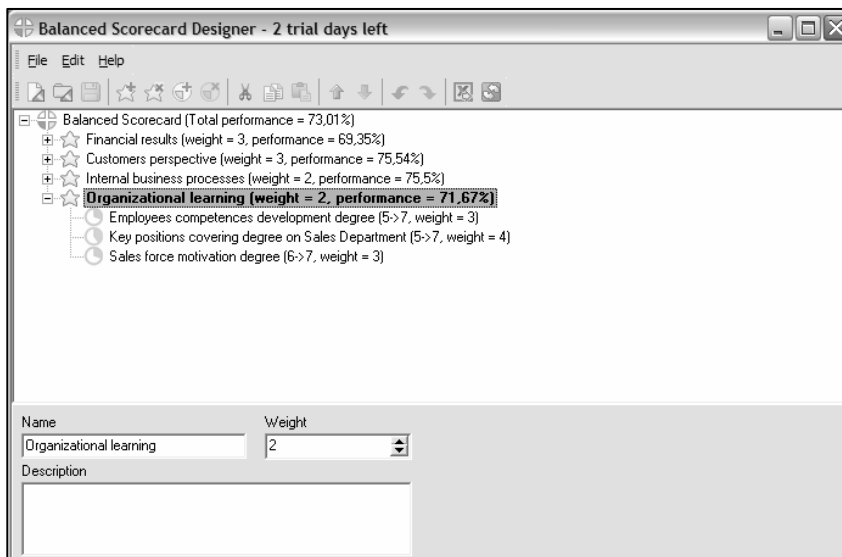


Figure no. 6 – Determining the performance level of the Balanced Scorecard **Organizational learning** dimension

The global performance of the project is calculated as a weighted average of the performance indicators associated to each perspective of the Balanced Scorecard.

$$\text{Perf}_{glob.} = \frac{69,35 * 3 + 75,54 * 3 + 75,50 * 2 + 71,67 * 2}{10}$$

$$\text{Perf}_{glob.} = 73,01\%$$

The value of the global performance proves a remarkable success rate of this project, because a satisfactory success rate for a project is between 50% and 70%, and the values that exceed this target signify an important success of the project.

3. Conclusions

The managers that use the Balanced Scorecard don't plan their strategies just only on financial indicators in view to evaluate the companies' performances. The Balanced Scorecard allows a real support for business, using **four processes**, which correlate long term goals to short term actions. These processes are: the vision translation, communication and relationships, business planning, feedback and learning.

- **The vision translation** is the process that helps the managers to achieve the agreement in an organization in what concerns the strategy. The vision must be expressed in an integrated set of goals and measures, accepted by the executive managers.
- **Communication and relationships** allow the managers to communicate the strategy on all stages of the organizational pyramid and link it to the individual and departmental goals.
- **Business planning** involves the opportunity to integrate financial and business plans. Almost all companies implement change programs in which the Balanced Scorecard allow the best allocation of resources to the tasks.
- **Feedback and learning** offer to the companies the possibility of strategic learning. The existence of the feedback and the evaluation of the processes in which the company's vision, its departments and the employees are focalized on the achievement of the performance control management system.

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REVERSE LOGISTICS AS SOURCE OF COMPETITIVE ADVANTAGES AND ITS RELATIONSHIP WITH TOTAL QUALITY MANAGEMENT

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Abstract:

This paperwork analyze how Reverse Logistics (RL) provides great benefits like reduction of costs, new opportunities of business and facilitates adaptation to new regulations in the matter of environment, this benefits improves performance of the company and favour their growth. We analyze how companies which have Total Quality Management (TQM) and implanting a Reverse Logistics System (RLS) improve their recovery activities and reusability of materials and products, reduce its costs and improve its enterprise performance.

Keywords: *Logistic, Reverse Logistics, Total Quality Management*

1. Introduction.

Increasing competitiveness between companies, in markets where every time real differences between products are smaller, has forced to companies to develop all kind of services policies to the client, such as: “if you are not satisfied, we give back your money”, “guaranteed satisfaction”, “use it, and if in 60 days you does not obtain performance, we received it without making questions”, among others. From the client perspective, these ones are rights and privileges which allow enjoying a greater service quality, and every time it is more common. Although, what kind of implications has it for the industrialist?

Study of all product flow in opposite way, from the consumer to the manufacturer, and to the supplier to the manufacturer, is indeed what it has denominated Reverse Logistics (RL) in last time (Rogers and Tibben-Lembke, 2002).

Total Quality Management (TQM), is a set of directed actions to plan, to organize, and to control quality function in a company (Llorens and Fuentes, 2000), and this one is fundamental for success of many companies, to obtain sustainable competitive advantages in their markets. TQM facilitates the RL integration in the organization (Brah, 2005). Thus, the excellence for client means give products it needs, in time and in amounts that it needs, in the direct flow as for the inverse one.

The objective of this paperwork is to analyze existence of positive synergic effect in those companies with a TQM system, which implant a reverse logistics system (RLS), providing improvement of their performance and reductions of costs of whole organization.

Thus, in first of all, we realize a brief revision of literature about RL, secondly, we analyze as RL is necessary to materials and obsolete products recovering, providing additional advantages and benefits for organization, thus, for example, this one transform increase of costs derived from the adaptation of the new regulation into new opportunities to obtain

benefits, besides to obtain reductions of costs derived from the introduction of recycled material like raw material of new products. Thirdly, we analyze synergic effect of TQM in RL activities, and analyze RL impact in performance of the company. To get it, we propose a series of hypothesis, which we will contrast empirically. And finally we present the obtained performance and we establish conclusions of this research.

2. Theoretical background.

One of first studies is by Stock (1992), which is analyzed, among other questions, logistic processes related to product return from the consumer to the producer, recycling, reusability of materials and components, elimination of remainders and operations of restoration, repair and remake. In this paperwork, RL concept is already uses. Stock (1998) recovers RL subject by kind of White Book on this issue. This author analyzes importance of logistic in product return, reduction on remainders generation, recycling, repair and remake, developing for it management models which combine techniques of logistic engineering and models of enterprise decision with objective to create profitable on flow of return of obsolete products.

Between definitions we find in RL literature, we emphasized: RL like the harvesting, transporting, storage and processing of given back products (Krikke, 1998). A process that uses activities of logistic in used products that are able to be reused again in the market (Fleischmann et al., 1999). Process of planning, implanting and controlling the efficiency, the real cost of the flow of materials and finished goods and all information related from the consumption point to the source point for the value recapture (Rogers and Tibben-Lembke, 1998). Process where a manufacturer systematically accepts products or parts of these from consumption point to possible recycling, remake or reusability (Dowlatshahi, 2000). And task of recovering rejected products, which including its packing and transports to harvesting central station where recycling or remake it (Guide et al. 2000).

In addition, Dowlatshahi (2000) groups studies and works on RL in five categories:

- 1) General concepts
- 2) Quantitative Models
- 3) Distribution, Storage and Transport
- 4) Enterprise Profiles
- 5) Industrial Application

3. Reverse Logistics (RL).

Although there are differences between RL and Logistic (Krikke, 1998, Thierry et al., 1995; Van der Laan y Salomon, 1997), RL empower profits of Logistic in the company (Tibben-Lembke, 2002; Rubio 2005), profits like (Cohen et al., 2004):

1. To increase competitiveness and to improve performance of the companies to undertake the challenge of the global world.
2. To optimize management and logistics management for international national trading.
3. Optimal coordination of all factors that influence in the purchase decision: quality, trustworthiness, price, packing, distribution, protection, service.
4. Extension of the management vision to turn Logistics in a model, a frame, a mechanism of planning for internal and external activities of the company.

From enterprise logistic perspective, RL is integrated by processes of management of (Stock, 1998):

1. Product returns that was rejected by agents in trading channel or by final consumer, as well as excessive of inventories because of service life end.
2. Return for reusability of packages, packing, and units of handling.
3. Reusability of materials.
4. Remake of rejected product.

Setting up these mechanisms to recovery and use products rejected by the consumers comes originated, mainly, by two types of reasons:

Legal reasons: The new European regulation is drawing a new scene for many companies, in which the producers become people in charge of all the product service life, from it enters to factory until it becomes remainder (Hawken, 1993; Klassen, 1993; Shrivastava, 1995; Schmidheiny, 1992). A new paradigm of management in European markets is considered, where the industrialist not only must take care enterprise costs which are associated to manufacture and distribution of product in consumption market (Rogers and Tibben-Lembke, 1998), but also must control costs related to correct management of that product turned remainder by the final consumer.

Between these increasing regulations, it emphasizes (Foundation Surroundings, 1998):

- Regulation about Packages and Remainers of packages (E+RE), already transferred to each one of the States members of the UE, with concrete objectives to reach in the 2001. At the moment, these objectives are revised with new values from the 2006;
- Regulation about Obsolete Vehicles (VFU), where the spare parts and components of the automobile are included; this director is in phase from transposition to each European country;
- Regulation about Remainers of Equipments Electrical-Electronic-Brown Line (REEE), with special attention to batteries and batteries what are in this equipment;
- Regulation about remainders of equipments of household-electric- White Line (REE);
- The specific regulation for Remainers of Construction and Demolition (RCD);
- Regulations related to the management of plastics of conservatory in Spain, among others.

This legal imperative has been observed traditionally like a negative element for competitive capacity of the companies, due to assumption of the costs that supposes the industrial adaptation of processes and operations to this regulation. Nevertheless, an environmental regulation, correctly designed, it will generate innovations able to compensate the cost derived from the fulfillment of this legislation (Mohr, 2002). These “compensations by innovation” not only would diminish the net cost to compliment regulation, but these could generate sustainable competitive advantages by reductions in total costs of manufacture, the Time-to-market or increasing the value of the product for the consumer (Porter and Van Der Linde, 1995).

Economic reasons:

As we commented at the beginning of this paperwork, the increasing competitiveness between diverse companies, in market where every time real differences between products are smaller, has forced companies to develop all kind of service policies for the client. Among them the policy of returned product (Daugherty, 2004). Flows of returned products usually have elevated costs, mainly because of great capillarity, of the additional manipulation it suppose, of the quality controls that supposes and of the quality controls of products distant. But the company, by means of Reverse Logistics system (RLS), has tools to contribute to its reduction. To get it, it is possible for company to adapt its logistics net

and transport net to returns, or to integrate them like a component more of supply chain. Also it is possible to be carried out a management and optimization of stocks, which will derive in decrease or, even, elimination, of returns to factory (Rogers and Tibben-Lembke, 2002).

The company does not know how many products will be given back to it and in what conditions will be. RL allows company to be prepared to take care of these returns more and more frequent, and in addition, it supposes great opportunities like smaller costs, potentials benefits, new opportunities of business, initiatives of environmental quality (ISO 14000) etc. Still more, from the point of view of the demand, company will be able to generate competitive differences by a positioning strategy (Kotler, 1994) looking for an image of responsible company, it makes recyclables products, from materials environmentally recovered, it diminishes generation of remainders and use of nonrenewable raw materials, using clean technologies and integrating its supply chain in its environmental strategy (suppliers, providers, distributors and clients). And by the point of view of the offer, recovery of damaged material and products obsolesces, will suppose substitution of original materials and component by these recovered articles, which could generate a diminution in costs of manufacture and/or in sale price of these products.

On this way, companies would not be considering the management of obsolete products, solely, like a necessity motivated by legislative pressures, but it will find in these activities forms to obtain sustainable competitive advantages and, Because of it, the attainment of their enterprise objectives (Porter, 2002)

Next to economic and legal reasons, the company, in its daily activity, finds the necessity of RL by the following causes (Stock, 1998):

1. Merchandise in defective state
2. Return of excess of inventory
3. Returns of clients
4. Obsolete products
5. Seasonal inventories

In order to correct them, processes in RL focus to five key activities: purchases, reduction of virgin inputs; recycled; substitution of materials and management of remainders (Diaz ET to. 2004).

4. Reverse Logistics and Total Quality Management. Hypotheses.

Global competition has supposed to give greater importance to TQM. In order to improve their competitiveness, companies have been introduced in global markets. These changes have renewed the approach towards the quality (Brah, 2005).

TQM supposes a philosophy formed by, methods, tools and techniques, which are applied to all strategic levels of organization (Samson and Terziovski, 1997).

TQM bet by continuous improvement, focus to the client, implication of all members of the organization. Key of success of a RLS is its ability to improve its internal and external integration in organization. TQM is one of the approaches more used to obtain this integration, and by means of this integration it is able as well to increase the yield (Future Gimenez and, 2005). TQM supposes improvements in relation with suppliers, processes, management of personnel, and generally fortifies relation with the client (Shaukat et al.,

2006). In addition, importance of the logistics function and RL has been increased in many companies in high-priority form. These companies apply practices from systems of quality to RLS, and exists empirical evidence of it has a positive impact when it is applied with effectiveness (Sohail et al., 2003). As these practices have been increased in the company, the direct and inverse flow of the logistics has gone away also increased.

Although implantation of a logistic system focused to continuous improvement is a long term process, and it requires changes in culture of the organization (Sohail et al., 2003).

Intention of this paperwork is to analyze how RL improves performance of the company, there is a positive synergic effect in those companies which count on a TQM system, to get it, we propose following hypotheses, which have empirically been checked by a survey, which is sent to organizations:

- Hypothesis 1 (H1). Value of given back products by intermediaries, is greater if the company has got a TQM system.
- Hypothesis 2 (H2). Performance of the company in their main products and markets, are greater in companies with TQM systems which implant a RLS than companies what do not implant it.
- Hypothesis 3 (H3). Costs in companies with TQM system with RLS are lower than companies do not have it.

In order to check hypotheses, an empirical study has been made using a survey. In the survey, structured with closed questions it was asked for chiefs to value their company in the dimensions of RL, TQM, and performance, using Likert scales of 7 points. With information provided by these items, a series of variables was elaborated to check the hypotheses of the study. Selection of population of companies was made from the database Dun and Brandstreet 2006 and 50000 greater Spanish companies, this criterion allowed to obtain an adapted size of sample to statistical effects. 400 surveys were sent, by email and postal mail, and by survey on line. Selected companies are dedicated to manufacturing in different industrial sectors, and they have implanted a RLS, and TQM system. The survey was sent to the manager of the company and operations chief. To analysis of collected data, computer science program SPSS 14.01 was used. Finally, we get 135 valid surveys, 28 companies answered on line, and the rest by postal or by mail.

Empirical performance

A sample is taken from 135 companies with the purpose of applying an instrument that gather data on TQM, RL and Performance of the Company. The instrument counts on the following structure (see table nº 1):

Table 1: Analysis structure

ASPECT	VARIABLES
TQM	2
RL	32
PERFORMANCE	14

Source: Author's elaboration

With purpose of making a reduction of each one of the aspects, statistical technique for reduction of variables was used factorial analysis¹. The new variables, denominated factors, are the following ones (see table n° 2):

Table n° 2: New variables of the factor analysis

ASPECT	FACTORS	FACTORS DESCRIPTION
TQM	1	COMPANIES WITH TQM SYSTEM IMPLEMENTED
	2	COMPANIES WITHOUT TQM SYSTEM IMPLEMENTED
RL	1	IMPORTANCE OF RETURNS FOR COMPANIES
	2	SOURCE OF RETURNED MATERIAL
	3	NEW SOURCES OF RETURNED MATERIAL
	4	USES OF RETURNED MATERIAL
	5	PROFITS OF RL FOR COMPANIES
	6	PROACTIVITY THROUGH COMPANIES RETURNS
PERFORMANCE	1	GROWTH OF COMPANY
	2	PERFORMANCE OF COMPANY
	3	SERVICE TO THE CLIENT

Source: Author's elaboration

For the reduction of each one of aspects is little exigency in the group for the new factors.

H1. Value of given back products by intermediaries, is greater if the company has got a TQM system. The used methodology to find the differences between the companies that implanted a TQM system and those that did not do it, is based on the statistical check of averages, for independent samples (Davis, 2000). A test of resistance of averages (Galve, 2007) for companies that implement TQM system and those do not implement it. Evidence show, 90% confidence is observed, companies with TQM system have greater value in their commercialized products by an intermediary, than companies do not has it.²

H2. Performance of the company in their main products and markets, are greater in companies with TQM systems which implant a RLS than companies what do not implant it. With a confidence of 91%, evidence show companies with TQM system and which implant RLS, show better performance of their products, that the companies that do not implant it.³

H3. Costs in companies with TQM system with RLS are lower than companies do not have it. With a confidence of 93%, evidence show costs in companies with TQM system, and RLS implemented, is lower than in companies that do not implement it.

Conclusions

Objectives proposed at the beginning of paperwork have been materialized throughout the study. One of objective, to analyze quantitatively relations between the TQM and RL, data has demonstrated a positive relation between both, since the fulfillment of the raised hypotheses is observed to make this relation, although all the dimensions are not equal of important for this performance. On the other hand, also it has been demonstrated that obtains more intense positive synergies effects in organizations with a culture focused

¹ Factorial analysis is a multivariate statistical technique that groups the most homogenous variables and separates the most heterogeneous variables, with the purpose of obtaining a reduction of the phenomenon that is studying.

² Ha: the average value of the companies does not implant RL is greater than the average value of the companies that if they implement it. Assuming different variances $t = 1,87$ $p(t) = 0.08$

³ Ha: Costs in companies with TQM that implant RL are minor than cost in companies with TQM without a RLS implemented. Assuming equal variances. $t = -2,20$ $p(t) = 0.039$

towards the quality, and in companies with a TQM system, RL increase benefits for the organization, when facilitating internal and external integration of this one.

Other objectives of the work, was to analyze impact RL in performance of the organization. Data indicate RL improves performance of company with TQM, we remember tendency to increase number of product returns and to increase regulations in matter of returns and remainders, reason why, although at first, it looks like an important cost for organization, is verified with RL performance of the company improve. In addition, performance indicates that RL reduces costs of the company with TQM, being more positive with best information systems.

Analysis has not considered other objectives like operations of the company - information systems, efficiency that also influence in their yield.

On the other hand, study has used cross-sectional data that make difficult to the establishment of relations cause-effect, reason why a longitudinal study more would be adapted to verify the obtained exploratory performance in this work. In spite of the limitations of the study, the work offers a frame of dimensions of logistic inverse that could be used of starting point for future studies. For example, he would be useful to analyze dimensions of the management of the knowledge and their logistic effect in the inverse one

RL is every time more present in the enterprise world. In competitive surroundings, many companies have noticed that the resolution of the misfortunes related to the inverse flow of the merchandise can imply a significant reduction of costs. RL is sure a philosophy that any company must add to its surroundings, due to all the mentioned factors and before the globalization is occurring is important to have a strategic exposition of RL.

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APPLICATIONS OF NEURO-LINGUISTIC PROGRAMMING TO BUSINESS AND LEADERSHIP

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Abstract

Neuro-linguistic programming (NLP) is the study of human excellence and of the way in which it can be replicated. NLP is an interdisciplinary field that draws its knowledge from information theory, communication theory, programming, psychology and psychiatry. NLP provides skills and techniques for mastering the states, in which we find ourselves, through controlling our brain. The internalization of NLP principles and presuppositions helps us change perspective on our lives. NLP is a tool for personal growth and success. The domains where it is most applicable are: education, business and interpersonal relations. In all these fields the centerpiece is the human being, the understanding of his nature being of special importance.

Keywords: *neuro-linguistic programming, modeling, NLP presuppositions, emulating excellence, efficient communication, mastering one's own mind, visionary leadership*

1. The Origins of Neuro-Linguistic Programming

Neuro-Linguistic Programming, also referred to metaphorically as “user’s guide to the human brain” is considered today to be the most powerful technique for success (1). The technique of Neuro-Linguistic Programming was devised well over 30 years ago by two Americans: the linguist Richard Bandler and the mathematician John Grinder, both being, among others, PhDs in psychology (2). Their common interest in Gestalt therapy led them to the modeling process. The two realized that human excellence can be understood in its finest details and became experts in modeling. Starting from a very acute observation of the manner in which the most effective psycho-therapists treated their patients, Bandler and Grinder aimed to develop a practical model for therapy and counseling based and structured around these experts’ patterns and strategies of excellence.

However, NLP cannot be reduced to effective psychotherapy techniques; it is a much more generous system than that. According to Richard Bandler, the most appropriate description of NLP is that of an educational process within which are developed methods for people to learn how to use their brain (3).

The human brain can be compared to a continuously functioning machine. If we place someone in conditions of sensorial deprivation (where there is no external sensorial

stimulation), his or her brain will begin to generate internal experiences (phantasms). If it is not solicited for something specific, the brain will keep on working anyway, but randomly so, sometimes to our own disadvantage. After a bad day, the brain has the tendency to bring back into awareness the negative experiences of that particular day. We can distress ourselves, imagining future unfortunate and negative events, if we let the brain work arbitrarily (4).

NLP can help us program correctly our mental activity in order to achieve health and efficiency.

NLP is a method of improving communication and of behavior modification, the principles of which are based on knowledge from the fields of programming, information theory and communication theory as well as knowledge of normal and clinical psychology. They are founded on that which the authors call sensorial modalities or sub modalities, which are nothing else than systems based on representations.

NLP presents simple techniques for self-regulation and self-directing of the brain and of the mental states, having as objective the volitional alteration of unsatisfactory or undesirable experiences.

Observing the way people and computers function, Richard Bandler concludes that people function perfectly, even if they don't do so to their own liking or that of others. They execute perfectly that which was programmed linguistically into their brain.

2. The Definition of NLP

The term NLP (Neuro-Linguistic Programming) originates from the disciplines that influenced the beginnings of this field. It all started as a study of the relation between neurology, linguistics and behavior patterns (called programs).

“Neuro” refers to the human nervous system and especially to the unique way in which each person formulates his experience of the world (the map of the territory) through the five senses – visual (V), auditory (A), kinesthetic (K), olfactory (O) and gustatory (G).

“Linguistic” derives from the systems of verbal communication (language) and nonverbal communication (body language) through which we map the reality surrounding us. Therefore, we use language to communicate with others as well as with ourselves. Also, this term refers to both conscious and unconscious communication.

“Programming” points to the unique way in which we direct our neurological systems. The term was borrowed from IT and was chosen especially to emphasize that our brains are “programmable”, meaning we can modify or replace the programs (strategies, ways, techniques and methods through which we perform various tasks) we already have with other more effective ones that will take us in the desired direction.

NLP contains a set of principles and distinctions that are specially conceived to identify and analyze critical models of behavior, values, cognitive processes and the relations between them, so as to develop specific models and techniques. Most of the techniques and models included in NLP were created through the process called “modeling”, which requires the following:

1. decoding the way the brain functions through:
2. the analysis of the language and non-verbal communication patterns;
3. the results of this analysis are then integrated in a step by step strategy (program), a strategy which can be used to transfer the ability to other persons (5).

3. The Principles and Presuppositions of NLP

NLP contains a series of principles and presuppositions about what people are, about communication and about the processes by which persons change. From this point of view, NLP is a way of self-discovery of one's identity, of one's personal mission or of building an organizational identity or an organization mission.

Essentially, NLP is based on two fundamental premises, from which derive secondary presuppositions. Different sources offer different sets of operating principles, the number of which varies between 15 and 30.

The two fundamental principles are:

1. "The map is not one with the territory". This principle of operation states that human beings do not experience reality purely and in its totality. As human beings we can only know our own perception of reality. We experience the world in which we live, primarily through our senses. The neuro-linguistic maps that we create for the reality around us determine our behaviors and the meaning we give to our behaviors. Generally speaking, it is not reality that limits or empowers our actions, but rather our map of the world.

From this principle, the following are derived:

1.1. "The wisest and most efficient maps are those that allow the most options". People already have all the resources needed to act efficiently. Change comes from activating and using the resources appropriate for a certain context through "the expanding" and "the enrichment" of the map of the individual.

1.2. "Memory and imagination use the same neural pathways through the brain and can have the same impact and influence".

1.3. "The meaning of my communication to another person is given by the answer that it reveals in that person, regardless of my intention".

1.4. "It is impossible not to communicate". When you don't communicate, you are in fact communicating that you do not want to communicate.

1.5. "People make the best choices available to them, within the context of the possibilities and capacities they perceive through their maps". Any behavior, regardless of severity and/or abnormality is the best choice of a person at any given moment. People are not the sum of their behaviors.

2. "The processes that occur in people and between people and their external environment are systemic processes".

2.1. Our bodies, society in itself and The Universe form complex systems and subsystems that interact and influence each other.

2.2. It is not possible to completely isolate one part of the system from the rest. It is impossible for people not to influence each other. These systems (the bodies, society, The Universe) are self-adapting and permanently seeking a state of balance and stability.

2.4 There exists a context (a state of the system) in which each behavior has the same value. Not all interactions in a system are at the same level. What is positive at one level can be negative at another.

2.5 The medium and the context are constantly changing. The same actions and behaviors will not always yield the same results. To survive and, most importantly, to be efficient, the member of a system has to have a certain degree of adaptability, which is directly proportional to the system's level of variation. As the complexity of the system grows, so too does the need for increased flexibility.

2.6 Those that are most flexible have the greatest impact on the results. If the current strategy is not having the desired effect, the strategy and behavior must be adapted so that the desired end result will be obtained. If the external conditions are the same, using the same strategy will lead to the same result.

2.7 The capacity to change the way in which we perceive reality is more valuable than changing the exterior context.

4. Domains of Applicability of NLP

The benefits of NLP are manifold. In essence, the areas where NLP is the road to success are the following (6):

4.1 Emulating excellence.

NLP is linked to discovering how top performers obtain exceptional results. The process of modeling excellence involves revealing the sequence of actions and internal processes that they go through. As soon as we have understood how something is achieved, we can duplicate the strategy used and obtain similar results.

Robert Dilts, one of the pioneers in developing NLP, has undertaken a modeling of the creative genius that was Walt Disney (7).

Disney's ability to use his innovative spirit to correct his successful business strategies clearly marks him as a genius in show business. The world-wide success of Disney's characters, his films and theme parks reveals a unique ability to capture and synthesize reality. Disney is also the promoter of several technical innovations in animation, and more generally, in the movie industry. He used to claim that "the cartoon can explain whatever the human mind can conceive". And of his own creative mental processes he used to say:

"The story teller has to see clearly in his mind the disposition of every element in the story. He should feel every expression, every reaction. He should also set enough distance between himself and his story that he is able to see it from a different perspective, [...] to see if he is in a dead end [...] to see if the characters will be exciting and interesting enough for the public. He should also see if the things his characters do are interesting or not."

By analyzing these statements, Robert Dilts discerns the elements of Disney's strategy to creativity. They involve three perceptual viewpoints, which he works with synchronously.

1. Firstly, Disney describes visualizing all the elements that make up the story. Most likely this process will involve creating visual imagery.

"The story teller has to see clearly in his mind the disposition of every element in the story."

2. Secondly, Disney describes his adopting the viewpoint of the characters, experiencing what happens from their perspective.

"He should feel every expression, every reaction."

By adopting the perceptual viewpoints of his characters, Disney intimately understands their motives and behaviors. His allowing himself to spontaneously discover how characters could react in different situations was a method of enriching his creativity.

3. Thirdly, Disney switches back to visual representation. "He should also set enough distance between himself and his story that he is able to see it from a different perspective [...]".

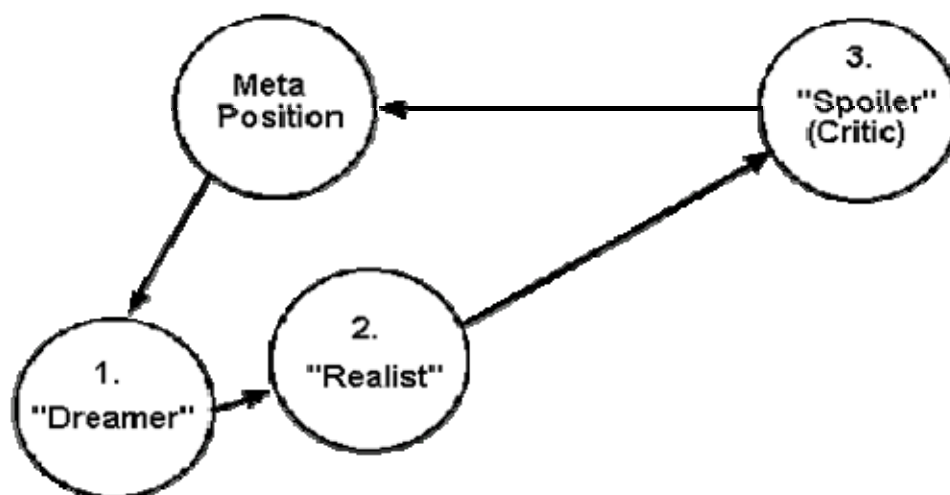
This "seeing things differently" is not the same as the initial visualization. It is a perceptual position that is literally further than the initial "fantastic" viewpoint, and it serves a different purpose. Instead of being creative, the purpose of this third position is to be critical, to evaluate what happens in the first two positions.

In closing, it is obvious that the essential element of Disney's genius is his ability to explore reality by adopting different perspectives: the dreamer, the realist and the critic. "The dreamer" worked primarily by creating "visual imagery". Then Disney made these dreams a reality, enlivening them through the emotions his characters felt. He takes on the role of "the realist" in order to give them life. Lastly, "the critic" provides another fresh perspective, that of a demanding public.

The basic elements of Disney's strategy can be of great use in planning or making decisions. To balance the fundamental perceptive positions - the dreamer, the realist and the critic - in order to create a common vision - is without doubt a strategy which any leader could follow.

Robert Dilts suggests the following model, based on Walt Disney's pattern of creation:

1. From Meta Position select three physical locations and label them (1) 'Dreamer', (2) 'Realist' and (3) 'Critic'.



2. Anchor the appropriate strategy to each physical location:
 - a. Think of a time when one was able to creatively dream up or fantasize new ideas without any inhibitions; step into location (1) and relive that experience.

- b. Identify a time when one was able to think very realistically and devise a specific plan to put an idea effectively into action; step into position (2) and relive that experience.
 - c. Think of a time when one was able to constructively criticize a plan - that is, to offer positive and constructive criticism as well as to find problems. Make sure the location is far enough away from the others that it doesn't interfere. Step into location (3) and relive that experience.
3. Pick an outcome that one would like to achieve and step into the dreamer location. Visualize oneself accomplishing this goal as if one were a character in a movie. Allow oneself to think about it in a free and uninhibited manner.
4. Step into the realist location, associate into the "dream" and feel oneself in the positions of all of the relevant characters. Then, see the process as if it were a 'storyboard' (a sequence of images).
5. Step into the critic position and find out if anything is missing or needed. Then, turn the criticisms into questions for the dreamer.
6. Step back into the dreamer position to creatively come up with solutions, alternatives and additions to address the questions posed by the critic.
7. After one has repeated this cycle several times, consciously think of something else that one really enjoys and is good at but continue to walk through the dreamer, realist and critic locations.
8. Continue to cycle through steps 4, 5 and 6 until and the plan congruently fits each position.

4.2. Efficient Communication

Our human condition involves communication. Language is the means through which we think and give meaning to the things around us. However, the process of converting experiences in language includes inevitably distortions.

The five senses through which humans perceive the outside world – sight, hearing, smell, touch and taste – form the systems of sensorial representation through which the human experience is transformed in language. The stimuli coming from the environment are perceived on all sensory channels simultaneously, but on a conscious level, a human can only process one type of sensory information at a time. This does not mean that the other senses do not function, but simply that the information they report is not realized consciously. From this point of view, the brain functions sequentially and we can only be aware of one of the senses at a time and not more. However, we can switch rapidly from one channel to the other. The bits of information received through the senses will be brought into awareness one by one. Based on these facts, NLP states that in order to represent reality, the human being uses dominantly one of his senses (8). Each person has his or her own dominant sensorial representation system. Even if he doesn't realize it, his own sensorial representation system can be sensibly different from that of other people, with whom he relates and communicates. Differences raise the problems of synchronization and compatibility.

The relatively correct identification of our own sensory representation system as well as that of various interlocutors can be achieved by observing various clues and signals that show up in the behavior and language of people. When a person communicates something, he or she will adopt behaviors and languages specific to his or her dominant sensory channel. Thus, his main sensory representation system becomes observable from the outside.

Neuro-linguistic programming distinguishes three systems of sensorial representation: visual, auditory and kinesthetic (this last one including internal and external touch sensations as well as olfactory and gustatory sensations).

When a sensorial representation system is dominant, we can notice a repetition of specific set of words.

Examples of words with visual reference : to see, to look, to consider, obvious, to clarify, to illustrate, to show, to reveal, to examine, horizon, lucidity.

Examples of words with auditory reference: to hear, to be heard, to listen, to resonate, to harmonize, to sound fake, dissonance, fake note, noise, to talk, sound etc.

Examples of words with kinesthetic reference: to feel, to touch, to grab, contact, warmth, cold, heavy, light, emotion, to notice, to stretch etc.

Another modality of identifying the privileged communication channel is the careful observation of the rapid, short and involuntary movements of the eyes of the person with whom we communicate. These micro-movements inform us if his thinking starts from images, sounds or sensations. The NLP techniques allow for establishing a more intense and personalized communication with another person. The most known techniques are:

- *Locating* consists of identifying the dominant sensory channel of the interlocutor.
- *Synchronizing*: in order to make contact with the interlocutor we synchronize our own apparent behavior with his, adopting his words, intonations and movements.
- *Anchoring*: communication is anchored in the points of reference of the interlocutor using images, vocabulary, gestures that remind him, for example, of his favorite sport or of recent trip.

From NLP perspective we cannot communicate efficiently and we cannot influence efficiently unless we are congruent. *To be congruent* means to be in harmony with ourselves – what we do is in concordance with what we are. Congruence in a system is “denoted by internal harmony and understanding between the parts” (Webster’s Dictionary)

The state of incongruence on the other hand generates an internal struggle between identity and personal values on one side and behaviors on the other.

Incongruence, in sales, is the cause of many failures right before the closing of the deal. Everything goes well up till the end, at which point the salesman gets excited about the soon to be made transaction. This emotion makes him lose his focus on the client’s needs. He starts to boil at the thought that on that month he will make his plan (his, not the client’s). Small modifications in his nonverbal behavior start to appear – a quivering in his voice, a fake smile etc – which eventually give him away. The client becomes suspicious and uneasy. The sale is missed at the last moment.

All sales manuals strongly insist on the following: in order to efficiently sell his products, the salesman needs to believe wholeheartedly in his product, to feel strongly he is a real salesman and to be proud of his condition. Having fulfilled these conditions, he must possess the skills specific to a good salesman and know how to make a sale. These elements make him more and more congruent, persuasive and efficient.

4.3. Mastering One's Own Mind

The majority of people agree that the human mind is an extremely powerful “tool” and that we use only a small part of its potential. NLP offers means to a better understanding of how the brain works. The philosophy underlying NLP is that at any given moment in life, the human being is learning and using the experiences that he has accumulated. He passes through various emotional states, and if he can control these, he can become efficient in a very short time. Mastering one's mind, by a business person is the key instrument in making a decision. The entrepreneur needs a “clear mind” when he decides the fate of his company.

Mastering one's mind requires a process of change (Figure 1), that can be summarized as follows:

1. the identification of the present mental state
2. rediscovery and implementation of the appropriate resources
3. achieving the desired mental state

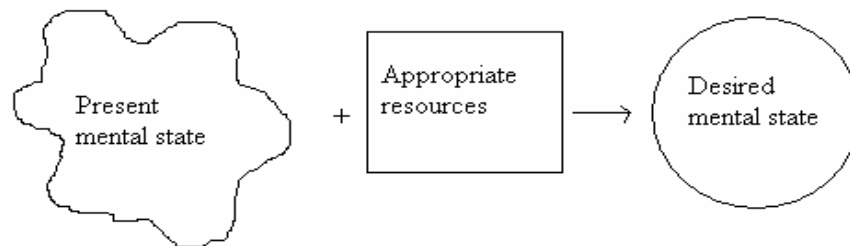


Figure 1. NLP Technology

In order to successfully apply Neuro-Linguistic Programming to the mastering of the mind, the first condition is to process and internalize its presuppositions. The NLP postulates set the framework for the techniques and the techniques strengthen the presuppositions through their functioning.

One of the NLP presuppositions is that “Those that are most flexible have the greatest impact on results”.

Flexibility refers to the range of possibilities and options that a person or system has at a given time. This notion applies to both mental and physical processes.

Flexibility has to do with the systems theory, in the sense that a certain degree of variability in a system is necessary in order for it to adapt to changes in the environment.

From the NLP perspective, flexibility can be considered a continuous stream of changes in our state. A state is a way of being at a certain time, a sum of thoughts, feelings, emotions, physical and mental energies (10).

States vary in intensity, length and familiarity. Some have names, such as love, fascination, hatred, fatigue, joy, while others are harder to describe – we either feel good or we feel bad, or we cannot quite say how we are feeling.

When we direct our attention to the structure of our experience, we can discover how we go in and out of different states. In addition we can choose the states we would like to be in and the ones we would like to avoid.

The capacity to manage our states to our own advantage begins with the idea that the states will change anyway upon interaction with the environment. In order to choose the state we would like to be in, we must know what triggers it.

In NLP any stimulus that changes our state is called *an anchor*. An anchor can be visual, auditory or kinesthetic. It can be external or internal, created in our own minds. Anchoring is one of the simplest and most elegant ways of changing one's state in NLP. Essentially anchoring refers to the human ability of connecting stimulus to response in an automatic fashion, so as to not require going through the filters of thinking for every received stimulus.

5. The NLP Leadership Model: anticipation, alignment, action

Successful leaders are proficient in mastering their brains, in communicating and in systemic thinking.

Leadership is an art, and the object of it is the self. Proficiency in leadership comes from proficiency in personal development.

The latest approaches brought to light three ingredients of the efficiency of great leaders (11):

- anticipation
- alignment
- action

5.1 The anticipatory spirit is the foundation of visionary leadership. The anticipation of opportunities and threats from the external environment of the organization prevents situations of blockage and unfortunate events.

Tony Robbins suggests a method for anticipation that can change the lives of leaders shifting most of their efforts in the field of vision. The method is based on answering the following 5 questions:

1. What are the major sources of dissatisfaction?
2. What are the paradigms that people begin to question?
3. What alternatives do people find to the present situation?
4. What are the rules that begin to be broken?
5. What new trends are starting to be formed?

The answers to these five questions allow the identification of opportunities and threats. Well formulated questions are always the ingredients of a successful anticipatory leadership.

5.2 Alignment

In business communication, he who is congruent can communicate persuasively. For leaders this means communicating their vision.

One can express and convey an inspiring vision only if one trusts it and is aligned with it. Alignment is the process by which one becomes congruent. To be aligned with one's own visions and values is like being in harmony with oneself. First of all a person needs to make sure they understand themselves very well on all levels, in order to be able to communicate their vision.

Robert Dilts shows that in NLP we operate with a series of six neurological levels that must be aligned in order to achieve congruence. These levels are: spiritual, identity, beliefs, capability, behavior and environment.

Change, communication and decision are processes that unfold in this natural order.

At the spiritual, or purpose level we understand our connection with the larger systems that we are part of (family, community, and universe). It is the level where we become aware of the way we add value to our lives.

The manner in which we pursue our goal in life is reflected in our way of being. The level of identity defines our self-awareness and contains the way in which we relate to ourselves.

Our values and belief systems are shaped around our purpose and identity. Beliefs are our unique perspectives on the world in which we live. They contain that which we consider to be true about ourselves, others and life in general.

Capability refers to resources such as skills and personal qualities available to us.

Behavior is the neurological level at which we display in the external environment the characteristics of all the other levels. Behavior means what we do and what we say. It is that which people around us see us doing and saying.

The environment is the context in which we demonstrate the characteristics of all the superior levels. Environment refers to all that is outside of us.

The leader must offer a coherent and complete image of his vision in order for his team to follow. The number one condition for this is to realize an as good a congruence as possible on the internal level.

Alignment is not happening only on the individual level but also on that of larger systems. The visionary leader creates a climate in which each team member performs at their highest capacity. For this he must achieve organizational alignment on all the levels described below.

5.3 Action

To be a leader means to be proficient, to be efficient. From the NLP perspective, the efficient leader does the following:

- He focuses on the result;

- He maintains the state of curiosity about his experiences;
- He changes perspective;
- He takes time for himself;
- Realizes he can choose his emotional state;
- Develops imagination and creativity;
- Develops sensory acuteness;

One of the most surprising suppositions of NLP is: if you want to understand, act. Learning is found in action.

6. Final Considerations

There is no domain of human activity to which NLP does not apply. Wherever people use their brains to act, is the territory of NLP. Whether we are talking about psychotherapy or psychology, from which NLP was developed originally, or business or education – the centerpiece of all these fields is the human being. Any intelligent manager agrees that the most valuable resources in his organization are the people. Therefore, the in-depth understanding of human nature, perception and motives that drive people to act in a certain way can be of great benefit to all managers.

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NEUROMARKETING - A PROGRESSIVE CONCEPT IN THE MODERN MARKETING

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Abstract

Nowadays the advertisers are looking for new methods to find out how consumers think to peruse them to buy. Because the neuroscience exists for many years its principles have been tested in business, for it was find it held abilities to influence the consumers' decision.

Invented at Harvard by Gerald Zelman at the middle of 90's, the neuromarketing is a combination of two sciences, the neurology and the marketing, by which the instruments used by the first, initially in medical interest, are now used in advertising means.

The neuromarketing resorts to the IRM technology, a technology used to detect the cerebral tumors, which allow reading the way in which the brain, intercepts, processes and interprets different presented images. This way we can find out how the human brain responds to the advertise message, and the marketing specialists can improve their options of popularization of a brand.

Keywords: *Neuromarketing, image techniques by magnetic resonance (IRM), dopamine, cerebral engineering.*

1. The first researches in neuromarketing

The interdisciplinary process made between medicine and marketing evolved in the moment in which appeared the image transmission techniques regarding the brain running. In table 1 is chronologically presented this evolution:

<i>The technique's name 1</i>	<i>Apparition year 2</i>	<i>Description 3</i>
Electroencephalogram EKG	1920	Registers the changes of the electrical potential of the brain during different activities. It can also measure the necessary time to analyse stimulation.
Magneto encephalogram MEG	1960	Registers the activation and inhibition of nervous cells from the brain.
Computer axial tomography CAT	1970	Renders images of the body's organs.
Tomography with positrons emission PET	1970	Measures the blood flow and the intensity of the brain's activity.
Functional magnetic resonance FMRI	1990	Identifies the activity of the brain in more zones simultaneous.
Watching of the eye direction ECT	1990	Intercepts the eye direction and indicates the areas on which it concentrates.

Created in 2002 by professor Ale Smids, the term of neuromarketing appoints to the using of identification techniques of cerebral mechanisms for consumers understanding behavior, for optimization of marketing strategies. In this direction there are watched either the eye

level answers (ECT), or the brain level (through EKG and FMRI), to establish the way in which the consumer perceives, evaluates and reacts to a stimulus represented by an advertising message, a product or a service.

The first attempts made in such a domain were done by Professor Gerry Zaltman of Harvard University in the 90's. Even then, neuromarketing drew the attention especially to the big companies. Thus, from a study made at Daimler-Chrysler, it was found that the reward centers from men's brain were activated by the sport sizes, as well as these respond to alcohol or drugs. Buick used these researches to improve the dealers' experience with their clients. In this way they succeeded raising their sells for each dealer from 9% at 40%. The officials from "Procter & Gamble" claim that due to neuromarketing, the launching of Fobreza had the biggest success from the company's history.

The ONG involved in the consumers' protection, as "Commercial Alert" denounced the Emroy Centre at the SUA Bureau of Human Central Protection, for the reason that neuromarketing could help the enterprises to sell products which risk causing fatness, addictiveness and other disorders like: smoking and drinking. All this because on the future the advertising won't aim the emotional or rational side of the consumer, but the brain processes, on which, most of the times man has no control.

2. Brain level processes

The human brain is made of three parts: neocortex, cerebellum and reptilian brain. The specialists consider that each of these parts (qualified in "new", "intermediary" and "old") play a different role: the first thinks, the second feels and the third decides. (fig.1)

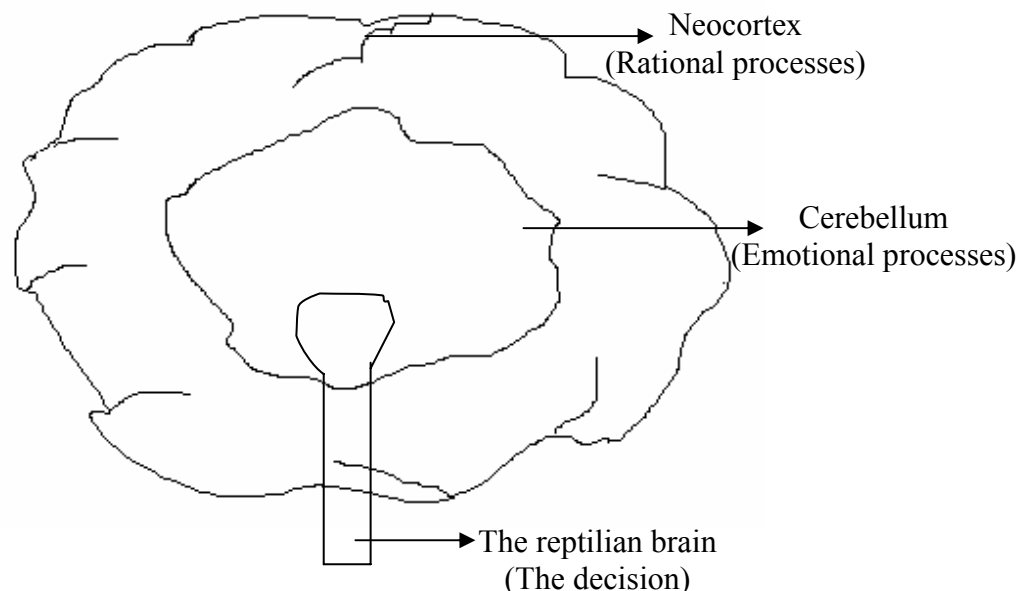


Fig. 1 The parts of the brain

At the level of group neurons, in the brain, due to a pleasure stimulus the dopamine is produced. The dopamine neurons are in two different groups in the brain. One group is in the low part of the brain, which produces the hormones that control the thyroid gland and the suprarenal, and the other group is found in the cerebral body, a 6 cm segment of nervous tissue which represents the transitory zone between the brain and the spinal

marrow. From the transmitting neuron, the dopamine goes to the striated body. The dopamine and the striated body give an active control on the human behavior, being sensitive especially at the products which induce the pleasure and the satisfaction.

For example, for the smokers the nicotine has a stimulator effect on the nervous central system, to the so called “reward circuit”. The nicotine produces the dopamine by activating the neurons which produce it.

3. The new image techniques in the neuromarketing service

The quality of the new image techniques allows to be seen the consumers’ cerebral activity, when these are submitted to different stimulus. The procedure is simple: it is made a representative pattern of volunteer consumers, asking them to fill in a questionnaire which allows the identification of their preferences for a certain product or brand. Then, their brain activity is registered by the RMN technique, while images of the product are projected on them.

The first experiences related to these aspects were made by two USA professors: Read Montague and Gregory Berns. Involving, at first, themselves then other 25 volunteers which have been administered lemonade, during the RMN, and by contrast water, they concluded:

“The conviction of what dopamine does in the striated body, has deep implications in reward and motivation understanding. Dopamine is some sort of chemical reward for the brain, especially for the striated body, so as the identification of the conditions in which is released the dopamine can tell us, indirectly, how to obtain satisfaction. If the dopamine is released as a direct answer to the pleasant things, then, it is the biological base for Freud’s principle of pleasure. But if the dopamine is released before the reward – as a motivator-then, there has to be a more far-reaching definition of the reward, one that includes the involvement process in an action as form of a reward itself”¹.

One of the most interesting experiences, in matter, has been made by Read Montague at “Baylor College of Medicine” (Houston, Texas). This consists of the volunteers which have accepted to drink a Coke and a Pepsi, by successive tastes, one with the brand covered and one not. It concluded that if the covered brand generated by unforeseeable the rising of reward hormones, in the case of the uncovered brand the preferences of the subjects were influenced by the reflection centre. This test seems to show that the appreciation made by the men may be influenced by the notoriety of the brands.

Gerald Zoltman, business administration professor at Harvard Business appreciates: “The world changed but our instruments of understanding the client haven’t evolved. We continue to depend on common researches methods, but inefficient, which leads us to an inappropriate interpretation of behaviors not of consumers’ reflections. The products and messages we create, starting these methods, don’t render the clients easily sensitive.”²

“ Take 26 volunteers, place them in an IRM, giving them before each 40\$, present them the products on which there are the prices and watch which parts of the brain “light”, when their eyes lay on the product. Now analyze the images... You could see in which case they will reach their wallet and so, they will intent to take some action!”

When posting the image, a brain zone called the accumbens nucleus is activated under the effect of the dopamine, a neurotransmitter which anticipates the pleasure when the subject

wants the presented product. The moment when the price is posted it is activated or not another zone – the insular cortex. If this one will be activated, then the buying won't take place, because the subject anticipates displeasure. If it doesn't activate, then the buying will take place. (Fig 2)

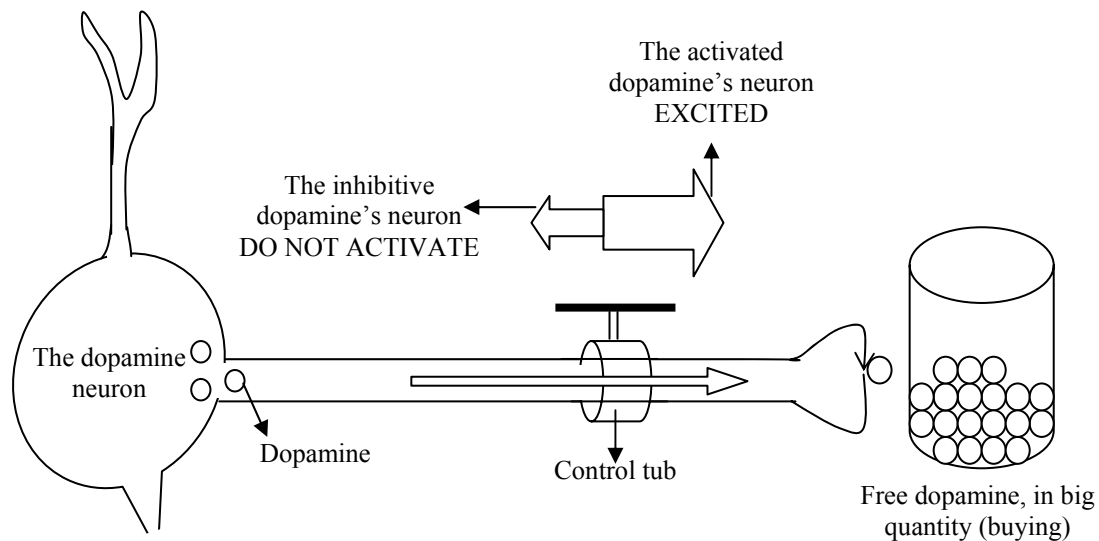


Fig. 2 The mechanism of dopamine release in inactivation conditions of the insular cortex

4. Pros and cons on neuromarketing

On neuromarketing there are pros and cons. To understand them better there will be shown the answers presented by two officials of these opinions: Garry Ruskin, executive director at Commercial Alert – an American organization with non-working purpose, which fights against the dangers of the consume society and Cecile Guerel, director at “En Tete” – a French office of neuromarketing consulting. The controversies were generated by the next questions:

a) *Can the Neuromarketing produce people manipulation?*

Garry Ruskin

Yes. The neuromarketing examines the brain reaction of a subject at seeing different products, to foretell when they will be bought.

Cecile Guerel

No. The neuromarketing is nothing else but a method of quality measurement of a publicity, more precisely than the qualitative market studies.

b) *Could the neuromarketing provide irreverent behaviors?*

Garry Ruskin

Yes. Most of advertising promotes the aggressiveness (especially at kids and teenagers), the virtues and the dangerous products: sexuality, violence, materialism, etc. the neuromarketing wouldn't do something else but raise the bad effects and, consequently, to damage the character of millions of people, something which could have an impact right on the nature of democracies and individual freedom principles. We can imagine the consequences of neuromarketing on the politic propaganda.

Cecile Guerel

No. The neuromarketing can, on the contrary fight against this phenomenon. The two main objectives which I see in neuromarketing are: a) – a better observing of human brain; b) – making a more efficient marketing.

c) *Is neuromarketing damaging for health?*

Garry Ruskin

Yes. The marketing is already dangerous. The neuromarketing is more efficient, although more dangerous. One of the most dangerous consequences of marketing is raising percentage of illnesses like: fatness, diabetes, smoking, etc. For example, if the neuromarketing rises the efficiency of smoking marketing with 5%, this will mean 22,000 more dead people/ yearly in SUA.

Cecile Guerel

No. Neuromarketing is a new way of making marketing. A person that sells cakes has nothing to do with fatness.

5. The neuromarketing's advantages

The neuromarketing can be defined as a new branch of the marketing, which is realized on the new techniques of neurosciences, to identify and understand better the cerebral mechanisms, which sustain the buying behavior, in the perspective of raising the efficacy of commercial shares of enterprises.

The main applications of neuromarketing are:

- Understanding of mechanisms of consumers' choice;
- Optimization of advertising memorization (throw protest campaigns);
- Optimization of estimative advertising impact (especially when the memorization is weak or subliminal);
- Understanding of cognitive and affective aspects about the brand;
- Detecting, with the help of cerebral engineering, of the neuronal mechanisms involved in preferential processes and the consumers' choice (only in experimental state).

6. Conclusions

The developing of image techniques by magnetic resonance (IRM) has been the base for the apparition of a new technique: the neuromarketing. The quality of the new IRM equipments allows to be seen the cerebral activity of consumers when these are submissive at different stimulus. For the productive enterprises there is the possibility to use such methods as to analyze the reactions made by their products or by their advertising campaigns, with the meaning of creating attractiveness and persuasive character.

Thus the neuromarketing becomes a new branch of marketing, which deals with applying the neurosciences techniques, to identify better and to understand the cerebral techniques, which subordinates the buying behavior, in perspective of raising the efficacy of commercial shares of enterprises.

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NEW CHALLENGES FOR EUROPEAN HIGHER EDUCATION MANAGEMENT

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Abstract

Modern societies depend on the application of knowledge, high-level skills, entrepreneurial spirit and the exploitation of communications and information technology. Economic, social and cultural developments within the knowledge-based society depend primarily on the creation and dissemination of knowledge and skills. Therefore, this paper presents the role of higher education within the knowledge-based economy and society and also the new challenges for European higher education management in a changing world. In the end of the paper there are some conclusions regarding the further development of the European higher education field.

Key words: *higher education, management, knowledge-based society, European Higher Education Area, challenges*

1. Introduction

Policies for Education and Training form an important part of the European Union's Lisbon strategy. Not only a radical transformation of the European economy is needed, but also a challenging programme for modernisation of social welfare and education systems became more and more a necessity. The objective of making European education and training systems a world quality reference by 2010 was set in 2002 [9]. The priority of education and training in policy agendas has dramatically risen since 2002, as it has become clear how crucial human resources are for innovation and development in Europe. The overarching objectives set by the Lisbon Council, by prompting for the boosting of Europe as a knowledge-based society and economy and for the implementation of education policies in a Lifelong Learning perspective, have highlighted the need to focus on a set of crucial policy priorities. It has also become clear that new technologies, if effectively integrated in learning, could actively support the development of strategies related to education and that higher education could play a key role in enhancing the development of Europe towards becoming a competitive knowledge-based society.

2. Higher Education into the knowledge-based society

Nowadays, higher education should play a strong role in fostering social cohesion, reducing inequalities and raising the level of knowledge, skills and competences in society. Policy should therefore aim to maximize the potential of individuals in terms of their personal development and their contribution to a sustainable and democratic knowledge-based society. Not just Europe but the whole world is becoming a knowledge society and Europe's universities have a crucial role in helping Europe meet its goals. Universities have to fully embrace the responsibilities derived from their commitment to quality and to recognise the importance of complementing an internal quality culture with external accountability processes. [3]

The knowledge-based society, along with wider economic and societal trends such as globalization, changes in family structures, demographic change, and the impact of

information society technologies, presents the European Union and its citizens with many potential benefits as well as challenges. Citizens have vast new opportunities in terms of communication, travel and employment. Taking advantage of these opportunities, and actively participating in society, is reliant on the ongoing acquisition of knowledge and competences. At the same time, competitive advantage is increasingly dependent on investment in human capital. Therefore, knowledge and competences are also powerful engines for economic growth. Given the current uncertain economic climate, investing in people becomes all the more important [6, 10].

European universities should perform today an even wider role, enabling civil society to meet the challenges of the twenty-first century. Climate change, energy issues, increasing longevity, the rapid pace of technological change, growing global interdependence and rising economic inequality both within Europe and between Europe and other continents are globally the main challenges of the twenty-first century. All these require investigation, fundamental research as well as technological and social innovation which will solve problems as they arise and ensure economic success combined with social stability in many different societies. The universities of Europe, themselves diverse, have to be together ready to meet all these challenges. [3]

If Europe is to benefit fully from its economic potential, *a proactive policy approach* is needed to stimulate favourable market developments and the promotion of the knowledge society (e.g. lifelong learning, creativity and innovation), consumer protection and a healthy and safe European information society. [11]

The central task into the knowledge-based society is to equip Europe's populations to play their part within the knowledge-based society, in which economic, social and cultural development depend primarily on the creation and dissemination of knowledge and skills.

Modern societies depend on the application of knowledge, high-level skills, entrepreneurial spirit and the exploitation of communications and information technology. Educational institutions exist to help people acquire the competences, knowledge and skills they need as individuals in the political, economic, social and cultural life of a society. Therefore, universities will play a pivotal role in meeting the innovation goals set by the Lisbon Agenda and in particular through their commitment to the European Higher Education and the European Research Areas. [3]

To acquire the competences and skills for personal and professional achievement in the knowledge-based society, the learner's autonomy, personal mastery and self-direction must be acknowledged and innovative approaches implemented that foster self-management, communication and team skills, and analytical, conceptual, creative and problem solving skills. However, there is a huge difference between identifying required competences and operationalising them for inclusion in the concrete practices of teaching and learning at different educational levels. [5]

Educational policies increasingly emphasise innovation and organisational change of educational institutions that are considered necessary to better align education and lifelong learning with the requirements of the knowledge society. However, new educational approaches are not easily found and their implementation will be difficult if they require considerable transformations of current educational frameworks and practices.

Formal education, training and lifelong learning providers face nowadays a rapidly changing societal and economic environment. There is an increasing demand to find new ways to equip teachers, students and workers with the competences and skills they need for the knowledge-based society and economy.

Higher education should play a strong role in fostering social cohesion, reducing inequalities and raising the level of knowledge, skills and competences in society. Policy should therefore aim to maximise the potential of individuals in terms of their personal development and their contribution to a sustainable and democratic knowledge-based society. Higher education in Europe is today undergoing extensive changes: the European higher education area, the ultimate goal of the Bologna process, should be fully established by 2010. First-rate education and training are the best means of offering each citizen the means to integrate and participate effectively in society and professional life. The socio-economic barriers that may limit access to higher education must therefore be removed [4].

3. Challenges for the European Higher Education Area

The main challenges for the future development of the European Higher Education Area are the following [2]:

- Strengthening the relationship between governments, higher education institutions and other societal stakeholders;
- Institutions need to develop their capacity to respond strategically to the lifelong learning agenda;
- Institutions must begin to think through the implications of the existence of the European Higher Education Area after 2010.

In order to sustain the goals of the Bologna Process, *strengthening the relationship between governments, higher education institutions and other societal stakeholders* is essential. The greatest current challenge facing both institutions and governments is to communicate the results and implications of the structural and curricular reforms which are being implemented as a result of the Bologna process. Institutions must work closely with employers and their representative organisations, in order to spread knowledge of the new degree structures and their learning outcomes in different academic disciplines. Otherwise, there is the risk that the new degrees, particularly at the first cycle, will be misunderstood or mistrusted within the labour market. It is also necessary to inform the parents of Europe's potential students about the reform because they exert an influence on the choices made by their children and they need to be encouraged by reforms.

There is also a necessity to further develop the processes of quality assessment and enhancement in institutions. No institution can afford to be complacent about quality in an increasingly competitive environment. The governments have the responsibility to ensure that systems are neither overly bureaucratic nor excessively costly. After a first quality assurance cycle, agencies should adopt a risk-based approach, recognising that most assessment regimes have concluded that quality is generally satisfactory or better, even if continued vigilance is required both of academics and regulators. The best guarantee of success is the efforts of autonomous and properly funded institutions that have well developed internal quality processes.

Another challenge for the institutions is *to develop their capacity to respond strategically to the lifelong learning agenda*, taking advantage of the opportunities provided by the structural changes and tools that have been developed through the Bologna process. This

means that institutions must use these tools correctly, and develop them further to enhance student-centred and flexible learning, as well as greater mobility. Strategies and activities in the field of lifelong learning should be further developed and lifelong learning should be seen as a core mission of the educational institutions. Knowledge becomes rapidly out-of-date and therefore, constant training and retraining is required in our society and economy. University courses, at all levels, should meet the actual needs and this requires increasing dialogue with employers.

Higher education institutions have a major role to play in lifelong learning, and their own role is changing within this new paradigm of education. Higher education demands the same level of service no matter how it is delivered. Therefore, it is very important to pay attention to the quality of lifelong learning provision.

The “social objective” of the Bologna process is to ensure equality of access to higher education for all those qualified and able to benefit from it. In order to realize this objective, institutions need to develop their strategies and to work together with governments and with employers. Universities and their leaders have a responsibility to stress that widening access does not imply any reduction in quality. On the contrary, the quality of education systems needs to be evaluated in terms of how successfully the diverse educational needs of all citizens are met throughout their lives.

Institutions must begin to think through the implications of the existence of the European Higher Education Area after 2010. Some aspects of Bologna are still likely to require implementation or reconsideration, and it will be particularly important to do this with greater European vision to overcome some of the local and national obstacles that currently prevail. The European Higher Education Area is also being developed in an increasingly inter-connected global context, and its international reception is therefore of the most importance. There is a need to ensure the link to research and innovation through continuing to develop doctoral programmes and career opportunities for young researchers. Institutions also have to consider the future needs of society and the labour market, together with the implications for mobility, quality and access of the different methods of funding higher education.

4. Conclusions

The aims of Bologna Process are both external to Europe, and internal. The goal is not only to make the European higher education area (EHEA) attractive enough to the rest of the world to draw in more of the best foreign students, but also to boost quality within Europe itself, as a way of making universities more effective within the knowledge-based economy which the world’s richest nations regard as the sine qua non of economic growth [1].

Year 2010 has clearly served as a significant and meaningful deadline, and one that has been used not only in the context of establishing a European Higher Education Area, but also as a target for the European Union’s Lisbon strategy, including the European Research Area. Yet the closer 2010 becomes, the stronger the realisation that the processes set in motion will neither be fully achieved nor come to a sudden end. These processes represent major cultural shifts that have been under-estimated in many ways, and will take more time to be fully integrated into societal reality. Far from reform coming to an end in 2010, the likelihood is that Europe has only begun to lay the initial foundations for a more permanent

process of societal innovation and change, in which the role of higher education is fundamental [3].

European Higher Education Area is based on institutional autonomy, academic freedom, equal opportunities and democratic principles that will facilitate mobility, increase employability and strengthen Europe's attractiveness and competitiveness. In a changing world, there will be a continuing need to adapt European higher education systems, to ensure that the European Higher Education Area remains competitive and can respond effectively to the challenges of globalisation.

Strengthening the relationships between governments, higher education institutions and other societal stakeholders is essential to anchor and sustain the goals of the Bologna process. No institution can claim to be offering high quality education if it lacks adequate funding, good governance, research-based teaching, broad access, guidance and counselling services, and attention to employability. Governments need to examine whether they are really providing the support that institutions need, as well as ensuring that institutions have the necessary autonomy required to fulfil their missions. Broad stakeholder dialogue is also needed to raise awareness of how institutions can and do contribute to societal challenges and to ensure that incentives are put in place to encourage action on priority issues. As they have done throughout their long history, universities and other higher education institutions are again showing that they are not only capable of adapting to meet the needs of a changing society, but that their role is fundamental if progress is to be sustained. [2]

Europe's universities are a major force in shaping the Europe of knowledge. They accept the responsibilities which this brings and, in return, ask that governments, and civil society in general, should recognize their responsibility to enable universities to secure the resources which will permit them to fulfil their mission not just well, but with excellence and in a way which allows them to compete with the higher education systems of other continents [3]. Europe is becoming a "Knowledge Society" and the Lisbon Strategy, the creation of the European Higher Education and Research Areas, together with the efforts of national governments, will require constant reconsideration in order to meet the future challenges.

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BUSINESS CONTINUITY PLANNING FOR RISK REDUCTION

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Abstract

The paper outlines the business continuity planning as a methodology that could be used by organizations in order to reduce the risks that occur both at the organizational level and in its outside environment. There are presented the main objectives and steps in business continuity planning process. In the end of the paper are presented some issues that organizations should take into consideration in the implementation of business continuity planning process projects.

Key Words: *business continuity planning, business impact analysis, risk assessment, risk management, risk monitoring.*

1. Introduction

Business continuity planning (BCP) is an interdisciplinary peer mentoring methodology used to create and validate a practiced logistical plan for how an organization will recover and restore partially or completely interrupted critical function(s) within a predetermined time after a disaster or extended disruption. Business continuity planning means actually how an organization prepares for future incidents that could jeopardize the organization's core mission and its long term health. Incidents include local incidents like building fires, regional incidents like earthquakes, or national incidents like pandemic illnesses. Business continuity planning may be, for example, part of the organizational learning effort that helps reducing operational risk associated with lax information management controls. This

process may be integrated with improving information security and corporate reputation risk management practices.

An organization’s business continuity planning process should take into consideration the following objectives: business continuity planning is about maintaining, resuming and recovering the business; the planning process should be conducted on an enterprise-wide basis; a thorough business impact analysis and risk assessment are the foundation of an effective business continuity planning; the effectiveness of a business continuity planning can be validated only through testing or practical application; the business continuity planning and test results should be subjected to an independent audit; a business continuity planning should be periodically updated to reflect and respond to changes that occur both at the organizational level and in its outside environment.

2. Steps in the business continuity planning process

The organizations could adopt a process-oriented approach to business continuity planning and this process should involve: business impact analysis, risk assessment, risk management, risk monitoring. The business continuity planning lifecycle can be represented as shown in figure no 1.

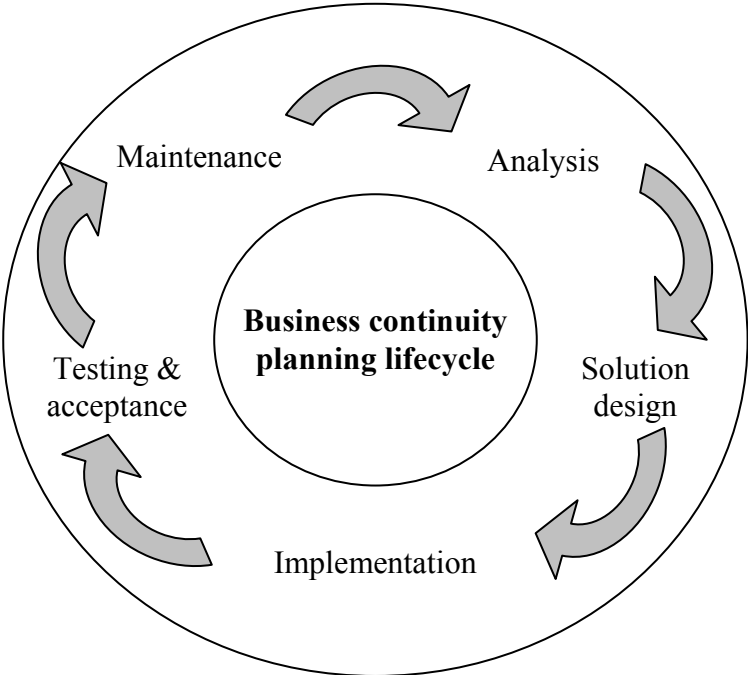


Figure no 1 Business continuity planning lifecycle

2.1. Business impact analysis

The first step in the business continuity planning process, the business impact analysis, should include: identification of the potential impact of uncontrolled, non-specific events on the institution’s business process and its customers; consideration of all departments and business functions.

The business impact analysis phase identifies the potential impact of uncontrolled, non-specific events on the institution's business processes. The business impact analysis phase also should determine what and how much is at risk by identifying critical business functions and prioritizing them. It should estimate the maximum allowable downtime for

critical business processes, recovery point objectives and backlogged transactions, and the costs associated with downtime.

Management should establish recovery priorities for business processes that identify essential personnel, technologies, facilities, communications systems, vital records, and data. The business impact analysis also considers the impact of legal and regulatory requirements such as the privacy and availability of customer data and required notifications to the institution's primary federal regulator and customers when facilities are relocated.

Personnel responsible for this phase should consider developing uniform interview and inventory questions that can be used on an enterprise-wide basis. Uniformity can improve the consistency of responses and help personnel involved in the business impact analysis phase compare and evaluate business process requirements. This phase may initially prioritize business processes based on their importance to the institution's achievement of strategic goals and maintenance of safe and sound practices. However, this prioritization should be revisited once the business processes are modeled against various threat scenarios so that a business continuity planning can be developed. The amount of time and resources necessary to complete the business impact analysis will depend on the size and complexity of the financial institution.

2.2. Risk assessment

The risk assessment step is critical and has significant bearing on whether business continuity planning efforts will be successful. If the threat scenarios developed are unreasonably limited, the resulting may be inadequate. During the risk assessment step, business processes and the business impact analysis assumptions are stress tested with various threat scenarios. This will result in a range of outcomes, some that require no action for business processes to be successful and others that will require significant business continuity planning to be developed and supported with resources (financial and personnel).

Organizations should develop realistic threat scenarios that may potentially disrupt their business processes and ability to meet their client's expectations (internal, business partners, or customers). Threats can take many forms, including malicious activity as well as natural and technical disasters. Where possible, institutions should analyze a threat by focusing on its impact on the institution, not the nature of the threat. For example, the effects of certain threat scenarios can be reduced to business disruptions that affect only specific work areas, systems, facilities (i.e., buildings), or geographic areas.

Additionally, the magnitude of the business disruption should consider a wide variety of threat scenarios based upon practical experiences and potential circumstances and events. If the threat scenarios are not comprehensive, business continuity planning may be too basic and omit reasonable steps that could improve business processes' resiliency to disruptions. Threat scenarios need to consider the impact of a disruption and probability of the threat occurring.

Threats could have a high probability of occurrence and low impact to the institution (e.g., brief power interruptions), or a low probability of occurrence and high impact on the institution (e.g., hurricane, terrorism). High probability threats are often supported by very specific business continuity planning. However, the most difficult threats to address are

those that have a high impact on the institution but a low probability of occurrence. Using a risk assessment, business continuity planning may be more flexible and adaptable to specific types of disruptions that may not be initially considered.

It is at this point in the business continuity planning process that organizations should perform a "gap analysis." In this context, a gap analysis is a methodical comparison of what types of plans the institution (or business line) needs to maintain, resume, or recover normal business operations in the event of a disruption, versus what the existing business continuity planning provides. The difference between the two highlights additional risk exposure that management and the board need to address in business continuity planning development.

The risk assessment considers: the impact of various business disruption scenarios on both the institution and its customers; the probability of occurrence based, for example, on a rating system of high, medium, and low; the loss impact on information services, technology, personnel, facilities, and service providers from both internal and external sources; the safety of critical processing documents and vital records; a broad range of possible business disruptions, including natural, technical, and human threats.

When assessing the probability of a specific event occurring, organizations and technology service providers should consider the geographic location of facilities and their susceptibility to natural threats (e.g., location in a flood plain), and the proximity to critical infrastructures (e.g., power sources, nuclear power plants, airports, points of interest, major highways, railroads). The risk assessment should include all the organizations or service provider's locations and facilities. Worst-case scenarios, such as destruction of the facilities and loss of life, should be considered. At the conclusion of this phase, the institution will have prioritized business processes and estimated how they may be disrupted under various threat scenarios.

2.3. Risk management

After conducting the business impact analysis and risk assessment, management should prepare a written business continuity planning. The plan should document strategies and procedures to maintain, resume, and recover critical business functions and processes and should include procedures to execute the plan's priorities for critical vs. non-critical functions, services and processes.

A well-written business continuity planning should describe in some detail the types of events that would lead up to the formal declaration of a disruption and the process for invoking the business continuity planning. It should describe the responsibilities and procedures to be followed by each continuity team and contain contact lists of critical personnel. The business continuity planning should describe in detail the procedures to be followed to recover each business function affected by the disruption and should be written in such a way that various groups of personnel can implement it in a timely manner.

A business continuity planning is more than recovery of the technology, but rather a recovery of all critical business operations. The plan should be flexible to respond to changing internal and external conditions and new threat scenarios. Rather than being developed around specific events (e.g. fire vs. tornado), the plan will be more effective if it is written to adequately address specific types of scenarios and the desired outcomes. A business continuity planning should describe the immediate steps to be taken during an

event in order to minimize the damage from a disruption, as well as the action necessary to recover. Thus, business continuity planning should be focused on maintaining, resuming, and recovering the institution's operations after a disruption. Specific scenarios should include how the financial institution would respond if:

- Critical personnel is not available;
- Critical buildings, facilities, or geographic regions are not accessible;
- Equipment malfunctions (hardware, telecommunications, operational equipment);
- Software and data are not accessible or are corrupted;
- Vendor assistance or service provider is not available;
- Utilities are not available (power, telecommunications);
- Critical documentation and/or records are not available.

Organizations should carefully consider the assumptions on which the business continuity planning is based. Also, institutions should not assume a disaster will be limited to a single facility or a small geographic area. Institutions should not assume they will be able to gain access to facilities that have not been damaged or that critical personnel (including senior management) will be available immediately after the disruption. Assuming public transportation systems such as airlines, railroads and subways will be operating may also be incorrect. Organizations should not assume the telecommunications system will be operating at normal capacity. A business continuity planning consists of many components that are both internal and external to a financial institution. The activation of a continuity plan and restoration of business in the event of an emergency is dependent on the successful interaction of various components. The overall strength and effectiveness of a business continuity planning can be decreased by its weakest component.

An effective business continuity plan coordinates across its many components, identifies potential process or system dependencies, and mitigates the risks from interdependencies. Typically, the business continuity coordinator or team facilitates the identification of risk and the development of risk mitigation strategies across business areas. Internal causes of interdependencies can include line of business dependencies, telecommunication links, and/or shared resources (i.e., print operations or e-mail systems). External sources of interdependencies that can negatively impact a business continuity plan can include telecommunication providers, service providers, customers, business partners and suppliers.

2.4. Risk monitoring

Risk monitoring is the final step in business continuity planning. It should ensure that the institution's business continuity planning is viable through:

- Testing the business continuity planning at least annually;
- Subjecting the business continuity planning to independent audit and review;
- Updating the business continuity planning based upon changes to personnel and the internal and external environments.

3. Implementation of business continuity planning projects

Organizations should provide business continuity training for personnel to ensure all parties are aware of their responsibilities should a disaster occur. Key employees should be involved in the business continuity development process, as well as periodic training exercises. The training program should incorporate enterprise-wide training as well as specific training for individual business units. Employees should be aware of which conditions call for implementing all or parts of the business continuity planning, who is

responsible for implementing business continuity planning for business units and the institution, and what to do if these key employees are not available at the time of a disaster. Cross training should be utilized to should be regularly scheduled and updated to address changes to the business continuity planning.

Communication planning should identify alternate communication channels to use during a disaster, such as pagers, cell phones, e-mail, or two-way radios. An emergency telephone number, e-mail address, and physical address list should be provided to employees to assist in communication efforts during a disaster. The list should provide all alternate numbers since one or more telecommunications systems could be unavailable. Additionally, the phone list should provide numbers for vendors, emergency services, transportation, and regulatory agencies. Wallet cards, Internet postings, and calling trees are possible ways to distribute information to employees. Further, institutions should establish reporting or calling locations to assist them in accounting for all personnel following a disaster. Organizations should consider developing an awareness program to let customers, service providers, and regulators know how to contact the institution if normal communication channels are not in operation. The plan should also designate personnel who will communicate with the media, government, vendors, and other companies and provide for the type of information to be communicated.

In order to recoup losses from risks that cannot be completely prevented organizations are often using insurance. Generally, insurance coverage is obtained for risks that cannot be entirely controlled, yet could represent a significant potential for financial loss or other disastrous consequences. The decision to obtain insurance should be based on the probability and degree of loss identified during the business impact analysis. Organizations should determine potential exposure for various types of disasters and review the insurance options available to ensure appropriate insurance coverage is provided. Management should know the limits and coverage detailed in insurance policies to make sure coverage is appropriate given the risk profile of the institution. Institutions should perform an annual insurance review to ensure the level and types of coverage are commercially reasonable, and consistent with any legal, management, and board requirements. Also, institutions should create and retain a comprehensive hardware and software inventory list in a secure off-site location in order to facilitate the claims process.

Organizations should be aware of the limitations of insurance. Insurance can reimburse an institution for some or all of the financial losses incurred as the result of a disaster or other significant event. However, insurance is by no means a substitute for an effective business continuity planning, since its primary objective is not the recovery of the business. For example, insurance cannot reimburse an institution for damage to its reputation.

An institution may need to coordinate with community and government officials and the news media to ensure the successful implementation of the business continuity planning. Ideally, these relationships should be established during the planning or testing phases of business continuity planning. This establishes proper protocol in case a city-wide or region-wide event impacts the institution's operations. Organizations are encouraged to contact state and local authorities during the risk assessment process to inquire about specific risks or exposures for all their geographic locations and special requirements for accessing emergency zones. During the recovery phase, facilities access, power, and telecommunications systems would be coordinated with various entities to ensure timely resumption of operations.

4. Conclusions

A business continuity planning is a “living” document; changing in concert with changes in the business activities it supports. The plan should be reviewed by senior management, the planning team or coordinator, team members, internal audit, and the board of directors at least annually. As part of that review process, the team, or coordinator should contact business unit managers throughout the financial institution at regular intervals to assess the nature and scope of any changes to the institution’s business, structure, systems, software, hardware, personnel, or facilities. It is to be expected that some changes will have occurred since the last plan update. Software applications are commercially available to assist the business continuity planning coordinator in identifying and tracking these organizational changes so that the business continuity planning can be updated.

All such organizational changes should be analyzed to determine how they may affect the existing continuity plan, and what revisions to the plan may be necessary to accommodate these changes. The agencies expect that business continuity planning updates will be documented to show that the plan reflects the institution, as it currently exists. Lastly, the financial institution should ensure the revised business continuity planning is distributed throughout the organization.

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AUDITORS QUALITY – AN ESSENTIAL CONDITION IN ENSURING AUDIT QUALITY AND QUALITY SYSTEMS CERTIFICATION

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Abstract

This research presents the legal aspects of audit accomplishment and the conditions that must be brought together by the auditors in order to be able to correctly fulfil an audit task. The bond between auditors` abilities and their competences is highlighted. Furthermore, taking into account that the audit` quality is strongly related to the quality of the auditors the criteria on which the auditors` certification process is based is presented.

1. Introduction

The implementation, certification and maintenance of a quality ensuring typified system are essential to any firm` surviving in the actual competition based system, which is caused by the constantly growing marketing globalization.

Quality systems implementation based on ISO 9000 standards has the effect of turning a system from one that is improvised in an organised one, built on a firm` basis and that could give firms immense competition advantages.

From the advantages that a quality management system implementation has the following stand out:

- a better product designing;
- better quality in manufacturing the product;
- a lesser amount of rejects in the manufacturing process;
- fewer complains from clients;
- increases in working productivity` rate by more efficient using of resources (material, financial, human);
- improvement of both working climate and relations between the employees;
- realizing the great importance that the personnel has in ensuring product quality;
- a growth in the clients` trust;
- a better image for the firm, which involves greater ratings in succeeding in a competition-filled world.

Quality management system implementation implies going through the next steps, in the exact order they happened:

- analyzing the organization and the existing management system;
- briefing the organization` management about the quality management system that is going to be implemented;
- developing the quality management system` documentation;
- training the employees that are involved in activities which influence product or service quality when referring to quality management system;
- choosing a Certifying Organization;
- internal auditors training;
- internal audit;
- finding assistance in the pre-audit and the certifying audit period;
- quality guarantying – quality confirmation (1st race certification), quality acceptance (2nd race certification) and quality certification (3rd race certification).

It is noticed that a huge importance and a great percentage in the process of implementation of the quality system is given to audit processes and certification processes.

The audit is considered to be an essential instrument of the firms for achieving objectives in the quality management system implementation process.

2. Practical aspects regarding quality system` audit

Quality audit represents a systematic examination of the activities and the results that follow that are somehow related to quality, and it is planned and scheduled depending on the nature and the importance of the above-quoted activities.

The assessments are independent one from another and are being led by persons that have no direct responsibilities in the audited domains.

The quality audits evaluate:

- quality system or its components;
- the firm` processes;

- processes results (products, services).

Completing a quality system audit implies realising the following:

- **audit engagement** – pinpointing the audit objective, the frequency of it and pre-evaluation;
- **preparing the audit** – manufacturing an audit plan, organizing the audit team and highlighting the documentation needed throughout the evaluation;
- **audit** – opening meeting, the real assessment of the quality system` composing elements and the closing meeting.

In quality systems audits various techniques (active listening, general interview techniques) are used to obtain the information needed with concern in quality systems` concordance to the reference standard.

Active listening is a technique which should be learned and applied constantly by all auditors thus it is the key to efficient communication.

It implies both listening and correct comprehending of all messages or signals that the speaker transmits.

In addition, active listening is a technique that many consider hard to utilize because they:

- do not let the interlocutor follow his own rhythm and hear only what they want or what they would like to have heard;
- react early and/or due to emotions;
- allow digressions which interfere with the concentration;
- talk too much.

For the development of the capacity of listening in the active way, an auditor must:

- ask short questions and refrain from talking to a greater extent than 20% of the time;
- not fear the silence – “give the person enough time to think and let the silence bring along the meaning and the need to say more”;
- avoid digressions and try to stop any uncalled-for interventions from other persons;
- ask open questions;
- help the speaker to easier express his ideas.

As far as the **general interview techniques** are concerned, there can be said that:

The main way to obtain information on how the quality system runs is to ask questions to persons that work in its area.

It is recommended the use of open questions, which answers would not be “yes” or “no”. These questions must be thought and asked in a manner that would provide the answer containing the information that is sought.

The questions that could be answered to with “yes” or “no” should be used only if a clarification of a misunderstanding is needed, thus this evasive answers could hide within much important information. Much care should be concentrated in the way the questions are asked in order not to create the mirage that a cross-examination is being held.

Essential information for an auditor is obtained when the 6 questions are asked: what? , why?, when?, how?, where? and who?, combined with “else” and “if” (e.g. what would you do if? or who else?).

“What?” is the first question to ask in the gathering information` process, allowing the comparison between what the firm pleads and what really happens.

Asking “why?” lets the auditor evaluate to which extent the assessed grasps and finalize its duties. The auditor can comprehend what activities are carried on and what are their objectives.

After finding out “what” and “why” a certain activity is done, the auditor must know “when” and how much it takes for the firm to complete that activity.

This order in asking the questions could be omitted, therefore even the most experimented auditor should have it written down and consult it whenever needed.

“How” is asked to observe if the employees that should have done something did not understand or did not accomplish something in an intentionally way. This question lets the auditor make a practical verification of the information that he gathered due to all the other questions.

The space where the activities that make the object of the assessment are being held, is brought to the auditor` information list by asking the question “where?”. This question can reveal to the auditor some aspects that he never thought of or were not known.

“Who” gives in the person that is responsible for the area that is assessed and the activities that are taking place in that area.

It is not recommended to use tricky questions, thus the answer to this questions is not good for the auditor. That is why every auditor should ask proper and honest questions. Opinion and hidden reproach are not to be present in an auditor` questions in order not to injure the pride or self-esteem of his interlocutor.

The auditor must state his questions clearly taking into account when manufacturing them the characteristics, activities and personality of the one that is being questioned. In order not to leave space for confusions the auditor must ask the questions in various rephrases, in this way the auditor could be almost certain that the answer he/she will get would be clear and consistent.

The following rule could be used and abided by: the question is asked in three different ways and the correct answer is considered to be the one that provides the same information in two of the three answers.

If the auditor jumps from one subject to another while questioning it is real the risk of loosing some precious information and the audit will become inefficient. When the auditor reaches the desired level of comprehension related to the activity that he/she examines he/she can ask one final question that will draw the conclusion. This question could sound like this: “Could you please give me some examples about..?” or “Let me see if I got it right, you were saying that.. ?”. This final question comes as a solution for any dilemma

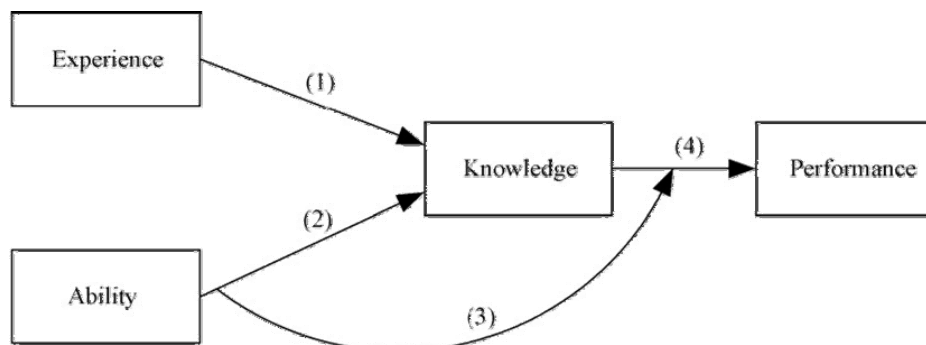
that could have appeared earlier in the examination process. The auditor can not take whatever someone says for granted therefore he/she must ask for physical proof to be presented in addition to what was said. The auditor must verify all the facts, and make sure that all that it was said corresponds to the real facts and activities and that what he/she is seeing is the everyday usual.

The information that came as a result of interviewing individuals should be confronted with information that came from other independent sources like inspections.

3. Auditors self-perceived abilities and audit quality

In the literature Libby and Luft (1993, p. 428) define ability as the capacity to complete information encoding, retrieval, and analysis. They propose a model (reproduced in Fig. 1) of relationships among experience, knowledge, and ability. According to the model, ability manifests itself through performance, that is, auditors' abilities should lead to performance either directly or when combined with knowledge. They also note that experience combined with knowledge should lead to performance.

Auditors' perceived abilities are related to auditors' performance in that self-perceptions are individual auditors' beliefs or views of their capacity to effectively perform specific audit tasks based on the task-specific knowledge acquired previously, either directly or indirectly. While perceived ability is not the same as ability, it can be said that perceived ability mimics the expectations of ability, taking into account the determinants of ability.



Model adopted from Libby and Luft (1993, p. 433)

Fig. 1. Model of relationship between experience, knowledge and task performance.

Taken together, it appears that the ability to self-perceive one's performance depends upon the extent of relevant experiences and task-specific knowledge (Davis et al., 2000).

Prior accounting research also supports the notion that auditors' self-perceptions should correlate with actual performance.

Auditors receive feedback from supervisors through the review process and also from their peers, either directly or indirectly.

For example, audit seniors who review staff auditors' working papers would also have their work reviewed by an audit manager, while an audit partner would review the work of the manager until the final product is accepted (Bamber and Ramsay, 1997; Owthoso et al., 2002). In addition, even audit engagement partners have their work reviewed by another

independent partner on almost all large engagements. Through this review process and successive audit performance in similar audit tasks, subordinate auditors should gain experience, knowledge, and skills to effectively rate their abilities in conducting an audit.

Taken together, the literature on self-perceived ability in auditing and psychology and the nature of audit practice suggests that auditors should be able to self-assess their own effectiveness and abilities over time in conducting audit tasks, especially in their own domain.

Hence, the following hypothesis:

- a) Auditors' self-perceived abilities to perform audits in their domain will be positively correlated with their actual audit performance.
- b) Relative to overall actual performance, auditors will overestimate their self-perceived abilities in conducting an audit.
- c) Relative to overall actual performance, audit managers and seniors will both overestimate their perceived abilities in conducting an audit.
- d) The difference in audit managers' self-perceived abilities and their actual performance will not be significantly different from that of audit seniors.
- e) Above median effective auditors will be less overconfident than below median effective auditors in their self-perceived abilities relative to actual performance.

Taking into account the above said the studies that were made in the audit quality ensuring process field emphasized the following:

First, they point to the need for additional audit resources and improvements in training and performance evaluation systems.

Second, they suggest a need for an examination of the influence of personality traits and corporate culture variables on auditors' propensity to be overconfident relative to performance—variables that the profession and researchers may not traditionally have considered to have impact on auditors' behaviours.

In an auditing context, overconfidence could lead the auditor to engage in risky behaviours and hence conduct ineffective audits by overlooking the obvious. For example, the overconfident auditor might systematically underestimate the risk of an audit engagement and/or overstate the effectiveness, adequacy, and sufficiency of an audit procedure or evidence.

An overconfident auditor might fail to properly gauge the effectiveness of a client's systems and procedures, believing that he or she has the capacity to discover whatever weaknesses the client may have. An overconfident auditor might also erroneously accept new but risky clients and justify his or her actions based on the reliance on some state-of-art audit techniques or technology, even when it is clear that the client should not be accepted. The overconfident auditor might not seek consultation when it is mostly needed because he or she believes that the chosen approach or solution to the problem is a better one. Further, the overconfident auditor might focus more on either financial data and less on non-financial evidential data or vice versa because he or she might believe that his or her technical knowledge could overcome deficiencies in a client's financial statements. The outcome of such overconfident decisions may take the form of substandard audits and the misallocation of audit resources. This could lead to legal problems, inappropriate staffing, inefficient use of technology, and misallocation of audit resources. For a

reputation-driven profession like auditing, these outcomes can have tremendous economic impact. Accordingly, accountants must recognize the economic incentive to become more accountable by mitigating the propensity toward overconfidence and other characteristics of auditor risk (Fuerman, 2004).

As a conclusion we can highlight that notwithstanding the numerous professional training programs auditors undergo, the codes of conducts by which they abide, the auditing standards – general, fieldwork, and reporting – with which they must comply, the regulatory bodies to whom they are accountable, and the bodies of auditing and financial accounting pronouncements with which they must be familiar, it is ironic that auditors are still overconfident in their abilities relative to performance.

4. Quality system` auditor certification

An audit` quality depends on the auditors` quality, therefore the audit must be accomplished only by auditors that are certified by the National Registry of Auditors (RENA).

The general characteristics of the appliers requested by RENA are:

- former studies, training in quality management` domain along with professional experience in this field;
- graduating at least a course in the RENA` auditor` training program;
- auditing experience in the field that he applied to be an auditor for.

The solicitors must prove using objective proof that they own proper studies, experience and qualification so that they can be called competent.

For each auditor` domain RENA has developed a set of requests for all general characteristic:

3rd race auditors certification requests for quality management systems

- a) Solicitors must acquire a minimum 7 points for studies, quality ensuring training and professional experience, according to the board of points presented in table 1 from which we quote:
 - a minimum 3 points from studies and training in quality management;
 - a minimum 4 points coming from professional experience, from which at least 2 earned for practical experience in quality management;
- b) Solicitors must pass a training exam for system auditors with reference SR ISO 9001, registered or recognized by RENA;
- c) The minimum auditing experience needed for certification consists in the number of audits and the number of auditing days that were performed.

Professional experience in the field of quality management and audit must be bonded with the domains that are to be certificated. Auditing experience must be fresh (the last three years) and at least 2 audits must take minimum 2 days.

The bond between the ratings for studies, training, professional experience and in the quality management domain (reference table 2) and those for auditing experience is presented in table 1:

The bond between the ratings for studies, training, professional experience and auditing experience

Criterion	Auditors	
Score for studies, training, professional experience and in the quality management	7-10	11-15
Number of audits related to the total number of auditing days carried out on the spot	7 audits/25 days	4 audits/20 days

Table 2 presents the standards for taking the points allocated to studies, training, professional experience and in the quality management

Score allocated by criteria

Current number	Criterion	Number of points
1	Studies: a) college degree; b) foreman or technician degree	2 1
2	Education: a) training in the quality ensuring domain (courses – other than the registered one, symposiums, seminars and others.) b) Ph.D. and/or master in quality management	1 1
Total I (1+2)		
3	Professional experience: a) practical professional experience (at least 4 years not considering training) in science, technological engineering, production, construction, consulting, services from the last 8 years. One extra point is earned when two years of experience are added.	2 – max. 5
4	Quality management experience: a) minimum 2 years of practical experience in quality management Each additional year adds an extra point	2 – max. 6
Total II (3+4)		
Total score		

Demands for senior and internal auditors' certification were settled in the same manner.

Auditors must be competent in the field they are exercising their work, be aware of the standards and documentation about the audit' object and they must be capable to correctly appreciate whether these standards are abided by. Auditors must be capable of communicating in written and in speech.

The solicitors are to be capable of taking decisions, written or oral communication in all the idioms they pledge to be able of sustaining an audit in.

The solicitors that reach the desired score, score that is mentioned in the general criteria of RENA, receive auditor certification in their field for three years. After the three year period passes they must ask for a renewal of the certification valid for another three years.

Inexperienced solicitors that pass all fields but earn no points in professional experience domain, are given a trainee certification and are obliged to fulfil the experience requests within three years or else the certification is withdrawn. Trainees can be used by firms who arrange and accomplish audits.

5. Conclusions

In order for the audit to be done correctly trained personnel is needed, personnel who can prove that he has the knowledge, training, experience and ability to accomplish all the tasks that he might be given.

Throughout the auditing process questions will be asked clearly so that the one who is assessed would understand their meaning. Furthermore, tricky question will be avoided by the auditors who will also avoid asking questions that might put their interlocutor in a tense or uncomfortable position.

Auditors must try not to be overconfident in their abilities and performances in order to dodge a series of negative effects generated by overconfidence.

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LIFE CYCLE, FACTORS INFLUENCING THE ORGANIZATIONAL STRUCTURE

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Abstract: Organizations are fully dependent on their environment, namely they depend on: resources, consumers, governmental acts, legislation, concurrent organizations, societal value system, technique, technologies, social conceptions, etc. The situational factors from the internal and the external environment strongly influence the firm's organizational structure. Among them, an important place is held by the organizational dimension and life cycle phase. Any organization appears, develops, becomes successful and then follows its decline. But no organization can survive without undergoing such changes as are required by the environment where it functions. Consequently the organizational structure has to be flexible.

Keywords: life cycle, organizational structure, situational factor, environment

Introduction

The size of an organization is usually determined based on its number of employees. The researchers have shown that the structure of a large organization differs from that of a small one. *Small organizations* are characterized by: an informal leadership style, a low work division, the lack of strict rules and instructions, a low budget. *Large organizations*

are, on the contrary, different because of their high degree of specialization, because of their large number of auxiliary personnel, because of their numerous rules and instructions, and because of their different internal managerial, stimulatory and innovational systems*.

The Organizational Life Cycle

Organizations come to life, develop, obtain successes, weaken as potential and, finally, cease their activity. Some of them live a very long life, yet none can survive without changes. New organizations are created every day, yet at the same time, worldwide, hundreds and thousands of organizations are closed for good. The ones that are able to adapt to change flourish, the others disappear. Some organizations develop faster than others and work better than others. The manager needs to know permanently at what stage of development his organization is and has to be able to correctly evaluate to what extent the adopted leadership style corresponds to the respective stage.

At present, a largely used notion is that of organizational life cycle, reflecting the predictable stages by means of a certain state succession in time. The organizational life cycle is reminiscent of the product life cycle.

Using the organizational life cycle one can notice that there are distinct stages that the organization goes through, and the passage from a stage to the next is predictable and not arbitrary. Organizations have some exceptional characteristics that impose certain modifications on the notion of their life cycle. One of the variants of the organizational life cycle division includes the following stages: *birth*, *youth*, *middle age* and *maturity*, corresponding to certain changes in the organizational activity and structure (table 2.1).

Table 2.1 Characteristics of the organizational structure at different stages of the organizational life cycle

Stages	Birth	Youth	Middle age	Maturity
Dimension	Small	Medium	Large	The biggest
Bureaucracy	No bureaucracy	Getting	Bureaucratic	Bureaucratized
Work division	Interwoven tasks	A few departments	Many departments, precisely established tasks, organigram	Generalized work division, narrow specialization, formal instructions
Centralization	Management exerted by one person	Management exerted by several people	Decentralization, up to the level of the service managers (average level)	Significant decentralization, very lush top management
Formalization	No written instructions are used	A limited number of instructions	Formalization of the firm's policy and of its procedures	Generalized formalization, most activities being regulated by means of formal instructions

Administrative system	Secretariat No professional personnel list	Increasing number of clerks and service personnel, narrow circle of professional specialists	Increased number of professional specialists	A huge number of professionalized and service departments
Internal systems (informational, budget, result planning system)	None	Strict budget and informational system	Local control systems – of accounts, financial, operational and concerning activity results	Generalized financing, planning and personnel systems
Horizontal teams, special groups	None	Only for top managers	In some cases, integrative managers and special groups	Frequent at the lower levels in order to eliminate bureaucratic barriers

a) During the first stage, “*the birth*”, the person / the joint group that created the enterprise does all the necessary activities, the organization has an informal character and the work tasks complete one another. In a newly created enterprise, usually there is no group of specialists-professionals; there are no rules, no instructions, no internal planning, coordination and reward systems. The right to make decisions belongs to the firm owner.

b) *Youth*, the “youth” stage. The number of firm employees specialized in the manufacture of a certain product increases. Usually, the founder no longer remains the only owner. Decision-making is usually the result of the joint work of several trusted people, yet the management still has a relatively centralized character. Work division and departments appear, although the internal systems remain informal. Some rules start to function; the number of administrative and technical employees remains low.

c) *Middle age*. During this stage the firm develops in point of dimension, it occupies a stable place on the market; in the firm there appear signs of bureaucracy, work division has an extensive character, the firm policy and responsibility repartition get formalized. The human resources management largely uses rules and instructions. Specialists-professionals serve the production and marketing departments and, in the services, budget-based management systems are introduced. The top management delegates both the empowerments and the responsibility.

d) *Maturity*. Usually a mature organization is characterized by large dimensions and a mechanicist vertical structure, by control and management systems, rules and rights, the existence of engineer, finance specialists, accounting specialists groups, with a narrow specialization. Decision-making is strictly centralized, during this period the danger of organizational stagnation and disappearing increases. In order to face the strictly vertical hierarchy, it is necessary to have an active decision making process, to create specialist teams and groups, to introduce the function of integrative manager. The firms that have to face the pressure of the unstable external environment use *reengineering* as a means against stagnation. Another means used in the same sense is *the reduction of the firm dimensions* (planned reduction of the number of functions, hierarchical levels, business units).

According to this variant of division of the life cycle, the Romanian metallurgy enterprises have reached their *maturity* phase. They are large enterprises (considering their social capital, their economic-financial results and the number of personnel), with a hierarchic-functional or divisional or matrix-like organizational structure, of a mechanistic type; they have strictly specialized personnel. Generally they are bureaucratic units.

Based on the research works completed so far and on the generalization of the accumulated experience, the stages of the organizational life cycle can be analyzed in more details (B.Z, Milner: Organization Theory, 1998), as presented in table 2.:

Stage Factor	Birth	Childhood	Adolescence	Beginning maturity	Force development	Full maturity	Getting old	Renewal
Main objectives	Survival	Short-term profit	Accelerated growth	Systematic growth	Balanced growth	Uniqueness, image	Serving	Renewal
Type of leadership	Innovative	Opportunist	Consultant	Participant	Activist corporative	State activist	Administrator	Reorganizing
Organizational character	Battle	Achievement	Change	Enlargement diversification	Systemic orientation	Maturity, self contentment	Orientation towards created situations	Orientation towards changes
Organizational image	in the focus of attention	Local	Sectorial	National	Multinational	International	Self contentment	Self-critical
Energy focused on	Now	Concurrence	Conquests	Coordination	Integration, management	Adaptation	Continuing to exist	Renewal, development
Main problem	Coming out on the market	Existence	Market quota	Multilateral growth	Centralization and autonomy	Equality of interests	Stability	
Type of planning	Provisional		Sales, budget	On order, specialization	Complex	Social-politic	Extrapolation	Creative
Management method	One man	Small group of supporters	Delegation	Decentralized	Centralized	Collegial	Based on traditions	Contest, stimulating
Organizational model	Maximizing profit	Optimizing profit	Planned profit	Good market position	Social responsibility	Social institution	Bureaucracy	Defeat like that of the Phoenix bird

a) *Birth*. The enterprise founder takes into account the unsatisfied consumer demands or the social needs. This stage is characterized by goal-orientation, risk capacity and attachment to one's business. Often the directive management method is used, supposing a fast execution and a careful control. Those who work during this stage are characterized by unity and interaction.

b) *Childhood*. It is a dangerous period, as most insuccesses occur during the first years after the birth of the organization. The international statistics shows that a large number of organizations fail to succeed because of managerial incompetence and lack of experience. Every second small business fails within two years, or four out of five enterprises fail within five years of existence. The goal at this stage is a healthy existence and development and not just a simple survival. Often the activity takes place at the limit of the enterprise's possibilities, in order not to lose the increasing rhythm of success. The management is exerted by a prepared and experimented manager and his team.

c) *Adolescence*. During this transitional period, the organization grows, usually non-systematically, in leaps; the organization increases its force more and more, yet coordination is under the optimal level. More and more organizational procedures replace the risky fear of success. Planning, budgets and diagnosis are introduced. More specialists

are hired, which causes frictions (tensions) within the personnel. The founders of the organization are compelled more and more to fulfill the role of direct managers and entrepreneurs, exerting the functions of planning, organization, coordination and control.

d) *Beginning maturity*. The characteristic features of this stage are: expansion, differentiation, and, as much as possible, diversification. Structural subdivisions appear, the result of their activity being measured using profit. Acknowledged economic efficiency measures are generally used, along with instructions, rules, empowerment delegation, productivity norms, experts' advice etc. There begin to appear bureaucratization tendencies, a fight for power and a tendency of pursuing success by all means.

e) *Force development*. Now having shareholders as part of its management, the organization's goal is, at this stage, a balanced growth. The organizational structure, stability, coordination and control have to be as important as the innovation, the improvement of all the organizational structural parts, and the decentralization. The concept of structural organizational subdivisions is used, the results of their activity being evaluated based on profit.

f) *Full maturity*. With a competent, yet not always responsible management, the organization acts on. Often an undesirable situation of general welfare is established. Though the revenues are acceptable, the growth rhythms decrease. Under the influences of the pressures from the external environment, the organization may deviate from its initial objectives. Lacks and weaknesses often ignored by managers start to show.

g) *Getting old*. This stage should never be reached if the organizational management were permanently aware of the need of renewal. The concurrent firms attack the positions of the respective firm on the market, bureaucracy is flourishing, the strategy does not always have strong grounds, the motivational system is not efficient, a heavy system of control is being used, there appears a closeness in front of the new ideas, and all these things create the conditions that lead to "clogged arteries". The practical experience shows that in these situations it is very hard to prevent unproductive activities. Consequently, the organization begins to gradually melt. It has either to adopt a strict system of changes or to disappear as an independent structure and to be included in the firm that "swallowed" it.

h) *Renewal*. The organization is capable to arise from its ashes like the Phoenix bird. This can be done by a new management team, empowered to achieve its reorganization and its internal organization development program.

According to this variant, most of the Romanian metallurgical enterprises are now going through the stage of "old towards renewal", being therefore in a stage of transition.

Conclusions

The movement of an organization along its life cycle. Each organization has its own specific development rhythm. The passage from one stage to the next is often accompanied by organizational crises. As they get used, during the first stage, to an informal atmosphere, the employees usually have a negative perception concerning the procedure formalization, the introduction of rules and the creation of departments and sectors. The strictly vertical structure is as inadequate during the first stages of development as the informal structure during the final stages of the life cycle, which triggers negative effects on the final results of the organization's activity.

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METHODS OF ANALYSIS AND EVALUATION OF THE BANKRUPTCY RISK

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Abstract

The profitability of an enterprise cannot be appreciated irrespective of the risks wherewith this is confronting, risks corresponding to economic and financial profitability: the economic risk, carried out into organizational lever effect and the financial risk, in terms of the negative lever. The financial lever deepens the economic risk, turning into a greater vulnerability of treasury (to the outgoings concerning the interest, those of loan's reimbursement are added), which finally generates the enterprise's inability of payment, meaning the bankruptcy risk.

Keywords: *profitableness, risk, bankruptcy, analysis, evaluation.*

Within the market economy, the entire existence of an enterprise is pertinent to risk, because the present and future results are under unforeseen events. In practice, the frequency of situations where promising investments have become echo's loss is known as just disquietingly. In this way, the high concernment of financial analysts over the research within quantification and forecast field regarding the enterprise's risks becomes justified.

The financial analysis allows a fast and synthetic estimation of risk. An enterprise with a solvable profitability and which does not have a financial structure coherent and adaptable to changes will not theoretically present risk. Notwithstanding, that is also submissive to risk, because it has to confront permanently to a certain level of uncertainty generated by the economic, social, political, technological and financial environment, in which its activity is carried out.

The risk turns into the result's variability, affecting the assets profitability and the invested capital, accordingly. This fluctuation can be as better known by the enterprise as it owns a certain flexibility degree, by which it adapts to the environment.

The risk wherewith the enterprises confront with is always connected to the future, reason, for which it is subjectively appreciated, as much more as data concerning to it cannot be considered secure information. But, at certain moments the risk has to be evaluated, either by the factors within the enterprise or by those external, being a permanent component over substantiating the strategic decisions.

The analysis of an enterprise's risk has a complex character, representing the result on stored impact of all the risks involved by its activity (exploitation, investments, financing). The risk can also be approached in a different way, when considering the enterprise's point of view or on investors and creditors position.

There exists an opinions' convergence of those that study economy and especially of those that carry out activities on this field, according to whom the risk on business becomes something normal. This represents a matter-of-course and irremovable piece over business world. Its disappearance creates discomfiture, inefficacy and generates unnatural behavior of enterprises, as totalitarian systems met. At that time, the risk reduced, often even disappeared, because the economy was guided through controlling levers of administrative source.

Hypostasis of manifesting the business risk

The market risk

No matter the market study which a company might perform, the fact of all what is produced will be sold will not be precisely found. The request towards a company's products is usually more elastic rather than steady, because consumer's preferences and orientations, the price's level and offer's proportion of competitors are unpredictable. So that, the unsteadiness of request, of sales and of price determines appearance of risk upon the enterprises' life.

The economic risk (operational or of exploitation)

The activity of an enterprise is submitted to the economic risk (operational or of exploitation), because this cannot certainly correlate and anticipate the component elements of the result related to exploitation activity (cost, quantity, price) with those of exploitation cycle (supplying, production, sales by retail). In other words, the operational risk represents the probability for which the incomes given by the exploitation activity cannot cover up the outgoings involved within this process, as a result of their structure. Hence, the risk does not depend upon general factors only, but also upon the structure of fix and variable expenses, and respectively upon their behavior toward the activity volume, which decisively influence the profitability, carrying out *a lever effect* upon the exploitation result.

The analysis of the lever effect on exploitation has as objective the evaluation of result's sensitivity from exploitation on volume variation of activity, consisting in the elasticity measuring the percentage growth of this result, as response in growth of sales with a percent (physical volume or turnover).

The financial risk

The financial risk's analysis assumes as concerns the methodological point of view the same steps as on operational risk situation, but explaining that for a certain level of activity (for a given capital need), the financial expenses with interests are considered fix expenses.

Evaluation of the financial risk will be accomplished with the help of *position indicator* toward the global profitableness threshold.

Moreover for evaluation, *the analysis of sensitivity* on own capital profitableness will be used, under the incidence of financing policy. The model used with a view to studying it is named *the financial lever effect* or *the financial key factor effect*.

Appreciating and evaluating the financial risk may be done upon basis of *financial lever's coefficient (CLF)*. This coefficient expresses the net result sensitivity of the exercise towards the exploitation result's variations, being the elasticity that measures the percentage modification of net result as response to the modification with a percent of the exploitation result and its size being directly proportional with the financial risk degree.

The importance of this coefficient derives from the fact that net result conditions both the size of benefit and of stock dividends, and self-financing of enterprise, which shares concernment over the staff, shareholders and owners of the enterprise.

It is ascertained that CLF value grows along with increasing the financial expenses and reflects the level of greater or smaller financial risk entered in obligations by the enterprise that requires duty.

With a view to prevent the financial risk, the enterprises have to calculate and assure a profitableness threshold, configured as a confidence range and not as predetermined value mark. The amplitude of this range is determined by the level of incertitude where that enterprise carries out its evolution. When it leans towards zero, it will be certainly about a punctual profitableness and not a range where profitableness is accomplished with satisfying profitableness. And, when the incertitude is high, the confidence range has a greater size, so as it will become unusable within the decisional process.

The risk due to technology changing

Because the technology evolution has such significant part over the competition activity, estimating the changes within this field can improve a company's position on market. So, any hesitation, delay or error over estimating the technology's evolution or over purchasing the most adequate accomplishments on field, can bring not suspicious prejudices to enterprises. For instance, concentrating the technological change onto production process and not onto product's innovation, although being on the beginning of lifetime, will generate unjustified costs on sales volume. Just after a product becomes more and more standardized, the innovation on process has to replace the product's innovation, so as to reduce the manufacturing cost. Usually, the product's innovation has in view to improve its performances and not cost's decreasing. Who doesn't discover and doesn't reach to know branch' features, which determines the technology's evolution particularities, will lose. The explanation lays on fact that factors, resources and effects of progressive changes over technology won't be the same as on situation of discontinuity as concerns this plan.

The currency risk

The enterprises that use foreign exchange on their activity carrying out are exposed to currency risk. This displays under form of loss registering possibility, either as result of preserving or cashing the currency, or due to performing or just of planning to realize currency exchange operations, on a predetermined future date. Modifying the exchange course, on owned currency or of that used on a contract of foreign bills credit or import-export, produce different effects toward involved parties, depending on the new report between the transactional currencies. In this way, if that certain currency is depreciated, its owner and the creditor will register a loss, while the debtor achieves earnings. This exposes him to an exchange risk and will lose if until due date of his payment the currency in which the obligation of payment is expressed will be assigned in value.

To an identical situation will reach the person that invests in another country, in which the rates of installments and earnings views under the form of benefit are higher, if the exchange rate of currency decreases where the capital was paid abroad.

The currency exchange risk similarly affects the financial results of enterprises from a country, when they convert on the moment of discount, the contract price expressed on national currency into a foreign currency.

The bankruptcy risk

The bankruptcy, as the success, represents a reality, essential part of a competitive business environment. Generally, a company's bankruptcy is the result of a continuous process of degradation over its economical-financial status, predictable process, in accordance to specialists' opinion, to about 70% o situations, upon basis of symptoms that anticipate the enterprise's failure.

The causes and factors that determine bankruptcy have different types, perform enchaining and lead each time on decreasing *the profitableness and the liquidation* of the enterprise. In this way, the enterprise meets difficulties on respecting always the contracting relations with partners (customers, suppliers, creditors, staff, shareholders, public power) because it doesn't dispose of *a minimal profitableness and satisfying liquidation*.

All the potential symptoms of enterprise's bankruptcy reflect the activity's degradation due to many causes.

A significant part of these causes derive from the economic-social and competitive environment, where the company carries out activity:

- emphasizing the internal and international competition;
- appearance of substitution products;
- loss of an important customer or its bankruptcy;
- a provider's bankruptcy that assures certain materials, components, essential subsets with a view to continue an enterprise's activity;
- a bank's bankruptcy, wherewith the enterprise had preponderant financial relations;
- appearance of certain regulations on line of security and environment protection;
- continuous decrease of stock market quotation.

The statistical studies show that these causes own a weight of about 51% on starting a bankruptcy.

Another part of difficulties' causes, which lead on enterprise's bankruptcy, named *internal causes*, is in generally connected to an adverse management and can be:

- the rotation of stock and customers is inferior reported on sector's standard;
- practicing some inferior margins towards sector's regulations;
- financing the investments with sources related to exploitation;
- persisted loss of exploitation;
- the impossibility of renewing the credits.

These causes lay on the source of over half the number of registered bankruptcy over the years.

Depending on their type, the causes of difficulties can be:

a) Causes concerning the volume decreasing on activity due to:

- tendency of request decrease for products performed by the enterprise;
- loss of significant customers;
- competitiveness in decrease as concerns the enterprise's products;
- the reduced degree of renewal the products, respectively of adapting to needs;
- conjuncture decreasing of requirement;
- intensifying the internal and international concurrency;
- bankruptcy of a provider.

b) Causes concerning the decrease of margins and of profitableness:

- improper strategic decisions;
- rigidity of selling prices;
- too high expenses with staff;
- presence of outmoded physical means as technical point of view;
- great weight of financial expenses;
- growth of raw materials prices.

c) Causes specific to the enterprise's treasury

- bankruptcy of important customers;
- difficulties on achieving credits;
- high duration of stocks' rotation;
- extending of credit-customers time;
- decreasing the credit-customers time

d) Causes specific to the management system:

➤ inadequate professional training of managers and the inability of adapting to the new market conditions;

- misunderstanding between the managing members;
- deficit analytical accountancy and not recognizing the complete cost;
- the lack of substitutes for the present managers;
- excessively remuneration of managers.

e) Accidental causes:

- defalcations;
- calamities;
- manager's death;
- internal social problems.

The study of bankruptcy causes lead on conclusion that this is not brutal phenomenon, but a result of progressive damaging over the enterprise's financial status, the risk of insolvability becoming thus predictable, with few years before payments' stopping.

Accumulating the economical and financial risk by means of *total lever's coefficient (CLT)* expresses *the sensitiveness of net result on sellers' results* and allows a value for *the*

global risk – economical and financial – as much higher as the expenses related to capital depreciation and interests own a greater weight within total expenses.

$$CLT = \frac{\frac{\Delta R_{net}}{R_{net}}}{\frac{\Delta q(Ca)}{q(Ca)}}$$

The total lever's coefficient is calculated by the product:

$$CLT = CLE \times CLF$$

Factorial, the total lever's coefficient can be thus expressed:

$$CLT = \frac{q \times (p - v)}{q \times (p - v) - Chf} \times \frac{q \times (p - v) - Chf}{q \times (p - v) - Chf - Chfin} = \frac{q \times (p - v)}{Rexp - Chfin}$$

The total risk is **inexistent** when the result of exploitation is maximum ($p = v$) and **maximum**, in situation of great financial expenses, which annul it ($Rexp = Chfin$).

The dimension of the economical-financial activity concerns not only the enterprise that applies to credits, but especially the crediting banks, which consider that in view of a credit benefiting, an enterprise has to present financial solvability; this has to express a warranty of strong managing to all levels, from the operational level towards that strategic.

Damaging in time of enterprise's results, the difficulties wherewith it confronts and are not just of financial type, have provided to financial analysis an especial plentiful investigations field, with a view to reach new methods of precocious detecting and foreseeing of the bankruptcy risk.

Evaluating the bankruptcy risk

The classical investigation of bankruptcy risk allows emphasizing the old performances of the enterprise, even of economical, financial, of duty etc. risks, shortly informing over its future and not evaluating the global risk of bankruptcy. As a reaction of these practical requirements, the researchers and international financial bodies have paid attention of elaborating certain methods of bankruptcy risk's prediction, such as: static analysis, dynamic and strategic analysis of bankruptcy risk, the scores, flows' method and functional analysis of bankruptcy risk.

The static analysis – established by studying the chain, having in view great potential conceptions of it: patrimonial and functional.

As concerns the instruments of patrimonial analysis on bankruptcy risk, we can mention:

- a) the analysis of solvability

The patrimonial balance allows checking of own funds, in accordance to the accountancy's principles. The difference between assets and duties set is constituted by the net accountancy assets, which represents the accountancy value of own funds and the financial basis of the enterprise.

The net Assets Balance interferes on analyzing the solvability, with a view to estimate the enterprise's ability of respecting its obligations taken, thanks to these assets.

The solvability is traditionally measured by reporting the adjusted net assets (or of the accountancy net assets) to liabilities' total, the minimal value accepted by banks being in generally comprised between 1/5 and 1/3 of liabilities.

Difficulties are met because of not knowing the real value of certain assets because of clear regulations' lack, concerning the requirements to be accomplished, in situations when net assets become negative.

Taking into consideration the principle of cautiousness, the solvability represents an element of the financial diagnostic over bankruptcy risk, that doesn't have to be neglected.

b) the analysis of exigible feature-liquidation

The analysis of bankruptcy risk, which is based on concepts of exigible feature and liquidation, creates a correspondence between the structures of assets with that of liabilities. The main elements whom this analysis is based of are: the working capital (FR), the liquidation installments and the rate of financial autonomy.

The concept of working patrimonial was created by comparing the assets liquidity structure with that of liabilities being exigible, making possible an appreciation on short term of bankruptcy risk.

Concerning the analysis of exigible feature-liquidation, with the help of liquidation installments, this lays on comparing the fast realizable assets with the duties on short term. The traditional installments are the follows:

The rate of general liquidation, established as relating to liquid assets in less than one year and the exigible dues in less than one year. Naturally, this rate has to be over unitary, fact that equalizes with a positive patrimonial working capital and allows elaboration of certain relative appreciations on level of the patrimonial working capital.

The rate of reduced liquidation, established as a report between the assets that can be dissolved in less than one year (without stocks) and debts that can be exigible in generally in less than one year. This rate excludes from the assets on short term the materials' stocks and unfinished production, which often constitute the elements that value and liquidation are uncertain. It is estimated that optimal level for this rate of 80%.

The rate of immediate liquidation, established as report between disposal and availability titles, on the one hand and on debts that can be exigible in less than one year other, on the other hand. This rate takes into consideration the most liquid products and duties on short term.

The third indicator which the analysis being exigible-liquidation bases upon is *the rate of financial autonomy*, computed as related to financial duties on long term and environment (eligible for more than one year) and own capitals.

Most of financial bodies resort to this rate and appreciate that it has to be under unitary. On other words, mean and long term duty has to be inferior to the amount of own capitals.

As a conclusion, the patrimonial analysis does not allow very strictly appreciation of bankruptcy risk. It may be foreseen that, a negative patrimonial working capital or having an unfavorable evolution, represents in most situations the signals of a bankruptcy risk, knowing the fact that working capital is the security reserve for the enterprise, creditors, wishing that to be positive.

Considering the functional analysis of the bankruptcy risk, this leads on identifying the resources and their using depending on operations cycle (investments, exploitation and financing):

- gross immobilizations correspond to investments cycle;
 - the need of having working capital on exploitation represents the need of financing associated to exploitation cycle (supplying, production, storing, selling);
- $NFRE = Stocks + liabilities\ of\ exploitation - duties\ of\ exploitation$, where:
NFRE - the necessary of working capital of exploitation
- the set of resources corresponds to financing cycle, which can be own external funds, own internal funds resulted from enterprise's activity and financial duties.

The rule of functional equilibrium starts from the principle according to whom an enterprise will be viable if it has a negative structural treasury.

In fact, observing the financial structures of enterprises shows that they present a negative structural treasury, fact that would signify for most of them an important bankruptcy risk, such a conclusion being often exaggerated.

The rule of functional balance is based upon the principle of current bank credits' precariousness. But some of these credits are almost automatically renewed, depending of their predictions over production and often financing a good part of NFRE.

If the fact by which a good part of NFRE allows limitation of bankruptcy risk is incontestable, one cannot affirm that the risk will be unbearable if there is such a covering. As a result, certain critical thresholds were established on level of current bank credits or for covering NFRE by FRF, such as:

- the current bank credit are not allowed to exceed the turnover on two months or to be greater than half of NFRE;
- FRF has to be greater that half of NFRE.

These standards are yet arbitrary. The FRF level, in comparison cu NFRE, depends upon the NFRE variability and if the risk of bankruptcy that creditors are allowed to support.

The dynamic analysis - established on flows' studies, which lay on the analysis of bankruptcy risk, comprises the funds flows and treasury's funds.

The concept of *funds flow* can be easily understood, considering the functional balance. A funds' flow appears as variation of utilizations or resources; there can exist either funds' flows representing utilizations or funds' flows representing resources.

As concerns *the treasury flows*, these are encashment flows (entrances of liquidations) or payment flows (goings of liquidations)

If the static analysis allows the evaluation of financial unbalance at a certain moment, it is enough for explaining the unbalance evolution. Instead, the dynamic analysis presents certain limits, which consist on the impossibility of appreciating the 'proportions of unbalance' properties.

The strategic analysis

The operational instruments used by the specialists are the matrices of strategic analysis (Boston Consulting Group-BCG, A.D.Little-ADL, etc.), which allow approaching the financial balance problems, of the risk in comparison to activity portfolio of the company, having its competitive position.

The method of scores (scoring)

The analysis of bankruptcy risk has known an important development on statistical many-sized methods, which allow the financial situation analysis starting from a set of rates give. The most used method lays on discriminatory analysis.

The principle of this analysis consists on knowing the financial features described by using the rates, for a set of healthy and weak enterprises, thus determining the best linearly combination of rates, which have to allow differentiating of enterprises, the good and bad ones.

The achieved results also allow on one hand the description in a systematic way of the weak enterprise's features and on the other side, to foreseen the bankruptcy risk.

For each enterprise, after applying the discriminatory analysis, a Z score, depending on rates, is achieved. The distribution of different scores allows distinguishing of powerful and weak enterprises.

The Score Z is assigned to each enterprise, where through a linear function of type:

$$Z = a_1 \times X_1 + a_2 \times X_2 + \dots + a_n \times X_n, \text{ where:}$$

X_i – variables that correspond to different data introduced within analysis

a_i – weighting coefficients

Starting from the value of different rates, the score for each enterprise will be determined. The value of the score allows classifying of an enterprise within the weak enterprises group (vulnerable) or to that of healthy enterprises. Among these methods of scoring with a view to evaluate the bankruptcy risks, only a few will be mentioned: Altman pattern, Conan-Holder pattern, Varetto pattern, the pattern of Bank Balances Centre from France, Argenti pattern, the pattern of Romanian Commercial Bank, Agricultural Bank Agricole pattern, Anghel pattern, Cămășoiu/Negoescu etc. pattern.

Study concerning the analysis of bankruptcy risk

Among the scoring methods known within the speciality literature, with a view to evaluate the bankruptcy risk, *Conan-Holder* method was used.

The Conan-Holder pattern issued in 1978 on a sample of 190 middle and mean enterprises, allowed anticipation of bankruptcy with three years before their producing, during 1970-1975.

The scoring function includes 5 variables (rates) and it's thus presented:

$$Z = 0,24 \times R_1 + 0,22 \times R_2 + 0,16 \times R_3 - 0,87 \times R_4 - 0,1 \times R_5, \text{ where:}$$

$$R_1 = \frac{\text{EBE}}{\text{Total duties}}$$

$$R_2 = \frac{\text{Continuous capital}}{\text{Total assets}}$$

$$R_3 = \frac{\text{Circulating assets - Stocks}}{\text{Total assets}}$$

$$R_4 = \frac{\text{Financial expenses}}{\text{Turnover}}$$

$$R_5 = \frac{\text{Expenses with the staff}}{\text{Added value}}$$

The specialty literature emphasizes that values of scoring function, specific to this pattern, are interpreted in accordance to the following table:

The situation of enterprise	The value of Z score	The bankruptcy risk
High	$Z > 0,16$	sub 10%
Good	$0,10 < Z < 0,16$	10% - 30%
Uncertain	$0,04 < Z < 0,10$	30% - 65%
Unfavorable	$-0,05 < Z < 0,10$	65% - 90%
Catastrophic	$Z < - 0,05$	Over 90%

The calculus of scoring function has lead to the following values, presented in below table:

Table no. 1.

No. cr.	Specification	Analyzing duration			
		2003	2004	2005*	2006*
1	Gross excess from exploitation	15090826000	25798122000	1884807	2737035
2	Total duties	38962566000	66425555000	9778591	11553018
3	Continuous capital	62448683000	144609582000	18246445	22446850
4	Total assets	66541644000	147410552000	18618239	23186407
5	Circulating assets	11568513000	10066170000	873268	779077
6	Stock	2755772000	4534227000	406756	369942
7	Financial expenses	4919191000	8129401000	823015	976446
8	Turnover	65508032000	83211152000	8886228	10949660
9	Expenses with the staff	8511049000	12877970000	2201704	2762574
8	Added value	27529105000	44658629000	4715014	6030034
9	$R_1 = \text{EBE}/\text{total duties}$	0.38731602	0.388376461	0.192748321	0.236910823
10	$R_2 = \text{Continuous capital}/\text{Total assets}$	0.938490233	0.98099885	0.980030657	0.968103855
11	$R_3 = (\text{Circulating assets} - \text{Stocks})/\text{Total assets}$	0.132439484	0.037527456	0.02505672	0.017645468
12	$R_4 = \text{Financial expenses}/\text{turnover}$	0.075092944	0.097696052	0.092616912	0.08917592
13	$R_5 = \text{Expenses with the staff} / \text{Added value}$	0.309165481	0.288364652	0.466955984	0.458135725
14	Function-score Z	0.22	0.20	0.14	0.15

* values, on levels of 2005 and 2206 on, expressed in RON

From the above table's data, the following conclusions can be made:

- the values of scoring-function superior to *minimal* limit of 0.16 in 2003 and 2004 locate the trading society within a high financial situation. It can be also seen a descendent tendency of scoring function until the level of 2005, when the value of 0.14 is registered (under the minimal value of 0.16), growing at the level of 2005 with 0.01.

- the probability that the analyzed trading society of entering on bankruptcy is situated in the first two years under 20%, thus growing in the following years up to 30%, the society being in this case in a good financial situation, with the possibility of beneficiating of credits on view of continuing the investments that aim both on extension and modernization of treatment basis, of hotels' complex and on totality replacing of medical devices and purchasing high performance equipments, which would offer the possibility of accomplishing the functional exploration.

The vulnerability trading society, depending upon the value of scoring-function calculated on the above table, can be thus further appreciated:

Years	Value of Z score	Probability of bankruptcy	Condition of enterprise
2003	0,22	sub 10%	High
2004	0,20	sub 10%	High
2005	0,14	10% - 30%	High
2006	0,15	10% - 30%	High

The evolution of scoring-function value and the proximity toward the minimal level of 0.16 are the following:

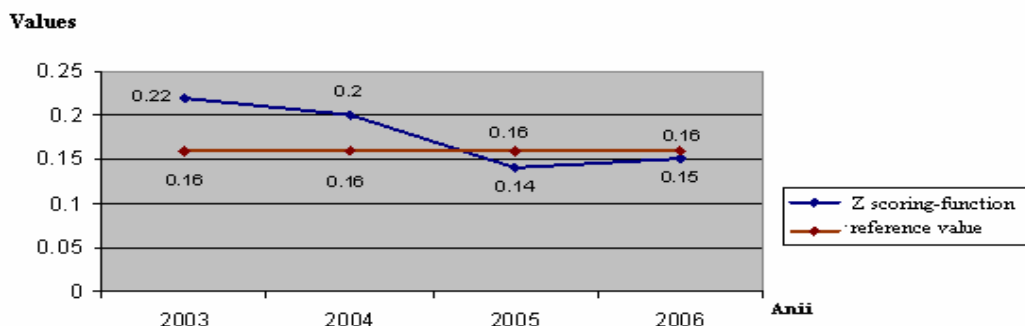


Figure no. 1 The evolution of scoring-function value and the proximity toward the reference level

Conclusions

On company's level, the risk reflects the possibility and respectively the probability that the economical-financial results might have an evolution of a certain manner that can lead the company towards bankruptcy, thus to payment' inability. The level of sensitivity of the economical result on functioning risks determines of every enterprise an investment more or less risking. Evaluating the risk represents a management requirement of monitoring the risk factors and of initiating prevention measures, limitation or counterworking their effects.

The risk represents in generally the possibility of an event appearance that might prejudice an enterprise activity; it represents a society' inability of adapting, on time and least price, to economical and social environment' conditions variations, where they carry out. In this

way, on its activity assembly, the enterprise is submitted to three categories of major risks: of exploitation (economical), of financing (financial), of bankruptcy (insolvability).

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THE IMPLICATIONS OF WAGE ON THE HUMAN RESOURCES EMPLOYMENT

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Abstract

Taking into consideration that minimal wage represents an essential part of building a wages system, and its dimension, as forming element of multitudinous economical-social equilibrium – its level can negatively influence the economy of a country due to negative phenomena that can be released (inflation, unemployment), is essential on its analysis both on national and in close relationship with the other countries that, either reaching on direct connection with our country or with those countries with higher living standards (Unites states of America, Japan).

Keywords: Mean wage, human resources, unemployment, competitiveness, performance.

European approach concerning the human resources

Within a functional labour market, all is related to real value of human being. Any company that wishes to accomplish benefits will try to attract the most valuable humans and to maintain them as long time as possible. How can this thing be achieved? Through a well established rewards system, a perfect combination of financial rewards with those

non-financial.

Remuneration, on its large sense, incorporates the set of received retributions for performing a service or work. It represents a high important part for the organization, being the main cost of production (30%-60% from the entire amount of exploitation expenses), and knowing this factor will be important for managers, the employee and generally for the society.

Unlike to other continents, Europe isn't geographically isolated, the high differences being met between the states situated on extremities (Germany and Italy, Spain and Belgium), but differentiations within the same borders between North and South, event between country-sides are met. The significant differentiations between the countries directly reflect towards enterprises' functioning and management practices.

The directorate of human resources, being on cross section of national differences, is strongly influenced by values systems, by social devices and labour legislations.

In countries where the state plays an important part, the human resources leaden functions are highly influenced by those essential; employment, remuneration, labour duration, dismissal of labour contract, the paid holidays, training the personnel carry out the effect of certain national regulations, on most of European countries.

In this manner, the constraints, legal protections and regulations are high different from one county to another, this determining various social relationships.

The syndicalism degree is high different as in Europe, the adhesion to a syndicate not having the same connotation and content from one county to another. The syndicalism degree is not determined by the nature of social relationships from an enterprise, based upon cooperation and consolidation in Germany, Sweden, the Low Countries, but rather upon conflict and affront in Italy and France.

Applying the strikes reflects a good indicator of existing differentiations. The strike can be viewed as a failure, as resorting to the last mean after all that could have been done have been tried, for instance, in Germany and Low countries, which present the least number of strikes in Europe or may be viewed as starting point on negotiations in the Latin Countries.

In Germany, the negotiations are carried out *judicial* and the conflicts are rare, the Germans being characterized as *tough*, they searching solutions on long term and do not hurry on solving the problems.

On German enterprises, the managerial style is different, having upon its basis the labour of group and staff's involvement.

In the Low Countries multiple procedures exist between different hierarchical levels and various enterprises' sectors. The tendency of removing the means of formal or informal stress can be met, which explains the absence or rarity of brutal sanctions. This harmonization in the Low Countries is always nothing but apparent, bad, indirect and more difficult on overtaking functionalities being thus observed.

In Italy, existence of significant differences as concerns the management on important

enterprises and on various sectors can be observed, particularly the practice of quality circles or other labour groups is often met in great enterprises, as *Olivetti*, *Fiat* or *Pirelli*, but the involvement of staff is less developed than to other parts.

In Spain, a relatively traditional management manner has preserved, and the preoccupations within human resources management seems to be reduced; moreover, it represents the only country that didn't place it within foreground necessities, both on personnel training and in that of enterprises' organizations.

In all the European countries, we found a high individualism in contradiction to African and Asian countries (Hofstede, 1987). This thing can explain the difficulty of applying the *Japanese type* management in Europe and even in USA.

The individualism is sometimes joint, for instance in Germany, by interpersonal strong distances, where the sense of "private" is highly developed.

This thing can be met also in France and England, under the form of accepting the integration of foreigners within their lines (if 88% of Germans are speaking one or more foreign languages, in England only 50% and in France 62%, unlike Belgium, Sweden, the Low Countries, where many polyglots exist).

The professional training is often viewed to French and German enterprises as genuine investment on mean term.

The French people adopted in 1971 a law by which the enterprises were obliged to give a percentage from the wages mass towards personnel training.

If initially this thing was considered as legal obligation or as social compensation of human resources management, today this it is viewed as development strategy of human resources.

Though in Germany this obligation doesn't exist, the traditional "dual" system (which assumes the alternation between initial training and training within the enterprise) has proved its utility, enterprises as B.M.W. or Siemens have reached until the internal trainers were permanent employees.

In Low Countries, almost all the conventions contain also clauses related to the training process, in Italy there hasn't been any particular obligation, and the concepts and practices form enterprises are high varied.

In Spain, an agreement since 1990 exists, according to which a fund with the view of professional training was established (contribution of enterprises and employees).

An inquiry also exists (Price Waterhouse), which shows that most of human resources managers from European countries have submitted the staff's training between the first strategic objectives, this being one of the rare convergences existing between different countries.

The wages structures are highly different to European countries. Certain studies have proved that Sweden is the country that after 1990 (the system were very rigid afore) has

had the most developed variable part of remuneration.

France represents the only country that disposes of legislation over employees' implication to benefits, fact that doesn't signify the inexistence in other enterprises, which carried into effect a remuneration system, variable depending on the enterprise's or employees' results. Still in France, the greatest difference between the workers and leadership as concerning the mean wage is known. It is true that remuneration is a variable on managing the human resources that make the subject of multitudinous claiming in France.

In England, a greater advantage is given to evolution and promoting possibilities rather than to wage's level.

This fast horizon's tour as concerns the management of human resources indisputably leads towards identification of an important heterogeneousness that completely impedes to the idea of *unique style of European management*.

Temptations of drawing approach between countries, as concerns the common cultural and managerial field points, have been observed. Yet, it is difficult to find significant poly-convergences. Herein we emphasize the key variables:

- Sweden and the Low Countries have in common the management style, based on consolidation and international opening;
- Germany and Belgium have in common their social climate, rarely on conflicts, based upon strictness-rigorously and precision;
- France, Italy and Romania have in common the high hierarchical distances, the importance of social legislation and of state;

Common points can also be remarked between the Germanic countries, on the one hand and Latin countries on the other hand, but these are convergent factors and do not allow highly significant approaching. Strong oppositions can be met between Sweden and the Low Countries, on the one hand and Italy and Spain, on the other hand; as well as differences that take into account the management of enterprises between the Latin-catholic countries and those German-protestant.

From the above statements results that within the human resources management and organizational politics, multitudinous specifications exist on European level. If the harmonization on socio-economical juridical and political levels for nations of Occidental Europe becomes possible, a high heterogeneousness of managing the human resources will exist on field. Developing the international careers represents a process, to which more importance is given, rather than to international employment, because it allows to enterprise to capitalize its own human resources (often speaking about the *euro-management* and *euro-careers*).

Multitudinous studies show that potential concept is differently understood: depending on country, the type of training can be different (technical, managing, generality), depending on experience (specialization, examination by experts, polyvalence etc.), thus being difficult to be capitalized and leasing to highly different appreciation of the potential.

The French people are rather interested of technical training, the management being met afterward. The English people favor the generalist training and do not appreciate technical training. The Germans and the Swiss appreciate *the high potential* owned often by

specialists and experts that might carry on activities on important managing positions. Determining the potential yet remains an unknown field on managing the human resources, being considered often as insufficient unknown on European scale. Many people pay at time being the attention over this problem.

When speaking about adopting European concepts to remuneration politics, it is often recognized that different countries are not equally advanced on this way, but the evolution is considered to be indispensable for and compulsory

This fact consists on establishing the same policy of remuneration, thing that is easily for accomplishing due to the fact that remuneration is less sensitive to cultural agents rather than other aspects of human resources management.

The diversity of economical situation and political approach existing within the union has a major impact over the minimal wage on economy. What is surprisingly on first view lays exactly on fact that from a quarter of European countries, no minimal wage imposed by law on national level exists.

The analysis of wage limits to European Union level

The years of transition to market economy have signified for the Romanian workers reducing the purchasing power of wages, growth of insecurity to labour positions and discrepancies between the earnings level.

While the companies try to abandon the social responsibilities by paying small wages, and the cost of social consequences over the community as a whole takes stress on the state authorities, with a view to interfere on supporting the people that need social assistance.

Such as, more frequent using of minimal wage as essential instrument for the security of a decent labour payment has become necessary.

The minimal wage is practically the wage established on legal manner, with a view to guarantee to employees of unprivileged classes an income that should assure them a decent minimal of subsistence, minimal value determined as related to a given social environment. The minimal wage represents the wage level, under which any employee doesn't have to be paid, in principle.

In accordance to the Collective contract of labour, unique on national level, entered into force on 1st January 2007, for a complete labour program of 170 hours, minimal gross wage is of 440 RON (meaning 2.59RON/h).

Within the view of implementing the right to a decent payment of labour, the European Social Cart recognizes the existence need of a European policy, within the minimal wage field. As a target, all the European countries have to establish the minimal wage to about 60% of mean wage level, the intermediary target on short term being of 50%. Presently, in Romania, the weight of minimal wage towards that mean is under 30%.

With a view to be compared on international level, the levels of wages have to be transformed at the same measuring unit (Table 1). Expressing the minimal wage in Euro currency doesn't offer an adequate image because purchasing power of this currency differs from one country to another: it is higher in the poorest countries than in those rich.

From this reason, on international comparisons, the economists prefer sometimes expressing the wages and of other indicators toward the “purchasing power parity” (Table 1). Briefly, this signifies multiplication of indicators expressed in Euro or Dollars, with a conversion factor that takes into account the purchasing power differences of that certain currency.

The level of minimal wage in 20 countries of EU, in Turkey and United States of America is presented as in below table:

COUNTRY	VALUES OF DURATION		ABSOLUTE MODIFICATION	THE EVOLUTION INDEX
	2006	2007		
BELGIUM	1234	1259	25	102,03
GREECE	668	668	0	100
SPAIN	631	666	35	105,55
FRANCE	1218	1254	36	102,96
IRELAND	1293	1403	110	108,51
LUXEMBURG	1503	1570	67	104,46
HOLLAND	1273	1301	28	102,2
PORTUGAL	450	470	20	104,44
GREAT BRITAIN	1269	1361	92	107,25
CHEZH	261	288	27	110,34
ESTONIA	192	230	38	119,79
LETONIA	129	172	43	133,33
LITUANIA	159	174	15	109,43
HUNGARY	247	258	11	104,45
MALTA	580	585	5	100,86
POLAND	234	246	12	105,13
SLOVENIA	512	522	10	101,95
SLOVAKIA	183	217	34	118,58
BULGARIA	82	92	10	112,20
ROMANIA	90	114	24	126,67
TURKEY	331	298	-33	90,03
UNITED STATES	753	676	-77	89,77

Source: Eurostat

The report between the greatest and the least minimal wages, expressed in Euro is about 17. If the purchasing power parity is taken into consideration, this report is a little bit greater than 7, without being necessary that hierarchy to be significantly modified. Analyzing our country, the places exchange with Bulgaria means that in Romania the assets and services are more expensive than those of Danube’s South. Analyzing these figures is difficult because they depend not only upon the discrepancies of living standards, but also of differences that exist between the levels of government’s intervention on labour’ market. In Romania, the minimal wage expressed in Euro had the biggest growth from EU, after Lithonia, with over 26.67% from 2006 until 2007. On the purchasing power parity, this growth is yet less, of 27.5% on the same time. This fact might be considered at first view as being good news.

Analyzing this structure, one might also observe the Bulgaria occupies the last place within the European Union, after Romania. A surprisingly decrease takes place on Turkey’s level, candidate country to EU. Thus, the level of minimal wage level that decreases from 331 Euro in 2006, to 298 in 2007, meaning 9.97%, a decreasing rate, can be observed.

The EUROSTAT report shows that Romania owns a labour market less free than its

partners and competitors. This thing is not of type to ameliorate our country's competitiveness (place 44 from 55 countries) neither on exports, nor on attracting foreign investments. If the authorities will continually cede to people's temptations, taking advantage of the low level of economical education of many electors, the most affected will be just those to which the minimal wage growth should "protect": the youth and those unqualified. The solution of real growth to all wages doesn't take into account the government benevolence – but of the labour productivity growth. This thing can be achieved only through efficient investments, meaning by the Romanian and foreign enterprisers. The efforts are longer, and both the results.

It is possible that for Romania the relatively high weight of workers, which earn the minimal wage, to overestimate the real situation. The reason would be the wide spread practice of declaring not only of minimal wage to certain workers that receive "on black market" the rest of remuneration. The cause consists on great difference between the net wage received by the employee and the total cost amount of labour force supported by the employer, which represents another type of interference on labour market. The report between the complete wage and that net differs from one country to another, depending on the social subscriptions level. For this reason, the analysis from EUROSTAT would earn in pertinence, if it took into account the total cost of employment (complete wage) instead of gross wage, which represents a relevant feature neither for employee, nor for employer.

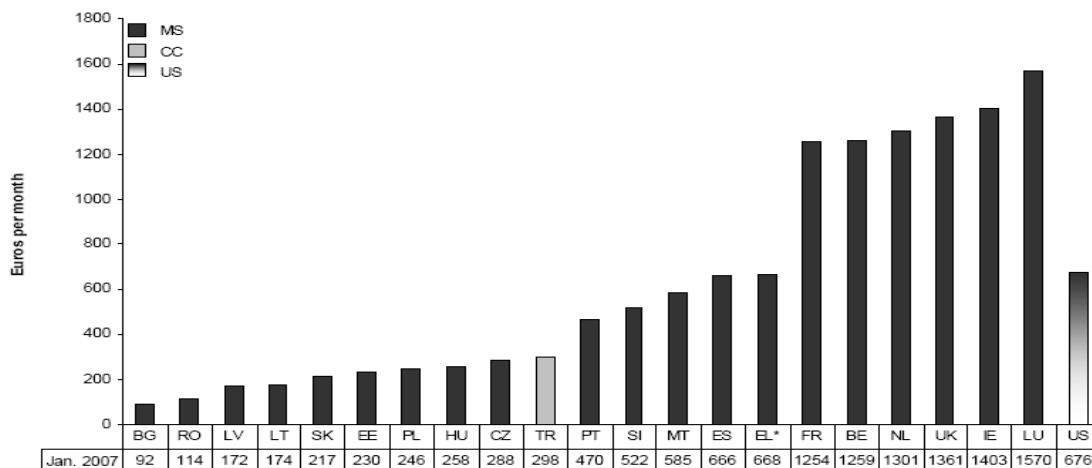


Figure no. 1. The level of minimal wage on economy for the 20 countries of EU taken into analysis, Turkey and USA

With a view to see the position of Romania as concerns the human factor; we should also analyze the unemployment rate at European Union level.

A part of member states (23 countries) have registered a diminution of unemployment rate during a year, while in Luxemburg for instance, the unemployment rate has maintained constant. The highest diminution was registered in Poland with 1.9% (from 6.0% to 4.1%). Seems like situation in Ireland is disquieting, a growth of unemployment rate from 4.1% to 4.8% being registered. In the same condition, Portugal is being also, where the unemployment rate has increased with 0.7% (from 7.6% to 8.3%). A comparative analysis of the unemployment rate for year 2007 toward 2006 shows a diminution of the unemployment rate to men from 7.4% to 6.5%, while the unemployment rate to women decreased from 8.7% to 7.7% in 2007, meaning with 0.1% less.

The highest rate was registered on level of year 2007 in Romania, whom the unemployment rate was of 3.9% (September 2007), from which 3.8% were women

(157871 women from 345012 of total unemployed). Considering also the minimal wage on economy point of view, Romania is between the last places and will not be allowed to occupy a high place, but yet stimulating, if we consider that on European Union level, the unemployment rate was of 19.6%, unlike other countries as Greece (29%) or Poland (19.2%). Comparing to year 2006, in 2007 at the European Union level, the unemployment rate was of 7.0%, meaning 1.0% less.

The unemployment rate on EU level is presented within the following table:

COUNTRY	VALUES OF DURATION		ABSOLUTE MODIFICATION	THE EVOLUTION INDEX
	2006	2007		
BELGIUM	8,2	6,3	-1,9	76,83
GREECE	8,9	8,4	-0,5	94,38
SPAIN	8,5	8	-0,5	94,12
FRANCE	9,5	8,6	-0,9	90,53
IRELAND	4,4	4,8	0,4	109,09
LUXEMBURG	4,7	4,8	0,1	102,13
HOLLAND	3,9	3,1	-0,8	79,49
PORTUGAL	7,7	8,3	0,6	107,79
GREAT BRITAIN	5,3	5,3	0	100
CHEZH	7,1	5,2	-1,9	73,24
ESTONIA	5,9	5,7	-0,2	96,61
LETONIA	6,8	5,2	-1,6	76,47
LITUANIA	5,6	4,1	-1,5	73,21
HUNGARY	7,5	7,3	-0,2	97,33
MALTA	7,3	6,3	-1	86,3
POLAND	13,8	8,8	-5	63,77
SLOVENIA	6,0	4,7	-1,3	78,33
SLOVAKIA	13,4	11,1	-2,3	82,84
BULGARIA	9,0	6,3	-2,7	70
ROMANIA	7,3	7,2	-0,1	95,89

Source: Eurostat

As can be seen from the below figure, a percentage of 85% from the total of countries submitted to analysis have applied successfully reforms that created consequences directly favorable to human resources.

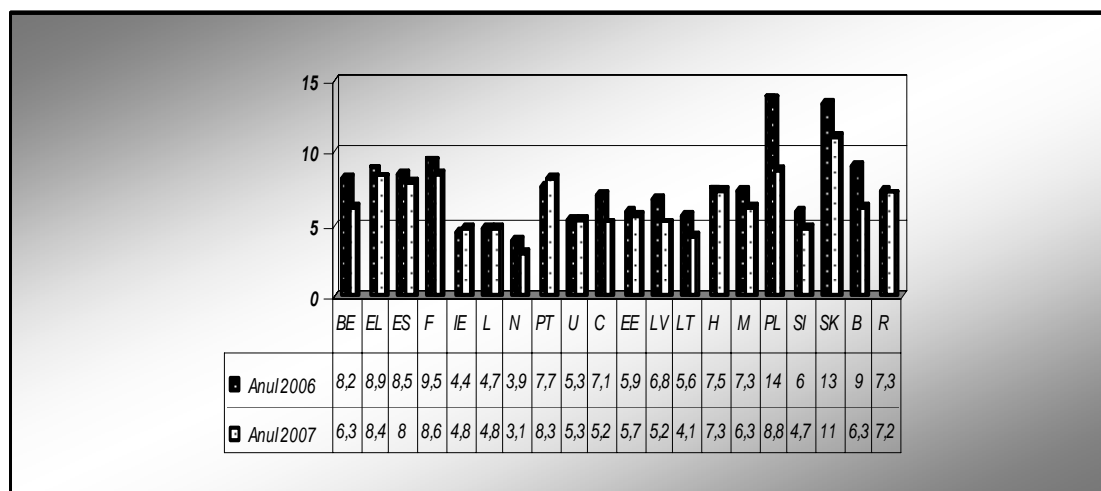


Figure no. 2. The evolution of unemployment rate during 2006-2007

As conclusions, we can state that these wage differences have negative effects over the labour force in Romania, because the migration towards countries that offer both greater wages and other conditions will increase, that lead indirectly on growth of wage earnings (car from job place, subsided lunch, dwelling, etc.).

But the Romanian government cannot increase the level of minimal wage unless the measure in which the labour productivity increases, because the wage depends upon the productivity of work and customers and not by government.

An argument used for the control of wages in such situations is mainly based upon fact that inflation is partially caused by wages and these grow faster than the indicator of economy's productiveness; such an economy is not compatible to the general concern.

Although being an adequate criterion for the economy per assemble, the level of productivity becomes a less used criterion within the organizations. This fact is connected to the measuring possibility. Moreover, if the situation would be different, it might become aberrant. Different organizations and different sectors of economical activity have rates of productivity that vary a lot.

The same rates fluctuate depending on the economical cycles and even during on the same year. In this way, even if it would be possible to establish an adequate measure of productivity rate, wherewith both partners have to agree, the adequate applying of this criterion might lead on situation that employees from a certain field please of fast technological exchanges, to be better paid than most of other branches' workers.

In this way, one may observe the fact that although in Great Britain and Holland the minimal wage is among the most increased in Europe, this measure's impact over the labour market is reduced, because less than 3% from employees are affected by this measure. The British and Holland people earn more because they are more productive, not because their governments have established high minimal wages.

In Romania, a great part of fault for a disquietly of little productivity, in comparison to the other countries members of EU is carried by employers on patronage, which do not know how to build own business, do not know how to improve and promote the human resource. The Operational Programme for Development of Human Resources, by which EU gives Romania 3.5 milliards Euro, with a view to improve the labour force, was not approved by the European Committee, fact that determines rather a maintenance at labour force to an inferior level of qualification, and implicitly of small productivity.

If the measure of growing by law of the minimal wage affects the entire economy (a direct consequence over the labour force would be the unemployment growth), its competitiveness within the world economy is affected: the foreign investors are no longer coming, do not longer extend their activities or even leaving. Nothing of all these is within the employees concern and on national and international concern, generally.

Maintaining a low level of minimal wage, both of that established by the government and of that negotiated between syndicates and patronages, will bring to a massive migration of labour force, especially o that qualified and with superior education, abroad, and its replacement with workers from extra-community countries, employers that will not generate social contributions to the budget.

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TERRITORIAL MARKETING INITIATIVE-POTENTIAL SOLUTION FOR REGIONAL COMPETITIVENESS

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Abstract

The research aims to define the general and specific competences necessary for rural sustainable development. Based on a comparative evaluation of the functional European and regional rural systems we propose a territorial business solution relying upon evaluation of organic products matching in our region.

An informational package is elaborated through the concentration of resources in efficient activities and their technical modernization. The innovative component of the project follows the harmonizing of the divergent interests of actors involved in the rural area, through the development of the competitiveness -sustainable development paradigm, which will determine the rise of the predictability degree in the evolution of rural systems on one hand, and will coordinate the innovative behavior of the actors involved in local and regional rural sustainable development, on the other, with an aim to establish a structural synergy which can respond to the demands of the European development model.

Keywords: *Regional competitiveness, Territorial marketing, Organic products, policy makers' responsibility*

Introduction

The south-east region is the second largest one of the eight in Romania and encompasses almost all types of land: the Danube river meadow, Baragan fields, the Dobrogea plateau with the Macin Mountains, and in the west it also engulfs a part of the Carpathians and the Curvature Sub Carpathians. The region is crossed by the Danube River; it includes the Danube delta and is bordered on the east by the entire Romanian beachside of the Black Sea.

The region of South East Romania was formed when Romania was divided into eight regions of economic development in 1998. The young region currently exists in terms of administrative planning, but there is not yet any common regional identity of the six counties. Due to a lack of funds, concrete measures to develop regional R&D and innovation activities, modernize regional infrastructures, and foster technology transfer at regional level still remain to be put in place. The establishment of regional centers for technology transfer is foreseen in all Romanian regions according to a national strategy,

but this has not yet been realized. South East Romania's RIS project, ARISE, which was launched in 2005, is considered as a unique opportunity to contribute to a common regional identity by strengthening the awareness of innovation-related issues at regional level. This could result in a new attitude among key public and private stakeholders to the regional innovation system, which could be the basis of an authentic 'regional innovation community'.

The south eastern town network is made up of 33 cities and 1455 villages, organized in 339 communes.

Region critical problems

In the rural area, the strategic transition option from the social, state-monopolistic economy, central-bureaucratic, towards market economy was irreversible, which determined the appearance of fundamental mutations of the prime components of the agrarian structure: the property structure, the socio-economical structure of agricultural exploitation and the production structure.

After the application of the land tax law, a series of processes were triggered that concerned the formation and evolution of private property in the rural area: establishing small properties of land; reconstituting an important part of the property for the population which does not work in agriculture; the excessive crumbling of the land property on parcels, which had negative effects on the already detrimental irrigation systems, as well as the actual execution of the agricultural projects; the priority formation of subsistent rural households, with limited possibilities of raising the production level, the extension of the partial time phenomenon, due to the small dimensions of the exploitation areas and the diminished sources of income.

In the period from 1990 to 1996 the largest zoo-technical complexes were dissolved. From the biggest exporter of meat and meat byproducts in Eastern Europe, Romania became one of the biggest importers.

During the same period large areas of greenhouses, which ensured the export of reasonable amounts of vegetal products, were deserted. A dramatic decrease can be observed in the internal production of fish as well.

Not allocating funds for the regularization of the rivers, for embanking, draining and irrigation as well as for the maintenance of these works have seriously affected rural life.

All of these aspects had as an effect, the impossibility of applying the proper technology and even returning to more rudimentary processes of agriculture.

That is why, during the negotiation process regarding Romania's integration to the European Union, agriculture represented the most vast, complex and difficult chapter.

In the areas where rural conditions allowed it, rural tourism developed and it ensured a prosperous situation for a small number of households.

If before 1989, agriculture collected a major part of the time and work force during summer, in the winter it constituted the temporal space in which a variety of activities established on rural areas, took place that not only needed a large work force but also the

fructification of local resources such as: osier, besom, corn, gunny, wool, leather and fur, floss silk, wood, clay, etc. which outlined Romanian production and craftsmanship, well seen abroad.

Numerous enterprises, representative for the food industry were closed for various reasons (lack of investment, reduced production of raw agricultural materials, obsolete technologies, and high degree of competitive import products).

The majority of rural population is composed of people over 50 years old, which causes financial tensions because of the cost of sanitary assistance.

Low birth rate is due to the voluntary decrease of fertility and the reduction of the traditional economic function of the rural family, which leads to a drop in the average size of the family.

In the south eastern region, the infantile mortality rate in the rural area reaches high levels.

An important problem for rural space, from a demographic and educational point of view, is that the level of education of the rural population is precarious, a phenomenon emboldened by the migration of the educated youth, particularly that with higher studies, towards the urban areas and abroad. Detail commerce in the rural sector is undergone through small units, weakly supplied.

This precarious state of commerce in the rural area of the south east is favored as well by the low level of training and the difficult access to information of the local rural population, as a comparison to the urban populace.

The entrepreneurs who operate in local commerce are poorly prepared, not possessing even the minimal knowledge necessary for the development of a profitable economic activity. That is why the rural store networks are small in dimension and inadequately set up, with poorly or unqualified personnel, with a price-quality proportion inferior to that in urban commerce. Around these networks, in the south east, the fair system is still active which uses barter as a prime means as well as door-sales, of both animal and vegetal products, which affects the safety of the food.

According to the current legislation, in the rural area four cooperative systems operate: craftsmanship cooperation, consumption cooperation, credit cooperation and agricultural cooperation.

To help with the development of activities in the rural area, the European Union, ever since the pre-adherence period, had important funds planned for rural activities through non-refundable financings, offered through a series of programs (more significant for the rural area being SAPARD)

In none of the activities considered eligible by this program is there expressly mentioned the development of the commercial activity in the analyzed area, however all of the programs which are already approved by the European union and are underway, be them either aimed at augmenting the rural infrastructure, or at the ameliorating of the processing and marketing of agricultural products or the development and diversifying of economic activities which are to generate multiple activities and alternative revenues such as rural

tourism or agro tourism, will have as a consequence the necessity to delineate ways of developing commercial activities.

European experience

On a European scale, most of the rural zones have faced severe transformations in the last 30 years. In a first group of countries (France, Denmark, Sweden, Italy, England) the national or regional policies encouraged the development and diversity of all types of economic activities, not just agricultural ones, with spectacular results.

Special attention was paid to the non-agricultural communities with regards to living conditions, work places and the development of tourist facilities. Programs for the creation of new businesses in the rural area were launched as well as for organizing quality social services in Germany and Denmark.

In the second group, the rural world was confronted with crisis, with a high rate of unemployment, with the decrease of rural population (Portugal, Finland).

In Spain, Ireland and Greece, rural development was focused on the improvement of working conditions, providing assistance for the restructuring and rehabilitating of production techniques and reducing isolation.

It was observed that the rural population was open towards innovation and towards accepting some less traditional models of development.

In the member countries of the European Union, rural development depends also on the degree of centralization of decisions.

Thus, in decentralized countries such as Germany, the regional level benefits from a higher degree of autonomy with regards to applying strategies. In Germany, each land has the decision right, which explains the major difference from one region to another.

In other countries, such as Spain and Belgium, the freedom given by the government to the rural areas is more diminished, ergo these areas benefit from general plans of development, devised at a national level.

In France, Greece, Portugal, Finland, the ministries are the ones which coordinate such actions.

The European Community launched in 1991 LEADER („Links Between actions for the development of the rural economy”), which had as its purpose completing the programs and actions of rural development through encouraging the ones implicated in rural life to think and implement innovative and integrated strategies of development.

Through this program, the following have been upheld: integrated rural development strategies, pilot-type, covering small rural zones, with a strong identity; cooperation between rural areas, bringing together the knowledge, human and financial resources; the exchange of know-how and experience, through rural area networks.

The LEADER program had significant contributions in the development of rural communities: a decentralized and integrated approach, through the focusing of the benefits

on the reconsidering of rural areas in their wholesome; the coaching of the local communities inherent in these programs, helping the defining of new local identities or renewing the existing ones, uniting the ones responsible for the community-level rural development; creating possibilities of putting latent ideas that were previously ignored, into practice.

Qualitative Romanian EU integration

With regards to reaching international performance imposed by the conditions for the Romanian integration in the EU, the interdisciplinary research committee aims at elaborating innovative policies for the rural development of the South-eastern Region.

In concordance with the agro-alimentary potential, with the current state of techno-economical and social conditions, the improvement of the administration of the flow of information specific for the field, meant to contribute to the emboldening of specialists' efforts, local and regional administration, of the varied institutions of ownership and administration of different structural or cohesion funds, in ensuring an efficient communication, both direct as well as indirect.

The most important outcome of this proposal is making farmers and small entrepreneurs aware of the necessity of complex and coherent information with regards to the predictable changes (perfecting both technological and material) in order to ensure the sustainable development of agriculture.

It is accepted that the secure strategic variant for the Romanian rural area and respectively for area 2 SE, the cross to a commercial agriculture, which would imply the training of the active village population in tackling a business in varied fields of rural economy, with regards to orienting it towards the market. Such an action is very important since the market alone shall validate the viability of the rural area and determine the implicated factors to make efforts in order to produce in concordance with the new quality standards.

The complex research will follow the identifying of the most adequate specific resource - competitive capitalization pairs, with an aim to substantiate the territorial marketing policies; elaborating and bringing up to date of a new portfolio of offers specific to Area 2 SE.

Territorial marketing solution

We suggest that the application of marketing tools and philosophy can be used to reinforce the trend of urbanization development which induced the abandon of rural areas and peripherals. We propose that one resource for regional competitiveness will be *territorial's new portfolio offers positioning* based upon organic products. The marketing research for organic products is still poor in Romania; European main experience is CORMA initiative.

CORMA is a follow-up on OMIaRD (Organic Marketing Initiatives and Rural Development – QLK5-2000-01124) which was funded by the European Commission from 2000 to 2003. CORMA was focus on the results of the Delphi inquiry of organic experts in investigating the threats to and opportunities for the future growth of the organic market. CORMA was focusing on the mature market and the growth market countries. In total, the survey analyzed the hard facts of 24 different regional marketing activities. Consumer surveys on the motivation of buying organic products in these areas, the robustness of the trust and loyalty when an organic scandal happens and the economic impact of these

activities in the region (e.g. farmer income, employment rates, assortment, product quality and so on) were evaluated.

Their results placed Romanian's agricultural regions as one of the most valuable location for organic market, due to the possibility to obtain appropriate land characteristic for this type of product in short term and less costly accordingly.

We consider that the regional competitiveness organic agricultural based, must focus not only in organic-intensive use of land by foreign actors, but mainly to modify the local consumer behavior of this products in our regions.

The *comparative studies* on the regional marketing activities had the following results:

- 1 The prices differences for organic products in comparison to conventional products differ from product group to product group.
2. Secondly it is important how the product is processed and where the origin is. In average organic products is 20-50% more expensive than conventional products. The consumer needs to understand why and how this price difference is justified.
3. An organic purchase within a limitation to a specific region has advantages in the communication to the consumer.
4. The trust of the consumer is preserved.

Therefore we proposed the evaluation of our regional rural area potential to be involved in organic marketing activities by questionnaire, interviews and sales data. The survey will include the whole organic food chain in the selected area (e.g. farmers, processors, manufacturer, retailers and consumers).Part of the information we already have from the Romanian SME's involvement into SPAS project⁴.

Our initiative implies the involvement of policy makers also, when applied to the formulation and implementation of territorial development strategies. With this in mind, the issue of territorial development is looked at and marketing concepts are introduced. Considering organic product as a solution, rural and peripheral territories as the product to be marketed, the main components of its marketing system are designed as response to the current trends in society that affect supply and demand of the rural product are presented.

We consider that the **main objectives** of our research are:

- To strengthen Regional Marketing Activities for Organic Products through experience exchange in Europe
- To sustain and improve the distribution of organic products in different European countries
- To inform and educate consumer about organic products and their benefits

The **expected results** may be formulated as follows:

- Higher income for the organic food chain in the regions.
- Higher demand for organic products by consumers.
- Better understanding for differences in culture and marketing trough research across Europe.

⁴ ETI-2005-023339-SPAS "SMEs Virtual Platform on Agro-Food Sector to access the Sixth and Seventh Framework Program"

As well informed researchers, we are aware that the current problems in rural regional activities are far to be solved, but being part of a reactive strategy of policy makers, there are not under our responsibility. Designing territorial marketing solution for increasing competitiveness capability in the region is under our area of competence and it is a proactive strategy.

Under the light of this theoretical framework, some guidelines for action and the main responsible agents are identified in order to improve the competitiveness of rural and peripheral areas

Conclusions

The relevance to the sector is very high. Currently we notice “semi professionalism” in the organic sector. That means that the different actors in the food chain do not work closely together. Each level knows their own area very well but does not reflect the needs of the supplier or the customer. With this project the organic food chain will be integrated and improved. The marketing initiatives will highlight their strengths. The weaknesses will be targeted and eliminated. This will be supported by consumer interviews and results from other regions and countries. A new marketing initiative will increase the income for the food chain actors and lead to more participation in growing organic food. This will lead to more sustainability and protection of the regions.

The learning component of the project implies external communication via online advertising (through the created web site) as well as offline of the offers portfolio by the target public, in order to direct the demand. The innovative policies of the distribution strategy follow the training of the local and regional decision factors in supporting efficient logistic chains, in ensuring the safety and the security of the consumers.

The innovative component of the project follows the harmonization of the divergent interests of the actors implicated in the rural area, through solving the sustainable competitiveness - development paradigm, with a view to establishing a structural coherence between the different interests and activities of the local/regional factors. This is possible through the interdisciplinary approach of the complete research thematic which will offer original solutions for the sustainable development of the rural area in Region 2 SE.

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THE NEED OF SOCIAL RESPONSIBILITY AS A CONDITION OF THE ROMANIAN CREDIBILITY BUSINESS ENVIRONMENT

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Abstract

Organisations need new concepts concerning the way of organising their activities and especially their communications for being able to adapt themselves at the significant changes of the business environment that took place in recent years. The progress of computer technology and of telecommunications, globalisation of markets, perpetual rise of customer expectations are facts that made organisations reconsider their way of organising activities and to reconsider their attitude concerning communications.

Keywords: *communication, social responsibility, corporate image, communication management*

“The social responsibility is about neither charity nor PR exercises but is an intelligent investment which brings profits for the company as well as for all the community.”

Viscount Etienne Davignon

Starting with 2000, The European Commission and the U.E. countries are interested more and more in the corporatist responsibility. Beyond the common European speech the methods of social responsibility have a different evolution from country to country, depending on the traditions and the economical and social features of every region. In Communication for the revival of Lisbon Strategy, the European Commission perceives the concept of social responsibility as being part of a competition. Thus the voluntary initiatives of the enterprises, taking the form of some practices concerning the social responsibility, can bring an essential contribution to the lasting development, consolidating in the same time the innovative and competitive potential of Europe.

Recent researches show that, for example in Britain are important the ethical problems and the moral conflicts generated by the methods of social responsibility. But, in the north countries the programs of corporation responsibility are oriented towards environmental problems and in the southern Europe states there is a bigger interest for the social problems.

For the countries in the Eastern Europe the interest for this management concept is relatively new and reduced enough. For Romania, at the beginning of the transition period the little firms, cached in clichés of the past, didn't conceal to assume the responsibility for different social problems and to complete in a certain measure the resources and the activities of the local and central authorities. However, in the long run there has been crystallization in the fact that the firms are given a major role in finding solutions for the society's problems. As expected, the foreign companies were the pioneers of the social responsibility concept, passing from corporative philanthropy to community development projects and educational activities.

Now in Romania, besides multinationals and the ONG which are developing projects in public-private partnerships, medium and big companies from the new industries, as software, are developing and finding visible advantages in the social responsibilities programs. In the last years there have been created a few environments which promote the good practices of social responsibility, popularize this concept, do research and maintain a public dialogue in which there are discussed the advantages both to the business environment by these management instruments.

The factors which encourage the social responsibility practice in the firms are:

- The business culture and the moral aims
- The permanent need of consolidating the image and reputation of the organization
- The conceptualization of a strong, open, flexible culture
- Promoting the mission and the values of the organization
- Attracting and keeping the valuable employees of the firm
- Developing the efficiency and increasing the profit
- The differentiation of brands and products on the market in comparison with the competitors

Along the other line, the organizations must realize that The Social Responsibility can become a strategic advantage which in its turn will consolidate even more its reputation. As well, the firms have the capacity to cultivate the consumers' opinion that a "social responsible" product is more valuable than others. At the same time these actions have a lot of chances to reestablish the public confidence in the business environment.

The problem of social responsibility doesn't have to be the exclusive domain of firms. The local and central administrations have to encourage these programs and to be a part in the actions doubled by a permanent dialogue on the social problems. This dialogue has to be based on the next values: transparency, truth, communication.

The implementation of Social Responsibility supposes adopting some elements in the politic of the organization, which can be formed also in directions of action:

1. *The environment politic of the organization* – is made by a major component of the global politic in conditions in which problems like: pollution of the environment, pollution of green spaces, recycling the waste products are more and more important for every community. Ignoring them is a clear proof of a lack of social responsibility from the firms with important consequences on their image and reputation. Thus, even a minimal involvement in such projects can bring advantages for the organization:
 - increasing the notoriety and reputation
 - increasing the clients loyalty
 - motivating of employees
 - improvement of local community relationship
 - improvement of mass-media relationship
 - assurance of the conformity with the environment regulations
2. *The marketing politics of the organization* – obtaining performance in the marketing zone supposes promoting some ethical business relationship with the contractors, clients, business partners, etc. Studies show that good willing in business is benefic on the long term and surely contributes at the capitalization of the company image.
3. *Community politics* – there is a close connection between the organizational climate of a company and the welfare of the surrounding community. In the case in which there is

an active involvement in the local activities and aims, the firms can have a series of advantages:

- recognition and respect from the clients,
- valuable relations, connections with other local firms,
- better reputation for the company,
- Improvement of the recruitment process and of the personnel stability.

In general, the firms are looking to choose those activities which are in line with their business objectives. Also, a positive involvement in the local community can help the firm to identify new markets, clients, business opportunities, and new local contacts with the authorities, leaders of opinion.

4. *The values of the company* – Statistically speaking, in the Romanian business environment there are few firms which have set their values in a compartmental code, a declaration of good practices or a set of rules that concentrates the vision of the company, the values, its responsibilities and ambitions. The clear defining and communication of these values will help the organization at the consolidation of the reputation from inside as well as from outside.
5. *Human resources politics* – All companies need employees on whom they can count at any time. This implies the existence of a symmetric communication in which the contribution of the employees towards the firm must be capitalized. The values communicated to the company, the visible involvement in the improvement of the performances and the personal welfare are aspects which help at a good reputation in the inside, which in time will be also exported in the outside.

Social responsibility in Romania

Together with the admittance in the U.E. the actions of social responsibility won't be just an option. The tendency is for the social responsibility programs to become compulsory, and their extent to overcome the social.

Now in Romania there aren't studies about the budgets allocated to the social responsibility projects, and the legislation has no strict foresights concerning this aspect, coming into operation just the law of patronage.

At present there are a few companies whose activity of social responsibility is very intense. A leader in this case is Vodafone, which according to the statements the programs of social responsibility run in 2006 have reached the sum of 1, 5 million euro. Vodafone is one of the top companies which implemented a payment deduction system with the help of which the employees can financially contribute to the sustaining of programs run by the Romanian Vodafone Foundation.

In general, we cannot bring a real dimension of the social responsibility concept as a guarantee of the organization's business success, but we have to be aware of the fact that this isn't just an instrument of the value maximization through image construction, but an essential element of the long term success, which is strongly bounded by the social and environmental performances of the community.

The corporatist social responsibility is strongly connected with the society progress with the tendencies from the vital domains and with the evolution of the individual and group necessities. The environmental, financial and social problems must be carefully integrated in the business plan of a company, in the marketing and human resources strategy. The corporatist social responsibility actions can bring competitive advantages to a brand, can

make the clients loyal, can cause the best way of keeping the employees, and last but not least very important, they can save money.

Social responsibility in Romania

For most companies in Romania the corporatist social responsibility domain is reduced at social investment campaign – donations, patronage, philanthropic actions – oriented towards problems considered to be of community interest. Some of these programs are considered to be inefficient, don't have social and marketing clear objectives and aren't professionally evaluated and promoted. For the wide public the news about the companies' social programs have a lack of credibility, and for the journalists the official statements to the press about such community actions aren't interesting.

The corporatist social responsibility is clearly detached from other forms of social involvement as corporatist philanthropy or patronage, through some specific elements:

- Taking into consideration the interest of all the stakeholders, from shareholders, employees, business partners as wholesales, clients, creditors, distributors, to consumers and community.
- Elaboration of a social involvement strategy, that can be absorbed, on a medium and long term into the development strategy of the company and in the communication corporatist strategy; the CSR programs cannot be conceived separately, outside a vision that integrates them in the management and marketing objectives of the company.

Transparency is a condition of the efficient communication between the company and groups having the same joint interest. More than transparency in communication, the credibility supposes an agreement between the actions and the declarations of the company. In essence, the transparency in the corporatist responsibility politics supposes:

- Defining an ethical code, of some convictions that guide the organization in its actions, or a set of ethical standards which can fix the rights and the obligations that the company has towards the groups having the same joint interest.
- Publishing the ethical code and its promoting abreast of the employees and the business partners.
- Elaboration of social rapports periodically that reflect the extent in which the company respects the obligations it assumes.
- Publishing the reference standards used as well as the auditory who elaborated the reports.
- Evaluation of investment social programs, and its impact on social aimed groups.
- Publishing the results of the social investment programs.

The studies show that for the Romanian business environment the main problems which must be taken into account are: the relations with the local communities (77,8%), the working rights and conditions of the employees (74%), the consumers (66,7%), and the environment (66,7%).

Starting from social responsibility, what is needed from a social responsible organization has into account the way of running a business, so that it can bring a positive contribution to the society and of environmental protection.

In this context we can distinguish a few specific elements:

- The social responsibility implies also protection aspects of the environmental surrounding.
- The social responsibility is not different from the commercial strategy and activity of the firm, on the contrary, it's an integrant part of it.
- The social responsibility has a voluntary character.
- The social responsibility is reflected in fact, in the way in which the firm interacts with different partners (interns and externs: employees, clients, neighbors, nongovernmental organization, public authorities etc.)

The corporatist social responsibility is strongly bounded to the progress in the society, to the tendencies from the vital domains and to the evolution of the individual and group necessities. The environmental, financial and social problems must be carefully integrated in the business plan of a company, in the marketing and human resources strategy. The actions of social responsibility can bring competitive advantages to a brand, can make the clients loyal, can cause the best method of keeping the employees and, can save money.

For the next period some measures are imposed which outline and clarify the frame of Romanian social responsibility:

- the companies to answer in front of their shareholders
- the compulsoriness of social and ecological reference
- the use of methods bounded by the public politics, as public means and public subsidies to stimulate the responsible behavior
- the implementation of international standards and convictions
- the involvement of the shareholders
- the development of the experience exchange and good practices about the social responsibility between the enterprises
- the promoting of social responsibility between the IMM.

The uncertainty generated by the big companies' pressure, the unstable position on the ex-traditional markets are forcing the small companies to get involved in bound partnerships, in personal relations that can give thrust. It is noticed a tendency from the IMM to reward the instability on the market with a growth of the stability in inter human relations, with the employees, the business partners, the clients. The social involvement of the small enterprises leads to the increasing of reputation in the community, the thrust in the company, the loyalty towards the company.

There are also factors which discourage the practices of social responsibility in the IMM:

- The lack of managerial culture of the owners and managers;
- The aggressive conception towards the market, and he rivalry of the managers;
- The paternalistic and authoritarian kind of management;
- The conservatism
- The refusal of innovation in business.

Without being perceived as the sign of economical power, the social responsibility takes the form of a civic corporatism – a way of establishing stable and profitable business relations for everybody, a non aggressive method, a friendly way of communicating with the society. In this way the RSC is nothing else but modern, open, flexible method of management. In this context the social responsibility isn't just an attribute of the

multinationals companies, but an elementary condition of the economical game in an open market. RSC is a solution for the Romanian IMM also.

In the last decades, in the occidental business environment have been imposed a few instruments for the improvement of the transparency and credibility in CSR: the social and environmental audit, the social references and ethical codes. Besides the multinational companies which have come with an outside CSR expertise and which have adapted the models to a Romanian reality, the rest of the companies have noticed that make CSR out of instinct, without even knowing that it's called like this. It's a positive aspect the fact that the Romanian economical development gave birth to such preoccupations, but the need of a common language is felt and of a unitary perception on CSR in general.

The managers of the Romanian organizations, excepting the size or the activity domain have to understand the necessity of conceiving organizational structures which promote the change of information, the dialogue and the collaboration, this aspect being compulsory for every organization which wants to get through challenges concerning the management of the organization and reputation. In general we cannot give a real dimension of the social responsibility as a guarantee of the business success but we have to become aware of the fact that it isn't just a maximization instrument of value through construction of image, but an essential element of the long term success, which is directly linked by the social and environmental performances of the community.

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INNOVATION MANAGEMENT APPLIED IN RURAL PUBLIC POLICIES IN FRANCE

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Abstract

The accelerated globalization and technical changes determined, in France, starting with 1980, the adoption of new communitarian strategies focalized on: the development and the adaptation of the agriculture both in view to increase the added value of agricultural and the creation and improvement of the local agro-food channels, the application of agricultural practices that assure the environment protection and the improvement of the life quality in the rural space.

Keywords: *local activities development, enterprises incubators, regional centers of technological transfer, patrimony economy poles, local productive systems, competitiveness poles, rural excellence poles.*

1. The evolution of the territorial development in France

In the last period, in France, the public policies, the political actors' discourses and the scientific papers emphasize the profound changes on the territorial policies. Thus, the territories are considered to be productive environments, ecosystems based on growth, able to involve the innovation, the change and finally the competitiveness.

In such a context, the small urban and rural territories had to focalize to projects concerning the tourism turning to account and local economy optimum. In order to achieve this goal, the local administration should apply innovation strategies.

The socio-economist and engineer Pierre Veltz, director of European High Studies for Amenities and Development Institute, reveals the fact that the Taylor approach from the 30's affected the geography, enterprises' organization and territorial development representations. Influenced by a weak concentration of the employees less or medium qualified and a rigorous division of tasks between management, product development and execution levels, this dominant model of mass production contributed to the uptake of an important number of SME's.

Starting with 1980, the internationalization and technical transformations remodeled the competition rules and conditions, which concern not only the costs but also criteria like quality and products' diversity. We observe the passage from hierarchical organization to the network organization. In this context, outsourcing projects for activities in more or less autonomous business units were implemented.

The main part of geographical, demographical and economical links between towns and theirs peripheries lost considerably from their importance. In the same time, the great towns followed network alliance strategies.

The rural space becomes a part of global economic space from France, often influencing the metropolis. Thus, the new arrangements encourage the synergic links between villages and towns.

In this approach, the territory is perceived like a social system, not only spatial, that can contribute to the competencies' increase by means of interactions and relationships. Pierre Veltz considers that the reinforcement of learning solidarity between SME's, SME's and other groups, private and public actors must represent a priority of territory arrangement, because in the new economical and technological context, the intelligence of resources combination makes the difference between territories that win and those that lose.

2. The evolution of the innovation concept

Innovation can be defined as a procedure that assures the application of an invention to the production of new goods and services, the improvement of the existent goods and services or the improvement of the way concerning their production or distribution, obtaining a competitive advantage or a social benefice.

The initial meaning of the innovation concept confined to the technological innovation, which had two components: product innovation and procedure innovation. **Technological innovation** was for a long period of time the single innovation form. We witness nowadays a considerable extension of this concept.

The first declension from the technological innovation concept is represented by the **social innovation**, in which it is considered that the intervention of a new product can solve a social problem.

The **tertiary innovation**, another innovation derivative, appears in the culture domain, tourism and services that we are interested especially in territorial development.

Starting with 1982, in France, the Economic and Social Council (ESC) launched a new discussion topic: "innovation and regional development", an opportunity to underline the link between innovation and territories. This occasion emphasized that the regional dimension is a favourable field for the innovation development and multiplication, because this initiative:

- represents a strength for companies, helping them to gain on markets, supply sources and offering a greater possibility to adapt themselves.
- allows the establishment of personal relationships between funds owners and the potential innovators.
- allows a better individual development.

ESC insists on the importance of the innovation; on the one hand, the concentration on the development of the activities' network and human capital, that make the progress possible to the regional level, and on the other hand, the importance of the regions responsibilities increase for their own economical and social development.

The essential factor of innovation is the cooperation of all the private and public actors from a territory, in which the role of local elected representatives owns the first place. If they dispose of an economic vision for their territory, as like the leadership capacity, they can involve the concurrent enterprises in an active collaboration, for example the launch of a local productive system.

Besides the creation of innovative approaches, the public policies must reply to companies' needs, especially SME's, spreading the existent and accessible innovations.

3. Preexistent national and regional policies

In France, the local economic development field was influenced by the intervention of different actors, like: Industry and Commerce Chambers, local communal communities, General Councils and Regional Councils.

Industry and Commerce Chambers are public institutions with administrative features, being coordinated by the SME's, Commerce and Handicraft and Liberal Professions Minister. They have two categories of missions: the creation and development of enterprises (the resources issue from dues) and the development of the industry and commerce (their services being paid by the users). They represent the companies' interests in front of the public powers, helping them in the process referring to urbanism documents processing, strategic planning from economical point of view or market research carrying out.

At the national level, the interests of the Industry and Commerce Chambers are represented by the Industry and Commerce Chambers French Association.

The *local communal communities*, in number of 2.300, are engaged in operations concerning inter-communal competences.

General Councils provide services, information, financial support and consultancy.

Regional Councils, arranged by the law from 13 august 2004, elaborate regional schemes concerning economical development and sustain the creation and the development of all types of enterprises: industrial, handicraft, commerce, services, etc. they facilitate the access of enterprises on the international markets, contribute to the technological development and innovation; in this process, a network of universities is involved, focalizing on channels dynamics and competitiveness poles. As well, the Regional Councils have the responsibility to define the needs concerning the professional training strategy, to subsidize training centers and social works and paramedical professions institutes. They finance in the same time permanent professional training for those that are looking for jobs, offering them remuneration during their training stage.

Besides these institutions, the local economic development profits by the **extra-public organizations**: development agencies, enterprises incubators, regional centers and platforms of technological transfer, patrimony economic poles, local productive systems, competitiveness poles and rural excellence poles.

The **development agencies** and expansion committees include the actors, which contribute to the economical development of the territory they manage. The originality of these agencies is due to their structure, being constituted by: consular chambers representatives, unions' representatives, syndicate employees, managers, professors, etc. This partnership, which allows the organization of experiences and different points of view confrontations, supports the innovation spirit and the permanent adjustment to the evolutions of the economical life. The main intervention domains of these agencies are: the enterprises' development, local collectivities consultancy, European actions, studies and communications. Development agencies, that are present especially in small towns, are federalized at the national level in the National Council of Regional Economies.

The incubators of innovative technological enterprises were created in 1999 at the initiative of the Research Minister. They sustain and support development projects for enterprises, based on technological innovation, by the means of competence centers, like universities and research laboratories. They also finance studies for companies' creation.

The regional centers of technological transfer and regional technological platforms

The regional centers of technological transfer have the task to expand advanced technologies in the economic network. These are competence centers to which companies can request consultancy when they search the competitiveness by using new techniques. They can also assure training services.

The regional technological platforms include competences of the research institutions and from other structures that can facilitate know-how and innovation. They assure technical services, consultancy and training.

The regional centers of technological transfer and regional technological platforms are sustained by the state and local collectivities, the personnel being motivated by the beneficiaries of their services.

The patrimony economy poles (PEP) are attached to a goal concerning the local economic development that must be built on a patrimonial resource represented by: classical monuments, industries, ethnography, landscapes and traditions. Starting from one of these patrimonial supports, interesting topics can be realized for the development projects. These projects will include the local economical life actors which work in tourism, economic and social activities.

The local productive systems (LPS) were launched by the French government in 1999. A local productive system is:

- a geographical concentration of enterprises, most frequently SME's;
- formed by strategic resources organized in a manner to build innovation centers interconnected with the enterprises network.

The political interest of the LPS is to make from territories and enterprises' cooperation an engine of the thematic economic development, which will be sustained by competitiveness poles or rural excellence poles.

The competitiveness poles gather in the same territory enterprises, training centers and research institutions, involved in common projects with innovative character and that dispose of the necessary dimension for an international visibility. We can distinguish between poles centered on technological dimension in which the research-development predominates and poles oriented to the industrial perspective, with advantages determined by the productive network.

In all cases, the partnership, the innovation and the international visibility are the essential factors for the poles' recognition.

The rural excellence poles were launched by the French government in October 2005. Inspiring from the policy of urban competitiveness poles, these are projects that facilitate the development of the rural territories, receiving a partial finance support from the part of the state. The rural excellence pole is a project concerning the economic development,

being situated on a rural territory and based on a partnership between local collectivities and private companies.

4. The conception, application and evaluation of the territorial strategy – support for innovation processes

The conception of a development strategy in such a complex and uniform sector as innovation must emphasize the following stages:

First stage: The realization of an economical diagnosis of the territory

During this stage, there will be established the features of the local economic network, its evolution on long term in order to identify the development opportunities.

This stage requires the conception of a questionnaire formed by six questions:

1. There is an inter-communal policy in terms of local economy?

The goal of this question is to determine if there is at the communal level an economical development strategy.

2. What's the situation of the commune in what concerns the activities developed?

The deciders must argue the place of the village in the dynamics of the activities and occupations.

3. What is the dynamics of the local economic environment?

The local communities' representatives will analyze the activity sectors types presented on the communal territory and their evolution (agriculture, production, handicraft, services logistics, tourism), the evolution of the activities fields needs, determined on infrastructure terms as well as the interests concerning the geographical concentration of the activities in the sphere of competences poles or activities zones.

4. What is the dynamism of the commune from business perspective?

The goal of this question is to know the enterprises from the commune territory and its neighbor villages, in view to identify the needs, extensions or outsourcings and the risks for the businesses.

5. What are the existent training channels in the commune?

In this case, the deciders will analyze the organizations' needs and the training channels, both from commune and the neighbor villages, in order to identify the actual and future movements of the population that will affect the commune.

6. What are the lands or the available places for the enterprises arrangements?

There will be verified the activities zones covering rates, the availability of the lands and places for the arrangements of new enterprises, as well as for the assurance of a sufficient services level for enterprises.

Second stage: Building an efficient governance system

The governance doesn't limit on the involvement of the key actors to the most important decisions. First of all, it must assure a mobilization system on long term. From this point of view, benchmarking (the comparative evaluation of the performances by the means of synthetic indicators) and the change of good practices become the best instruments for the improvement of the innovation territorial framework.

Third stage: The application of the direct actions in the favor of innovation

After the identification of the strengths and weaknesses of the territory from the innovation point of view, targeted actions must be started and integrated in a global strategy, in order to consolidate the network of new, innovative enterprises and to create a favorable framework for innovative projects in the existent enterprises.

During this stage, venture capital funds become extremely important in the increase of the global attractiveness of the territory (infrastructure, public services, life quality, cultural domains, etc.).

In the new enterprises development phase, a special support must be accorded to the expertise of the structures and the implementation of certain projects.

Fourth stage: The evaluation of the results obtained

In France, the evaluation of the public policies was defined by a decree: “to evaluate a policy signifies to search if the juridical, administrative or financial means allow the realization of the expected effects from this policy as well as the achievement of the goals that were planned.” (Decree from 22.01.1990)

The evaluation of the public intervention in the favor of the innovation will be more efficient if it will operate in a partnership framework.

Conclusions.

The entire attention of the public powers must be focalized on the so called “territorial engineering”. The communitarian national and international policies are conceived in France in a way in which they are able to struggle against the inequalities concerning the resources, competences, territorial development financing, creating specialized structures and resources.

The innovation is perceived when it covers a very complex topic, which refers to: the innovation within partnerships, the organizational innovation, (by the channels expertise and the improvement of the marketing strategies) and the technological innovation within production and commercialization channels.

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MARKETING AND THE COMPETITIVE PERFORMANCE OF SERVICES

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Abstract

The success of companies with a high performance on specific targeted markets relies on obtaining a fundamental competitive advantage regarding the client's satisfaction. On the other hand the client's satisfaction relies on market strategy, effective systems and processes as well as a highly prepared staff. A central element of marketing is that the orientation towards the market will grow the chances for a superior business performance. Orientation towards market is a vast concept that is in contrast with marketing planning which is rather a specific process, associated with management of a service or of a representative market.

Key words: *marketing, competitiveness, services, customer*

These last years marketing has been perceived as a concept for all business that amplifies its competitive ability. The key to reaching the organizational goals stands in establishing the needs and the requirements of the targeted consumers and in offering the wanted satisfaction, in a more efficient and effective way in relation with the competitors (Kotler, 1994, p 18; Desphande *et al*, 1993; Kohli and Jaworski, 1990; Narver and Slater, 1993). The view of marketing as an organizational philosophy is more popular and wider used nowadays than the functional view. Marketing encourages the organization to recognize the importance of satisfying the clients' needs as a priority, but the ability of satisfying them depends on the capacity of the distribution chain as well as on the operational processes of the firm. The success of companies with a high performance on specific targeted markets relies on obtaining a fundamental competitive advantage regarding the client's satisfaction. On the other hand the client's satisfaction relies on market strategy, effective systems and processes as well as a highly prepared staff. All these factors are influenced and shaped along the way by the quick changes and the growing competition that leave its mark on the international environment in which the companies operate. Among the strong points that lead to the growth of a company's performances there are knowledge systematization, chains, alliances and the reorganization of the company's processes.

In assessing business performance, a distinction has to be made between the performances of today's results and the strategies that determine the future performances. The latter includes policies for client satisfaction growth, as well as the growth of those that refers to the improving of systems and processes, and determining employees' motivations and engagements. Those represent means of achieving the goals that eventually materialize into financial benefits and growth of the performance. Both the academic literature and managerial perspectives consider a business as being a successful one if it reaches a strong financial performance and if it consolidates its position on the market. From an academic point of view, the most appropriate method of evaluating financial performances is the analysis of the value of shareholders. (Rappaport, 1986), in practice making quite often appeal to the estimation of profits and benefits through subscribed capital (Doyle, 1994). The market's performances are measured through the extent of the sales or the market share. The growth may increase the profitability but its attraction for the shareholders is

probably less important than it is for managers and employees. The prestige and the rehabilitation of the market are correlated with the size of the business (Handy, 1985). In the same way, the growth offers higher safety and perspectives for promotions (Pascale and Athos, 1981).

Relying on sales and financial results for quantifying the current performance presents a certain risk as these are the consequence of passed activities.

The future performance depends on current efforts for creating and supporting the competitive advantage (Day, 1990; Reichheld, 1996). Otherwise the consumers won't buy the firm's services and products any more, or they will buy at a convenient price, unless, of course, they perceive the firm's offer as being superior to competitors' from a value point of view. As a consequence, we can conclude that successful companies will try to balance market and financial performance, and thus, sales and financial results will be positively correlated. That is why successful businesses will achieve specific advantages supported by the services offered on the market or by the overall reputation of the company. Supporting such advantages implies a balance between the client's horizons and the competitive perspectives. A central element of marketing is that the orientation towards the market will grow the chances for a superior business performance. Orientation towards market is a vast concept that is in contrast with marketing planning which is rather a specific process, associated with management of a service or of a representative market. Either way, it remains to be discussed whether this form of the planning system participates in shaping the strategic decision and improving the profitability (Armstrong, 1982; Papadakis, 1995). But professional marketing underlines a systematic approach of the market segmentation, of the competitive analysis and of the positioning. This means that using some strategic marketing planning processes should lead to a higher performance.

A feature of successful companies is the implementation of distinctive strategies for researching the clients' desires, and using their feed-back in every step of the company's evolution (Albrecht and Zenke, 1985). Companies that involve all employees in collecting information from consumers should have a strong position on the market that allow them acquiring progresses in quality (Hauser and Clausing, 1988) and innovation (Drucker, 1985). Market orientation and focusing on the client's needs creates objectives that the firm can't reach without an effective distribution chain. The company or its providers should invest in informatics systems, of distribution or production (Garvin, 1995; Womack și Jones, 1994) in order to encourage and monitor the performance of certain innovating services and high quality (Drucker, 1985; Hamel and Prahalad, 1994) that translates into competitive firms having a strong distribution system.

The success of the business depends however on staff with a strong motivation, high abilities that will react fast and decisively, in order to find out the client's preferences, but moreover on the top management's ability of communication the strategic point of view of the company (Pascale, 1990). Consumers don't buy products, they actually buy brands. This last element makes a difference in the company's offers, by supporting and encouraging the added value, built by successful companies.

As a conclusion, we can assert that logistics companies have a competitive advantage in the context of the development of some more clear and efficient brands policies.

The international competition has dramatically increased the pressure of cutting costs in order to answer faster to the client's needs, and to increase the efficiency and effectiveness of logistics companies. Thus, a great number of companies has oriented towards reorganizing their business in order to create the added value.

In the last years, a major change has occurred in the business and marketing theories that have placed the market in the center of competitive strategy. This change of the general paradigm (Kotler, 1994; Parvatiyar and others, 1992) perceives the global competition as ascendant in part rather because of the companies' network than because of the individual businesses. Companies experience success if they have the best network (Kotler, 1994, p. 46). This translates into saying that successful companies are those that built a network with their providers, buyers, internal and external partners.

The changes that leave their mark over the business environment can damage the efficiency of the firm's and organization's strategy. This is why competitive companies have to evaluate the changes that occurred in their industries, focusing on innovation, and encouraging the staff to apply the current strategies and procedures (Pascale, 1990).

Currently, in most of the industries, competitors often refer to imitations thus the new logistics offer nothing more than a temporary advantage. Slater and Narver (1994) argue that the critical challenge for any enterprise is associating culture with the business climate that amplifies the organization's knowledge regarding the demand for a higher value for the client. This ability of looking into it faster than the competitors can become the only source for a backed competitive advantage (Dickson, 1992). We can as well assume that the managers of successful companies give a higher priority to studying the consumers and are proactive in looking for new marketing opportunities.

Porter (1980), Kay (1993) and other economists have emphasized the importance of the industry's characteristics in determining the performance. The obstacles when entering the market, the power of the consumers and the providers, the number of the competitors and the substitutes' capacity affect the average of the incomes in an industry. Marketers have speculated that the business environment is a very important variable when determining the importance of marketing. Jaworski and Kohli (1993) for instance sustain that the relationship between market orientation and business performance will consolidate on more turbulent markets and with a harsher competition. This leads to two possible hypotheses: (i)-there is a correlation between the business's performance and the features of the industry; (ii)-the industry's characteristics will affect the relation between marketing orientation and the business performance.

Marketing implies present consciousness and an overview on the future of the organization. The elaboration of marketing strategies implies as well pointing out the good ideas, transposing them into products or logistics, and then continuously adjusting them to the needs of the market. The pointing out of good ideas means, recognizing faster than the competition, of active technologies and markets. The clients base their choices not on quantitative grounds, but qualitative parameters: service, quality, reputation, etc. They create an image, a complex inner mind picture about the company, their products, and this can translate easier into quality. Marketing is mainly a battle of perceptions and not products. This perception does not always reflect the truth, but for the public opinion, this is the reality. We can as well argue that marketing is an instrument that mediates the

relation between clients and organization by offering services and products that other clients may perceive as competitive.

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INNOVATION SEEKING STRATEGY OF IT OUTSOURCING ON E-EUROPE

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Abstract

In this paper, we emphasize the opportunities concerning the implementation of an intelligence receptive organizational culture, that allows the fast and flexible response of companies' strategies in the competitive e-business. Due to the promotion of an intelligence receptive culture, e-Europe software companies start to see the Romanian IT firms as extremely attractive targets for outsourcing projects that suppose not only NOT the creation of specialized software, but also the overtaking of maintenance or support services. The creation of a website designed to facilitate the outsourcing projects will assure the increase of the Romanian IT companies' visibility in e-Europe.

Keywords: *outsourcing, information technology, website, intelligence receptive culture, e-Europe*

Introduction

The global economy entered in a new era, in which the new information and communication technologies accelerate the companies' expansion in e-business, affecting the competitiveness components and generating new sources for the economical development. The new economy implies another business approach and an orientation towards customers. The strategic objectives of the companies as well as the processes developed in their departments are submitted to significant changes, which determine the adaptation of the top-management to the business environment challenges.

Outsourcing can be defined as 'the strategic use of some external resources for the

development of some activities which are traditionally carried out with internal personnel and resources'. Outsourcing represents a strategy by means of which an organization entrusts major functions to some external providers, specialized in certain services which become 'valued business partners' (services provider's partners with added value).

Nowadays, most of the IT managers consider outsourcing as the most convenient solution for a company interested in becoming more efficient by means of the costs reduction and the access to the latest technologies, without wasting significant funds for research and development. Moreover, outsourcing constitutes the simplest solution for the problem of the specialists' deficit the occidental countries are confronted with.

Outsourcing is not a completely new concept. The companies have always rented services from the exterior for different types of internal operations in order to accomplish some tasks they couldn't have carried out on their own, no matter if there were buildings, technology, people or other resources. However, the difference between the simple 'subcontract' of some resources and outsourcing consists in the fact that the last one involves a more efficient restructure of certain business activities, using external partnership with companies that have the necessary competences.

e-Outsourcing designs the rent of some IT products and services – from a source or a variety of sources on the Internet – which can be adapted to the internal needs of a company. For example, a company can appeal to a web hosting services provider to create and keep the web site, to an applications provider for specific applications of front office (CRM) and back-office (ERP), or to a security company for the arrangement and administration of a firewall or a private virtual network (PVN). Practically, these companies operate for the respective firm as an IT internal department which takes care only of its main problems. The services presented above can be bought under the form of a package offered by a single seller who overtakes these services offered by other sellers.

e-Outsourcing presupposes providing IT services and products which can be adapted very easily to the internal needs within the company that buys such packages.

Outsourcing at the first level- a company entrusts processes to another company in a direct way.

Outsourcing at the secondary level - the company which provides services and products that are subcontracted by outsourcing subcontracts in its turn the transmission of these services and products to other companies in a modular or integral way.

The outsourcing term has other forms as well such as:

- **Off-shoring** represents the outsourcing process by means of which a company is subcontracted from another country to the contracting company.
- **Out-tasking** is defined by means of the externalization of a well defined part within the internal product.

The studies referring to the externalization decisions of the IT projects are based on the following three principles:

- The externalization must allow the possibilities of economies;
- The contractual dimension is essential, containing clauses such as the reversibility or the quality guarantee;

- The externalization must be accomplished only for those domains which do not represent the main activity of the company.

A subject that was very little approached at the world level refers to the studies of the potential losses regarding the innovation opportunities due to the externalization of the information services.

From the target point of view, we distinguish between:

- Tactical outsourcing. It is limited in complexity and time and has as a purpose the rapid costs reduction in order to face some actual challenges of the market.
- Strategic outsourcing. It presupposes a long term collaboration in which the beneficiary is concentrated upon his own business and externalizes the rest of the processes.
- Transformational outsourcing. In this case, a partnership between the outsourcing company and the internal teams of the organization is had in view, having as a purpose the share of knowledge, competences and complementary experiences.

From the approach point of view, outsourcing can aim at:

- *The integral approach* (the functions are exclusively accomplished by the external personnel)
- *The partial approach* (the functions are accomplished by a mixed team, made up of internal employees assisted by external specialists)
- *The partnership* (the functions are accomplished in cooperation, by the integration of the external and internal teams, thus, sharing the competences, the knowledge and complementary experience)

The main **advantages** of the outsourcing projects are:

- **Reduced costs of exploitation**

The most important reason why the companies appeal to outsourcing is the reduction of the exploitation expenses. Moreover, the companies that want to do everything on their own must support larger expenses for research, development, marketing and launch. The access to a more profitable structure from the costs point of view offered by an external provider, as well as the advantages due to the specialization are actually the most important tactical reasons for which the companies appeal to outsourcing.

- **The company's focus on the business processes is improved**

The companies can concentrate on a larger variety of business divisions, while some operational details are given in an external expert's charge. For many companies, the only reason they appeal to outsourcing is the fact that different types of activities require a lot of the time and attention of the company's leaders. Most of the times, the solving of the problems generated by these activities are blocked somewhere in a so-called 'decision gridlock', at the middle management level. This fact generates financial losses that will affect the company's future.

- **The increased access to capabilities**

Appealing to the services of some specialized providers, the companies have an implicit access to their investments in technology, methodology and people – investments accomplished during some considerable periods of time. Among the capabilities of these providers there is the experience gained in that respective domain by the work with different clients with similar necessities.

- **Internal resources that are available for other purposes:**

Most of the times, the people are the redirected resources by outsourcing. By entrusting the adjacent operations to some external companies, the company can redirect these employees to other activities with a higher added value. The employees, whose powers were leading

towards the interior, can now direct themselves towards the exterior, directly to the client.

- **Non-critical business functions**

Outsourcing is the way in which the capital that must be invested in the business' adjacent activities can be reduced. Every company has the possibility to choose: it can acquire the necessary resources by large expenses in a short period of time and with uncertain results or it can delimitate exactly the costs involved following some specific procedures, according to a project that was previously discussed and approved during a well determined period of time. More than that, the existence of some guarantees for the project in development is an extremely important factor when a company chooses the outsourcing way.

- **The risks' division (sharing)**

The companies that appeal to outsourcing become in a short time more flexible, dynamic and willing to change in order to face the new transformations imposed by the present economy. The risks associated to the investments a company makes in different business areas are enormous. The markets, the legislation, the competition, the financial conditions and the technologies change with a tremendous speed. To keep the rhythm with these changes- especially if they involve significant investments in resources- is very difficult. The moment the companies appeal to outsourcing, these risks are divided between more of them. A specialized services provider doesn't make investments in the name of a single company, but in the name of all his clients. By the division of these investments, the risks undertaken by a single company are considerably reduced.

- **Scalability**

A profitable solution that starts moderately can be developed exponentially without the increase of expenses and the human resources. The projection of such a product may be performed in a modular way so that the future concept adding or adjustments should be easily implemented. The costs can be easily followed and divided and the rejoining to another scale of already existent solutions becomes a much easier process with a more reduced final estimate.

The major benefits can be registered not only in what concerns the costs' reduction, but also the companies' receptiveness. In other words, the job redefinition and a better use of people and resources at the company level have chances to play an important role in taking a decision regarding the entrusting of certain internal processes to specialized companies.

Professor Erran Carmel, expert in software outsourcing at the global level, author of the book: "*Global Software Teams*", makes the distinction between the software exporting nations, in his study: "*Taxonomy of New Software Exporting Nations*" (published in Electronic Journal on Information Systems in Developing Countries, vol. 13, May 2003):

- I. "*Major software exporting nations*" – most of the nations OECD members, like: United States, Canada, UK, Germany, France, Belgium, Holland, Switzerland, Finland, Denmark, etc.
- II. "*Transition software exporting nations*" – only Russia and China
- III. "*Emerging software exporting nations*" - Brazil, Costa Rica, Mexico, Philippine, Malaysia, Sri Lanka, Korea, Pakistan, Romania, Bulgaria, Ukraine, Poland, Czech Republic, Hungary, etc.
- IV. "*Infant stage software exporting nations*" - Cuba, Salvador, Jordanian, Egypt, Bangladesh, Vietnam, Indonesia, Iran.
- V. "*Non-Competing*" – most of the countries less developed in IT domain.

As we can observe, Romania enters in the group of *Emerging software exporting nations*. The countries from this category register massive software exports by the means of SME specialized clusters with high qualified human resources.

Romania's outsourcing potential cannot be compared with China or India, but this sector is the most important promotion instrument for IT industry and services offered by Romanian companies on the international market. Nowadays, 97% of Romanian IT market is focalized on the services outsourcing and only 3% on software products with high value-added. The development of an industry based on licenses in Romania needs a financial mechanism, marketing and sales support. The foreign companies outsource their services as a strategic approach.

As the new business model characteristic to the global economy is extended, more and more companies are forced to search outside the boundaries high qualified human resources. This is a reason for which the majority of companies from Western Europe concentrate their attention on software developers from Eastern Europe, in order to find an ideal balance between high quality programming services and efficient solutions from costs perspective.

Offshore outsourcing business model

In order to implement an outsourcing strategy a company has to decide what objective their organization hopes to accomplish. They need to analyze the most appropriate pattern and prioritize areas or functions that could be a match for offshore outsourcing. For each opportunity, they should state the objectives, define the benefits and improvements that are needed, try to understand how offshoring will affect operations, and, most important, how this change will affect customers⁵.

Having the right end-to-end project management skills is also very important. Just before businesses decide they can benefit from offshoring, they must not forget of transaction costs in an offshore market (they invest time and money in choosing a vendor, and negotiating a contract, and the cost to operate in a different cultural organizational environment-the most difficult costs to predict). They cannot in any case be sure that they will benefit from the offshore strategy and it is impossible to raise barriers against the long run opportunist behavior of the chosen local low cost partner.

Current outsourcing experience on IT market

The greatest IT companies transfer offshore a part of their software development operations, targeting in this way the offer of East European IT companies. Far from being a simple trend of the moment, the migration towards "offshore programming" opens new opportunities for e-Europe IT companies, looking for cost cutting which allow the reduction of the price on the market and a better positioning on it.

In short run, from this point of view, outsourcing can be considered a very efficient weapon in the fight with competitors. The successful strategic behavior instead, urges another perspective which can be defined "from cost reduction to knowledge seeking" pattern.

⁵ Robinson M., Kalakota R. "Offshore Outsourcing: Business Models, ROI, and Best Practices", John Wiley&Sons Ltd, 2003.

In the last years, we observed in IT domain the implementation of the concept Rapid Application Development (RAD). This tendency was determined by the high demands from the part of the software market, linked with the shortage of project development periods. In view to reach this goal, RAD environments are not useful without a serious training that supposes money, human resources and time, which represent the advantages of outsourcing. Actually, services outsourcing model doesn't suppose training and the recruitment of supplementary personnel doesn't represent a problem.

Two-three years ago, the general tendency was to consider India as the implicit destination for outsourcing, but in the present, the things are changing faster, because the majority of Indian companies started to increase their prices as they become more accepted. Usually, the Indian programmers develop a project following the specifications. While some problems occur, they report them and wait for new instructions. Romanian programmers prove a high level of creativity and imagination in order to solve the inherent problems; they search alternative solutions to hurry the problems' solving. That's the reason for which the applications developed by the Romanian IT specialists are more flexible and efficient, like the idea: "let it in charge of a Romanian software developer and he will bring, finally, a successfully product!" .

In these conditions, software producers from e-Europe start to regard IT Romanian companies as targets extremely attractive for outsourcing projects that suppose not only the creation of specialized software as well as the overtaking of support or maintenance services. What could be the arguments for outsourcing in Romania? Romanian companies with outsourcing capabilities reached a balance between the quality of the services and the price level. If we take into account the access to up-to-date technologies and the flexibility concerning the human resource (brainware) recruitment, the offer becomes more attractive. Software industry knew an exponential increase as a result of the use of Romanian specialists by the greatest corporations, in outsourcing projects. At the same time, a great number of specialists are available for the development of high-tech competitive products.

The IT consultants promote the creation of a a trans-European employer/trade union network in view to facilitate good practice in recruiting and retention of employees within the ICT sector. In this way, an important goal is to support research in order to identify future skill requirements and promote systems of skill certification and an European ICT skill and qualification framework.

Necessary changes on business environment and IT companies' behavior

We consider that Romanian policy makers must act responsible and induce the requested changes in business environment in order to redefine the pattern of Romanian IT skilled offer, from low cost attraction to innovation capability. This is possible due to foreign IT companies itself, which contributed already by knowledge transfer to Romanian IT specialists. The competition between potential skilled offer in IT markets for outsourcing (India, South Asia, Romania, China and new emerging markets), will shift from cost determinants to innovation capability. We consider that the era of *first outsourcing driven behavior –cost minimization* is finishing and we predict that we enter in the *quality driven phase⁶ of outsourcing strategy*. The best structure of a future competitive IT Romanian market is based on innovation clusters which will attract companies which consider that innovative process may be outsourced as well. This new matching between the Romanian

⁶ Peter Maskell, Torben Pedersen – "Outsourcing - From Cost Reduction to Knowledge Seeking. Bent Petersen", Jens Dick-Nielsen. SMG WP 13/2006, August 2006

IT offer and It companies innovation seeking, will induce changing in emerging markets for IT offshore outsourcing.

What to do for Romanian market?

In view to increase the visibility of the IT Romanian companies' competitive intelligence to the level of e-Europe, we propose the creation of a website that will offer opportunities both for the companies from e-Europe which desire to outsource IT projects in Romania and for Romanian companies that will present on this website their capabilities and the experience accumulated within other outsourcing projects.

The implementation of the web portal supposes in advance the building of a database with the Romanian companies interested to this idea and a database with e-Europe companies that are looking for the outsourcing of IT projects. The databases will respect the permission marketing principles and will be uploaded online after the registration on the website of companies' representatives.

The specific activities concerning the design of the website will take into account the rules that determine a high traffic of visitors, represented by the companies which will try to initiate partnerships: the permanent update of the website content, search engine optimization (that will be one of the main promotion technique), the realization of programs banner-exchange with websites that offer career opportunities in IT domain and websites that offer specialized services concerning competence certification or personnel training, cross-promotion with the single specialized website from Romania which have a high degree of awareness: www.outsourcing.ro, the possibility offered to visitors to login in view to receive newsletters, the creation of an online forum which allow an interactive communication between its members, the permanent quantification of visitors' number and the analysis of their behavior on the website, the implementation of a search engine on the website or other self-service instruments as FAQ, the emphasize of viral marketing technique.

The online promotion will be focalized on the attraction of many companies as possible on the website, which will become potential business partners in e-Europe. The success key of this website implementation will consists of the high interactivity degree between the site and its visitors that will become the promoters of IT partnerships or outsourcing projects in e-Europe.

The competitive intelligence at the level of the IT companies is based on competences that are certificated in the domains:

- **The operation systems:** Microsoft windows 2000/ XP/2003, Linux, Unix
- **The programming languages:** C/ C++, Java, Perl, Microsoft Visual C++ (including MFC), Visual Basic. NET, C #
- **Web technologies:** HTLM (including CSS), JavaScript, ASP, ASP. NET, VB Script, ActiveX, PHP, XML, JPS, Servlets
- **Web servers:** Internet Information Server, Apache, Tomcat
- **Data basis systems:** Microsoft SQL Server, Oracle (SQL, PL/SQL), DB2, Access, MySQL, and PostgreSQL.

The complementary objective of the project proposal is to reinforce the accountability of the offer market company, in order to minimize the cost of the IT demanding company

during the transition period-which until now specialists called “hidden costs of offshore outsourcing”⁷.

The predictability degree increase of the services demand evolution in outsourcing and the examination of the information degree of the companies with a competitive potential will lead to the differentiation of the offer which will be based on flexible and resources that are adaptable to the companies’ requirements in e-Europe.

A specific objective of the research is represented by the creation and promotion of a website which will have in view the meeting of the demand and the offer from the perspective of the IT services externalization towards Romania and the increase of the visibility degree regarding the competences and the abilities of the IT companies from Romania in the e-Europe environment, using the specific instruments of online promotion which are addressed to a specialized target public (in this direction, we will translate the website content in English) and the involvement of the authorities in the Ministry of Communication and Information Technologies in order to support the development of the IT companies partnerships in Romania with the e-Europe environment.

The off-line promotion will focus on the attendance at trades, profile exhibition (The National Outsourcing Conference, CERF Trade, IT&C local Trades organized by the Trade Chambers), the involvement in partnerships with the National Association of Software Producers in Romania and Business Software Alliance in Romania and advertising insertions in specialized magazines in e-Europe.

A specific objective pursued within the project consists in the creation of a partnership with the academic environment in order to adapt the graduates’ professional competences to the IT market requirements in e-Europe, which presupposes a reform of the curricular domain in a first stage.

The estimated impact of the project consists in taking advantage of the personalization opportunities regarding the It offer in Romania in order to identify some associated fundamental and variable structures of the innovation system.

Conclusions.

In 2006, a council of IT consultants from worldwide forecast some trends in outsourcing projects⁸:

- High-speed transformation of enterprises through e-business will result in redundancy of old skills and a bottleneck of new skills;
- Net employment gains associated with new technologies will more than make up for labour losses;
- Many SMEs will be priced out of the market for IT workers, depriving them of the backbone they need to take advantage of e-business solutions.

We propose a set of measures which will provide an efficient visibility of Romanian IT companies on e-Europe:

⁷ Overby S. – “The Hidden Costs of Offshore Outsourcing”, CIO Magazine, 2003 – www.cio.com

⁸ www.itoutsourcing.net/forum2006.html

1. the audit of the information degree of the companies with competitive potential in order to built the relevant offer;
2. the evaluation of the image capital of Romanian IT companies (their perception on e-Europe level);
3. the creation and promotion of a website in order to increase the visibility of outsourcing projects having as a target Romanian IT companies;
4. the launch of a system which will promote the „competitive intelligence” resources identified on Romanian IT companies;
5. the participation to the actions which are focalized on the augmentation of the predictibility degree of outsourcing demands evolutions;
6. the promotion of a receptive culture within the managers of Romanian IT companies.

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THE INFLUENCE OF THE COSTS OVER THE DECISIONS OF PRICES ESTABLISING

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Abstract

In most companies, there is ongoing conflict between managers in charge of covering costs (finance and accounting) and managers in charge of satisfying customers (marketing and sales). Accounting journals warn against prices that fail to cover full costs, while marketing journals argue that customer willingness-to-pay must be the sole driver of prices. The conflict between these views wastes company resources and leads to pricing decisions that are imperfect compromises. Profitable pricing involves an integration of costs and customer value. To achieve that integration, however, both need to let go of misleading ideas and form a common vision of what drives profitability.

Key words: *decision, pricing, cost.*

The role of costs in pricing

Costs should never determine price, but costs do play a critical role in formulating a pricing strategy. Pricing decisions are inexorably tied to decisions about sales levels, and sales involve costs of production, marketing, and administration. It is true that how much buyers will pay is unrelated to the seller's cost, but it is also true that a seller's decisions about which products to produce and in what quantities depend critically on their cost of production.

The mistake that cost-plus pricers make is not that they consider costs in their pricing, but that they select the quantities they will sell and the buyers they will serve before identifying the prices they can charge. They then try to impose cost-based prices that may be either more or less than what buyers will pay. In contrast, effective pricers make their decisions in exactly the opposite order. They first evaluate what buyers can be convinced to pay and only then choose quantities to produce and markets to serve.

Consequently, costs affect the prices they charge. A low-cost producer can charge lower prices and sell more because it can profitably use low prices to attract more price-sensitive buyers. A higher-cost producer, on the other hand, cannot afford to underbid low-cost producers for the patronage of more price-sensitive buyers; it must target those buyers willing to pay a premium price. Similarly, changes in costs should cause producers to change their prices, not because that changes what buyers will pay, but because it changes the quantities that the firm can profitably supply and the buyers it can profitably serve. When the cost of jet fuel rises, most airlines are not naive enough to try passing on the fuel cost through a cost-plus formula while maintaining their previous schedules. But some airlines do raise their average revenue per mile. They do so by reducing the number of flights they offer in order to fill the remaining planes with more full-fare passengers. To make room for those passengers, they eliminate or reduce some discount fares. Thus the cost increase for jet fuel affects the mix of prices offered, increasing the average price charged. However, that is the result of a strategic decision to reduce the number of flights and change the mix of passengers served, not of an attempt to charge higher prices for the same service to the same people. Such decisions about quantities to sell and buyers to serve are an important part of pricing strategy for all firms and the most important part for many. In this chapter, we discuss how a proper understanding of costs enables one to make those decisions correctly. First, however, a word of encouragement: Understanding costs is probably the most challenging aspect of pricing. You will probably not master these concepts on first reading this chapter. Your goal should be simply to understand the issues involved and the techniques for dealing with them. Mastery of the techniques will come with practice.

Determining relevant costs

One cannot price effectively without understanding costs. To understand one's costs is not simply to know their amounts. Even the least effective pricers, those who mechanically apply cost-plus formulas, know how much they spend on labor, raw materials, and overhead. Managers who really understand their costs know more than cost levels; they know how their costs will change with the changes in sales that result from pricing decisions.

Not all costs are relevant for every pricing decision. A first step in pricing is to identify the relevant costs: those that actually determine the profit impact of the pricing decision. Our purpose in this section is to set forth the guidelines for identifying the relevant costs once they are measured. In principle, identifying the relevant costs for pricing decisions is actually fairly straightforward.

They are the costs that are incremental (not average) and avoidable (not sunk).

In practice, identifying costs that meet those criteria can be difficult. Consequently, we will explain each distinction in detail and illustrate it in the context of a practical pricing problem.

Why Incremental Costs?

Pricing decisions affect whether a company will sell less of the product at a higher price or more of the product at a lower price. In either scenario, some costs remain the same (in total). Consequently, those costs do not affect the relative profitability of one price versus another. Only costs that rise or fall (in total) when prices change affects the relative profitability of different pricing strategies. We call these costs incremental because they represent the increment to costs (positive or negative) that results from the pricing decision.

Incremental costs are the costs associated with changes in pricing and sales. The distinction between incremental and nonincremental costs parallels closely, but not exactly, the more familiar distinction between variable and fixed costs. *Variable costs*, such as the costs of raw materials in a manufacturing process, are costs of doing business. Since pricing decisions affect the amount of business that a company does, variable costs are always incremental for pricing. In contrast, *fixed costs*, such as those for product design, advertising, and overhead, are costs of being in business. They are incremental when deciding whether a price will generate enough revenue to justify being in the business of selling a particular type of product or serving a particular type of customer. Since fixed costs are not affected by how much a company actually sells, most are not incremental when management must decide what price level to set for maximum profit. Some fixed costs, however, are incremental for pricing decisions, and they must be appropriately identified. Incremental fixed costs are those that directly result from implementing a price change or from offering a version of the product at a different price level. For example, the fixed cost for a restaurant to print menus with new prices or for a public utility to gain regulatory approval of a rate increase would be incremental when deciding whether to make those changes. The fixed cost for an airline to advertise a new discount service or to upgrade its planes' interiors to offer a premium-priced service would be incremental when deciding whether to offer products at those price levels.

Why Avoidable Costs?

The hardest principle for many business decision makers to accept is that only avoidable costs are relevant for pricing. *Avoidable costs* are those that either have not yet been incurred or can be reversed. The costs of selling a product, delivering it to the customer, and replacing the sold item in inventory are avoidable, as is the rental cost of buildings and equipment that are not covered by a long-term lease. The opposite of avoidable costs are *sunk costs*—those costs that a company is irreversibly committed to bear. For example, a company's past expenditures on research and development are sunk costs since they cannot be changed regardless of any decisions made in the present. The rent on buildings and equipment within the term of a current lease is sunk, except to the extent that the firm can avoid the expense by subletting the property.

The cost of assets that a firm owns may or may not be sunk. If an asset can be sold for an amount equal to its purchase price times the percentage of its remaining useful life, then none of its cost is sunk since the cost can be entirely recovered through resale. Popular models of commercial airplanes often retain their value in this way, making avoidable the entire cost of their continued use. If an asset has no resale value, then its cost is entirely sunk even though it may have much useful life remaining. A neon sign depicting a company's corporate logo may have much useful life remaining, but its cost is entirely sunk since no other company would care to buy it. Frequently, the cost of assets is partially avoidable and partially sunk. For example, a new truck could be resold for a substantial

portion of its purchase price but would lose some market value immediately after purchase. The portion of the new price that could not be recaptured is sunk and should not be considered in pricing decisions. Only depreciation of the resale value of the truck is an avoidable cost of using it.

From a practical standpoint, the easiest way to identify the avoidable cost is to recognize that it is the *future cost*, not the *historical cost*, associated with making a sale. What, for example, is the cost for an oil company to sell a gallon of gasoline at one of its company-owned stations? One might be inclined to say that it is the cost of the oil used to make the gasoline plus the cost of refining and distribution. Unfortunately, that view could lead refiners to make some costly pricing mistakes. Most oil company managers realize that the relevant cost for pricing gasoline is not the historical cost of producing a gallon of gasoline, but rather the future cost of replacing the inventory when sales are made. Even LIFO (last-in, first-out) accounting can be misleading for companies that are drawing down large inventories. To account accurately for the effect of a sale on profitability, managers need to adopt NIFO (next-in, first-out) accounting for managerial decision making.

The distinction between the historical cost of acquisition and the future cost of replacement is merely academic when supply costs are stable. It becomes very practical when costs rise or fall. When the price of crude oil rises, companies quickly raise prices, long before any gasoline made from the more expensive crude reaches the pump. Politicians and consumer advocates label this practice *price gouging*, since companies with large inventories of gasoline increase their reported profits by selling their gasoline at higher prices than they paid to produce it. So what is the real incremental cost to the company of selling a gallon of gasoline?

Each gallon of gasoline sold requires the purchase of crude oil at the new, higher price for the company to maintain its gasoline inventory. If that price is not covered by revenue from sales of gasoline, the company suffers reduced cash flow from every sale. Even though the sales appear profitable from a historical cost standpoint, the company must add to its working capital (by borrowing money or by retaining a larger portion of its earnings) to pay the new, higher cost of crude oil. Consequently the real "cash" cost of making a sale rises immediately by an amount equal to the increase in the replacement cost of crude oil. What happens when crude oil prices decline? If a company with large inventories held its prices high until all inventories were sold, it would be undercut by any company with smaller inventories that could profitably take advantage of the lower cost of crude oil to gain market share. The company would see its sales, profits, and cash flow decline. Again, the intelligent company bases its prices on the replacement cost, not the historical cost, of its inventory. In historical terms, it reports a loss. However, that loss corresponds to an equal reduction in the cost of replacing its inventories with cheaper crude oil. Since the company simply reduces its operating capital by the amount of the reported loss, its cash flow remains unaffected.

Unfortunately, even level-headed businesspeople often let sunk costs sneak into their decision making, resulting in pricing mistakes that squander profits.

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THE DESCRIPTION ANALYSIS OF THE INFLUENCE OF THE FACTORS AND THEIR IMPACT ON THE PERCEPTIONS OF THE VALUE

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Abstract

In most companies, there is ongoing conflict between managers in charge of covering costs (finance and accounting) and managers in charge of satisfying customers (marketing and sales). Accounting journals warn against prices that fail to cover full costs, while marketing journals argue that customer willingness-to-pay must be the sole driver of prices. The conflict between these views wastes company resources and leads to pricing decisions that are imperfect compromises. Profitable pricing involves an integration of costs and customer value. To achieve that integration, however, both need to let go of misleading ideas and form a common vision of what drives profitability.

Key words: decision, pricing, cost

The goal of value-based pricing is to maximize a company's ability to capture the economic value it creates in the profits it earns. If purchasers knew everything about the products offered and their own needs, if they could easily determine how the products would help them satisfy their needs, and if they did not believe they could influence the seller's prices through negotiation, then economic value would exactly predict their purchase behavior. In the real world, there are obviously many reasons for gaps between buyers' willingness to pay and the value they receive. Uncertainty, fairness, vanity, and expectations all play roles that mitigate the power of value to drive prices. Value-based pricing strategy involves managing customer perceptions proactively to influence that gap between price paid and value received.

Most companies ignore value in pricing, and set prices in reaction to what customers are willing to pay without understanding what drives it. In doing so they miss the opportunity to actively influence customer perceptions in ways that can increase their own profitability and their customers' purchase satisfaction. To do so, marketers must first understand what causes the gap between value and willingness to pay. There are nine "effects" that influence willingness to pay and cause buyers to be more or less sensitive to the difference between price and value when making purchase decisions. For each factor, there are tactics that suppliers can use to reduce the gap between the value they offer and the prices they must charge to win business.

Step 1: Identify the cost of the competitive product or process that the customer views as the best alternative.

Restate the cost of the alternative in terms of units of the product for which you are calculating economic value. This is the product's *reference value*, or value if it were functionally identical to the current product. For example, if one unit of your product replaces two of theirs, then the reference value for your product is the cost of two units of their product.

Step 2: Identify all factors that differentiate your product from the competitive product or process. For example:

- Superior (inferior) performance
- Better (poorer) reliability
- Additional (reduced) features
- Lower (higher) maintenance cost
- Superior (inferior) reliability
- Higher (lower) startup costs
- Faster (slower) service

Step 3: Determine the value to the customer of these differentiating factors. Sources of value may be subjective (for example, greater pleasure in consuming the product) or objective (for example, cost savings, profit gains).

The positive and negative values associated with the product's differentiating attributes comprise the *differentiation value*.

Warnings

- Consider only the value of the *difference* between this product and the alternative. For example, both products may be highly effective, but only the difference in their effectiveness is differentiation value. The economic value of anything that is the same is already captured in reference value.
- Measure the value of the difference either as costs saved to achieve a particular benefit *or* as extra benefits achieved for a given cost. Don't add both; that's double counting.
- Do not assume that the percentage increase in value is simply proportional to the percentage increase in effectiveness of your product. That usually produces a gross underestimation of the actual value to the customer.

Step 4: Sum the reference value and the differentiation value to determine the *total economic value*, the value that someone would pay who was fully informed and economically rational when making the purchase decision.

Determine the selling price, recognizing that new products must usually be priced below economic value as an inducement to purchase. The prices of established products that already have the customer's business can include a "reputation premium," analogous to the inducement that the newcomer must offer. When buyers have little ability or interest to determine economic value, or when the cost of switching suppliers is high, the factors affecting the "inducement" or "premium" may, in fact, be more important for pricing than the economic value.

EXHIBIT ; Steps in Economic Value Estimations

Reference Price Effect

Economic value is recognized accurately only by customers who are fully informed about the alternatives. In the real world, customers are rarely so informed: they often flounder in a sea of information. This reality has important implications both for segmenting customers and for influencing their price sensitivity. The *reference price effect* states that buyers are more price sensitive the higher the product's price relative to the prices of the buyers' perceived alternatives.

The key word here is "perceived." Perceptions of the available substitutes and their prices differ widely among customers and across purchase situations. Customers new to a market are usually less aware of the discount brands than people with more experience. Consequently, they usually pay relatively high prices and buy from the most visible suppliers. In a similar vein, restaurateurs in resort areas face far less pressure to compete on price, despite the greater concentration of restaurants in those locations, because their transient clientele is usually unaware of better alternatives. Local residents view restaurants near resort hotels as "tourist traps," precisely because they can charge higher prices than restaurants less visible to tourists but patronized by a more informed clientele.

Effective marketing efforts can position a brand as a good value by targeting customers with a high frame of reference for comparison. In personal selling, the reference price effect implies that the salesperson should begin by first showing customers products above their price range, even if the customers will ultimately look at cheaper products as well. This tactic, known as top-down selling, is common in sales of products as diverse as automobiles, luggage, and real estate. Direct-mail catalogs take advantage of this effect by displaying similar products in the order of most to least expensive. Within a retail store, the order effect has implications for product display. It implies, for example, that a grocery store may sell more low-priced (but high-margin) house brands by *not* putting them at eye level where they would be the first to catch the customer's attention. Rather, it may be preferable to have consumers see more expensive brands first and then look to the house brands.

A buyer's reference price is also influenced by recall of prices seen in the past. This has important implications for pricing new products. Many marketing theorists have argued that new products should be priced low to induce trial and thus build a market of repeat purchasers, after which price can be raised. However, if the low initial price lowers buyers' reference prices, it may actually adversely affect some repeat sales. This is precisely the result that some researchers have found. In one well-controlled study, five new brands were introduced to the market in two sets of stores. During an introductory period, one set of stores sold the new brands at a low price without any indication that this was a temporary promotional price; other control stores sold the new brands at the regular price. As expected, the brands sold better during the introductory period where they were priced lower. During the weeks following the introduction, however, both sets of stores charged the regular price. In all five cases, sales during the postintroductory period were lower in the experimental stores than in the control stores. Moreover, total sales for the introductory and postintroductory periods combined were greater in the control stores than in the stores where the low price initially stimulated demand. This, and other studies showing similar results, demonstrates the importance of dealing tactics such as coupons, rebates, and special packages that minimize this effect by clearly establishing a product's regular price and offering lower prices only as special discounts. Otherwise, initially low promotional prices can establish low reference prices for judging the value of later purchases.

A customer's perception of the available substitutes is not necessarily based on awareness of specific brands and exact prices. Given the number of product categories and brands from which most people make purchases, maintaining awareness of such a vast amount of information would be impossible, even for the most educated and diligent customer. Consequently, for many product categories, a customer simply maintains a general expectation of a price level that seems reasonable. Psychologists call this expectation the customer's *reference price expectation* for the category.

We know from managerial experience and controlled experiments that these reference price expectations are manageable at the point of sale. For example, a business machine company with three models in its line found the sales of the top-end model disappointing. The company believed that many customers who should have valued the extra features of this high-production machine were instead buying the mid-priced model. Management's initial assumption was that the high-end model must be overpriced. After talking with customers in the appropriate segment, however, they learned that most did not think that the product was overpriced. They simply could not overcome the objections of the financial officer that the company did not need "the most expensive model." The solution: The company added a fourth, even more expensive model to its line. The new model sold very poorly, but sales of what was previously the top-end model increased dramatically.

In some cases, a buyer's reference price depends on his or her expectation about future prices. The effect of future price expectations on a buyer's current reference price will be positively related to that buyer's ability to delay purchase into the future. Products maintained in inventories that can be temporarily drawn down, and durable goods for which there is some discretion regarding when to replace them, will often meet this criterion. Auto companies experienced this when they offered temporary "rebates" on car prices. Initially, the rebates appeared to drive up demand much more than simply reducing prices. The reason for that appearance, however, was that the rebate made the lower prices explicitly temporary. Consequently, they caused people to accelerate purchases they would have eventually made at higher prices. By using rebates repeatedly, auto companies educated auto buyers to wait for the next rebate, even when they otherwise would have purchased sooner at a higher price.

Companies in business markets sometimes create this same downward pressure on prices when they regularly discount prices at the ends of a quarter or year in order to meet sales goals.

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ROMANIAN EDUCATIONAL MARKET AND THE POTENTIAL RISKS

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Abstract

The new millennium confronts the Romanian higher education with a multitude of problems and very few solutions. Therefore, it is imperative to invest in innovation and adopt an optimistic attitude in order to see what lies ahead not so much as a threat generated by these problems, but as the challenges of a new millennium. The first challenges already became apparent in the last decade of the previous century in the form of massification, globalisation, the transition to a knowledge-based society, and the creation of a European Higher Education Area.

The massification of education has been caused by the reassessment of the social function of higher education and the transition from elite education to mass education. Thus, the number of students has increased substantially, study programmes have been diversified, and educational structures now aim to converge as a result of the globalisation phenomenon. According to specialists,⁹ the most important effects of globalisation on higher education are: the development of university networks which can negotiate the market segment on which strategic competitiveness can be asserted, preserving however the national identity of the respective institutions; the development of hybrid universities which combine processes of knowledge generation and transfer with structures involving firms and corporations which activate in the same field; the emergence of virtual universities organised as corporate structures; the emergence of global universities, based on the model of IBM and Microsoft Corporation.

Keywords: *educational market, risks, higher education, knowledge, educational services*

The transition, has situated forefront the replacement of the economy's mechanism based on the centered planning by an economical mechanism focused on the market, which in the end, should be similar to the economical mechanism from the developed capitalized countries. The efforts made in this period for creating the institutional - legal frame which should allow to function an integrated market system which has been defined in a fast growth of the products market and the services market in the same time with the organizing and functioning of the other branches of the market: labor market, financial market and money market.

In the past few years, with the extend of the population's necessary knowledge assimilation and by a adequated behavior in order to participate in all the markets, has grown meaningful the markets roll in functioning our economical life.

⁹ Scott, P. (coord.), *The Globalisation of Higher Education*, London: The Society for Research into Higher Education, The Open University Press, 1999;

Passing from the socialist society to the competition society has influenced our country the developing process of the educational market. The educational institutions, as one of the main actors, has to be permanently connected to the demands and the tendencies of this market in order to be able to foresee the clients expectation about the University's services, the orientation of the developed activities being the checked by the easy and fast insertion on the labor market of the graduates. The production of educated people is different from the shoe production! Maybe! However it is, is a certainty none of these can defy the economy's laws. Why? because bought are rational activities, which suppose a planning of the resources and of the costs.

Passing from the socialist society to the competition society has influenced our country the developing process of the educational market. The educational institutions, as one of the main actors, has to be permanently connected to the demands and the tendencies of this market in order to be able to foresee the clients expectation about the University's services, the orientation of the developed activities being the checked by the easy and fast insertion on the labor market of the graduates. The production of educated people is different from the shoe production! Maybe! However it is, is a certainty none of these can defy the economy's laws. Why? because bought are rational activities, which suppose a planning of the resources and of the costs.

The educational market it is found today in a vast process of development, the social-economical context situate the universities in a free concurrential system, fact which will inevitable lead to a entrepreneurial model of universities. Only the performant universities will develop and maintain, universities which understood in time the direction in which the society evolves and which are their demands.

Next we will try to identify significant aspects about the educational market specific for university training, aspects that should be taken into account by the individual who decide to continue to study.

For a correct approach of the educational market it is necessary that the higher educational institutions to learn the real situation on this market at a certain moment. We consider that the main trends which are met today on the high education market are:

- higher education in mass;
- public finances decline;
- the growth of demographic and socio- economical diversity;
- the globalization of the higher education market;
- the development of the informational technologies;

Noticing this context the basically characteristics specific for the educational market, have in view the next reasons:¹⁰

- the young people are very sensitive at the specific terms of the labor market when they decide to invest or not in the human resources for attending a higher education institution. They know very good which are the most favorable professions, both from the gain perspective but also from the labor opportunities, the socio- professional status which they will gain;
- it is noticed a relative holding back of the education market compared by the labor market;

¹⁰ Suciu, M., C., Investiția în educație, Ed. Economică, București, 2000, p.105;

- the drop of the demand for a certain social- professional category had on short term the effect of reducing, first the number of the one who have been enrolled at this faculties (in fact more obvious in the case of the technical universities. Its effect will be a small number of graduate students in the next few years, but if the national economy will relaunch creating favorable state for the engineering market, in parallel with the development of the new technologies, could lead to a deficit in the next few years on this market).

So we witness at an alternation of surplus periods with one of deficit approximately at every five years, phenomena emphasised in the literature¹¹ as being a complexity educational market's characteristic and not just the result of some specific situations of the transition which Romania is crossing. As any other market the educational market functions on the bases of objective and unwritten economical laws. Breaking them or ignoring the demand and the rival's offer can lead to failure in the economical activity.

In the educational field, we can discuss the same way as we discuss about a regular market about the essential elements which define and characterize a market: the offer, demand, the conditions and the rules in which takes place the interaction between them, the price, the competition. To make a good analyze we should answer at two questions: (1) Which is the product traded on this market and (2) Who are the clients? When we approach the university' s "clients" problem we should take into account the markets without neglecting the third elements which create the educational market, the complexity, the dynamics and the particular elements of the field.

As far as the university's products concerns the specialists declare that this is a very complex problem in case of a formal educational system, first of all because of the fact that there are more candidates for the same product, differentiated by the level of formal education which we analyze and of course because of the fact that the same candidates have different views. They consider that the main educational product it is represented by the certain knowledge but also by the transmission of this knowledge in a special form which generates the association of the educational system product to a educational human capital.¹²

Cosmin Marinescu emphasizes in his paper "Education: economical perspective" that "when we talk about higher educational market, as wrongly often considered , the student to fulfill its role of educational product. Using terms like suply of graduates make that education to appear like a production line , the products being the students, and the university just a regular factory of mass production."¹³

He also emphasizes the fact that approaching the student as a product it is neglected the complexity of the educational process, in its quality of client and in the same time of carrier of the human educational resources..

All this elements lead us to the conclusion that the educational process has to be framed in the services field and not in the field of production. For naming the result of the formal

¹¹ **Freeman,R.**, The Overeducated American, New York, Academic Press, 1986, p.60, **Kolven,S.,L.**, A cost Benefit Analysis of Industrial Training in Economics of Education Review, vol 4, 1991, pp. 15 – 29;

¹² **Marinescu, C.**, Educația perspectivă economică, Ed. Economică, București, 2001, p.111;

¹³ **idem**, p. 111;

educational system we used the generic term “educational product” which is important to determine its components.¹⁴

- a. the educational services: in this category are included the services which forms the training of the direct consumer – they are identified by the training activity of the teaching staff as the teaching hours (course, lab) through the testing activity and the evaluation of the skills;
- b. the auxiliary educational services: in this category are gathered all the administrative activities of the educational process and of administrating all the goods in the teaching activity;
- c. the educational human resources: which contains the whole knowledge, skills acquired by the direct consumer of the educational services.

C. Marinescu emphasize the fact that, this “educational human resources it is not generated directly by the teaching staff; it is formed through a changing process and knowledge acquiring which will develop at the student’s level, process in which the student is a production element.”¹⁵

In this way by naming the educational product the author considers that can be accomplished the necessary foundation for conceptualization the educational market. the three components of the educational product shows the fact that in the educational field does not exist only one market, but multiple and interconnected markets: the educational programs market, the research market, the auxiliary educational services market, educational human resources market acquired by the graduates of the different levels of the educational system.

Approaching the education market specific for the university training we should take into consideration the actors that are on this market. So after we answered at the first question and we have established the educational product we focus on the second question: who are the clients? Who will buy the educational product?

Many actors of the educational stage consider the term client too commercial, not appropriate for educational field. In general the clients “carry the educational demand” being very easy to identify but they create a heterogenous group. C Marinescu in his paper “Education an economical perspective” declares that we can distinguish : the first group the one of the main beneficiaries of the educational product- the owner of the educational human resources, the second group contains the clients who pay for the educational product – parents, firms or other institutions, and the third group which contains the indirect beneficiaries of this service.

Therefore we have¹⁶:

- a. First clients- the one that are educated – the main beneficiaries of the educational product and the one that become the most important component of it, the educational human resources;
- b. Secondary clients: the parents, different sponsors which have the direct roll in financing the educational product;

¹⁴ **idem**,p.111

¹⁵ **idem**,p.111

¹⁶ **Marinescu, C.**, Educația perspectivă economică, Ed. Economică, București, 2001, p. 118;

- c. The third type clients: are the future users, the beneficiary of the work force represented by the graduates, that are not directly implied in displaying the educational process (the society as a whole). they get this quality by reporting to the owners of the human educational capital (the graduates) getting into contact through the labor market.

The competition on such a market is dictated by the number of the suppliers found on this market. In our country we can say that it is a kind of rivalry between the Universities from Bucharest and few other universities from big towns, a rivalry between the privat universities and the state universities. For now the reality proves that the Romanian market looks uninteresting for the supplier (the institutions and the universities) found in the developed countries. If on the markets of other services are many suppliers some of them world leaders in their field, the educational field does not benefit of this chance. It deserves to identify all those causes and eventually of the imposed measures. Maybe there is no demand? Maybe is not a good price ? Maybe the market is too small? Maybe the language or cultural barriers are too difficult to be passed? Are questions that should be answered by all the actors from the romanian university environment.

Another aspect that should be emphasized is about the fact that in the higher education environment the existence of the free markets allows the students- the main beneficiary of the university's services to be able to establish the university services quantity wanted. The specialists consider that the concurrenial structures of the higher educational markets should be filled in by the free market of the human resources from the universities, the payment being done trough direct negotiation between the owners of the university human resources and the economic district which will supply useful information about the dynamic and the structure of the need of university resources to the potential investors in the university educational capital.

Encouraging the competition, the rivalry on the multiple markets of the higher education removes the under –investment or over investment probability in the higher educational system – specific problem in the absence of the market. The reality proves that in general the competition leads to discipline in the universities decisions regarding the prices, the costs and the quality of the services and offers the possibility of the university to compete from the same levels with the other districts regarding the human resources and the materials that the society disposes.

The importance of the competition growth as a fundamental characteristic of the new forces that affects the higher education field it is sustained by numerous approaches. We should emphasize that in order not to create confusion that “the existence of rivalry on the university market it is not conditioned by the absence of subventions in the field but subventions in the higher education field should not interfere with the rivalry relations on the university market, imposing the forms and the level of subvention reported to the need of maintaining the competition in the higher education.”¹⁷

In the past few years the reality proves that any subventionated good it is produces in a system without subventions and many times the powerful subvention of the higher education generated situations in which , on the labor market we can find an oversized offer of the university human resources.

¹⁷ **Marinescu,C.**, Educația - perspectivă economică, , Ed. Economică, București, 2001,p.204;

This result appeared because of the fact that the subvention modifies, as the specialists say, the optimum decision of the client by over sized the subventioned product, and the result too many graduates of higher education institution on the market.

Recognizing the advantages of the concurrential structures on the market regarding the efficient use of resources the main problem remains, how to determine the adequate ways for forming, affirm and mantaining the rivalry behaviors for the university market.

The means through which the public strategies can introduce or modify the market behavior in higher education field but the intervention are going to move towards few main directions. The performance of the higher educational system it is affected by the consumer and suppliers behavior of university product regarding the price evaluation of the academical programs, of research and university services. The behavior it is influenced by the market's structure which includes the number and the size of the clients and of the suppliers, the level of competitively and the difference between the products of the different reveals, the presence or the absence of the entering or leaving barriers for the new academical rivals, the university market being influenced by few fundamental conditions: the general law frame, the system of values where every higher education system activates.

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EMPLOYEE RETENTION – A PRESENT TREND IN HUMAN RESOURCES MANAGEMENT

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Abstract

The pressures of the economic environment make the companies to change their philosophy and their perspective on Human Resources Management and the way they attract, develop and retain the best employees. Just lately the top management, no matter of company size, has understood why Human Resources are a real strategic activity. In this context, the employee retention becomes a topical problem which is converted in a continuous challenge for the Romanian firms. The present paper tries to identify the best methods of personnel retention.

Keywords: *personnel turnover, motivation, satisfaction, HR marketing, best employer*

1. Personnel turnover – a problem of the Romanian firms

The HR area in the Romanian market is an ongoing developing one with an important and significant evolution in the latest six years. Concomitantly and as a result of economic growth, the HR consulting companies offers more and more varied and fine services. Also the firms' HR departments have become more important. In the past the HR departments had only administrative functions, but lately the HR managers have involved in strategic decision at the top management level, because the managers are getting conscious of the important of investment in human capital and technology that guarantees the competitiveness and the market leader position. More and more managers realize that the human capital makes the difference when the technological development of competitors is comparable.

The human resources are a critical determinant of the business success mostly through connection of the pay costs and the productivity.

Any organization faces personnel problems. According with the specialists, the most important problem that the Romanian companies face is the personnel turnover. The labor market has a great dynamics that affects the Romanian companies.

Personnel turnover is the employees' rotation in a given period, namely some employees are leaving the organization concomitantly with the need of hiring others.

The personnel turnover is deeply dysfunctional. An employee's leaving affects the fine activity working because the other employees mostly have to accomplish also the tasks of the leaving employee or the organization must to find a new employee, but with less performances.

The personnel turnover can be a result of the negative attitude and a low level of satisfaction, but also the personnel ability of finding a new job. On the other hand, the personnel turnover is a common part of organization functioning and certain level of it may be benefic.

One of the most important determinants of personnel turnover is the managers. Within a survey made by Ken Blanchard Companies, managers and employees were asked about the reasons for the employees would stay in a company. The answers were different: the managers considered that money, promotion possibility and the job safety as the most important employees' reasons of staying but the employees considered the relationship with their direct supervisor, the recognition of their personal and group accomplishments and their work environment are the key-factors.

The pressures of the economic environment make the companies to change their philosophy and their perspective on HRM and the way they attract, develop and retain the best employees.

2. Employee retention – a continuous challenge for the Romanian firms

Just lately the top management, no matter of company size, has understood why Human Resources are a real strategic activity. In this context, the employee retention becomes a topical problem which is converted in a continuous challenge for the Romanian firms.¹⁸ The Express Personnel Service Company of Oklahoma has accomplished a survey that has emphasized the importance of the employee retention in the word HR worries. The Human Resources Departments have introduced in their agenda the personnel retention as the main preoccupation and try to find out what are the determinants of motivation.

According to Best Employers survey made by Hewitt Associates during 2006 and 2007, 71% of managers and 83% of HR specialists are expecting that the employee attracting and motivating become the main problem of the companies. Almost 90000 employees, 1800 managers and HR specialists from 504 companies of Austria, Bulgaria, Czech Republic, Hungary, Romania and Russia were interviewed. Today, just one of three employees considers his/her payment is fair according to the results and the other possible jobs. 62% of employees consider their present job will last more than a year and just 19% of them consider their job superior than others. According to their opinion, improving the financial and non-financial plans (30%), creating real opportunities of carrier developing (29%) and improving the valorizing methods inside the company (28%) are the most important reasons that can establish the employee's involvement.

A company that is able to engage, retain and develop the human capital creates a positive perception at the HR market level that pushes the company in the top of best employer brands. A high level in this top helps the company to attract high performers that will contribute through their activity to the company success. Instead, a firm with a high level of personnel turnover will be viewed as a distrust one by the candidates.

3. Retention plan – a way of decreasing the personnel turnover

Planning the employee retention is based on a strategy that must consider the specific problems of the organization in its effort of keeping the personnel and determines the ways of solving these problems.

Risks analysis may proceed as follow:

- identifying the potential risk areas – the key-individuals that might leave;
- estimating the probability of happening this;

¹⁸ Echipa HR Romania, "Retentia capitalului uman: cheie universala sau mit...comun?" 12.02.2007, (http://www.hr-romania.ro/articole_afis.php?artId=1681)

- estimating the effects of such a loss in economic terms;
- estimating the facility and the costs of the replacement.

Any estimation may be characterized by a probability scale: very high, high, medium, low and very low. A synthesis of likelihood extent of every category might show where the specific measures (in order to keep the key persons and groups) must be applied.

In order to find *the reasons of personnel leaving*, the firms may apply the *exit interview*. The HR department must analyze and send all information as reports. On the basis of these reports, the management can take some favorable actions.

The information acquired through exit interview is not enough. The company can prevent the fluctuation phenomena by using the *satisfaction survey*. It can help the company to identify the possible reasons of dissatisfaction.

The retention plan must recommend actions that focus on each area where there are dissatisfaction and lack of employee commitment.

According to the result of risk analysis and global appraisal of leaving reasons, a firm may take the following *actions*:

- the uncompetitive, unethical and subjective payment systems must be improved by revising the payment level (through labor market survey), introducing or improving job evaluation;
- job projecting in order to maximize the variety of skills, the importance of tasks, autonomy and control of the work and the feed-back in order to be sure that there are possibilities of learning and development;
- stimulating of the employee commitment not only through job projecting way, but also by organizing work around some projects that can help people to identify themselves easier than with the whole company;
- encouraging the emergence of some social relationships within the company. According to Capelli, “the loyalty to the company may disappear, but not the loyalty to the colleagues” (quoted in Armstrong, M., 2003, p. 341);
- assuring the opportunities of getting new skills and developing the career;
- using selection and promotion procedures that assure the concordance between the individual skills and the job requirements;
- improving the balance between the professional and personal life.

What makes the employees stay with the company? The answer is: a relaxed environment, informal communication, an open communication with supervisors, colleagues and HR specialists and the supervisor’s attitude.

4. Using HR marketing in the employee retention politics

Even at first sight they seem to be different, marketing and human resources activities imbed each other. In the HR department, communication has two senses: within and without organization, to a dynamic, competitive and harder to satisfy world.

The values that are advanced, maintained and promoted by HR within and without the company create a brand and a positive image that attract and retain the desired employees.

Marketing correlated with HR may materialize through internal and external Public Relation. In order to promote the organization as best employer, PR actions can be accomplished in different media: organizing conferences, workshops, publishing papers, participating to events and job markets. Also, the company can involve in Corporate Social Responsibility actions that have multiple advantages: the present and potential employees will appreciate the investment made in CSR projects; the company may conceive different teambuilding programs around social causes. The employees will understand that organization cares and involves in community life beyond the sales and profitability goals.

We agree that the difference between a common company and a best employer consist in the right attitude to the employees, the ability of inspiring people, the performance recognizing and rewarding, the high level of trust, the satisfaction offered by the leaders and the firm image in the market (Botezatu, A., p. 43).

Conclusions

Some retention strategies come into view:

- The firm should treat the employees like the most valuable clients. It is cheaper to keep good employees than to hire and to train the new ones;
- In order to get commitment from the employees, the firm should communicate its vision in a compelling way and show everyone the role they have to contribute to this vision. Also the firm must create opportunities for people to connect with each other for support and to improve communication in work teams.
- Strong retention strategies become strong recruiting advantages;
- Retention is more effective when the right person is on the right job. Therefore, the management should know better the jobs, the employees and their motivation by using *satisfaction survey* and job analyzing;
- Because the money is important, but not it is not the only reason for people to stay in a organization, the firm should know why their employees are leaving by using the *exit interview*;
- Recognition, in various forms, is a powerful retention strategy and it is costless. Almost half of people leave their jobs because they feel unappreciated;
- Employee committees may help develop the retention strategy and make the company a better place to work;
- Knowing the trends in benefit packages and offering the ones its employees need.

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E-LEARNING WITHIN THE KNOWLEDGE-BASED SOCIETY

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Abstract

The huge development of the information and communication technologies allowed profound and irreversible changes of the entire society. Nowadays, the knowledge-based society is a learning society. Within the knowledge-based society some level of use of ICT in learning activities will not remain the exception, but will become normal practice. Therefore, this paper presents the conceptual framework of e-learning compared to the traditional learning. There are also identified the main advantages and risks of e-learning in terms of access to learning and personal development. Finally, in the paper are formulated some conclusions regarding the further development of the e-learning field.

Keywords: *educational management, information and communication technologies, learning, e-learning, risk.*

1. Introduction

The last decade produced major changes in information and communication technologies (ICT), allowing profound and irreversible transformations in the entire society, contributing to new forms of habits, products and services appearance. The technological transformations produced huge changes in people and organizations practices, transforming the communication, working, business models, learning ways and making compulsory the organization rethinking, to practical and coherent methods and rules. The success of using information and communications technologies in everyday life consists in getting the needed information, its interpretation and the possibility of real time transactions. So far, the companies could not entirely capitalize the advantages of the electronic systems for businesses. Although the exchange of information and the negotiations were taking place through Internet, a critical moment was reached when the documents had to be printed and signed manually and then had to be sent to the destination. We are now part of a society transformation, from a hard copy based information to one based on the electronic form. Not one human activity can stay away of this informational revolution. The information society is developing everywhere [4]:

- In companies and organizations, especially in the conception-production processes (groupware, workflow);
- In distribution and commerce, developing electronic commerce;
- In administration, allowing free access to public information and the perspective of virtual administration (e-government, e-administration);
- In editing sector (online magazines, online libraries, electronic books etc.);
- In education, converging towards the new virtual universities and all new teaching methods, based on ITC.

It is common understanding that information and communication technologies can offer the degree of flexibility and adaptability to the individuals' needs not in reach for the conventional education and training and therefore has to play and will play a paramount role in any policy towards adaptive, inclusive, mainstreamed and high quality Lifelong Learning. *The e-Learning has opened new learning opportunities, but has not extended*

enough the number of adult learners, nor the range of contents available for adult learners. [1]

2. Conceptual framework

In order to define e-learning it is necessary to begin with the definition of learning, because the terms “learning” and “education” are nowadays often confused. Learning is a natural, spontaneous and lifelong process of human nature. Education is a formal, structured, organised process with specific goals and is based on the learning process. Basically, it could be identified three main types of learning [2]:

1. *Formal learning*, or education, which is offered by elementary schools, high schools, colleges and universities and is based on the teacher-student model;
2. *Non-formal learning*, which is also an organised learning outside the formal learning system. Non-formal learning is offered by official organisations such as governmental services, youth organisations, training services, scientific unions, enterprises, voluntary and non-profit organisations etc.;
3. *Informal learning*, which is not organised learning, but it is casual. It is what is learned from everyday life, through travel, watching TV, listen to the radio etc. Informal learning has some characteristics, such as:
 - It does not take place in special educational establishments standing out from normal life and professional practice;
 - It has no curriculum and is not professionally organized; it rather stems accidentally, sporadically, in association with certain occasions, from the changing practical requirements;
 - It is not planned pedagogically, nor systematically organised in subjects;
 - It is not qualification-oriented, nor officially recognised;
 - It is not formally organised and financed by institutions;
 - It is rather practical than theoretical;
 - It is rather unconscious, incidental problem-related and therefore, well-focused;
 - It is not instructed by a teacher or a course designer but rather self-directed;
 - It is closely related to professional practice;
 - It is a tool for living and survival.

Even if we take into consideration formal, non-formal or informal learning, there are two major approaches with regard to the nature of learning: the objectivist view and the constructivist view (table no 1).

The ability of informal continuous self-education and training is a vital skill for today’s professionals. Knowledge is outdated fast, so a professional has to continually update his/her experiences and knowledge profile, if they want to be competitive [2]. If learning is an external force applied to students and knowledge can be transferred, then traditional didactic methods are appropriate and widely used [6]. But if learning and knowledge have personal meaning and are created by students, then there is a need for new approaches of didactic methods.

“All learning activity undertaken throughout life, with the aim of improving knowledge, skills and competences, within a personal, civic, social and/or employment-related perspective” are known as “lifelong learning”. [12] In other words, lifelong learning means “all general education, vocational education and training, non-formal education and informal learning undertaken throughout life, resulting in an improvement in knowledge,

skills and competences within a personal, civic, social and/or employment-related perspective. It includes the provision of counselling and guidance services”. [13]

Table no 1. The nature of learning

Objectivist view	Constructivist view
Knowledge exists outside of individuals and can be transferred from teachers to students.	Knowledge has personal meaning. It is created by individual students.
Students learn what they hear and what they read. If a teacher explains abstract concepts well, students will learn those concepts.	Learners construct their own knowledge by looking for meaning and order; they interpret what they hear, read, and see based on their previous learning and habits. Students who do not have appropriate backgrounds will be unable to accurately “hear” or “see” what is before them.
Learning is successful when students can repeat what was taught.	Learning is successful when students can demonstrate conceptual understanding.

Source: Galarneau, Lisa, (2004) *The eLearning Edge: Leveraging Interactive Technologies in the Design of Engaging, Effective Learning Experiences, Proceedings of e-Fest 2004, Wellington, New Zealand, p. 2.*

Knowledge society and growing demands for highly skilled and educated people are elements that claim for the change of traditional teaching and learning processes. One way of changes is related with an integration of various kinds of computer-based learning systems as supplements to conventional teaching methods.

In this context, e-learning is defined by the European Commission as “*the use of new multimedia technologies and the Internet to improve the quality of learning by facilitating access to resources and services as well as remote exchanges and collaboration*” [15]. According to the Helios consortium the definition of e-learning to be endorsed is “*the use of new multimedia technologies and the Internet to improve the quality of learning by facilitating access to resources and services as well as remote exchanges and collaboration, which leads to a fulfilling learning experience*” [8, 9, 10]. Another definition of e-learning is “*the technology and the academic services related to the teaching and learning processes*. E-learning is a wide term covering all the range of previous educational applications such as Computer Based Training (CBT) and Web Based Training (WBT), as well as more recent technologies such as Learning Management System (LMS), virtual classrooms or labs and digital collaboration” [5].

In a formal distance learning environment the educational material is well organised. First of all, the courses are structured in a prerequisite order, from the fundamental to the most complicated. Second, the educational material is composed of Learning Objects, many Learning Objects form a course and many courses form a curriculum. Among the various courses there is no (or minimal) overlap. Finally, a Learning Management System (LMS) is usually used to manage the educational material [2]. A Learning Management System (LMS) is an electronic learning platform where the course participants have access to their web course, can communicate with the coach and monitor their progress [3].

Since the ‘90s’ until present days have occurred three generations of e-learning [10]:

1. *The first Generation of e-Learning*, typical of the ‘90s’ but not extinguished yet, was inspired by a “transmissive” pedagogic model, in which online courses

were direct analogues of conventionally-delivered courses, replicating course structure, elements and delivery mode, incorporate existing support materials (though may be modified or augmented).

2. The shift towards *the Second Generation of e-Learning* has occurred more recently, particularly after year 2000. Online courses have started to be more widespread, also in blended formats. The lessons drawn by the early adopters' experience have contributed to develop a more aware and richer exploitation of ICT for learning purpose and point out the fundamental role of value added services such as tutoring and mentoring. Nevertheless, the pedagogic model behind have not yet changed radically: the learning outcomes remain based on a top-down stream course although the teaching role starts to be challenged in this model which is evolving towards a learner centred approach. In this respect, such issues as access and accessibility to e-Learning begin to become mainstream in the e-Learning discourse.
3. When it comes to *the Third Generation of e-Learning*, one has to consider the emergence of new frontiers such as educational adaptive hypermedia but, overall, the emergence of a pedagogic model that does not adhere to course conventions. Peer-to-peer learning and support challenge old constraints and transform radically the e-Learning experience. In this new scenario the course is an "artificial construct" based on personalised learning pathways, less intensive of contents and more intensive in term of communication, collaborative learning experiences, community building. The so-called "second" and "third" generation of e-Learning (in particular the last one) have been developed also taking into consideration the issue of access to learning and e-Learning.

3. Advantages and risks of using e-learning

Nowadays, e-learning is contributing to achieve a set of policy priorities for education and training and also it has many advantages at individual level.

Policies for Education and Training form an important part of the European Union's Lisbon strategy. Heads of States and Government asked for not only a radical transformation of the European economy, but also a *challenging programme for modernisation of social welfare and education systems*. In 2002, they set the objective of *making European education and training systems a world quality reference by 2010*. [14] The priority of education and training in policy agendas has dramatically risen in the last years, as it has become clear how crucial human resources are for innovation and development in Europe. The overarching objectives set by the Lisbon Council, by prompting for the boosting of Europe as a Knowledge Society and Economy and for the implementation of education policies in a Lifelong Learning perspective, have highlighted the need to focus on a set of crucial policy priorities. It has also become clear that new technologies, if effectively integrated in learning, could actively support the development of strategies related to the above mentioned priorities and that e-Learning could play a key role in enhancing the development of Europe towards becoming a competitive Knowledge society. In this context, e-Learning is contributing to achieve the following set of policy priorities: access to learning, employability, personal development and citizenship, internationalisation of Education and Training, organisational change, innovation of Education and Training systems. [7]

Through e-learning people can define what they want to learn by themselves. They are not fixed to a specific starting date and have access to the information and the courses 24 hours

a day for 7 days a week. Therefore, they can study for long or short periods of time and at their own tempo, because they can start and end studying at any point in the day. E-learning is much easier to fit into students daily activities than classical studying [3]. Therefore, e-learning helps in reconciling work and family life, especially for women and people aged up to 40, it has a significant impact on Lifelong Learning and can contribute to a more active form of citizenship (especially among older women) [9]. An e-student establish by himself where he wants to learn: at home, at his workplace or any other location where he has access to a computer with an Internet connection. Also, an e-student decides what to study and in which order. He can put together his own learning package and learn what he needs and when he needs. If there is a subject that he already knows about, he doesn't need to go through it all. [3]

Individual autonomy and freedom in learning are the main advantages of e-learning in terms of enhancing personal development. This is particularly marked among training programme designers and materials developers whereas students seem less enthusiastic. [9]

The Web has been considered a means of education and knowledge since its early days. Today it is widely used for educational purposes due to its worldwide spread and penetration and because it supports a lot ways for the representation of information [5]. E-learning provides access to the latest information and courses and the combination of text, images and sounds makes studying exciting and varied. [3]

Although e-learning has many advantages, there are also some **risks and disadvantages** of this way of learning, such as:

- Social exclusion through digital divide seems to be the main drawback of e-learning in terms of enhancing personal development [9];
- Humans, by nature, learn best through social interaction - a critical element removed by e-learning. Sometimes e-learning experiences can be frustrating, lonely and stressful [8];
- Access to e-learning is sometimes restricted because e-learning is supported by a media, the Internet, and that may constitute an exclusion factor. If sufficient levels of ICT penetration are reached, then Internet could serve as an "equaliser" and not as a "discriminator". Awareness should be raised towards end users on the reasons why Internet could respond to their individual and social needs [10];
- If e-learning course material is simply live lecture material posted to the Internet then the result is a poor learning experience in which crucial context is removed because there is no human instructor to impart it [8];
- Even the most dedicated workers will lack motivation when there is no structure [8]. Also, people are often carried away by their enthusiasm and try to do too much at one time, and after a while they will lack motivation. There is more or less no direct contact with other people in the same situation, and stopping is just as easy as starting the e-learning activity [3];
- Sometimes the e-learning demand and supply are not correlated.

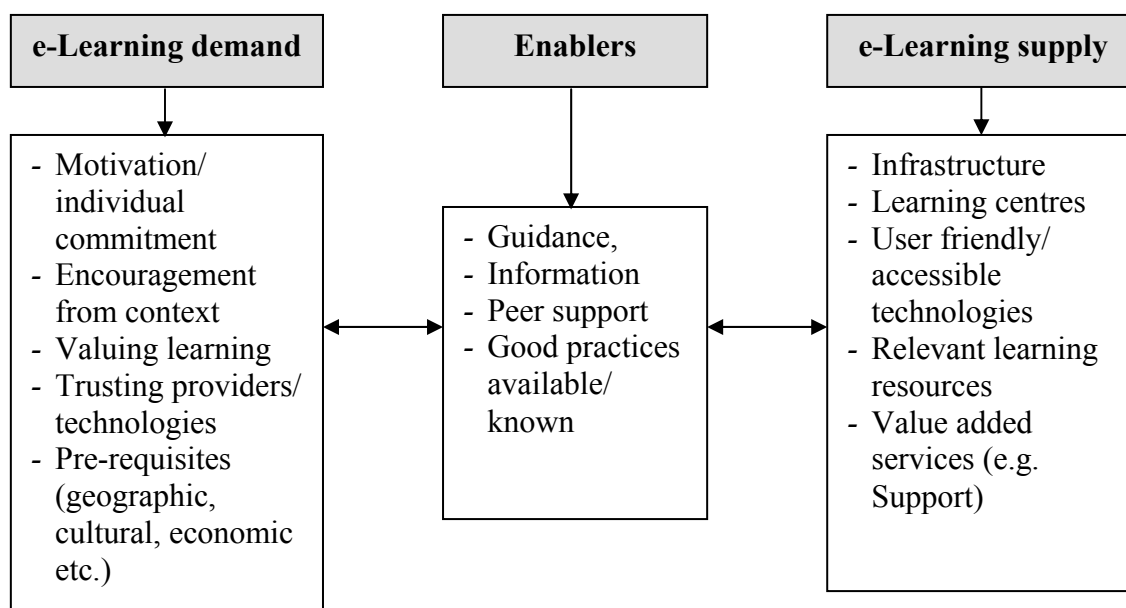
The e-learning demand includes those pre-requisites to e-Learning access mainly related to Information technologies' diffusion and the related divides (in term of level of education and General literacy, e-skills, Income, age, gender, geographic position). This include also fundamental and less quantitative factors such as motivation, encouragement from context, the existence of attitudes and policies that value learning (i.e. improve the ways in which

learning participation and outcomes are understood and appreciated, particularly non-formal and informal learning), trust of end-users of providers and technologies. [10]

The e-learning supply includes those actions aimed at designing an inclusive e-learning (comprising such issues as accessibility, infrastructure, availability of support and adequate learning resources). [10] In this area there are also contextual elements to be taken into consideration such as the existence of learning centres and appropriate infrastructure.

Between the e-learning demand and e-learning supply there is a bridge section including those enabling factors which are in an intermediate position between demand and supply, such as guidance, information, peer support and good practices available/ known [10].

Figure no 1. E-learning demand and supply



Source: HELIOS, *Is e-Learning improving access to learning opportunities?*, 1st HELIOS thematic Report, MENON Network EEIG, Brussels, 2005, p. 49.

4. Conclusions and further developments

The Internet has dramatically changed the way people get informed, interact and communicate in the 21st century. Distribution of information and knowledge is nowadays carried out more and more via the Internet. It is characteristic that new terms such as blogs, bots, wikies and podcasting were unknown some years ago, and are still not registered in most dictionaries. The Internet is the only medium that instantaneously follows today's social evolutions and this is its main advantage. Furthermore, the Internet is actually driving the evolution. Today the Internet is used by millions of people as an interminable pool of knowledge, as a huge online encyclopaedia. [2]

Access to learning opportunities provided by the Internet could be improved through overcoming barriers of access to new technologies, spurring motivation to learn, acting on e-Learning supply so as to achieve a context and learner' sensitive design and delivery of e-Learning.[10]

E-learning is gradually gaining ground as a learning method but it needs further improvements. Learning is increasingly becoming a challenge that has no age boundaries, but not everyone wants to continue learning in a classical way. Students are becoming increasingly demanding; they want to study when and where they want and at their own rhythm. E-learning can be a particularly effective learning tool. When combined with classical forms of learning the results can be extremely powerful. [2]

E-learning activities should be oriented at “making learning attractive” particularly towards those who are not used to learn. Learners should be made aware of the reasons why a certain learning experience could be enriching, beneficial and suited to their own needs. In this respect, capitalising prior learning, enhancing self-esteem and dignity of learners, valuing successful informal and non-formal learning experiences which took place through e-Learning, are fundamental in spurring their motivation when approaching to, or getting back to a learning experience, be it mediated by ICT or not. [10] The sustainable results of e-learning could only be achieved through a more proactive attitude of education policy makers, of the education practitioners and of the entire society, because such a shift goes far beyond a simple governmental decision and the education renewing is not the responsibility of a single institution. [6]

Within the knowledge-based society some level of use of ICT in learning activities cannot remain the exception, but have to-and anyhow will-become normal practice [10]. Therefore, more research studies are necessary in the e-learning area in order to identify new ways to valorise the advantages of e-learning, to avoid the risks and to permit the personal development of citizens who live and work in the knowledge-based society.

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EMPLOYERS' ORGANIZATIONS IN THE 21ST CENTURY AN IOE PERSPECTIVE

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***Abstract:** Human resources development is the process of increasing the knowledge, the skills, and the capacities of all the people in a society. In economic terms, it could be described as the accumulation of human capital and its effective investment in the development of an economy. In political terms, human resources development prepares people for adult participation in political processes, particularly as citizens in a democracy. From the social and cultural points of view, the development of human resources helps people to lead fuller and richer lives, less bound by tradition. In short, the processes of human resources development unlock the door to modernization."*

***Key words:** enterprise, human resource, management, market economy, strategy-making, entrepreneur*

I would like to begin by quoting Peter Drucker, one of the foremost management thinkers of this century, who, in one of his recent books, *Managing in a Time of Great Change*, states: "Twenty years ago no one talked of the global economy. The term used then was international trade. The change in term, with everybody now referring to the global economy indicates a dramatic shift in economic reality. Twenty or thirty years ago, the economy outside the borders of a nation was left to the multinationals and was seen as an entity that could be ignored when dealing with the domestic economy and in the formulation of domestic economic policy. This is no longer true today. The distinction between domestic and international economy has ceased to be economic reality, though it

remains a political, social, cultural, and psychological reality. The one clear economic trend that has emerged in the course of the last few years is that increased participation in the global economy is the key to domestic economic growth and prosperity".

Another significant trend is that, with the collapse of Communism and the command economy that sustained it, the market economy, despite its imperfections, has received universal acceptance as the most effective means to promote economic growth and social progress. Simultaneously, there is a fairly universal loss of faith in the capacity of government to run industry efficiently and it has almost become a cliché to say that the complexity and dynamics of modern economies defeat the capacities of the most skilled and dedicated planners. In addition, central planning decisions, because of their political nature, tend to become the creature of special interests. This has been proven by experience time and again, whether the issue is where to locate a plant, how to price its output, who to put in charge, how firmly to resist unwarranted trade union pressure, or whether and when to close it when it becomes unviable.

Closely related to this trend is the phenomenon in most countries which had a large public sector to go in for large scale privatization of state-owned enterprises. We see this happening in the countries Eastern Europe and in the developing countries that had been following the socialist model of economic development.

The other visible trend is the liberalization of international trade in the wake of the conclusion of the Uruguay Round of the GATT negotiations. The resulting dismantling of trade barriers has considerably brightened the prospects for world trade and international cooperation. It has also made nations increasingly interdependent economically, made the markets for goods, services and capital more integrated, and given consumers a wider choice than before. At the same time, it has made it imperative for economies to be internationally competitive in order to take advantage of the opportunities offered by the new trade environment.

Furthermore, it no longer makes good economic sense in most industries today to think in terms of producing purely for the national market since the efficient scale of business has outgrown the nation state. Enterprises have to think in terms of how best they can satisfy the demands of markets that are regional or global in scale and where best they can strategically locate their investment. In this situation, protectionism has become the enemy of efficiency and competitive success for modern business has become a game one reams only by competing with the best.

A parallel phenomenon is the increasing search on the part of governments for policies that will promote rapid economic growth. Today, globalization and integration with world markets have become key aspects of the strategies of government in most countries. All over the world, governments are striving to make their economies internationally competitive. Countries, no matter which political system they embrace, increasingly look to economic growth to satisfy growing expectations of a better life and to provide for various social expenditures. Consequently, more and more countries are actively promoting a policy of economic liberalization in order to move onto a higher growth path. They are also making greater efforts to attract more foreign direct investment and, in order to create a conducive environment for that investment, they are breaking down the barriers that cut off their domestic markets from the rest of the world. In addition, factors such as new technologies, job re-design, just-in-time production, and customer orientation have

become essential elements of the environment in which enterprises operate today. Their integration into business culture has become imperative in the race to develop and capture new markets, while the need to compete in the global market means that standards of innovation, quality, and service are being set internationally.

All these trends have had a deep impact on business and the way enterprises operate today. The business community of today has become a global one and is going through a process of rapid transformation. In many ways, the changes taking place are as profound in scope as those brought about by the Industrial Revolution. At that time, the steam engine and the electric motor changed the nature of industrial activity. Today, computer and new information technologies are creating entirely new conditions for the renewal of both material and intellectual activity. The boom in high technology, particularly information technology, and in communications has had the overall effect of reducing the importance of distances. Business operations can now be located with greater freedom. This has been accompanied by the rapid development of the service sector, especially financial services, with the result that capital flows are over 20 times larger than they were 20 years ago. Another important feature is the increased significance being given to small- and medium-scale enterprises, both in job creation and in contributing to economic growth.

In a rapidly changing global environment, one of the critical factors for business success, and even survival, is competitiveness. With globalization, markets have become highly competitive and this requires the ability to respond effectively to new trends and to provide an efficient, personalized service to customers and clients. The transformation of business activity, through technological development, the shorter life-cycle of business ideas and products, and the need for new skills requires new management strategies and new forms of work organization.

Until the early 2000s, it was sufficient for enterprises to employ a number of forecasters to correctly anticipate future trends, and respond to them on a strategic plane. Today, it is not enough to merely know the future. Organizations, if they are to succeed, will need to invent the future for themselves - impossible as it may seem. This means that they will have to: set their own agendas, not have it set by others; create brand new technologies, not adopt them from others; redraw industry borders, not respond to their being redrawn; and, define new markets rather than respond to their emergence. As Rowan Gibson, a business consultant puts it: "in the 21st Century, the winners will be those who stay ahead of the change-curve, constantly redefining their industries, creating new markets, blazing new trails, and reinventing the competitive rules".

The economic environment the 21st Century has also signaled a new, largely unknown, direction for capitalism. Globalization and the rise of the new zones of intense economic and consumer activities will create a need for enterprises that are big enough to capitalize on different opportunities but small enough to be nimble in response to local requirements. For most enterprises, this translates into a host of new, narrow markets of consumers, whose behaviour is largely unknown. According to eminent management thinkers Porter, Prahalad, and Hammer, strategy-making within the organisation will, therefore, have to break with the past and grapple with the unknown, demanding radical changes in both contents and processes to formulate the winning strategy for tomorrow.

Furthermore, the dominant competitive weapon of the 21st Century will be the education and skills of the workforce. The fundamental reason for this is that the emphasis is shifting

from new product technologies to new process technologies. With reverse engineering, it is relatively simple for a skilled engineer to tear a new product apart and quickly learn how it is made. But it is not as simple to figure out how to run the necessary manufacturing processes. Hence, it will not be enough to have the brainpower to create new products. What will be required is the ability to manufacture those products more cheaply. One of the starting points for future competition, therefore, will be having the skilled labour to master low-cost, high-tech manufacturing processes. The basic argument here is that product innovation will not be of much use to an enterprise if it does not have the processes to become the lowest-cost producer.

At the same time, to create the future, it is not necessary to abandon all of the past. There is a need for selectivity but, essentially, the success recipes from the past may no longer be the success recipes of the future. For example, quality has been a source of competitive advantage and is where the efforts of many companies have been focussed. In the 21st Century, however, it will be merely the price of market entry, so there is a need to move on in the way the Japanese are doing, namely, developing the capacity to create fundamentally new products and businesses.

In addition, it is possible today to replicate quality almost anywhere in the world. So, the competitive differentiation will come from swiftness to the market and innovation. In that regard, small companies will be able to beat the large bureaucratic ones handily. Therefore, unless the big companies reconstitute themselves as a collection of small companies, they face the danger of going out of business. The global economy of the 21st Century will see a dominance of small- and medium-sized enterprises. A good example of this is the tourism industry, which employs over 10% of the world's labour force today and is made up of millions of entrepreneurs.

Simultaneously, the revolution in telecommunications is creating the huge, global single-market economy while making the individual parts smaller, more powerful, and more agile. Unless big companies can reconfigure themselves into small, fast-moving units, their chances of survival in the next century look doubtful. However, the flip side of technology is that it allows big companies to deconstruct, decentralize operations and to push decision-making down to the lowest point. So this provides them with a great opportunity, which many big companies are taking advantage of by re-styling themselves as networks of small autonomous companies and outsourcing, de-layering, and downsizing.

Until very recently, the primary activity of employers' organizations has traditionally been labour relations and, for many organizations, it continues to remain an important or even a core activity. This includes, among other things, influencing the formulation of labour relations policy, research and dissemination of information on labour relations issues, labour advisory services, and training of enterprise managers in labour relations. While this will remain an important activity for employers' organizations, at least for the foreseeable future, the new demands being placed on enterprises means that they too will need to rethink their role and develop activities in a wider area in order to remain useful and relevant to business. Providing further impetus to this is the fact that social policies can no longer be framed or considered in isolation since economic policies have a stronger impact on the labour market than before.

A major concern of business today is the need to have greater flexibility in its operations, particularly in respect of the deployment and utilization of its workforce, so that it can

respond effectively to changing circumstances in the market. An important need for an enterprise, therefore, is to have the leeway to introduce more flexible forms of work organization such as part-time work, temporary work, and subcontracting depending on what the circumstances warrant. In addition, it should be able to negotiate on these and other issues such as wage and non-wage benefits at the level of the enterprise itself rather than be subjected to industry-level or centralized bargaining arrangements. This is already happening in a number of European countries, where the trend is towards enterprise-level rather than industry- or national-level bargaining. An important task for employers' organizations will, therefore, be to work towards securing flexible labour market policies and regulations to enable enterprises have the capacity and room to adapt rapidly to changing workforce requirements.

Another area to which they will have to pay increasing attention is the field of economics, which has become such an important factor in social policy issues. In this regard, they would need to develop and strengthen their expertise in this field so that, rather than reacting to the labour and social implications of economic policies, they have the capacity to influence as well as shape it and create an environment in which enterprises can operate without undue restrictions. This would also make the organization more attractive to non-members, who would have an incentive to join it.

Thirdly, the industrial relations system itself in many countries is steadily moving away from its traditional "adversarial" nature to the wider concept of human resource management with both workers and employers increasingly working together to achieve enterprise objectives for their mutual benefit. This is both a challenge as well as an opportunity for employers' organizations and is a field in which they will need to play a more proactive role for, with such factors as technology and capital becoming easily accessible, the real competitive advantage of enterprises will lie in the quality and skills of their workforce. Providing services in the area of human resource management will be an area where employer' organizations can provide a truly value-added service. This would involve assisting enterprises in formulating and implementing programmes for upgrading the skills of their workers, providing them with multiple as well as transferable skills, and increasing their productivity.

Related to the concept of human resource management is the recognition of the close correlation between education, skill development, and economic growth. Education and training are, therefore, areas where employers' organizations will have to play an increasingly proactive role so that they are geared to the needs of enterprises. In this context, an important task for them would be to provide such support services as identifying their skill development needs as well as helping them in the implementation of their training plans and programmes. Another would be to facilitate partnership and link arrangements between enterprises and educational and training institutions. In addition, they would also need to play a lobbying role with government and school/training authorities so that academic and training curricula have a practical and work-oriented focus.

We are also witnessing a trend in many large enterprises to "downsize" and focus on their core business activities or relocate their operations where they can secure a competitive advantage. This often leads to the retrenchment of workers who cannot be provided alternative jobs within the organisation. Many of these are left with little choice but try and start their own small businesses. Most, however, lack the entrepreneurial skills to run the

business profitably as a result of which there is a high mortality rate among small businesses. Small enterprise development and the training of entrepreneurs through programmes such as the Improve Your Business (IYB) and the Start Your Business (SYB) programmes are areas which offer employers' organizations the opportunity to provide a valuable service, which would also make them more attractive to existing and potential members.

Finally, employers' organizations will need to develop and upgrade their research and analysis as well as information dissemination activities considerably. In today's knowledge and information society, access to "on-line" information is a source of competitive advantage for an enterprise while the lack of it could prove detrimental to its business prospects. By acting as an effective storehouse of information, employers' organizations can be of tremendous assistance to their members, who would see their membership as a value-added benefit rather than as a cost.

In conclusion, we see the future as one of great challenge for employers' organizations, both in terms of their relevance as well as usefulness to enterprise. At the same time, it offers them the opportunity to redefine their role and strengthen their capacity to meet the needs of their members more effectively, thereby, making a positive contribution to the economic and social progress of society.

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PERFORMANCE EVALUATION SYSTEM IN RADIO AND TELEVISION SERVICES: RISKS AND BEST PRACTICES

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1. Performance evaluation system variables

The human resources performance evaluation system assures¹⁹ the link between the expected salary and the activity results. The procedural succession is: **productivity – performance evaluation – salary**. Thus, the bonus rewarding system is directly related by the performance evaluation system results and consequently the seniority is minimized. But, in practice, the human resources productivity does not depend only by the human resources, by the technical equipment or by the organizational factors existent within organization. We can considerate the productivity as a vector, as a result of three major components: **individual variables, physical variables and situational variables**.

1. the individual variables. The set of individual variables define the entire personality, the psycho-socio-professional characteristics of human resources. That's why both the sociologies and the psychologies emphasize the necessity of studying and understanding the human resources, no matter what the job or the hierarchic organizational position is. As individual variables we can emphasize the following ones:

- **the aptitudes needed in practicing a profession**, meaning those psychomotor qualities that can determine the professional success. For examples, personal computer abilities involve a lot of very well individualized aptitudes.
- **the personality** groups a set of factors that are involved, directly or not, in professional performance process. Realizing an activity involve some temperamental energetic and dynamic particularities²⁰ “that represents the expression of the entire personality system and that helps to the adjusting the conduit system demonstrating within the general ambiance”;
- **the values systems** represent everything that people are valuing. This variable is relevant both in the working process and in the human resources' behavior. Joining together satisfactory factors and the professional ones establish the performance increasing;
- practicing a profession sometimes need specific **physical qualities** in order to fulfill an activity;
- **the interests and motivations** represents internal conditions that determine a person to realize a specific activity. These motives²¹ can be inborn or obtained, can be conscious or unconscious, can be simple physiological needs or abstracts ideals. *Motivation* is directly connected with the performance. There are different

¹⁹ MARTIN K. - Dual objective performance measurement in “Human resources professional” revue, May/June 1991 pg.48

²⁰ PAVELCU V. - Caracterul and POPESCU NEVEANU P. - Interacțiunea atitudinii-aptitudinii, apud. ZORGO B. (coord.) - Probleme fundamentale ale psihologiei, Ed. Academiei, 1980, pg.183-185

²¹ ROȘCA AL. - Motivele acțiunilor umane. Studiu de psihologie dinamică, Ed. Institutului de Psihologie a Universității din Cluj, 1943

levels where a person can be capable to mobilize himself. They are those motives that give us new valences to an activity by creating a favorable psychological environment;

- **the sex** and **age** variables influence performance achievement. Generally, some specialists²² consider that, by their nature, some activities are specifically fields for women (e.g. cosmetics, textile industry, some domains of electronics). Similarly, sometimes the age constitute an impediment in practicing some occupations, but is an advantage for others. As example, mature employees are better professional integrated, their working satisfactions are higher and they are not interested to change their employer or activity;
- in the contemporary society context, **the background** represents a problem for a lot of researchers. A higher level of training means a real knowledge of professional activities and a real perception of professional risks. Thus, we can talk about decreasing the number of working accidents, and about increasing the level of working motivation;
- **the personal cultural horizon** constitute one of the dimension that contribute to the professional performance achievement. The cultural and professional horizon determines using creativity within activity realization. Not accidentally, the fundamental objective of the contemporary education consists in personality development. This can confers mobility to the human resources, opening new development perspectives.

These individual variables are not exhaustive; they can include other ones, specific to any activities or profession.

2. the physical variables. In any activity, an important contribution as the psihosocioprofessionale human resources qualities, bring **the working conditions**. We can say that working modern methods constitute one of the bases factors of the productivity.

- **working equipment designing** can influence the human resources productivity. We emphasize the necessity of excluding all the design solutions based on decency. On the other size, post factum ergonomic corrective intervention is much more expensive than during the projection.
- **working equipment condition.** An equipment with an advanced stage of wear (physically and morally) cannot ever compete with a new one, characterized by precision.
- **the physical environment** action directly on the human resources and, consequently to their productivity. Every time when the microclimate physical factors were improved,²³ the performance increased.

3. the situational variables. In order to accelerate the human resources performance, we can emphasize some **organizational and social variables** such as:

- **the organizational culture.** Every organization has its own personality, and its specific particularities. These are reflected in its human resources policies, its attitudes of cooperation, its managerial styles.
- **the integration and training systems.** Specialists²⁴ appreciate that in the professional life of somebody can occur two or three major changes due to the

²² MELTZER H., STAGNER R. - The social psychology of aging in industry, Profesional Psycholgy, 1980, pg. 436-443

²³ we consider the following: noise, illumination, vibrations, accelerations, temperature, humidity, noxes

changing business environment. The performant organizations know how to create and implement their own professional training and integration systems in order to achieve organizational efficiency and efficacy.

- ***the pay and motivation system*** represent the motivational variable of professional performances.
- ***the social environment***, as team-working, working relationship, leadership. An unfavorable social environment has direct repercussions on the professional performances by: tasks unfulfilment, absences, misbehavior, work accident, or increased fluctuation.

Getting professional performances and professional competency are the resultant of interaction between those three variables: individual; physical and organizational. But, the success does not been understanding as a combination of all of them. Sometimes, two or three variables are enough to accomplish particular performance.

2. Staff Evaluation System in radio and TV stations – best practices

In the activity of a radio or TV station, an evaluation system is always necessary in order to reward the employees; to have a tool to fire employees for professional incompatibility; to have an institutional tool to give opportunity for both the staff and managers to discuss about professional issues; to establish objectives and evaluate the activity; to the professional development; to identify the training needs or to create competitiveness between the employees.

The evaluation system that we are presenting implies three important STEPS:

1. Evaluation of all the execution positions in the organization, based on some criteria, each criterion with a given importance.

A minimum, medium and maximum rating was allotted to each position. Thus resulted 5 classes of importance.

2. The evaluation of professional performances of the staff
3. The percentage of the marks obtained by the employees, seen from the level of importance of the respective position, resulting in the final mark

Step 1: Evaluation of the execution positions in a Radio or TV station

Evaluation of the execution positions in a Radio or TV station is based on 6 criteria, each criterion with a given importance. Each criterion has certain dominance in the final mark, different from a position to the other.

Evaluations have to be made by the heads of compartments, where the respective positions are present. In case the same position is present in more compartments, a meeting of the heads of these compartments needs to have place, and the final marks have to be established.

The marks corresponding to each criterion are established from 1 to 10 and largely explained within the procedure.

According to the medium points rating, 5 classes of importance will result, in this respect. Evaluation criteria of the execution positions are the following:

- **Professional qualification imposed to the person occupying the position**

²⁴ PITARIU H. - Managementul resurselor umane – măsurarea performanțelor profesionale, Ed. ALL, 1994, pg.24

- **The difficulty of tasks and specific objectives of the position** – this criterion evaluates: complexity of the activity, creative contribution necessary to occupy the position, importance of objectives and tasks of the position, focusing on objectives accomplishment, capacity to adapt to the activities required by the job in special conditions (live broadcasting, recordings, special events), necessary special abilities, specific to the position, knowledge of equipments, proceedings, techniques and technologies specific to television necessary to occupy the position etc.
- **Responsibility implied by the position** – this criterion evaluates the responsibility implied to fulfill the objectives and tasks specified in the job description, responsibility of preparative decision making and responsibility in keeping the confidence.

Step 2: The evaluation of professional performances of the staff

The evaluation of professional performances of the staff *STEPS*:

1. Completion of evaluation report of individual professional performances by the assessor
2. Interview
3. Countersigning the evaluation report.

Criteria of performance:

The evaluation of individual professional performances of the execution staff in TVR is made on the base of 5 criteria of performance, each of them with a certain share in the final mark. They are as follows:

1. The accomplishment degree of the objectives established between the employer and the employee, 30% share
2. The accomplishment degree of the tasks, competences and responsibilities established in the job description, 20% share.
3. Capacity of exploitation of the acquired expertise and self improvement, 20% share.
4. Implication degree / Assuming responsibility, 20% share
5. Work behavior/ interpersonal relations, 10% share

Short description of each criterion of performances:

1. The accomplishment degree of the objectives established between the employer and the employee objectives, 30% share. This implies establishing concrete results of the employees' work and also the quality and quantity of work.
2. The accomplishment degree of the tasks, competences and responsibilities established in the job description, 20% share - This implies establishing adaptation to work complexity, the modality the employee accomplishes his/her objectives, tasks, competences and responsibilities, as established by the job description, complying to the established terms, as well as the way the employee planned his/her activity.
3. Capacity of exploitation of the acquired expertise and self improvement, 20% share. This criterion aims at exploiting and applying knowledge and professional expertise acquired in job task accomplishment, the interest in novelties appeared in his/her domain of activity, the way the employee uses his/her professional and individual qualities and abilities, the desire and efforts made for professional self improvement.
4. Implication degree / Assuming responsibility, 20% share. This criterion implies evaluating the personal contribution to the accomplishment of office tasks,

efficiency, promptness, dynamism, spirit of initiative, scrupulosity, exactness, degree of work autonomy / necessity of being supervised and guided in the work process, availability to make efforts and to assume supplementary tasks, seriousness in approaching issues.

5. Work behavior/ interpersonal relations, 10% share. It implies evaluation of the capacity of integration in a team, correct relationship with supervisors, subordinates, colleagues and collaborators of the team, work attitude, relationship with employer, collective/team, observance of working schedule, compliance to work protection rules, confidentiality, loyalty, trustiness.

The assessor analyses the activity of the employee and completes the evaluation form, giving the marks he considers to reflect the performances of the employee, considering each criterion. The performance criteria will be evaluated with marks from 0 to 10.

After that, an INTERVIEW will take place. It is a discussion between the employee and the assessor where they analyze the activity of the employee. During the interview they can modify the marks given initially by the assessor.

The marks given during the interview are final and then the points rating for each criteria (x) will be calculated by multiplying the criteria share with the mark granted to each criteria (x = criteria share * the mark granted to the criteria).

Step 3: Calculation of the final mark

Partial points rating will be calculated by summing up the points ratings of the 4 performance criteria ($X = x_1 + x_2 + x_3 + x_4$).

This mark obtained by the employee is then evaluated considering the level of importance of the respective position, resulting in the final mark (F(X)).

The final mark (F(X)) is established on the base of Partial points rating (X), of Minimum points rating of the position Ppm, respectively of the Maximum points rating of the position PpM (as calculated in the evaluation process of the positions) and will be calculated by using the following formula:

$$F(x) = (PpM - Ppm) * X / 5 + (2 * Ppm - PpM)$$

Effects of Evaluation

The mark of the performance evaluation (F(X)) is to be compared to the interval between minimum and respectively maximum points rating of the position (PpM, respectively Ppm).

- a. If the final mark is lower than the minimum points rating necessary to occupy the position (Ppm), TVR will start the procedures to dismiss that employee because he is not appropriate for the job

- b. If the final mark is between the minimum points rating necessary to occupy the position (Ppm) and the medium point rating of the position (Pm) – the employee will not be dismissed, but he will not receive any salary increase or other benefits. His activity is lower than the minimum level requested by the job, it can be improved and an action plan for improvement is going to be formulated.

- c. If the final mark is between the medium point rating of the position and the maximum point rating of the position (PpM) – the employee had very good results, he can negotiate a salary increase and can obtain other benefits.

3. Risks involved by the implementation of the evaluation system

In the compartments where we had managers with strong proved managerial problems, we also had evaluation problems. Bad managers couldn't properly evaluate the activity of their employees. They were afraid to give bad marks to those people that didn't do their job. The good employees suffered because they were evaluated in the same way with the bad ones.

In the end, in some compartments, the average mark of the evaluations was almost maximum (it should've been somewhere around 7.5). This had a bad impact for the organization: in some compartments, where the evaluation was done right and some employees obtained bad results, the people with bad results, but not so bad as in other compartments, complained that the evaluation was too strong.

Some of the evaluators didn't respect the evaluation procedure, so they didn't organize the interview. They just put the employees to sign the evaluation form. This had a bad impact for the evaluation system inside the organization and especially for the employees.

Some of the managers, because they didn't have the courage to give to their employees the right marks, they communicated to all the staff that the maximum mark that they are allowed to offer is 7 or 8 from 10. In this way, the maximum mark that the best employee could obtain was 7 or 8, the same as the others. It was not possible to create a real competition between the employees. In the end, the good ones suffered because they were disadvantaged and the bad ones were evaluated like the good ones.

If the evaluation system is not implemented right, it will have a bad impact through the employees, both managers and staff. The bad managers will over-evaluate their employees because and, in the end, the good managers will be disadvantaged. The bad employees will be over-evaluated, so the good ones will be disadvantaged.

The success of an evaluation process totally depends on the people that apply it. Proper training is needed, especially for the evaluators in order to let them know exactly what the top management expects from them. A good communication of the whole process is also needed.

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TAKING STOCK OF THE DETERMINANTS ON WHICH TO BASE A COHERENT AND REALISTIC STRATEGY FOR CAPITALIZING ON ROMANIA'S TOURISM POTENTIAL

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Abstract

The effort for developing a strategy for using Romania's tourism potential has as a preliminary stage an inventory of the determinants that condition in terms of quantity, quality and circumstance the viability and feasibility of its various components. Establishing the determinants in a realistic fashion ensures a high degree of accuracy in promoting a modern, environmentally-friendly and long-term sustainable tourism. Thus, the Romanian tourism potential can be connected to the European heritage of material, spiritual and aesthetic values.

Located at the Eastern border of the European Union, Romania offers a tourism potential that is especially attractive, considering at least the following **arguments**:

- the Romanian tourism potential represents – for the majority of Western tourists – a great unknown, something that is less talked about, due mainly to, on the one hand, the names in sports, art, music and literature that have brought us fame, and, on the other hand, to the less desirable "fame" brought to us by beggars, prostitutes and the gangs that rob banks and cause trouble abroad. Can this perception change? There is only one answer: YES!

Change can be brought about through an effort of thinking and through will to act, through establishing feasible objectives and persevering in the actual realisation of the actions initiated.

We can offer originality through the tourism products we are so accustomed with as not to appreciate them to their full potential, but which foreigners discover and value greatly, by which they are pleasantly surprised and on the subject which they drew our attention to the fact that we have treasures we don't know about and we don't know how to make them known to the rest of the world. In order to move out of the strictly theoretical, I would like to point to a few of the jewels Romanian tourism has, but is not promoting properly:

- the most densely inhabited mountains in Europe, which can be visited year-round, with a less polluted environment, but in danger of being degraded by the unchecked and irrational exploitation of sub-alpine forests;
- *the country with the most mineral water sources with exceptional therapeutic properties;*

- an area with endemic natural environment, century-old forests, caves and salt mines, areas with naturally ionised air – very rare in Europe – hills with potential for turning into ski slopes, renowned vineyards, original folklore and diversity in ethnography etc.

In Europe, one can often hear the following unkind saying about Romania: "Beautiful country! Too bad it is inhabited!".

It is in our power to prove how misguided this vision is when talking about a country that has not only natural and man-made beauties, but also people capable of capitalising in a highly modern manner on the multi-millennial civilisation of this land. What is keeping us from doing all these? Willingness to set objectives well harmonised with the worldwide trends in the domain, persistence in performing the proposed actions, and respect for the material and spiritual values of this people. One might rightfully ask "what do we bring into the European Union?" Without exaggeration or unnecessary embellishments, we can safely say we're bringing plenty of things into the European Union – but this is the subject for an entire other subchapter. Here we shall try only to categorize the determinants that influence the contents of the strategy for the promotion of tourism at both national and regional level. A first group would be the endogenous determinants.

Endogenous determinants

As we have mentioned in a previous chapter, the tourism products that would set us apart from other countries are somewhat dormant – known, but not exploited; many of them are functional/in good shape, but many others are in various states of degradation. To mention but a few:

- the Danube Delta Biosphere Reservation;
- the salt mines at Slanic Moldova, Tg. Ocna and Praid;
- the bubbling mud volcanoes at Pâclele Mari – Buzau;
- national parks and national reservations, in the mountainous areas or around lakes
- the caves in the mountains or foothills;
- fauna and flora with unique species for Europe;
- sources of mineral waters, thermal and mezzo-thermal waters for commercial or medical use (drinking and spa);
- inhabited medieval fortresses;
- vineyards with indigenous grape/wine varieties, comparable with sorts from countries with a long tradition in winemaking;
- unrivalled folklore and traditions etc.
- monastic establishments in all the historic provinces;
- an absolutely original form of agro-tourism in the rural areas throughout Romania

Therapeutic determinants

The multitude of balneotherapy resorts in the country introduce in the tourism circuit resources such as mineral waters, sapropelic mud, an ionised atmosphere or an atmosphere with curative properties, such as that in salt mines, which we have mentioned before, but which are insufficiently used to their full capacity and not engaged to the full extent into the tourism circuit.

We believe that the present national strategy, promoting chiefly seasonal tourism for the Black Sea border, is mistaken. We cannot explain and underline enough the fact that in the present – as well as in the future – international context, the tourism on the Romanian segment of the Black Sea border has and will have a distinct seasonal character, its offer

being less tempting than that of countries close to Romania (Bulgaria, Turkey, Greece etc.), where the warm season is considerably longer (at Paralia Katerini, in Greece, for example, one can sunbathe from early March to late October).

Why are balneotherapy resorts in the foothills of the Carpathians and in the plains (indeed, not very numerous) treated like poor relatives? Many of them and we shall present them in the subchapter dedicated to tourism products can be used year-round, needing only to provide accommodation for the entire gamut of prices, high-class medical services and, last but not least, a choice of activities for the tourists' free time after treatment hours, irrespective of season. Relaxation and entertainment opportunities for tourists who do not go to these places for treatment should also be considered.

Cultural and historic determinants

Romania, with a history and a culture less well known in Europe in particular and in the world in general, reveals itself and is discovered through the modern IT media. Prestigious names in culture and art, representative for Romania, have been included to a very small extent in the world circuit of spiritual values and therefore not promoted enough as tourism products.

In recent years we have seen a timid rise in the use of Romanian cultural, artistic and historic potential. We can mention here the International Music Festivals "George Enescu" and "Haricleea Darce", history or medical congresses, the francophone countries' summit (September 2006), to name but a few. But using the specific potential involves a long-term strategy, financial security and – a factor at least as important as the others – specialists who would restore monuments, buildings and the heritage in general, it involves stopping the promotion of kitsch and bad taste, protecting historical sites and adequately promoting the most valuable elements of this heritage.

Traditions and folklore, an unrivalled treasure in today's world, constitute an internal factor that is insufficiently used. Bearing in mind the fact that important personalities of today show interest in these values, we realize that we are the keepers of a treasure we are not completely aware of. Here we could mention HRH Prince Charles's plan to purchase a farm/retreat in the village of Viscri, in Transylvania, with the hope of injecting new life into a historic village listed as a world heritage site. *"I was deeply impressed by the natural beauty and cultural richness of what I saw. The area represents a lost past for most of us – a past in which villages were intimately linked to their landscape."* Charles wrote after one of his trips to Transylvania.

This is not the only reason we have to be concerned with the promotion of the cultural, artistic, historical, scientific and folkloric potential our country holds. Aside from the monastic establishments in Moldavia and Oltenia, the fortress-churches of Transylvania, the *cula* houses in Northern Oltenia and Brancusi's monumental sculptures in Targu Jiu, there are many other places that could be as many stops on a tourist route; some of them will be presented in a future subchapter.

Economic determinants

In the last decade we have seen a change in the structure of the motivation for practicing tourism, an increasing orientation towards business tourism. Be it about bilateral contracts between companies or groups of companies, economic missions organised and promoted by professional associations, chambers of commerce, participation in exhibitions, trade

fairs and salons, business tourism is gaining momentum and combines harmoniously with other types of tourism. In order to ensure a favourable environment for its development, it is increasingly necessary to provide an appropriate infrastructure: modular conference halls, with the possibility of adapting to the number of participants, interpreting services, parking spaces, accommodation with all the amenities, exhibition spaces, office space equipped with state-of-the-art logistics, easy access to means of transport and, last but not least, a generous choice of activities for the free time after the business meetings.

In the context of Romania's accession to the European Union, with the country's new position as the Eastern frontier of this integrated entity, and through the involvement in regional or Euro-Asian projects, the economic factor is a strong incentive for the promotion of Romania's tourism potential.

The brief presentation of endogenous factors, made in terms of aspects encouraging their action, is justified by the fact that the negative influence of some components belongs to other sectors, connected to the tourism sector, and with an influence impossible to neglect. Without going into further detail, we mention here some elements: the state of the transport infrastructure, government corruption, business legislation, bureaucracy elevated to the rank of compulsory procedures, personal safety and security, political climate and national strategies that could encourage and support economic development by relying on tourism as well as on other sectors.

Exogenous determinants

The concern for using the potential of tourism also includes the analysis of the exogenous factors that could influence either positively or negatively the promotion of the offer in tourism.

a. A first determinant would be *the international political and economic context*. An increasing number of individuals desire to travel for one reason or another, to practice one form of tourism or other. The dynamics of world economy, the intensification of international exchanges, access to information sources, the discovery and exploitation of new tourism destinations, make this activity one of the more important activities within the national, regional or international economy. Any changes in the evolution of a state's economy or in that of the world economy reflects on the activity in tourism, and vice versa. Demand in tourism reflects in air, road and sea (passenger) traffic, these sectors thus needing to meet the demand. For Romania, the impact of this determinant requires an increase in the number of accommodation facilities, as well as of conference facilities, of airports equipped according to international standards, in order to ensure inter-operability, adequately equipped means of transport, modernised roads, with increased safety, passenger harbours capable of hosting luxury cruise ships etc.

b. As we have mentioned, Romania is capable of absorbing an increasing mass of European tourists, mainly due to:

- a choice of balneotherapy cures based on the natural factors in our resorts: the pressure created through over-demand will lead to the modernisation of the existing spas and to the search for new health resorts.
- as a result of the social policies applied after the War, the population of the EU member states now has an increased life expectancy, and the weight of products aimed at the elderly has increased, here being included the treatments that our resorts can provide. Also, an advantage could be the lower

cost of the packages, along with the high quality of the services provided by the Romanian specialists.

- curiosity, the thirst for "exoticism", determined partly by the "myth of Dracula", and partly by other original and high-value tourism products, are a magnet for an important number of foreign tourists. In this category of determinants, but this time with a negative influence, we find destructive natural phenomena and the occurrence of epidemics (e.g. the avian influenza outbreak of 2005).

c. The proliferation of terrorism and especially the targeting of resorts in peak season has a negative impact on the activity of this sector. The past five years have seen dramatic events happening in particularly attractive resorts, if we are to mention those in Egypt, Turkey and Indonesia.

d. Another determinant that could disturb the activity in tourism is religious extremism, in the circumstances in which religious tourism is constantly increasing. If Muslims go to Mecca, Christians go to Jerusalem, Mount Athos, Vatican and to other religious pilgrimage places, in Romania, seen by Orthodox Christians as "the Holy Virgin's Garden", there have been no disturbing events, but surprises may appear at any moment.

Depending on the manner in which the relevant institutions will manage the influence of these determinants, their positive impact can be enhanced, and their negative impact diminished and even eliminated.

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PUBLIC ADMINISTRATION REFORM – ESSENTIAL REQUIREMENT OF THE EUROPEAN UNION

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Abstract

As we all know, improving public administration standards and implementing Administration Reform is a condition imposed on our country under the current circumstances as Member State of the European Union.

Essential requirements of public administration (permanence, professionalism, political neutrality) are ensured by a correct selection of the persons who may hold the position of civil servant, subsequently supported by permanent training thereof, career development, by providing attractive working conditions and by continuously fighting against corruption.

It is a known fact that Public Administration Reform is a priority for the current Romanian Government. The public sector must adapt to the continuous changes of economic and social environment. The decisions made by both foreign and domestic investors are increasingly influenced by the quality and the credibility of public administration. At

international level, public administration has become an essential factor that defines the competitive advantage of a nation.

The activity of public administration in Romania should no longer be the object of criticism and discontentment of citizens and international stakeholders. A great deal of changes and improvements of Romanian public administration have been made during the last ten years, but the reforms were set forth and implemented for specific situations, without ever existing a strategy and a general view on public administration reform. Government's strategy aiming at speeding up public administration reform has been drafted and adopted; its main objectives are the following:

- Major reorganisation of central and local public administration

Romanian public administration must adopt and implement the administrative values that define the European Space: transparency, predictability, responsibility, adaptability and efficiency, values that must be adopted by all administrative bodies and processes, at all levels and the application thereof must be checked by an independent control system.

- Fundamental change of the relations between the administration and the citizen

Modern public administration must be oriented towards meeting the citizens' needs, towards providing better information thereof, must cooperate with those to whom it addresses and to strengthen the public control on administration. It aims at consolidating and expanding the framework of participation of the civil society to the decision-making process, to ensure transparency of the administrative acts and to efficiently communicate with the citizens.

- Decentralisation of civil services and strengthening local administrative and financial autonomy

Decentralisation aims at raising awareness and increasing the level of local communities' involvement in managing the regional problems with a view to improving the relationship between national politics and local responsibilities, to improving the civil services offer, financial results, providing a better framework of response to local needs.

- Rendering public administration more efficient

Administrative activities must aim at clear purposes and results, at reducing costs so that they are proportional to results. The rationalisation of administrative procedures, rendering the relations between the central and local public administration, between the public county authorities and the authorities representing the communes, cities, municipalities more efficient, creating an integrated computer system of central and local public administration are only a few measures taken in order to fulfil this objective.

- Professionalisation of the civil service

Modern administration is characterised by a high professional standard that should be seen in the quality of work, in the results obtained and in the services performed, in the administrative culture, in the political stability and neutrality of the civil servants. Creating the professional civil service and the system of continuous training for all employees of public administration are essential professionalisation requirements.

In-depth analysis of the activity stage and of the results of public administration, carried out at the level of ministries, of prefects' offices and of County Councils and aiming at

following up the modernisation, communication, human resource management and operation of the institution, pointed out the following aspects:

- The modernisation process of Romanian public administration fits the similar procedures of European countries. Every country has come to a certain point of modernisation, taking into account the new relationships, namely:

- speeding up the globalisation process of world economy;
- intensifying the process of creating a united Europe from a political and economic standpoint;
- reducing the State's powers in the field of economic life, social life etc.

- In Romania, as in the majority of countries belonging to the eastern part of the continent, public administration reform is a process developed under conditions which are different from those under which the modernisation process of public administration in the western countries is carried out. Consequently, the reform presents peculiarities regarding:

- strengthening economic restrictions;
- meeting conditions concerning the European Union integration.

- Reform aims at creating a public administration system that may meet the requirements of a democratic society and of economic efficiency:

- providing a quality civil service for the citizens;
- operation of public administration bodies based on the social unity principles;
- supporting and endorsing the reform in all areas (economic, social, judicial etc.).

- Recommendations regarding reform are based on:

- analysis of the current system in order to point out the positive and negative elements thereof;
- experience gained by the developed countries and global trends in public reform;
- gradual transformation of the current system in order that it may meet present requirements and future demands.

In keeping with the above-mentioned procedures and considering the results of the diagnosis chart analysis, we came up with the following proposals:

A. Drafting a general framework, adopted by the Reform Monitoring Government Council that should represent the basis for drawing up / developing multi-annual modernization programme at the level of every institution, according to their own needs;

B. Proceeding with the decentralisation process within Public Administration, with respect to both decision-making and powers thereof. Central Administration shall operate with a view to setting up a civil service market:

- developing a legislative framework that should be the basis of the decentralisation process;
- improving the offer and the quality of civil services by determining local communities and private players to be more involved and by introducing a system of performance measurement indicators.

C. Supporting the reform process by implementing a modern funding system:

- proceeding to drafting the budgets according to programmes (zero-based budget);
- reducing the level of resources granted from the state budget and increasing the level of incomes coming from local duties and taxes.

D. Implementing the modern human resource management system:

- starting a continuous training process of the management personnel working in administration, as first stage of reform of human resource management;
- creating a professional corps of public servants;
- obligation of continuous training incumbent upon public servants;
- professionalisation of the office of prefect;
- observing the ethics and professional deontology by the civil servants;
- introducing an indicator system used in order to measure the results of the activity carried out, both of the activity performed by the civil servant and the activity performed at the level of components of public administration;
- simplification of organisation and development methodology corresponding to selection processes for appointing civil servants;
- revision of secondary legislation necessary to appropriately put into effect the primary legislation concerning civil service management;
- increasing the significance of the role played by the National Agency of Civil Servants;
- speeding up the completion and adoption of law on payment of civil servants that may constitute a real means of motivation as far as the public sector is concerned;
- introducing a different chapter in the budget of each institution assigned to training.

E. Introducing new information and communication technologies as vital elements in reducing operation costs of the public administration system:

- organising civil services based on new information technologies;
- extending access of citizens to public information of national interest or local access through the Internet.

F. Bringing public administration closer to the citizen:

- improving access to civil service;
- simplification of administrative procedures;
- promoting civil servants based on professional and moral criteria;
- informing the public opinion with respect to the development of reform process using the mass communications means;
- introducing effective tools of citizen consultancy and involvement in the activity of public administration.

But it is the experts' opinion that the three main points referred to both in the title of the work and in the contents thereof are essential principles that characterize any Public Administration of the European Union:

- permanence;
- professionalism;
- political neutrality.

Within any modern central administration, regardless of the democratic government under which it operates, the following services are imperiously necessary:

- strategic counselling;
- putting into effect strategies, laws and resolutions;
- providing services to the citizens.

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SPECIAL FEATURES OF PUBLIC ADMINISTRATION ORGANIZATION

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Abstract

From the point of view of public management, public bodies and authorities are set up as a subsystem of the global social system and operate in order to contribute to meeting general and specific public interests.

The organizational system as component of the management system may be approached going from the general to the particular, i.e. from the macro level to the micro level, case in which one may see an organizational system of the public sector at the macro level, and of a distinct body or authority respectively.

The organizational system of the public sector gathers all the organizational components identified in each distinct field of the public sector of a state, namely: administration, health, education, culture and arts, sports, economy, transport, tourism etc., fields that by means of their activities contribute to increasing the degree of meeting the general and specific public interest under conditions of economic efficiency.

The organizational system of a public body and / or authority gathers all the elements with organizational characteristic by means of which they accomplish the object of their activity and carry out their social-economic task, contributing at the same time to increasing the degree of meeting the general and specific public interests of other public bodies or institutions and of the citizens.

Organisation within a public body resides in a series of labour processes that enables the delimitation of the organizational system, that defines the powers thereof, the tasks, competences and responsibilities of civil servants that participate in organizational relationships with the other components inside and outside the public body / authority within the process of fulfilling the specific and general public interests.

Two approach standpoints results from the concept of organisation within a public body:

1. organisation as a *group of physical and intellectual labour processes* which are clearly delimited and / or combined in order to fulfil the object of activity, the social-economic task and to increase the degree of meeting the public interests;
2. organisation as a *group of civil servants, of organizational subdivisions and of relationships carried out among them*, defined and delimited so that they ensure the organizational premises necessary to fulfil the social-economic of the public body and implicitly to increase the degree of meeting the public interests.

1 Procedural organisation within public bodies and authorities

Approaching the organisation from this point of view is absolutely necessary if one takes into account the *complexity of physical and intellectual labour processes* involved in performing and providing different categories of civil services.

Through the procedural organisation a *clear delimitation of the fields of activity* between a public body or authority and their way of integration in the processes of fulfilling the objects of activity and the objectives of the public management may be established.

Organisation is a means of carrying out the objectives of a public body and not a purpose in itself, this being the way in which more often than not it is viewed in the Romanian public sector.

In consequence a question arises regarding the best manner of defining and delimiting physical and intellectual labour processes so that the objectives corresponding to public management be accomplished according to the expectations of institutional clients and of citizens.

Logically following this approach, one may find that the objective system of the public body represents the main element of envisaging the ratio of the contents of physical and intellectual labour processes performed in a public body or authority.

Accomplishing each and every one item of the objective system belonging to a public body or authority involves a series of necessary activities.

These are homogeneous, complementary, and specific and their purpose is clearly set forth by the objectives.

The main ***fields of activity*** identified within a public body / authority are the following:

1. *research-development*;
2. *commercial*;
3. *performing and providing civil service*;
4. *human resources*;
5. *financial-accounting*.

The research–development field gathers all activities that are carried out inside the public body by means of which new approaches, models, methods, modern public management techniques and procedures are identified and integrated in the processes of performing and providing civil services, consequently increasing the degree of meeting the public interest.

The research field has major implications regarding all activities carried out within the public body. The main specific *activities* of this field are the following:

- finding new organisation methods, methods of performing and providing services, of communication, of administering the resources, of controlling and assessing, methods that contribute to accomplishing the objectives of the public body;
- adapting the contents of the methods, techniques, procedures and management style and the organisational conduct to the internal and external organisational context;
- investments residing in transforming the financial and labour resources in fixed funds in order to create adequate conditions that favour the performing and providing of civil services, and consequently increasing the public body's administrative capacity to boost the degree of meeting the public interest;
- organising the process of performing and providing civil service; the process is represented by new modalities, methods and techniques of performing and providing services, of communicating with other bodies and with the citizens;
- finding the latest methods and techniques of performing and providing civil services that meet the level of expectations of the public body stakeholders.

Although the impact of this field on the other fields of activity of the public body is major, unfortunately the research-development area is quite poorly represented in the majority of public bodies in our country. While in areas like health, education, activities specific to this field have a certain significance, in other areas like administration, transport, culture etc. the research field is quite poorly represented, this inevitably having major consequences influencing the system in its entirety and generally influencing the public sector.

The commercial field gathers all activities by means of which the public body establishes its links to the service market, to the local community and to the other bodies within the system it belongs to, obtains informational, material, human and financial resources necessary to direct the contents of the process of performing and providing the civil services, with a view to accomplish the public body's fundamental objective and social-economic task.

The main activities that represent the materialization of this field are:

- *public marketing* that has as main purpose the identification of position on the market held by \ civil services provided by the public body when there are several suppliers, the identification of level and intensity of the offer and demand of new civil services addressed to citizens or to other bodies in the public and / or private sector;
- *social marketing* that has as purpose the identification of general and specific social needs of a community, of social and ethnic groups etc. that are representative and identified in the administrative- territorial unit: commune, city, municipality, county and region;
- *promoting civil services*, residing in resorting to various information and promoting means of the civil service provided by the public bodies;
- *ensuring the material and technical resources* necessary to carry out the activities of performing and providing services and consequently fulfilling the social-economic task of the public body.

The commercial field is one of the most important fields, since through the specific activities involved the compatibility between the necessities pointed out by the market and by the social needs system and the contents of the processes leading to the actual meeting of the demand is ensured.

Although the commercial field should be indispensable to the carrying out of activity of a public body, essential aspects of the public sector in our country are neglected, while in important fields like administration, culture, transports etc., these are absent. Such fundamental errors in approaching and viewing the role of a public body within the macrosystem show that the majority of those running major components thereof are mainly interested in the interior, in what the public body may and may not offer, instead of being interested in the services market and in the community, where they may find what kind of civil services and what kind of general and specific social needs there are and expect to be met by the public bodies.

Based on such an approach - which is totally inappropriate in the general international context - one may conclude that a public body exists only to complete the structure of a system and not to contribute to increasing the level of meeting of the public interest, that may be identified only by means of a close and permanent relationship with the services market and the community. *The market validates and invalidates the civil services, the community appreciates the initiatives of the public body's representatives as necessary and appropriate, in fact it shows if a public body should be set up or if another public body should proceed with its activity and how or if others should leave the system.*

Although such a rationale is logical and necessary, unfortunately the majority of public bodies in the Romanian public sector are system-oriented, interested in the interior thereof, not in the exterior, thus failing to take into account essential information absolutely necessary to support much needed and appropriate decisions that through their contents may contribute to meeting the general public interest, i.e. the fundamental objective of the public management.

The field of performing and providing civil services is represented by the series of basic, auxiliary and services activities, by means of which the objectives of the public bodies are fulfilled.

The main *activities* involved in this field, as one may easily infer from the title, are the following: *performing civil services, providing civil services*, residing in a series of activities that allow the materialization of the activity object of the public body and the fulfilling of the fundamental objective, increasing the degree of meeting the public interest. The field also comprises *activities by means of which the conditions necessary to performing and providing civil services are ensured*, namely:

- providing equipment and other means of labour;
- acquiring computer programmes;
- maintaining and renewing on a regular basis the soft and the other modern means of labour used in order to perform and provide civil services.

Through labour processes specific to this field the object of activity of the public body is fulfilled. The financial-accounting field gathers all activities through which the financial means necessary to the public body are obtained and managed, as well as activities regarding the registration and value record of the economic phenomena within the public body.

The main *activities* involved in this field are the following:

- *financial activity* referring to obtaining and rationally using the financial resources necessary to the public body.

Public bodies administer two types of resources, according to the origin thereof: own resources made up of taxes, fees, concessions, renting and other services, but also resources from the public budgets and various contracted loans;

- *accounting activity* referring to the registration and value record of the economic phenomena within the public body.

Although this field is well known and represented in the majority of public bodies, in most of these prevail the bureaucratic dimensions and passive record of the elements regarding the budgetary gains and expenses. In our view it is absolutely necessary to integrate in this field a third activity, namely the economic-financial analysis, through which some causes bringing about unfavourable situations may be identified, as well as new improvement modalities of the manner of administering financial resources of the public body and the possibilities of assigning public incomes to the objective system of the public body, allowing for an identification of priorities in earmarking budgetary resources.

Within the current international context it is absolutely unacceptable to consider only the bureaucratic dimension of this field. On the contrary, the reality determines public bodies to resort to modern methods, techniques and equipment in order to actually carry out these activities and to direct the focus of the civil servants towards the economic-financial analysis.

This entails that the public body should obtain in due time the necessary information from the civil services market and from the community in order to be able to define a coherent objective system. Based on these very facts and information the administering of financial resources within the public body should be carried out. The public body administers only public funds, thus normally it has the obligation to direct these resources towards its own system, so that the results of their administration should return to the sector they originated in. The economic-financial analysis allows for fundamental rationales based on which the administration methods and the economic efficiency regarding the use of public funds are assessed. Should one refer to the reality characteristic to public sector in our country, one may find that this is not just an appropriate change, it is also a necessary one on which the economic-financial and managerial viability of the public body depends. The human resources field comprises all activities carried out within the public body that provides the human resources from a quantitative, number, qualitative and training point of view, in order to fulfil the objectives of the public body.

The main *activities* that make up this field are the following:

- establishing the human resources necessary to the public body;
- recruiting civil servants;
- selected civil servants;
- appointing civil servants;
- original and continuous training;
- assessing civil servants;
- motivating;
- promoting;
- paying salaries of civil servants;
- drafting employment contracts, where applicable;
- keeping records of \ human resources;
- following up the career of \ civil servants;
- setting forth the rights and the obligations of civil servants and making sure these are complied with.

The premise which represents the starting point of public managers – and not only theirs - carrying out their activity in this field is that there must be a *permanent balance between the objective system of the public body and the interests of civil servants who perform activities through which the respective objectives are fulfilled*. Activities of civil servants **training and improving** reside in carrying out a *coherent and continuous process of programmes in order to assimilate and / or develop knowledge and abilities of civil servants*. By means of training programmes integrated in strategies and global policies well-grounded within public bodies and authorities, the training and conduct of managing civil servants may be remodelled and adapted in order to determine and implement changes which are necessary and brought about by reform of public sector.

Public bodies and authorities are an integral part of a social-administrative system. The existence of the system obviously determines the existence of relationships, of links between all elements thereof, in order to ensure the cohesion which is absolutely necessary in order to fulfil the social task that the majority of the public bodies and authorities have. In this context another concept and criterion of classification of relationships within the public sector is identified: administrative relationships. Administrative relationships are links established between all elements of the social-administrative system ensuring the integrity and cohesion thereof in the process of fulfilling the fundamental objective of public management.

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OUTSOURCING VERSUS INTERNALIZATION: A STRATEGIC DECISION-MAKING USING TRANSACTION COST THEORY

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Abstract

The scope of this paper is to underline arguments for strategic decision making to outsource activities by a company to another/others party/parties by using transaction cost theory.

The approach is structured into two parts, concerning the implications for outsourcing and for internalisation (not outsourcing) having in view the case of selling activity.

In the respect, using Williamson’s theory (1980), the main aspects concerning transaction costs for the both parties involved into such a contract are emphasised. This analyse is focused on three directions: organization’s costs, HR policy and competitive strategy, from the management point of view.

Keywords: *transaction cost theory, outsourcing, market governance, internalization, and hierarchical governance*

1. Introduction

The scope of any company (firm) is to achieve competitive advantage on the market in order to increase its profit. Usually the managers assume to strive for “maximize the firm’s short-run profits” (Pappas and Hirschey, 1989) and they “fail to minimize the costs” (Liebenshten, 1998). When confronting with cost rising in a competitive environment “companies ca offset these costs by installing newer technologies” (Greenspan, 1998).

In order to raise profits managers draft strategies based on developing internal strategic capabilities (hierarchical governance) or to use the benefits of the market, carrying out certain activities (market governance). On strategic method to reduce costs is outsourcing. Outsourcing is the transfer of hierarchical governance to market governance and usually is accompanied by costs reduction.

Outsourcing, according to Williamson’s transaction costs theory (1980), implies two parties: the Principal (the company that is outsourcing) and the Agent (the company that is taking the rights to do the outsourced activity), on the basis of a contract.

We consider that a company is analysing the possibility to outsource its *selling activity*, because its internal hierarchical governance lead to high costs, to an Agent (a company specialized in selling, which activity is based on market governance).

2. Williamson’s Transaction cost theory: briefing

The whole economic activity carried out by an organization could be named *transaction* upon Williamson (1980). Acting into a specific environment, organizations have to manage different contracts (with suppliers, customers, work force, and so on) and different types of risk. In order to reduce the risks and the costs associated, an alternative to manage this process could be internalization of costs and determination of the organization’s

boundaries. Williamson called this approach as transaction cost theory. On the other hand, Williamson argued that in most of the cases organizations are using the market to carry out their transactions, assumption which is called *market governance*. Williamson's theory found vary applications in practice, such as: the determination of the structure and boundary of an organization, outsourcing some of the organizations' activities, make or buy decisions, alliances, franchising, vertical integration and others. In order to cover its overhead costs because of new product development or other reasons a company can launch an offer to some potential franchisers to sell some of their products. This offer could be based on a type of *franchising* contract, according to Holmstron and Roberts (1998). This is a problem of strategic decision-making concerning outsourcing or not outsourcing, having in view the company's worries about risks and its doubts about the benefits.

3. Implications of the decision for outsourcing

The approach is focused on three directions: organization's costs, HR policy and competitive strategy, from the management point of view.

Implications on costs

As hierarchical governance incurs costs, the principal's management probably cannot manage efficiently some fix assets and overheads or may increased the bureaucracy in order to emphasize their own authority, by excess of *opportunism*, as Williamson defines such behaviour. In this case the inefficiency could arise due to the scope and the expanding the activity, as so-called the scale diseconomy. Probably the fixed costs grew, such as costs with selling force, service and transportation. In this respect, outsourcing the selling activity could be a benefit in terms of transaction costs. The agent could use his own force of selling and its logistics it already created and developed for important customers spread around the market.

Supposing that the principal's boundaries imply an inefficient hierarchical decomposition, the agents can offers a change that could be a good opportunity to reduce costs, as a way of market governance flexibility.

On one hand, cutting costs become easy by minimizing transaction costs within the agent. The problem is how management, in what conditions, for what extend signs contract? The management has to consider the information asymmetry favouring the agent when the contract is to be renegotiated. The agent might invest in new assets, accumulate experience and market knowledge, and might not negotiate in the same attractive conditions for those companies, as the principal.

On the other hand, important savings could be done considering payroll, overheads, marketing and selling costs attached to sales activity. But, the decisions might be based on a management politics, because it is not really possible to determine in an accurate way the costs of selling in-house or to outsource this activity. In any case, managing the contract with the agent's some extra costs are involved.

Implications on human resources policy

The principal's employees must have full time jobs, this activity offering much security and other advantages as: holidays, pensions, sick pay, maternity/paternity leave, training and probably decent salaries, according to the period spent within organizations. The benefits offered to the employees, identified by Doeringer and Piore (1971) could be

explained in this case, in terms of Williamson's transaction costs as a high degree of employment stability for employees possessing valued skills.

The selling force probably doesn't have sophisticated professional skills, but valuable skills as: commitment, trust, care, good knowledge of geographical location, others and these jobs might not be very stable. On this approach the agent is offering a force well skilled and experienced in communicating with different type of people within the liaison with customers.

In this respect to outsource the selling force might have positive effects on those companies' margins. But, what if the agent's selling force will need to be increased? Or, if the agent's selling force will focus in the future on selling principal's products as a priority and neglecting its own products? The agent's costs will increase and the balance will be changed in the direction of hiring more people. Atkinson's labour segmentations (1984) will find advantages for those companies and disadvantages for the agent, as in fig.1. Whether the business is healthy, the remaining people will be in advantage and other jobs could be created.

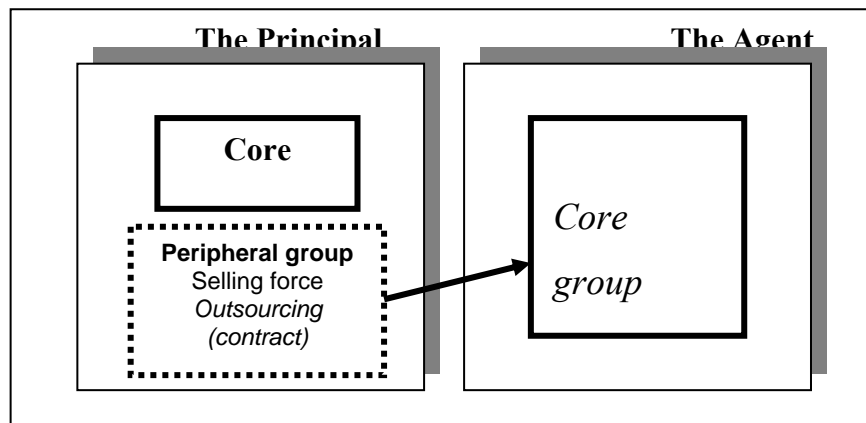


Fig. 1- Changes in workforce structure (adapted from Atkinson, 1984)

Flexibility and the creation of competitive advantage will offer jobs stability for a longer period of time. Anyway, risks could arise from the both parties.

Implications on competitive strategy

Certainly, it is essential to balance costs with strategic requirements. The agent, as Lusch and Brown (1996) defined the market for services, needs to ensure some strategic capabilities, as:

- Time capacity: to deliver companies' products as soon as possible;
- Resource capacity: to have available people and vehicles for delivering;
- Trust: to provide confidence to companies' customers based on safe delivery;
- Psychic rewards: satisfaction or happiness of companies' customers for performing the service of delivery;
- Control: management ability to exercise directions on a performing schedule of delivery services;
- Expertise capacity: more needed skills to understand companies' products and to provide a performing service of delivering new products.

All these strategic capabilities supposing that the agent already has must be a subject of negotiation with the principal and a matter of convincing them about the advantages of replacing their selling force with the agent.

An important strategic decision (Grant, 1998; Johnson and Scholes, 1997) for the principal is to change the strategy of vertical integration with flexible specialization. It is a strategic decision and it is supposed that it is based on increasing efficiency, probably by cutting costs.

An important aspect of specialization, which might not have been into the principal's view, is the interface with the market environment defined by the transaction theory and suggested by Saundry (1998). It is about the flexible specialization, as the response of the organization to challenges in order to cope with competition. Flexibility improvement might be seen as an essential requirement for competitive survival and advantage. The market offers competition and reducing transaction costs.

Externality, as defined by Williamson, could be the key for the principal's success. The agent might have some more strategic assets in coping better. It probably faces instability and volatility of the market and provides adequate and flexible methods in supplying niche markets.

The agent must have flexible multipurpose assets, such as:

- Geographical proximity to those companies' customers for a better interaction and communication;
- Economies of information, search and commercial transaction costs;
- High performance network, including IT and warehouses for companies' products;
- Long-term relationships substitute for ownership in protecting specific assets concerning marketing and sale.

Under market circumstances, the principal might get real competitive advantages, with lowering their overheads and their cultural rigidity. To accept the agent's offer they need to be open to risk.

4. Implication of the decision for internalisation

Market governance has in some circumstances valuable strong advantages, but for routine, non-strategic activities, when cost reduction and flexibility are desired. But, it is needed to assume the alternative that the principal might have an inflexible hierarchical structure based on high bureaucracy. Their culture, corporate history and strategy based on vertical integration might establish rigorous boundaries that imply a strong managerial control and that involve risk avoidance.

The decision of outsourcing the sales activity is to be made in terms of transaction costs. For the agent the contract is a way to cover overheads costs with marginal revenues, but the question is: do this contract leads to costs savings for the other parties? Focusing again on the three directions: costs, human resource policy and competitive advantage, from the perspective of selling the fleet, the following arguments are coming out:

Implications on costs

The market governance is based on writing contracts and because of bounded rationality the arrangement between the agent and the principal might be sub-optimal because the

both parties cannot cover the range of all possibilities the environment may imply. The agent might avoid some distribution agreements, the principal's customers might increase their requirements about distribution, and the volatility of the market might change some contracting conditions leading to the increase of transaction costs. Keeping in-house the activity of selling its products, the principal governed by hierarchical structure, may have a greater protection and control not only considering the control of the market, but the costs of losing this control.

Implications on human resource policy

Outsourcing the principal's sales some of the jobs will be cut off and grievance or conflict or maybe a strike could appear. It is a real management risk. This risk appears to be lower under hierarchical governance because the principal developed skilled and experienced sales force and might keep it. Even sales activity is not a vital or strategic value to the principal might prefer to keep people under payroll and lose the cost premium as the effect of downsizing.

Implications on competitive strategy

The principal's sales strategy may be based on much control, having objectives for its own distributors that avoid risk. It might have strong reasons related to the locations of distribution that could be a matter of ownership.

The ownership of distribution outlets implies much control than others. The alternative of outsourcing can bring much more losses than some transaction costs avoidance or costs savings. Losing its traditional customers trust is a risk that could appear for the principal, as well. Keeping the sales in-house it could keep the control on the relationship with its customers.

5. Conclusions

Decision to be made from the principal's point of view is to find out the best for the organization's future. Modern concepts and new success experiences have to be always considered, as an organization could not be rigid and inflexible. It has to apply changes as a consequence of environment changes.

Outsourcing the sales the principal's core activity could be more specialized and could be the subject of innovation, bringing more competence and strategic assets, followed by some costs savings. Risks could be avoided or reduced by a performed negotiation of the contract with the sales agent. By signing the contract the agent is covering its weakness developing a range of strategic competencies and responding to new market challenges. It has to focus on its own cost pressure and the volatility of the environment to manage this project in terms of transaction costs.

The development of the sales activity offers context for its sales force to achieve functional flexibility with benefits in their career progression, training and development.

In order to get the efficiency of its activity the agent is recommended to use the arguments stressed above to convince the principal to sign a contract based on the outsourcing option.

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THE ROLE OF HUMAN CAPITAL IN THE CONTEMPORARY ECONOMY

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Abstract

In all human activities information and knowledge play an essential role. In the economic life, the instruction, formation, development and education of human capital have a special importance. The human action is keeping with the social, political and economical rules and principles of the society. The individual is placed in the middle of the knowledge production process through the development of a value system, of the human capacities and competences. The result of the society's evolution is represented through all ages by the progress of knowledge and of its promotion in society, and especially in the economy. Moving towards a multidisciplinary scientific study is a fact caused by the researched objects through their own nature, through the complexity of analysis' organization, but also by the internal logic of the scientific development.

Key Words: *Learning – formation – development - human capital – role- knowledge*

The science is one of the oldest and most specific creations of the human being²⁵, existing since the beginning of humanity. The science has as object the natural and social world, the outer and inner reality of the human being ...

Through a continuous discovery of new problems and through testing their verifying capacity, the science delimitates the path of the scientific research, the strategies, tactics,

²⁵ George Ștefan, *Epistemologie*, Editura Didactică și Pedagogică, București, 1978, p. 3;

methods, techniques and procedures necessary to accomplish an intellectual innovation for obtaining a scientific creation.

With reference to the vision over the science, over the scientific research, Popper highlights a fusion between: conceiving the science as a theory assembly and conceiving the theories as hypothetic – deductive systems, but also conceiving the science as a “heroic” or “romantic” science²⁶ (the wish to understand the world as profound as possible, facing the risk, the failure, facing the invalidation, learning from mistakes, involving the target and the intellectual characteristics of the scientific geniuses for knowing the truth).

These characteristics define the methodological rules that contribute to the process of solution finding, ways of solving the existing problem but also ways for its empirical testing. The rules for testing the principles will imply questions, different points of view, aiming to find simple and satisfactory explanations.

The progress of science depends on the free competition of ideas, by accumulating some perceptive experiences and by a better regulation of the existing ones²⁷. This gets us to the Baconian induction, respectively to the selection of the “numerous ripe grapes” from which the wine of the science will be pressed out.

Thus the research, the search and the creation of the new are elements necessary for the stimulation of an inventive thinking and of an intellectual curiosity that should eliminate the stereotype and the void from the bird eye’s view over science.

The investigation of creativity and innovation by means of an adequate, multi- and interdisciplinary methodology builds a condition for obtaining depth in critical reflection.

Moving towards an interdisciplinary scientific study is a fact caused by the researched objects through their own nature, through the complexity of analysis’ organization, but also by the internal logic of the scientific development.

One needs an analysis of the actual knowledge level for the orientation of science towards its extension. By using the techniques, instruments in the social and cognitive practice, one should refer to historical, philosophical information for the enunciation of a well structured theory.

The science philosophers concerned themselves with the different issues of science. As basics, we have elements from the science philosophy to help us understand the ideas issued by different authors in the field of economic methodology (the Ancient and Medieval philosophy).

The economic science has registered an evolution at the end of the 19th century but also a theoretical revolution in the neoclassical or marginalizing revolution (Stanley Jevons, Carl Menger and Leon Walras).

²⁶ Popper writes that he doesn’t refer to the “ones for which the science is nothing more than a profession, a technique: for the ones that do not let themselves tempted by great problems and by the ultra-simplifications represented by the bold solutions” (See Replies to my critics, in the Philosophy of Karl Popper, p. 997)

²⁷ Frank, Ph., *Das Kausalgesetz und seine Grenzen*, 1932, cf preface;

The early neoclassical economists, especially Jevons have been influenced by the utilitarianism, an ethical theory that had been developed by Jeremy Bentham, James Mill and John Stuart Mill. According to them, the answer to the problems of social politics and individual morality must be given taking into consideration the consequences of the different strategies or actions in order to obtain the happiness or utility of the individuals²⁸.

Thus the human condition is the key element for the investigation of any social, economic, political system. The individual is placed in the center of the process of knowledge production through the development of a value system, of the human capacities and competences.

The human capital, as a theoretical concept, belongs to Schulz (1961) that developed it in 1981, stating that all human abilities are born or acquired.

The investment in the human capital is discussed also by Adam Smith (1776 – “Wealth of the Nations”), who has highlighted it through the differences between the individuals with different educational levels and professional training and through the capacities necessary for covering the costs for acquiring professional aptitudes.

The human capital from an individual and social point of view expresses the totality of individual knowledge and abilities that can be used in the economic activity. The human capital – as an element of the intellectual capital “represents the human factor from the organization: the combination between intelligence, aptitudes and relevant experience that offers the organization its distinctive character”.

The human capital is an essential element of a company’s market value. This is the reason why it is essential to elaborate an evaluation method for its value through human resources strategies orientated towards resources for the development and efficiency of the human resource practices.

In the Romanian economy in general, the human capital differentiates itself by improving the production capacity of the society and by generating long term effects.

The human capital’s theory takes into consideration strategies and practices for resources’ acquiring, development and rewarding.

The strategies play an important role in establishing the economic strategy by means of defining the future requirements of human capital, by means of identifying ways for an optimal usage of the capital but also of the limits and restrictions in the process of economic plan’s implementation. The development strategies for human resources are influenced from an economic point of view, having as goal the attraction, maintaining and development of the human capital.

Thus, through the development of the human resources, one will bring some contributions to the fulfillment of the organization’s objectives, of the economic and human resources strategies, of organization’s profitability through orientation towards performances, individual learning, etc.

²⁸ Hausman M. Daniel, trad. Stanciu, Dorin, *Filosofia științei economice*, Editura Humanitas, București, 1993, p.36;

The development of human resources implies the organizational and individual learning by means of elaborating learning processes, ensuring the learning possibilities for the employees in order to develop the capacities, potential and improvement of the engaging capacity.

A defining influence over the development of the human capital is exercised by the career's management through career planning and development for the employees with potential.

From a cultural perspective, the development of human resources influences the ensuring process of life conditions and human realizations.

The professional formation and improvement is performed through a complex process of training and the investment in the human capital that aims the process of professional adaptation. Economists like Milton Friedman are right in considering that the investment in the human capital is comparable to the material investment. The correlation between the economic development and the human development is obvious.

The human factor is considered to be an investment capital for a subsequent development of the organization. Within the organization and its environment problems appear that can be optimally solved depending on the human, financial and informational resources²⁹.

One can notice the contribution of the human factor within an organization, the entire personnel being thus seen as a source of ideas³⁰. The solution of this problem, the organizational learning, will determine qualitative and quantitative changes in a balanced durable and efficient development of the personnel from an organization.

We think that it is essential for the welfare of the enterprise to develop the human resources from the point of view of the competitiveness and flexibility towards the adaptation to change.

Within an organization, the importance of the human resources is reflected through:

- The organizational culture based on knowledge and the free organizational structure necessary for an optimal transmission of knowledge from one group to the other;
- The work environment based on trust in the organization and its management;
- Encouraging the personnel with special qualities and promoting the motivation by using some specific programs of continuous training;
- Organization of communication forms and conceiving some informational systems necessary for the codification of the information;
- Encouraging the performance and the evaluation of a management oriented towards the exploitation of knowledge.

The society from the end and beginning of the millennium is a society based on knowledge in which the human resources should be mobilized....transforming the man in the first raw material...³¹

²⁹ Feier, V.V., *Creativitate și creativitate managerială*, Editura Export, București, 1995, p. 140

³⁰ Cojocaru C, *Creativitate și invenție*, Editura Științifică și Enciclopedică, București, 1975, p. 85

³¹ Jean Jaques Servan Schreiber, *Sfidarea resurselor umane*, Editura Humanitas, București, 1999, p. 182-186

In the new informational society, the human capital replaced the financial capital, as a strategic resource (Naisbitt and Aburdene)³².

The result of the society's evolution is represented along the human evolution by the progress of knowledge and of its promotion within society, but especially within economy.

By developing some new elements of knowledge, technology and culture, by developing science in general, the human actions are motivated through a larger participation, a better knowledge and through the possibility of creating new future ways to overcome the past.

By transforming the knowledge resources, by identifying the information and its distribution, it is obtained an efficient learning process. The productivity of knowledge requires an increase of the results obtained on the basis of what is known – by the individual and by the group³³.

The knowledge is used in the decision making process on the base of the information, that represents a real support. The information determines the entire human knowledge and action, an unexhausted resource.

From an individual point of view, it creates the path of the individual towards finding an identity through knowledge and helps him adapt to the internal and external requirements of the environment.

The information plays the most important role in the organization and functioning of beings. The concept of “information” depends on the cognitive ontological model (see Platon, Aristotel, Schopenhauer – the importance of the information's role). The scientific sense of the information concept was obtained through generalization of its usual significances.

All these imply a change in attitude, value and behaviour that means the management of human resources through the novelty of its appliance for the fulfillment of all human necessities and requirements.

The delineation of the scientific discipline of the human resources field and respectively of the sub-system reflects also the creation of specialist managers in the human resources management that are able to administrate and operate the largest part of decisions and actions of human resources, taking them in a professional way and generating high performances³⁴.

In the last years a special importance is awarded to the managers in the change process through their contribution to the design, development and administration of this process (through talent, creativity and innovation).

The introduction of the organizational changes and performing a high qualitative management of human resources requires a co-work between the general managers and the

³² Manolescu, Aurel, Managementul resurselor umane, Editura RAI, București, 1998, p. 105.

³³ Drucker, Peter, Societatea postcapitalistă, Editura Image, București, 1999, p. 153

³⁴ Tribuna economică, no 8, August 2004, p. 14

specialist in human resources, a work centered on strategic objectives (high professional competence, “objective” approach of the human resources’ problems).

Only on the basis of an interdisciplinary analysis one can evaluate the creative – innovative state of the human capital from an organization and can recommend interventions for its stimulation:

- Sensitizing the personnel by organizing contests for creativity’s stimulation;
- Perfecting the process of selecting and applying the creative ideas;
- The creative exercise of leading within an organization through an open attitude of the leading personnel;
- The extension of the usage of creativity stimulation methods in the working teams.

The necessity to elaborate a methodology can be explained through the exploitation of the creative potential of the personnel from an organization for promoting a culture of continuous learning, of the growth of professional competence and harmonious development of the organization’s dimensions through efficiency and efficacy.

A great attention is given to learning, training, investment in the human capital, according to the requirements of the informational society. This builds the modern concepts over the human capital, the theoretical and practical preoccupations offering an important support to the economical and social growth and development.

The humanization of the economic growth is an essential characteristic of the contemporary world through the development of science.

The creation of new products and techniques for ensuring the technical progress influences the human behaviour but also the organization and administration of the economy. The economic life becomes “the entire wealth without exception” and “through the wealth of each and every one of us, we can understand what is useful in life” (after Xenofon).

Conclusions

The development of human resources represents ensuring learning, development and training opportunities for the employees in order to improve the individual, team and organizational performances.

Consequently, the problem of developing the human capital implies:

- The theoretical – methodological plan: elements of the work market, education, professional mobilities, the efficiency of the investment in the human capital, orientations and tendencies of the formation process, adaptation and professional development;
- The strategic – operational plan: accomplishing and applying an anticipatory – prospective and adaptive – participatory strategy of the human resources. Thus the human resources will be orientated towards quality and adaptation to change.

In an era when the change “complies with all time’s moments”³⁵ and the rhythm of change transforms itself progressively, we notice many processes of perfecting. For sustaining the human progress, the durable development doesn’t build a scope in itself, but a mean to

³⁵ Drăgănescu, Mihai, *Informatica și societatea*, Editura Politică, București, 1987, p. 15;

humanize the economic and social progress, in order to distribute as equally as possible its effects that coexist and the effects of the ones that are succeeding themselves³⁶.

The social structure and the increasing level of culture, the permanent and continuous education and the multitude of information sources lead the organizations towards professionalism in management, to the growth of the creative – innovative potential of the human capital.

In the present social economic context the human factor – as an active, creative and transforming element is essential for the development of the society.

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11. *** *Tribuna economică*, no 8, August 2004.

³⁶ Nica Elvira, *Managementul performanței (human perspective)*, Editura Economică, 2006, p. 232

PROMOTION STRATEGY SPECIFIC TO ORGANIZATIONS PARTICIPATING IN “BACK TO SCHOOL” PROGRAM

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Abstract

Romania’s stationery market records a growth rhythm of about 10-15 percent per year. For the beginning of school year 2007-2008, organizations of the type forecast a growth of 25%. During the top period, stationery sales grow generally with about 800-1000 % in comparison with a habitual period of the year. For distributors, the season of school stationery lasts from July to September, a period where it is accomplished 20-25% of the entire year turnover. All these events unfold rapidly in a relatively short period of time, 2-3 months for distributors and a month for retailers, producing a real storm in the frame of their management. In order to deal with “shopping fury” specific to the time before the school beginning, organizations of the field are in the position of applying a series of communication strategies. The purpose of this work is to highlight a practical example of communication plan specific to organizations involved in “back to school” program.

Key words: advertising, creativity, rules, print

1. INTRODUCTION

The role of promotional actions is to highlight products on the competition market of the organization, to position them better, and the application of adequate marketing policies causes the maintenance, strengthening, and sales extension. The organization undertakes also communication actions to inform the target public in due time, regarding the nature of the products launched to manufacture, their promotion on the basis of fair competition, carrying out special market researches, promotion of facilities granted to tradesmen (exhibition display stands, advertising materials, catalogues, posters, samples, credits etc.) and the highlighting of advantages towards the competition.

One of the most important decisions that the organization’s top management should take into account refers to the size of promotion expenses. Specialized literature presents four universally accepted methods that an organization may apply in order to settle the budget, namely the method of possibilities, competitive parity, and the method of goals and tasks.

In the case of organizations taking part in the “Back to school” program, what Marketing Department may adopt is the percentage-of-sales method, keeping for the promotional budget a certain percentage of the effective or planned sales value. This method presents a series of advantages. First, promotion expenses vary depending on organization’s “possibilities”. Second, its management may analyze the relation between expenses and promotion, the sales price and unitary profit. Finally, it is presupposed that this method creates stability at competition’s level, as companies tend to allocate approximately the same percentage of their sales to promotion.

As budget size varies every year depending on sales volume, long-term planning is difficult to carry out. The organization directs promotional budget to the main promotional instruments: advertising, personal selling, sales promotion, and public relations. They must be so carefully

combined to create a coordinated promotional mix that should permit the reaching of marketing goals and advertising. For this, the organization must take into account the type of product and of market, the opportunity to apply a strategy of pushing or attracting, the stage of buyer's preparation and the stage from the product life cycle. In order to have a maximum impact of plannings and marketing programs, promotional activities must be organized and coordinated as a unitary system.

The value of stationery market in Romania runs into 150-200 million euros and records a growth rhythm of about 10-15 percents per year, due mainly to the growth of buyers' power of purchasing. In the stationery market, the main categories of school products are exercise books, covers, writing and coloring items, satchels and pencil boxes. This year consumers' tendency also follows the orientation towards brand products, so that design elements and quality win more and more consumers. Besides the classical characters Barbie and Disney that are on top of preferences, stationery design was improved with other characters loved by children: Spiderman, Ben10, Cars, Brats, Witch or Harry Potter.

For the beginning of school year 2007-2008, organizations of the field forecast a growth of 25%, due to the extension of market with new brands. During the top period, stationery sales grow generally about 800-1000 % in comparison with a usual period of the year. For distributors, the season of school products lasts from July to September. During these 2-3 months, they realize on the average 20-25% of the whole year's turnover. In 2006, the most requested brands were Canson (drawing blocks), Morocolor (drawing and hobby products), Stabilo (writing and coloring items), Carioca (drawing and coloring instruments, as well as writing instruments). The biggest sales volumes of season were carried out by exercise books, covers, geometry instruments, products for drawing and coloring.

2. "BACK TO SCHOOL" PROMOTION CAMPAIGN IN THE FRAMEWORK OF GRAPHOTEK EXPRES S.R.L. PRINTING HOUSE

The general goals of the organization have the following shapes:

- Building a favorable attitude towards the GRAPHOTEK products and the organization in general
- Strengthening and maintaining loyalty of distributors and current loyal consumers by preserving the favorable attitude towards the brand and product and the belief that they have correctly chosen
- Rendering current "accidental" customers loyal
- Removing unfavorable attitude towards GRAPHOTEK products
- Modification of covers to the "Back to school" assortment (A5 exercise books, student notebooks, special notebooks - rough notebook, biology, geography, music, drawing, drawing block, word book)
- Attracting new customers from the indifferent and confused (towards the favorite brand) and their rendering loyal on long-term, and attracting new customers, consumers of competition products.

In order to support sales, organization's strategy was oriented towards two directions, at a national and local level.

a. At a national level. Promotion policy has as goals:

- Carrying out new collaborations with specialized companies and bookstores, developing the existing ones with a proper endowment: billboards, totems, banners, display stands, blisters, posters, catalogues, etc
- Providing material incentive of sales staff with little promotional gifts on the entire distribution chain: wholesalers, retailers, salespersons, and buyers
- Sponsorships granted for different actions
- Participation to the most important fairs and exhibitions, namely: PRINT SHOW 2007, TIB, TIBCO
- Extension at a national level of sales campaign that is to be applied at local level

- Official launching of GRAPHOTEK products in June/ July, framed by the broadcasting of advertising slots on national radio stations

b. At a local level. At local level (Galați - Brăila), it is necessary a sales campaign on a short term that will unfold between June 10 – October 1, 2007. The main goal of this campaign is constituted by the acceptance of Galați inhabitants of GRAPHOTEK products and salespersons' stimulation in the entire chain of wholesale, retail, salespersons, and consumers.

1. Marketing goals at the level of specialized store:

- Ensuring the presence of GRAPHOTEK products in all specialized shops and books stores from Galați and Brăila
- Reaching a level of informing, awareness and stimulation of local pride towards the GRAPHOTEK products of population with ages between 6 and 30 years from Galați – Brăila

2. Goals at the level of consumer/wholesaler/retailer:

- Informing of the public regarding GRAPHOTEK products, as well as the slogan that accompanies them
- Building a favorable attitude towards the name and the brand GRAPHOTEK and the positions themselves occupied by each product
- Removing the unfavorable attitude towards the GRAPHOTEK products and the belief of retrying
- Building favorable image towards the quality of GRAPHOTEK products after the first trials

The targeted segment is stationery's consumers. Generally, the profile of stationery consumer towards which is directed the sales campaign is formed of pre-school children, pupils, students, with ages between 3 and 30 years from Galați - Brăila, preoccupied by school beginning, by style and fashion, optimistic and exuberant.

Program's structure is as follows:

- June – market preparation in view of launching sales campaign;
- July – beginning of sales campaign;
- July - August – development of sales campaign;

Stages:

1. Drawing up questionnaires, filling them in and interpreting results, between

June 1 - 15 2007. After filling in questionnaires, one extracts information, interprets results and analyzes them in order to find new ideas and direction for the development of the sales campaign at a local level.

Estimated expenses: In order to be representative, the sample will be formed of 200 consumers, and the maximum admitted error of opinion poll is of 5%. Seven students will be selected and hired as promoters and they will be distributed questionnaires, thus:

For consumers' sample: 4 promoters x 50 questionnaires = 200 questionnaires

Filling in a questionnaire will be paid with: 0.7 lei x 200 questionnaires = 140 lei

For wholesale segment/distributors: 1 promoter x 100 questionnaires = 70 lei

For retail share: 1 promoter x 100 questionnaires = 70 lei. For salespersons sample: 1 promoter x 100 questionnaires = 70 lei. Total estimated expenses = **350 lei**

Carrying out the elaborate program is possible only under the conditions of acquiring pertinent information regarding:

- Psycho-social profile of stationery consumer from Galați - Brăila;
- The opinion that GRAPHOTEK product consumers have about them;
- The knowledge they have about GRAPHOTEK and its products.

Target groups: consumers; wholesalers, retailers, distributors.

2. Launching a show at Radio Galați in collaboration with Monitorul de Galați - Brăila, starting with June 1 2007

The talk show called “Școala de vară” (Summer school) will be broadcast once a week (Monday), at 6 p.m., an hour of maximum radio audience. The new show, as well its official sponsor, S.C.GRAPHOTEK EXPRES S.R.L., will be every Saturday and Monday on the cover of Monitorul de Galați – Brăila and of the information and advertising magazine Oferta Tecuceană, and by advertising it at the same time at Radio Galați, 5/6 times a day.

Sponsor’s advantages: this one has an intense promotion by announcing the official sponsor at the beginning of each show: all advertising slots of the show in the radio will contain “GRAPHOTEK Company presents to you “Summer school”. The same sentence will be underlined also in advertising dummy page of Monitorul de Galați – Brăila and Oferta Tecuceană, and the sponsor’s name will not miss from news and articles. Another advantage is the possibility of organizing different contests of general culture within the show, with prizes granted by the show’s sponsor, S.C. GRAPHOTEK EXPRES S.R.L. (office supplies, pencils, key rings, T-shirts and caps). Once a month there will be a great prize based on a score obtained along the four weeks and it consists of a satchel full of GRAPHOTEK stationery, a T-shirt and a cap.

Estimated expenses: sponsorship - 400 lei / month. Equivalent value of a satchel with stationery. Sponsorship will be granted for a period of three months: $400 \times 3 = 1,200$ lei, 3 satchels $\times 50$ lei / piece = 150 lei. Promotional materials for 12 contests: 12 T-shirts + 12 caps = 41\$. Prizes consisting of stationery: 1set/week, 30 lei/week $\times 12$ weeks = 360 lei. Total estimated expenses = **1,710 lei + 41 \$**

Target groups: pupils, students. The aim of this activity: attracting and gaining a social group of a considerable size “unoccupied” yet explicitly by other stationery brand – the young passionate of knowledge.

3. Starting with June 20, 2007, for a week there will be placed four mobile selling points in Galați, where there will be sampling with GRAPHOTEK products. Children will have at their disposal exercise books, drawing books, paper cubes realized by GRAPHOTEK. Children will have at their disposal writing instruments and will be encouraged to try the exercise books and test their quality. One will collect and note reactions and comments of those who test stationery. Possibly passers-by will be asked what their opinion about GRAPHOTEK stationery is and will be asked to note down their opinion in a special notebook of impressions. In these points, they will sell also the whole range of GRAPHOTEK exercise books in the form of wrapped packages 5+1. Also there, when people buy a GRAPHOTEK package, they will also receive a promotional object (pencil, key ring, pocket calendar, or a bag).

It is estimated that there will be consumed 4 boxes/ 4 hours/ day. The goal of this action is attracting new consumers, creating a favorable image over GRAPHOTEK products and banishing consumers’ reserve.

Estimated expenses: The payment of the 8 promoters that will do sampling (e.g.: 7 lei / 4 hours). 8×7 lei = 56 lei $\times 7$ days = 392 lei. 4 packages = 120×0.5 lei = 60 lei / day $\times 7$ days = 420 lei, 30 packages = 180×0.5 lei = 90 lei / day $\times 7$ days = 630 lei. Promotional materials needed: 100 pencils, 100 pocket calendars, 50 key rings/day, meaning 47 \$ / day $\times 7$ days = 329 \$. Placing the four mobile selling points does not cost when it is realized through the intermediate of the distributor or there is the possibility of a sponsorship by Galati City Council in exchange of obtaining the necessary authorization. Total estimated expenses = **1.442 lei + 329 \$**

4. Starting with June 15 2007, broadcasting on Radio 21 of some commercials regarding the instantaneous prize awards of GRAPHOTEK stationery buyers, either if they are found in specialized shops or bookstores, or in wholesale stores. **Estimated expenses:** Production of advertising slot 30 seconds: 250 \$

- Between June 15 and 30 2007 broadcasting three advertising slots/day, thus: 07:53 a.m.- 1 spot -4.10 \$; 16:07 p.m.-1 spot - 3.80 \$; 18:07 p.m. - 1 spot - 4.10 \$; Total / day = 12\$ x 15 days = 180 \$

- Between July 1 and 15, 2007, broadcasting of two slots/ day, thus: 07:53 a.m.-1 slot - 4.10 \$; 18:07 p.m.-1 slot - 4.10 \$; total / day = 8.20 \$ x 15 days = 123 \$. Total advertising slots broadcasting = **553 \$**

The advantage of contract conclusion consists in the bonus granted by Radio 21, namely: 15 free contests of 3 minutes each, with prize award from S.C. GRAPHOTEK EXPRES SRL: 1 package 10 exercise books GRAPHOTEK x 15 packages x 10 exercise books x 0,5 lei/exercise book = 75 lei.

15 T-shirts x 2.04 \$ / piece = 31 \$. 15 caps x 1.38 \$ / piece = 21 \$. Total estimated expenses: **75 lei + 52 \$**

5. Starting with June 30, 2007 until July 7, 2007, four teams of three people (two promoters + one GRAPHOTEK employee), simultaneously enter different specialized stores or bookstores. There they order stationery of 50 – 100 lei and ask for GRAPHOTEK products. If they do not find, the team leaves and says, “Come to Eminescu/ Coşbuc Bookstore! There we always find GRAPHOTEK stationery“. Where they find GRAPHOTEK stationery, they give the salesperson a cap, a T-shirt, a calendar of a GRAPHOTEK clock. They will also collect information about customers’ attitude towards GRAPHOTEK stationery. **Target group:** salespersons. **Purpose:** their stimulation and the striking root of the idea to demand the patron to bring GRAPHOTEK office supplies. **Estimated expenses:** 10 lei / day x 3 promoters = 30 lei / day x 7 days = 210 lei. Promotional materials: 350 T-shirts x 2.04 \$/piece = 714 \$, 350 caps x 1.38 \$/ piece = 483 \$. Total estimated expenses **210 lei + 1,197 \$**

6. Starting with July 10, 2007, 3–4 mobile teams will walk through the city in specialized stores and bookstores and award prizes instantaneously customers who have bought GRAPHOTEK stationery, thus: a free GRAPHOTEK pencil, an exercise book, a T-shirt, a cap. **Target group:** consumers. **Purpose:** attracting new consumers from non-consumers and those of other stationery brands

This action will develop on the entire campaign, not continuously, but done with interruptions (two weeks in bookstores and supermarkets, then two weeks of break). **Estimated expenses:** 50 pencils x 0.54 lei = 27 lei/day, 50 exercise books x 0.5 lei / piece = 25 lei/day, 50 T-shirts x 2.04 \$/piece = 102 \$/day, 50 caps x 1.038\$/piece = 53 \$/day, Total = (52 lei + 155 \$) x 30 days = 1,560 lei + 4,650 \$. Total estimated expenses: **1,560 lei + 4,650 \$**

7. Starting from July until October inclusively, there will be a sales campaign at the level of specialized store and bookstores. Contracts will be concluded with 15–20 specialized stores/ bookstores from Galaţi. Those who buy GRAPHOTEK stationery will receive a “GRAPHOTEK butterfly“. With three “GRAPHOTEK butterflies“, one can participate in an evening GRAPHOTEK (disco/fashion show) organized once a month.

Purpose of the action: Consumers’ stimulation to buy GRAPHOTEK products and stimulation of retailers to have GRAPHOTEK stationery on shelves, temporary growth of sales. Like this, the company comes to retailers and distributors’ assistance. **Target group:** especially the young.

8. Organizing sweepstakes at local level with a possible extension to national level

The criterion to participate at the sweepstakes will consist in filling in a coupon of participation received after acquiring stationery of 100 lei, a coupon that will be sent to the society’s address together with identification data and the complete address of the young customer. For a better knowledge of GRAPHOTEK products, one can ask to answer a question of the type: “What is the slogan accompanying GRAPHOTEK products?” This sweepstakes should begin at August 1, 2007 and end October 10, 2007. Approximate duration: 9 weeks. Maximum time dates for drawing of lots: August 22, 2007; October 10, 2007. Prizes proposed for an extraction: 5 Samsonite satchels; 30 GRAPHOTEK prizes: packages of prizes with promotional products (a promotional packet contains a clock, a T-shirt, a cap, a key ring, and a pencil); 10 parcels with GRAPHOTEK exercise books). GRAPHOTEK GREAT PRIZE: a trip for two adults and a child in Antalya (on Turkey seaside). **Aim:** temporary growth of sales

Target group: GRAPHOTEK stationery consumers and non-consumers. **Estimated expenses:** 5 satchels x 150 lei/piece = 750 lei/month x 2 months = 1,500 lei, A trip in Antalya for 2 adults and a child = 1,500 \$, 90 promotional packets = 429 \$, 10 parcels of exercise books: 10 parcels x 120 pieces x 0.5 lei/piece = 600 lei. Total estimated expenses: **2,100 lei + 1,929 \$**

9. Sellers prize award. This will be done at distributors' indication. For example: for 10 parcels of sold GRAPHOTEK stationery one may offer a packet of 10 exercise books. The action will be monitored by the supervisor. **Estimated expenses:** 5 parcels/ day / 10 pieces x 90 days = 2,250 lei. Total estimated expenses: **2,250 lei**

10. Owner's stimulation

A password will be set and it will be announced at a radio station or mentioned in written advertisement. For customers who know the password, the distributor will give a facility. Advantages: the distributor will be searched for by customers knowing the password. The message/ advertisement in newspaper/ commercial on the radio will be carefully searched for/ listened. The advertisement will not pass unnoticed. It may partly be supported by the distributor also. The password may also function as an efficacy test of advertisement supports, because one may ask where the customer has heard the message.

11. Prize award with promotional objects of sellers and employers for the most merchandized store or bookstore from the viewpoint of GRAPHOTEK stationery that will be arranged in a certain order established by the organization.

Estimated expenses: Necessary of promotional objects: 300 T-shirts x 2.04 \$/piece = 612 \$, 300 caps x 1.38\$/piece = 414 \$, 300 pencils x 0.18\$/piece = 54 \$. Total estimated expenses = 1,080 \$. Total estimated expenses of sales campaign at local level: **18,400 \$**

After this sales promotion campaign, it is estimated a growth of sales for GRAPHOTEK stationery with 25-35 %. The unfolding of actions and their efficacy will be monitored and analyzed by the Sales and Marketing Director. Solutions of going out from unpredicted situations will be found by consulting the entire sales team.

Estimated expenses necessary to the application of marketing plan

Banners exhibition in bookstores and specialized stores: 500 pieces x 20 \$ / piece = 10,000 \$. Bright advertisements 100 pieces x 40 \$/piece = 4,000 \$. Stalls: 50 pieces x 200 \$ / piece = 10,000 \$. Advertisements: 30,000 \$. Equivalent value of festival participation: 5,000 \$ x 3 = 15,000 \$. Granted sponsorships: 500 parcels x 10 piece/parcel = 5,000 pieces = 2,500 lei (1,042 \$). Promotional materials: pencils 10,000 pieces x 0.14 \$/piece = 1,400 \$. Key rings 10,000 pieces x 0.35 \$/piece = 3,500 \$. Badges 3,000 pieces x 1 \$/piece = 3,000 \$. Caps 3,000 pieces x 1.38 \$/piece = 4,140 \$. T-shirts 3,000 pieces x 2.04 \$/piece = 6,120 \$. Stickers 1,000 pieces x 2 \$ = 2,000 \$. **TOTAL GENERAL MARKETING PLAN 2007 = 121,393 \$**

A part of these expenses represents investments in marketing infrastructure. For the next year, the Marketing and Sales department management proposes itself the increase of promotion funds with the stated purpose of conquering not only the market of Galati, but also the national one. This will be possible by using the experience previously accumulated but also through the adoption of new techniques and procedures of product promotion and selling.

3. CONCLUSIONS

Advertising consumes a lot of time, effort, and money. That is why, all these must be justified through the effect acquired by the organization, which most of the times it is directly proportional with the impact on the target public. A complete advertising should theoretically contain a title, a subtitle or more, a language, a basic line usually used for the slogan, a logo, an illustration, the product or an image of it, a coupon, a phone number, fax, or web site, an address, and eventually a price. The design of a poster is usually simpler and in the same time, more exciting, a title, an audacious illustration, an idea and something extra. A powerful concept must

also benefit from a competent execution. With a little common sense, balance, conciseness, simplicity, legibility, and the essential element – capture of attention, the advertisement should function. It must be seen, memorized, and transmit a true message with an intrinsic value, which would make it truly creative.

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THE POSTMODERNISM OF MODERN MARKETING

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Abstract

This paper proposes a postmodern framework for understanding the contemporary macromarketing theory. Postmodernity is a term that has been used quite frequently to point out the current conditions of the world order. The terms modernity, modernism and modernization express relative different things and situations: modernity refers to the period that began with the industrial revolution; modernism refers to the social, economic, and political conditions that have dominated during this period and modernization refers to the transformation process that underlie the social and economic order. On this background, we want to highlight the impact of these concepts on the actual macromarketing practices.

This paper concludes with a discussion concerning three contemporary macromarketing topics: the global sign economy, the economy based on flexible specialization and informational capitalism.

Keywords : modernism; postmodernism; macromarketing; the sign system; hyperreality; particularism; fragmentation; symbolic behaviours.

Postmodernism and marketing

Modernization has affected people's tastes, work habits and their lifestyles; it has changed all parts of the world. Modernity has heralded the dawn of a new age that is known for its scientific and technological developments, the gradual downfall of monarchy and the materialization of corporate-type economic institutions all over the world. Modernity is that period during which the social transformation that we observe today has taken place, so postmodernity is the period that has just begun.

The term “ postmodernism “ was first used in architecture to emphasize the break in 1960s with modern functional and rational thinking, and has taken its present shape in the second half of this century. Attention is drawn to continuity and discontinuity as two sides of elaborate relationship between the present social condition and the pattern it preceded. The major feature of postmodernity is the combination of contradictory emotions and

perceptions regarding perspectives, ideas and things in general , and consumption in particular.

The most discussed conditions of postmodernity are : the sign system, hyperreality, particularism, fragmentation, and symbolic behaviours.

The sign system

Signs and symbols are used every day to supply meanings for human communication. Signs can be entrenched in language or can be visual. These are very important for marketers, in particular in advertising, which is the ultimate sign system, because "... a sign is composed of a word and a mental image and is associated with a referent, a 'thing' in the 'real' world. When signs are exchanged between individuals, they become symbolic..."(pg.57, Poster , 1990). In postmodernity, advertising signifies delivering meanings from the culturally constituted world to the product; any kind of meaning, not just status meaning as used in modernity for the purpose of status competition.

Hyperreality

The model is more real than the reality it theoretically represents. The hyperreality is that which is already reproduced. It is a model of "a real" without origins or reality. Exemplified by the virtual world of cyberspace, it involves the foundation of consumption sites that are more real than real.

As the cultural order, on the background of the new technologies of information and communication, the image is supplanting the textual. This denotes that the contemporary consumer exists in a visual culture, where images are packaged into signs. Represented through the planned interchange of a multitude of signs , the image reflects on the surface and becomes the real meaning the consumer seeks in buying goods. The image does not represents the product, but the product represents the image.

Particularism

Because different cultures behave in their own way in regard to the same set of needs, this leads to particularism, which means that the products of social and cultural constructions are not standardized across time and space.

However, in matters of food, clothing, housing, and other daily consumable products and consumption situations, people have interacted with each other without concerning themselves about essential rules of behaviour. This normalness in understanding leans to be a pragmatic principle rather than an inflexible system of belief.

Fragmentation

Fragmentation defines in the most excellent way the contemporary consumer, for the reason that the traditional view of the consumption follows a modernist perspective of a unified self and unified meaning. The fragmentation of society made possible by the developments of industry and commerce, is among the most visible consequences of postmodernism.

Products and services have progressively freed people from all alienating tasks left behind by tradition, even shopping itself. From one's own home, and without the necessity of a physical social interaction, one can obtain almost anything one desires. In some domains where consumer culture is the most obvious, he sets no visible patterns and engages in multiple experiences.

Symbolic behaviours

The symbolic nature of consumption process is directly attached to the first condition – the sign system. Symbols create meanings, and these meanings are given to consumers by the media, by the cultural groups to which they belong, or by their families. Meanings are constructions determined by individuals through their cultural affiliations, so if the meanings change, the consumption practices transform as well.

Contemporary macromarketing topics

The sign economy

Postmodernism recognizes the importance of culture in addition to the economy, and of consumption in addition to production, in analyzing the global economic and cultural landscape (Harvey 1990).

Postmodernism is a late modernism because of its extension of modernist tendencies. Consumption could become the driving force of economic movement as the economy reaches a certain level of production and distribution, and the society reaches a certain level of prosperity.

There are several features of sign economy : the first one is that consumption is held at a higher level of social signification than production; the second one is that products reduce to goods, because, similar products could be differentiated based only on their sign values, so it is obvious that the Sign economy moves from a goods production industry to an image production industry, images being created faster than goods.

The core in the sign economy consists of cultural intermediaries (entrepreneurs, political leaders, media personalities, professionals, etc), that is different of modernist communities that have a core that represents a relatively stable component. The core of sign economy might even consists of people who are less privileged by current economic standards but are motivated to achieve higher material standards. Such possibilities represent the essence of the postmodern culture.

On the background of individuals changing tastes ,consumer patterns change at the microlevel and the changes that occur at the macrolevel are because of structural shifts in the environment. It is the second type of change that interests macromarketers because macrolevel shifts influence microlevel behaviours. An important source of complexity in the consumption system could be represented by the diversity of the population itself .

A development of postmodern culture that has engaged the attention of many social theorists is the juxtaposition of opposites and the creation of apparently incompatible objects and images for consumption. The objects of consumption are no longer entrenched in a special part of human life but rather exist in symbolic environments of contradictions and juxtapositions.

Therefore, the individual is a consumer of symbols rather than of objects. The symbols are created through a complex interaction of high technology production and social configuration. Activities like shopping, dining, entertainment, leisure, recreation, etc, correspond to consumption experiences.

Regimes of flexible production and consumption

There have been several theorists of the global economic system like Kondratiev or Schumpeter and some political economists that were called regulationists and their work is known as the "regulation theory". According to them, the economic system that has dominated the twentieth century is characterized by standardization, massification, scale economies, oligopolistic competition, and mass consumption of cheap goods, organized by and around vertically integrated and hierarchically governed large corporations. The regulationists also contend that the government has played a key role in this process by developing policies around education, in the training of workforces, in the promotion of scientific and technical research, in the underwriting of the welfare state, and in the establishment of the military-industrial complex.

Because of market saturation, the demand for standardized products declines, but the competitive demands require that the highest quality products are produced in ever-increasing differentiated markets. One way in which to differentiate the products is not by changing the mass production processes dramatically but rather by adding flexibility to the

processes and making modest changes through short production cycles in which the core product remains the same but is differentiated on the basis of some intangible benefits and incorporating the sign system. This means that the production systems should be flexible to meet the demands of the marketplace. Second, firms need to understand the sign economy that provides the basis for demand creation.

The sign economy is mainly governed by timespace compression, which means that consumer tastes change quite rapidly. For firms to respond to these demands, they need to introduce ultimate flexibility in their marketing and distribution efforts.

One of the challenges of the regime of flexible specialization is designing flexible work and flexible organizations.

There are other developments that must be taken into account as well : first, in a number of cases, work is more decentralized and is outsourced. That is, in a number of organizations, there is a decentralization of power and authority at the middle levels.

A second aspect of changing work is that it is geographically dispersed, that being possible because many companies view the entire globe not only as a marketplace but also as a production space. Cost considerations have required that work be moved to locales where the labor is cheap. In addition, skills could be universalized much more so than ever before because workers could be trained anywhere in the world. While markets are differentiated, production spaces are homogenized globally.

A third dimension of work is that, even managerial work now is distributed globally. Management has become essentially knowledge work, which means that what people need is not so much people skills because there is less need for hierarchical managing of workers. Because work is decentralized, it is evaluated on the basis of outcomes rather than worker-related processes. The work processes are automated and embedded in technology, and there is very little in terms of worker supervision required.

A fourth aspect of the transformation of work is that not only is work transportable but in many work settings, lifetime careers are becoming a thing of the past. Workers are employed with the full expectation that they will not continue for long periods within one company. The workers themselves know that they cannot make a career by working for a single company. *Information economy and informational capitalism*

There are two perspectives that bear on the diffusion of information technology globally. One perspective approaches it in rational economic terms and from a point of view of business productivity and the transaction system.

A second perspective focuses on how the new technologies are shaping the symbolic order of the global society. From a postmodern perspective, the last emphasis might be more relevant, although both perspectives combine to present interesting results.

It is true that not all segments of the world are affected equally by the information revolution,

but the diffusion of the Internet has made this quite dramatic in a short time. The relative speed with which the Internet has reached 50 million users defies all logic of conventional diffusion theory, especially regarding the rate of diffusion and the level of penetration.

Poster (1990) has a postmodernist approach in estimating the impact of information technology on the global order of communications and networks; he moves from the constitution of the individual self in the informationage to the social construction of popular culture that is mediated electronically and globally. As information is reproduced electronically rapidly, the providers and receivers of information become active members of the social order of reproduction.

A growing area of research that is emerging from the diffusion of global information, technology-based networks is knowledge management. A basic issue in knowledge management is that, as organizations and economies are moving into knowledge-based environments, these environments are becoming not only complex but also highly technologically dependent. A very crucial manifestation of knowledge environment is the network economy. The network economy is not a simply transaction-based economy but rather a knowledge-sharing community of alliances and competitors that rely on fast developing technological landscapes.

As the networked environments become more complex, the knowledge systems also become complex. A great degree of the complexity arises as the networked environments are not physical environments but rather virtual environments.

This section concludes with a quoted passage on cyberspace:

„What characterizes the cyberspaces is the physical location of the subject independent of the *body*, embedded in a system of symbolic forms and information nodes. Cyberspaces are full of paradoxes; they are spaces where human beings can be in contact with one another on an instantaneous basis and still remain anonymous, where identities are hidden and camouflaged, and [where] people can enter and withdraw, meet and discuss, see and not be seen. All of this is possible while sitting at home and gazing at the electronic screen.” (Turkle 1995).

As a conclusion, the virtual environments are becoming global and complex at the same time.

They seem to be acquiring a character of their own due to time-space compression and postmodern cybernetic infusion of digital images, emerging a new spatial configuration that has been described as cyberspace.

Implications for macromarketing

During the past twenty years, the field of macromarketing has attempted to find a paradigmatic position that would be either discipline based or subject based. For the large corporation, the global politics was very difficult. What mattered was economic success at any cost and economic performance that would guarantee its continued success. Every setting was valued in economic terms, and culture was secondary or less relevant.

The economic modernization of the world has been advancing like a giant machine denying cultural differences and securing the goals of rationalization, standardization, and control. Postmodernism argues for a shift in this approach in some fundamental ways that should help to broaden the field of macromarketing. It argues that the world is full of symbols and signs, so culture matters; cultural differences exist globally, subcultural differences exist locally, and no culture is superior to the other; and cultural imperatives should dominate economic imperatives because the economy is part of the culture rather than the other way around.

Postmodernism recognizes the duality of production and consumption in any society in a way that seats the discussion on consumption equally with the discussion on production. No production can take place without corresponding levels of consumption, and no consumption can take place unless things are produced.

The global economy is becoming more and more a networked economy. The flow of information technology has given rise to unprecedented interconnectedness. The reality of this is that global discrepancies will continue and will favor the more powerful economies.

Conclusion

Postmodern consumers want to become a part of processes and experience interest in thematic settings rather than simply encounter finished products and images. That is why,

in its framework, marketing has to include the consumer not as a target for products but as a producer of experiences.

The essence of postmodern experience is participation; without it, consumers are just entertained and do not understand. They interpret goods in different ways, adding meanings to them, diverting them from their original purpose. An important consideration in postmodernity is the ability of individuals to twist consumption – based meanings to achieve similarity with self-image. In postmodernity, the consumer is not a passive target for image marketing but an active link in the continual production of meanings.

He calls for an experience-based marketing that emphasizes interactivity, connectivity, and creativity. (Regis McKenna, 1995).

It is a fundamental shift in the role and purpose of marketing: from manipulation of the customer to authentic customer participation, from telling and selling to experiencing and sharing knowledge and emotions.

Modern society was conceived as an ensemble of social groups: socio-professional categories, social classes, and so on.

Postmodern society, in contrast, resembles a network of societal micro-groups in which people share strong emotional links, a common subculture, a vision of life. The job of postmodern marketing is to identify the cultural meanings and images that are intended for the product; what sort of gender, status, age, lifestyle, time, and place meanings are sought for the product, what are the values and orientations.

Jean Baudrillard asserts that we have moved from a phase in the development of capitalism where the commodity-form was dominant to one where the sign-form prevails. Consumption, then, must not be understood in relation to use-values, as material utility, but primarily in relation to sign-values, as signification. In this context, postmodernity places emphasis on hyperreal spectacle and signification rather than ‘real experience’.

„Postmodernism is a cultural position that introduces non-linearities in time and space, in virtual environments, in chains of signifiers, in decentered self, in the breaking down of the mind-body dualism, in the creation of expressive forms, in resurrecting language as a critical narrative, in decentering the gendered relationship and in general, in the breaking down of modernist dichotomies.” (pg. 310, Venkatesh, Firat, and Meamber, 1998).

While rejecting the notions of modernism as the only guiding principles for defining the social order, postmodernism has attempted to do the following: restore aesthetic approaches in human discourse giving prominence to the linguistic and symbolic aspects of human life, elevate visuality and spectacle to levels of critical discourse, recognize subjective experiences as a meaningful part of human practices, and redefine the human subject as both a cognitive and an aesthetic subject.

For many commentators, postmodernism is primarily an aesthetic movement, a revolt against the once shocking subsequently controlled ‘modern’ movement of the early- to mid-twentieth century. The world, in the postmodernity, has entered a whole new, historical epoch; an epoch of multinational, globalised, capitalism, where traditional ways of working, producing, consumption and exchange have changed.

Frequently described by the epithet ‘postmodernity’, this is the world of the world wide web, 24/7 day-trading, satellite television, sound bitten politics, etc. It is a world of ephemerality, instability, unexpected, unpredictable, uncontrollable, unremitting.

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ADVERTISING RESEARCH- AN EXTREMELY VIVID AND NECESSARY REALITY

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Abstract

Marketing planning process is ending with the step of evaluation and control of the results. The measure of evaluation has an important role in reducing the errors and the risks associated with the present and the future marketing strategies. Advertising, as a marketing process, ask for the same measures in strategic planning, including here the steps of evaluating and control.

Introduction

Any process of planning has also a purpose of evaluating the results obtained after the insertion of the selected strategic options. The evaluation of the effects of advertising done to serve certain present and future objectives of the organization, which are not necessarily related to the advertising campaign inserted in the moment of the evaluation. These objectives are: the rise of efficiency regarding the decisions for the future, the decrease of the risk through a profound understanding of the market reality, obtaining savings, having in mind the fact that the price paid for advertising on classic media support is very high and accumulation of experience which will help you develop other campaigns.

Advertising research as a process

The actual value of the effects of publicity may take place either before it, either after it was released. For each of the two situations there are specific techniques which can be used - pre and post- testing of the effects of the commercial.

To allow the evaluating actions to be relevant and to allow corrective measures a few conditions must be respected: 1. the control and the measuring must be made on different objectives, pre-fixed (notorious, image, behavior objectives), 2. the control and the evaluation of the advertising actions must be made systematically and in comparable conditions and 3. the control and the evaluation must be made in objective conditions and reflect reality (Epuran, 2002) .

Pre-testing has objectives related to the evaluation of the message, obtaining information and reducing the risk of communication. These objectives are achieved through measurements which can have as an objective: the degree of attention generated by the commercial, possible associations that the receiver makes between the object of communication (product or service) and the brand or/and organization, possible distortions which would affect the significance of the message. The attitudes formed after receiving the message. Concretely there are a series of criteria which are used, mainly qualitative through which the commercial is pre-tested: the spontaneous reaction of the receiver at the first view of the commercial, the negative or positive impact of it, the main characteristics of it, the visual impact (esthetic value), identification, placing and the relative importance of the announce constituents of the commercial (logo, brand, etc) the intend of the commercial the presence of eventual improving possibilities of it. Although these criteria allow the organization obtain very important information about the commercial, there are a

few shortcomings: the adoption of the commercial is unfamiliar, the receiver may be influenced by the opinions formulated by others (the focus group research), the commercial represents a matter for research and not an every day reality. With these qualitative criteria, pre-testing also appeals to a series of quantitative techniques as: Folder test, Split-run test, the Consumer's Jury which refers to evaluation of the opinion of the receivers regarding different versions of the advertisement. Also, in this step of pre-testing, lab- experiments are used, with a series of instruments (chronometer, tachytoscope, diaphanometer) which measure the degree of the perception of the commercial and of its main elements.

Post-testing has as a purpose the evaluation of the effects of the commercial after it has been released, fixing a series of objectives specifically related to the degree of memorizing, the efficiency of using media supports and the cover of the target through advertising campaign. Post-testing is made using a series of techniques such as: D.A.R. (Day After Recall) which measures the degree of memorization of the commercial at 24 hours after its release, the Starch technique, which measures the degree of reading and memorization of the advertisements in a publication, the Gallup-Robinson technique, which uses the degree of memorization of an advertisement inserted in a publication.

The testing techniques presented previously are concentrating almost exclusively on the communication effect of advertising, which can be estimated relatively easily.

Instead, the effect of advertising on the sales, which is as interesting for the organization, seems to be much more difficult to estimate. The causes that determine these facts are related to the realization that there are many influences on the same sales, generated by: the features of the product, the price, the availability of the product, and the actions of the competitor companies. The character more or less verifiable of these factors leads to difficulties in the evaluation of the effects of advertising regarding sales. In practice, there are a series of techniques which try to solve this complicated question. The study of the impact of advertising on sales is done either by analyzing the historical data either by analyzing the experimental data. The historic approach presumes the correlation of sales from the past with the advertising from the past, using the comparison of simultaneous data, or the comparison of data that has been declared in time, using statistic methods. The experimental methods can take the form of the study of the impact of advertising on areas; in this case the budgets for advertising are different, trying to identify the influence on sales (Kotler, 1997).

The impact of advertising on sales can now be estimated with the information obtained with the help of one integration system (Catoiu et al, 2002). This system allows the measuring the major marketing variables such as advertising campaigns, displays, discount, thus determining the level of sales. Concretely, they refer to gathering information from a single panel of household, which refer to promotion and shopping done with the help of special devices: electronic devices for measuring the audience, scanners for reading the bar code and divided cable (Thomas, 1997).

The practical aspects of the strategies and tactics of advertising creation and media are, presently, conditioned by a few elements that depend on the efficiency of marketing communication. On one hand, there is the necessity of a good evaluation of the relationship between investment- effects, on the other hand the nature of the activities that are specific to advertising agencies (Clow, Baack, 2004). In the case of pressures from the announcers on the advertising agencies to obtain measurable communicational results, at the level of bonds, the duties of the people in charge with the commerce the management of the brand and the advertising creation are more complicated in the sense that the measurable communicational results are now directly dependent on the good coordination of these three activities. As long as the partnership of these develop we assist at a change of

communication from classical to integrated, which is not only limited to advertising. The effect of the need of integration doesn't refer only to the ones offering communicational marketing services, but also on the internal affair of the organization. In order for the strategic vision to have concrete expected results, the organization must follow some steps for the correlation and coordination of instruments and responsibilities referring to marketing communication (Kotler, Armstrong, Cunningham, 2000):

- The analysis of the existing tendencies in the interior and exterior of the organization which can affect its capacity to do business- the fields where communication can contribute to solving problems, determining the weak points and the strong ones regarding communication, developing communicational tactics on their account;
- The analyses of the structures which generate communicational costs , identifying the specific objectives and the budgets for it. Reevaluation of the costs of communication per product , of communicational instruments, depending the stage of CVM and the observed effects;
- Identifying all the contacts between public and organization and /or brands. The fulfillment of the conditions which assure the concordance of communication with thee strategic options chosen and the public's necessities;
- Encouraging the team working defining communication. The integration of communicational functions in a process of unitary planning and specifying all public categories for each level of planning;
- assuring conditions for sending the unitary message through all communicational instruments and media supports selected;
- assuring performance criteria which can be measurable for all communicational elements;
- assigning a leader for all communicational efforts of the organization.

These concrete directions represent, largely, the present and the future of marketing communication, in which uncertainty and challenge of a strongly competitive market could be ,tamed' through a good coordination of the effort of the ones interested in communication..

International advertising research

In practice, there is more than one possibility that marketing research contributes to the necessary of information destined to taking decisions which maximize the result of advertising with minimum efforts. In the context of internationalizing business and thus markets, these particularities of marketing research tend to borrow characteristics specifics to the environment in which they are used. Thus, there are a series of particularities of marketing research comparable to the national territory. These particularities concern with the high complexity degree of international market, using research instruments and the territory covered by the research (Danciu, 2001) Concretely, the elements that give particularity to international marketing research are (Pop, Dumitru, 2001):

- the high degree of research complexity;
- the much more emphatic heterogeneousness of the information ;
- the preponderance of office research;
- focusing studies on multicultural coordinates and frequent investigation of transnational segments;
- the additional financial efforts that international marketing studies involve.

The aspects presented previously underline the directions in which researchers should take so the information obtained through research are useful in defining marketing

programs, both nationally and internationally. The table 1 presents series of comparative elements regarding shape, content, and execution of marketing research

Table 1 Comparative particularities of marketing research in the national and international space

	National	International
Content	Understanding a single cultural contact; Delimitation from the national structures.	Understanding of a multicultural context/comparable data; Delimitation of national segments in more than one countries/transnational segments
Sources and methods	Using organizational, national structures; Preparing a unique questionnaire; Using comparable data.	Using varied sources (incomparable) in many countries; International statistics; Preparing more versions of questionnaires in more languages with different methods; Using procedures to make data comparable;
Execution	Using one research institution (national); Using national interviewers; Data on short term.	Using research institutes in many countries/international institutes; Creating interview offices abroad; Financial and time investment for collecting data.

Source: Victor Danciu, op. cit., p. 135

Advertising research principles and techniques

No matter the application space, international or local, the marketing research suggest a set of principles and techniques with a variable, general character, identifying them is done on a series of criteria, among which: the functional purpose, the type of info resulted from the research, the methodology used, the necessities imposed by the research, etc. The functional purpose, the objectives of the research and the specific requisite of information are, but the main determinant factors in choosing the methodology for collecting and interpreting data. Starting here, in practice there can be identified the following types of research:

1. according to the functional purpose: exploratory research, instrumental research, descriptive research, explicative and predicative research;
2. according to the methodology chosen or the type of information resulted from the research: qualitative and quantitative research;

The opinions of specialists on the field which are to be presented are concentrated on methods of research, which participates interdependently at the identification and

solving managerial problems of the organization. Thus, exploratory, descriptive and causal researches and the quantitative and qualitative ones are remarked by the impact on necessities of knowledge on the level of the firm, but also by the frequency of using in marketing practice.

As it has been mentioned before, each of the researches fulfill certain role at the level of the organization and of the marketing activities. Thus, *the exploratory* research is used when the research objectives are concentrated on getting the initial information and on clarifying certain aspects of the managerial activity. Also, this form of research is used to redefine research problems, to create new hypotheses, to define terms and choose priorities in research. Concretely, the exploratory research tries to achieve the following goals (Catoiu et al, 2002):

- Formulation or better defining of the problem;
- Clarifying certain concepts;
- Identifying alternative directions of action;
- Elaborating hypothesis;
- Determining important variables;
- Suggesting subsequent directions of research;
- Setting research priorities;
- Finding new ideas;

The methods used for this type of research are relevant to a multitude of situations, being able to take the shape of: secondary data analyses, interviews in the case of experts, focus-groups, case-study, etc. In the case of national and international advertising these methods play an important role in taking decisions prior to the specific programs.

The descriptive research is used when the research objectives are concentrated on describing and measuring marketing phenomena in a certain moment. The data obtained from these types of research tend to generate answers such as: *who, what, where, how many times, when, how much, how often, these combined with the managerial decisions regarding problems and opportunities that an organization encounters* (Hair Jr., Bush, Ortinau, 2002). In this case, descriptive research is extremely useful in identifying and presenting the characteristics that certain marketing phenomena have. The concrete goals of such a research can be:

- Describing the characteristics of target segments of the market;
- Estimating the brand share of a certain category of subjects on the whole population;
- Setting opinions and perceptions referring to marketing phenomena;
- Making predictions on certain temporal spaces.

As opposed to exploratory research, the descriptive one has a structured characteristic a formal one, based on most cases on statistic-mathematic molding. For this reason it is considered that descriptive research is responsible for generating 'difficult' compared to the 'easy' ones obtained through exploratory research. These multiple goals followed by the descriptive research are the basis of concrete research techniques, such as: analyses of secondary data, opinion poll, observation, simulation, etc. Continuing the logic of the research-impact relationship, one can assert that this set of techniques contributes to the concrete defining of the strategies and tactics related to advertising, as to the evaluation of the efficiency of the communication programs of the organization.

The type of research that responds best to the situations in which it is wanted to identify explanations referring to marketing phenomena is *causative research*. The type of objectives that this type of research is concentrated on determining causality in relation between factors of marketing and interest phenomena, and also testing hypothesis such as *'if-then'* referring to different constructions submitted to investigation (Hair Jr., Bush,

Ortinou, 2002). The difference between descriptive research and causal one is related to the level of aggregation both working with measurable data. In marketing research practice, the causality between marketing phenomena was treated mostly with the help of marketing experiments. These have already consecrated a particular formula, that of marketing testing which consist in field experiments specific marketing measures. The main objectives found in the case of this specific technique are: previewing the level of sale, identifying relevant market information, anticipating the effects of applying the marketing plan. Also, the techniques of observing are used in investigating and collecting data regarding the relation of cause- effect which may appear in the situations in which the organization initiates innovative actions at the market level.

This succinct presentation of the main research methods must be completed. Although these research methods seem to be mutually exclusive in nature, they don't represent mostly more than a redefining of research problems with the purpose of identifying a methodology or a combination of methodologies used to collect necessary data to take a decision. What is more, these research methods suggest a certain order of utilization (first exploratory and then others), it must be mentioned that using them is interchangeable, in the sense that , for example, after a descriptive or causative research, a new exploratory research may be needed, to complete the understanding of the marketing phenomenon.

Beyond the characteristics of these research methods, in the whole process of research, important are the ways and techniques used in collecting data. In the last few years, two main technique collecting categories imposed themselves: qualitative and quantitative techniques. With a different specific but associated to different research methods, these two great techniques have, in their turn, specific instruments to obtain measurable or immeasurable data, necessary to marketing decisions.

The qualitative research of marketing aims to generate initial or primary answers decisional opportunities. Although they only using scientific methods, this research or collecting information technique was firstly associated to exploratory research, the latter being closer to the empiric results than those considered final, their statistic validity falling on the second place. One of the main qualitative research characteristics is to concentrate on collecting a set of primary data from the level of reduced samples by questioning or observing the behavior of subjects. In most case, the qualitative data can be collected in a short period of time, due to the synthesizing process and measuring them in relevant structures of numeric nature is difficult. This being said, the key-words and descriptions are considered relevant in obtaining answers, less interesting are the observations of numeric terms. Usually, analyzing data is limited to analysis and interpretation with a high degree of subjectivity. Also related to this last aspect, we can specify the fact that the unstructured form of questions and reduced dimension of the samples reduce significantly the possibility of generalization the results over large communities of subjects. These being said, the qualitative research plays an important role in understanding and solving decisional problems referring to initial areas of action, preliminary explanation of consumer's behavior and the facts associated to this one.

Opposing the qualitative research, ***the quantitative research*** is concentrated on using formal relations expressed in numbers. Presently associated with opinion polls and experiments, quantitative research use pre-determined questions and answers addressed to a large number of subjects. Normally, in the case of this type of research, the problems and opportunities are well defined, the necessary of information being precisely delimited. From this perspective, the quantitative research is associated to descriptive methods and causal rather than exploratory. The success of such a research depends mostly on the quality of instruments used in collecting data, rather than communicational

qualities of the one implicated in collecting data. The main objectives of the quantitative research refer to the assurance of decision factor of information which can be used in the following direction: estimates regarding the correlation between markets factors and specific behavior;

1. profound understanding of the mechanisms that govern such relations;
2. verifying or validating the existence of these relations.

Also, this type of research make necessary the presence of a well prepared staff in developing buildings, elaborating scales, making questionnaires, setting samples, interpretation of statistic data. More than that, aspects related to validity and accuracy of data are very important in the case of quantitative research.

Although, as it has been noticed, the advertising research covers large fields of knowledge, many of them intersecting with the necessary of information specific to other decisions referring to the mixed elements of marketing. Essentially, advertising research relates to identifying the right ways of communicating with the fixed targets. The concepts of communication *testing*, *copy development research* or *copy testing* are, by definition, research directions, in the case of advertising.

Distributed, normally, in measuring techniques before releasing the message and measuring techniques after releasing the message, these are grouped, once more, in a few large categories, according to the pre- determined purposes:

1. techniques of measuring opinions and attitudes;
2. projective techniques;
3. lab techniques;
4. techniques based on the evaluation of memory;
5. techniques based on investigation and sales analysis.

A short presentation of each of these categories is necessary.

The opinion and attitude measurement techniques refer to those situations when the evaluation of the content for the commercial message is made by knowledge of opinions, feelings, and preferences for certain advertising messages. The probability of buying a product depends on a certain degree of the way in which the commercial detaches itself from another one by the impact it has on the intension of buying. The measuring of opinions, attitudes or preferences is a largely used method in the general evaluation of commercials (Nancarrow, Wright, Woolston, 1998). It can be applied successfully in the initial stages of the process of planning the advertising. Among research instruments specific to this method we can find focus-groups thorough interviews.

The projective techniques are methods borrowed from the field of psychology and adapted to studying commercials. They define themselves by the fact that they don't generate numeric or measurable explanations but rather contribute to understanding the way in which commercials should be conceived. Unstructured stimulus lead to expressing opinions which in many cases don't imply the conscientious feed-back from the respondent. The projective techniques are usually limited to a limited sample of respondents and the result of the study depends on the previous interpretation and analysis.

Lab tests consist in testing the reaction of a group of respondents concerning a certain commercial. These tests concentrate on evaluating the verbal content of the message by stimulating motivation to read a message or to react to its exposure as measuring the degree of understanding the message. Although it presumes a level of artificiality, the lab tests have the advantage of coming before the release of an advertising campaign, avoiding eventual errors and unreasonable costs in communication

Verifying the impact of advertising after releasing and developing it is usually based on the process of memory. These measuring techniques have two precise objectives: 1. identifying the degree of perception, viewing of the message and 2. evaluation of the

impact and its memorization. In practice, two sets of research procedures are frequently used: recognition tests and memorization and association tests. The first category examines the degree of memorization regarding the viewing of a commercial, and the second one demands to reconstruct a message based on a limited number of clues. These techniques are usually preferred in evaluating the impact of advertising after the release and its viewing.

Conclusions

Most of the advertising campaigns have as goal to directly or indirectly influence sales. As a result to this interest, there are campaigns that require an immediate response from the audience. Obviously measuring such a response aims to the final purpose of any campaign. It is also true that certain limits appear in evaluating a campaign from the perspective of sales due to cumulative and indirect effects of the previous campaigns. The evaluation of advertising from the perspective of the sales is done after it has been released and viewed and it aims to measuring efficiency from a practical perspective this category of techniques aims the interrogation of consumers regarding the exposure to the message and the relation between this exposure with the preference or possession of a product as to identifying certain influences in buying and consumption behavior.

All these categories of techniques participate, depending on the interest of the organization and of the researcher in different degrees to obtaining necessary information for taking decision regarding advertising

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THE ETHICAL RISK IN THE INTERNATIONAL MARKETING RESPONSIBILITY AND DEONTOLOGY

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Abstract: *what differentiates the contemporary age from the modern age is the sensitivity arisen to the problematic of the ethics, developed at the level of the individuals and organizations. This reality can be explained by the technological process of the communications which gives free access to the information related to the behaviour of the international communities less tolerant regarding the abuses adherent to the business environment. Thus, it isn't surprising to ascertain that the business ethics will change itself on the basis of the evolution of the ideological methods and on the position these will confer to the economic and social role of the organization.*

Keywords: *ethical risk, the durable development, responsible organization, ethical pressures, standardized action*

What differentiates the contemporary age from the modern one is the sensitivity arisen to the problematic of the ethics, developed at the level of the individuals and organizations. This reality can be explained through the technological process of the communications that gives free access to the information related to the behaviour of the international communities less tolerant regarding the abuses adherent to the business environment. Thus we assist to a powerful process of radicalization of the multinational pressure groups thanks to the stimulated planetary networks of Internet.

The Internet offers to the contemporary organizations the possibility to make much more visible the information to the interested parties imposing it the implementation of a strategy of transparency. In a view much more concentrated towards the human resources administration, Pagano (2003) follows the direction imposed by the need of transparency at the level of investors, employees and organizations customers, as an objective that will allow the surviving and the prosperity. These two studies consolidate, thus, the pertinence of an ethical measure and the overwhelming importance of the interested parties, imposed by the institutional analysis.

The institutional analysis, that considers the answer of the organizations at the pressures imposed by the external environment, lean upon the principle of the public social legitimacy; through this principle, the society stipulates that the organizations have the power to organize their own activity in the conditions in that are according to the existent legal and ethical norms (Ballet and De Bry, 2001). More, the social legitimacy is strongly related not only to the perceptions and the interest of the involved parties, but also to the afferent ones of the members of the civil society.

The responsible companies are investing in the consolidation of the trust of their partners, parallel with the improvement of the economic performances, measures that allow the placing within the "preferred companies" at the level of the interested parties (customers, investors, suppliers, business partners and international communities). These organizations respond to a new set of social values based on the role much more important of the corporations in the society, defined by the term of Corporative Social Responsibility (CSR). Representing a concept in continuous evolution, not having a standard definition or an accepted set of specific criteria, CSR is perceived in general, as being the method in that an organization reaches an equilibrium or realizes the integration of the economic factors,

of environment protection and socials, responding in the same time to the shareholders expectations and to the other interested parties

More factors explain the increased interest, of the organizations, for the performance of the corporate social responsibility concept: the new concerns and expectations of the individuals, consumers, public power and investors, in the context of becoming world-wide known and mutations from the industrial sector; the social criteria that influence, more and more the investment decisions of the individuals and/or organizations; the citizens unsatisfying as a result of the carrying on of those activities that harm the natural environment;

Freeman (1984), referring to the concept of “*stakeholders*”, proves that “a group interested by the activity of an organization is, by definition, any group or individual that influences or is affected by the accomplishing of the objectives. We refer in this context to a wide vision that contains various actual and possible “actors” (Starik, 1994), of which relations, of reciprocal influence with the organization, are bidirectional. After the example given by Clarkson (1994), can be identified the persons that support a voluntarist risk (investors, customers), forming what we call direct interested groups direct and individuals that, vulnerable in front of the actions of the enterprise, supports an involuntary risk, known under the name of indirect interested groups (civil society).

In an article, towards the concept of *stakeholders*, published in *Academy of Management Journal*, Harrison and Freeman (1999) were underlining the importance of assigning a dominant position to the afferent measure of ethicals at the level of the analysis process of the role of the interested parties; the research approaches in such case a themes of that normative and descriptive consequences are simultaneous empirical and theoretical.

Giving the privilege to a view of sociologic type of the applications of international marketing in a normative ethical context, the objectives afferent to the research aim at: either a better understanding of the nature, actors and specific sources to the ethical risk in the international marketing, in regards to the knowledge acquired from the theory of the interested parties, either the enterprise, simultaneous identified as vector and victim, in order that ulterior to be approached the specifications of administration of the mercurial ethical risk.

A “*revue de la litterature*” was carried on during February 2002 – November 2003. This research, more exhaustive than possible (being given the immensity of the research fields, by essence interdisciplinary), carried out according to certain analyses of scientific magazines, periodical and francophone and Anglophone journals since 1997-2003. This secondary information was completed by four informatics data bases: ProQuest (“global” and “industry” rubrics); Emerald (Canada), Delphes and Ebsco, from France. The obvious writing abundance regarding the dependence between ethicals, administration and business environment was reduced considerable in the moment of placing the problematic in the context of international marketing. For example, from the total of the articles, published between 1998- 2003, the Emerald data bank provided only thirteen that approach the ethical in the context of international marketing. Thus, ten from the selected articles were approaching the problematic of the parties interested by the enterprise activity, reality that consolidates, if it is necessary, the pertinence of the role played by the groups of interest at the level of administration of the international ethical risk.

The arisen complexity of the “*ethical*” problematic is a consequence of placing this concept in the context of its conceptions diversity at world-wide level. It is the case of the existent differences, specially, between moral and ethical, even if these two terms have at their origin a common definition – “the method to act determined by the customs, traditions of a nation”; for example, the Anglo -Saxons are using the specified terms with

the same meaning, while the Latin countries perform a powerful distinction, using philosophical concept (Ballet et De Bry).

It is not therefore surprising to find that the ethical from the business environment will metamorphose once with the evolution of the ideological models and of the place reserved by these ones to the economic – social role of the organization.

At cultural level “the moral does not resume to a sub domain of culture, being a structural component that influent, in the same time, the political and the economic spheres of the society. ” (Masse, 2000)

More, the deontology concept interferes that from certain points of view is more expressive compared with the ethical one; the deontology is associated to an action that accompanies the exercising of a function, being defined as “the ensemble of the rules and duties afferent to a profession, the conduct of those who practice it, the reports between these ones and the target public”. The deontology differentiates from the traditional moral, because does not involves the morality obligation; it interferes only in the exercise of a profession, the sanction in case of lacking being provided in the professional code, while the moral is fundamental on a principle a priori (Epuran Gheorghe, 2005).

As a result of an investigation at the level of the employees of a multinational organization of notoriety, using a sample constitute according to certain correspondents from forty countries and having as objective the testing of the transferability of the American administration concepts in different cultural context, Hofstede (2001) grouped the countries and the regions depending on four cultural indices: the hierarchic distance, the control of the uncertainty, the individualism and the masculinity.

The hierarchical distance reflects the range of answers offered by various countries at the basic question towards the method in that the society tolerates an unequal distribution of power in organizations and institutions. At the countries level in that is recorded a low level of hierarchical distance it exist a limited dependency of the subordinates at superior and a preference for consulting and co-operation. The emotional distance between the two of them is relatively small: the subordinates easily contradict their superiors. Obviously, at the countries level in that the hierarchical distance is raised it exist a considerable dependency of the subordinates.

The uncertainty avoidance indicates the measure in that a society feels threatened by uncertain and ambigüe situations and tries to avoid them obtaining a higher degree of stability of the carriers, by establishing some formal rules.

If the *individualism* indicates a society in that the connections between the individuals were lost; each being preoccupied to take care of himself and of his family, the collectivism indicates a society in that the people, after birth, are integrated in a powerful and coherent group that protect them during the life period in exchange for a loyalty that can't be discussed. For example, if the use of a certain level of stimulation of the employees, as “employees of the month” type, in order to reward the carried out work is, without doubt, of a nature to improve the productivity in the Occident, this politic is dizastruous in Asia, where the collectivism has the precedence in the individualism detriment.

The masculinity express the measure in that the dominant values of the society are “masculin”, showing, for example, the “ardent” temper, the inclination for the financial resources and the material goods, and not the preoccupation for others ir for the quality of life, characteristic, by essence, to the feminity. What need to be pointed out is the fact that, unlike the individualism, the masculinity is not reported to the economic development of a country but has a special impact towards the attitude regarding the problems of the natural environment.

Another model of organization, is the one realized by James Stevens. Taking as example a conflict between two department bosses from an enterprise, James Stevens (professor at EMBA) requested to a group of 200 students the following: a diagnostic of the problem and their solving proposal. Analyzing their answers, depending of nationality, he concluded the following:

-*the Frenchmen* diagnosticated the case as being a negligence from the top manager side. The solution preferred by the Frenchmen consider that the opponents will make known the conflict in front of the common bosses and this one will have to offer the necessary specifications for solving the dilemma. Stevens interpreted the quadrant as a pyramidal model, the general manager being on top of the pyramid and the subordinates at the base of the pyramid.

- *the Germans* diagnosticated a lack of structure. The managers competence of the two conflictual departments had never been clearly defined. The solution preferred by the Germans consist of the establishing of a procedure, the development methods of the procedure being: a consultant, the naming of a “force” tasks or the demand of a common boss. Stevens observed that the Germans are working in a “well structured organization” where the intervention of the directive is limited to the exceptional cases because the regulations must solve the daily problems.

- the majority of the *Englishmen* diagnosticated the case as a problem of human nature. These considered that the responsables of the two departments were some poor negotiators and their training in this field must have been improved, through different specialization courses (for example analysis of the nature of a transaction, preferably together). After Stevens, in Englishmen mentality, the organization model is similar to a rural market, at which level neither the hierarchy nor the regulations, but the request created by the situation is the one that imposes the tendency.

- *the Asians and the Africans*, being less represented at the sample level, the Stevens' study gives no explanation. Discussing with persons from India and Indonesia, he suggested that the organization model in these countries is the family, at which level the master is ubiquitous. The conflicts are solved by permanent reference to a boss: activity concentration without a coherent structure of activities.

The consumers expressed their ethical preferences depending on the cultural belonging, that influence, in the same time, the expectations in regards to the role of the organization in society. Thus, it was noticed that the Germans and the Frenchmen, had chosen, first of all to abide the ethical and legal norms, while the American consumers shown a special attention on the importance of the economic responsibility of the organizations.

These three examples, that are making much more visible the ethical differences depending on the cultural context, must not determine us to loose from our site the convergence points that can exist at the level of various value systems, especially religious ones. It is the case, for example, to the canonical prohibition that is to be found at the level of many religions, no matter if we talk about occidentals, Chinese, Muslims or Greeks.

The ethical risk can be defined as the possible impact of a decision that contains perceptual deficits at the level of the interested parties, both at deontologic level (moral attitudes), and utilitarian ones (post decisional consequences). The ethical risk surprises, in essence, three elements: ***durable development*** (especially the ecology), ***the keeping of the citizens rights*** (especially of the consumers) and ***the keeping of the social working conditions***, insisting here on the numerous irregularities recorded on the level of the countries in the course of developing (Georges Henault and Martine Spence, 2004).

The intensity of the ethical risk varies depending on the industry type, specific to the considered nation, and the degree of making the enterprises to be recognized at

international level and it effected in stardadization pressures and local adaptability (becoming global).

The enterprise, subject to a wide range of pressures at international level, on one hand must identify the minimizing methods of these pressures, in the capacity of “*vector*”, and on the other hand must struggle against them, from the state of “*victim*”.

The global ethical pressures appear in multiple and various methods at the level of the actors – *the international organizations*, *the interested groups*, in continous change, and *the market*.

The ethical pressures appeared at the level of the *international organizations* are coming from the groups directly interested, especially, but in the same time it can be supplied also by the international civil society.

The direct *interested parties* are formed from shareholders, employees and syndicatees, suppliers, organizational customers and individual consumers, all these occupying the position of privileged partners of the organization, determining it to adopt comercial politics in concordance with the moral values of the society. As a feed-back of the appeared requests, these groups of interest have an overwhelming impact towards the image, notoriety and profitability of the organization, on long term, granting it confidentiality and trust. Much more, the members of this group can encourage the spreading of the ethical culture in the upstream and downstream of the values’ channel.

The employees experiment the belonging to a group, of that they want to be proud of, reason for that they put a special attention to the code of conduct. An adequate code of conduct can generate loialty among the employees and it will be formed as a spurce of values for a solid organizational culture. An administration of the human resources that losses from the sight the employees interests can lead to insatisfaction and, inevitably, the riks of an unacceptable ethical behaviour.

The syndicates can be, equally, viable sources of an ethical behaviour so necessary for the organization. For example, the unit of the German trade-union landscape is an unknown fact in France; in Germany it is accentuated the importance of the belonging to an activity branche and/or syndicate, the system being better organized. In Germany, the notion of representation, so important in France, is, now, subject to debates. The capacity to negociate is reserved to the organizations that fulfill more established criteria, progressively by the jurisprudence, such as: independence, experience, the compliance with the democratic principles, ethical codes. More, if in France, the strike right is individual, in Germany this is a collectiv right, exclusively reserved to the syndicates, being considered as the last element, after were exhausted all the amiable ways.

The suppliers also involve in the ethical administration of their own customers. For example, the development of an informational system has as objective the offering of information at the level of all the departments of organizations and users, making available for them the elements necessary for the measures that confers autonomy and trust. In order to serve for this objective, the informational system must develop a constructive misionary culture; misionary, because the services are offered to the users and constructive for maintaining, improving and developing new services. The accomplishment of this objective depends on the state of mind and on the top manager’s personality, because he is the one who will provide the culture and the ethical code at the level of the team work; in this way each employee will become, everyone in his turn, misionary of the values and ethical code towards the customers.

The consumers exercit a double influence, as individuals also, but especially as pressure groups organized at the level of the international civil society. For example, following an investigation carried on at the consumers level from France was demonstrated that not even the most faithfull customers of an organization have the biggest expectations

through the ethical behaviour point of view. Thus, the development of a belonging feeling to a certain brand can generate not only significant deductions in gaining new consumers, but also cost deductions connected to the non ethical behaviour.

The administration of the customers reactions requests, in this time, discernment, because the suveran consumer culture is found both at the level of the legitim behaviour and at the level of the condemnable one. In what regards the morality, the consumers voluntary apply the strategy of double standards at the moment of the evaluation of their own abusive practices in regards to the organization, for example such as the theft from a shop or piracy; in other words the individual losses from the sight the own obligations that correspond to the right requested in the capacity of consumer. (Rawwas, Patzer and Klassen).

The international civil society is structured in pressure gropus that often manage strong political actions for a better society, against the values systems of liberal type or of the enterprises stratiefies that are coming in the meeting of the own ethical values (ecological, social, juridical). For example, the citizens and the local authorities from Grece, Bulgary and Turkey started in 2005 a common protest action against a Canadian project of auriferous exploitation from Bulgary, considered as a real ecological disaster for the region from the frontier area common to the three countries. Ellected by the Canadian society for a mining project, the Dundee Precious Metals designated to produce 130,000 gold ounces per year, Krumvogard city, from the south of Bulgary, become the scene of a protest movements, where participated three ecologic organizations: Green Balkans, Bankwatch and Bird Life. The main argument against this mining project was the risk of pollution of Krumovica Bulgarian river, that ulterior flows into the Ardas Greek river, that it supply also the Evros river, from the Greek – Turkish frontier. The Protestants feared, especialy, of the cianures effects used for extracting the auriferous ore, in such way being evoked the effects caused in 2000 by the ecologic accident from Baia Mare, accident that led to the cinaures pollution of the Danube.

The consumers become more and more demanding in regards to their own expectations, seeking products for their specific needs, more complete information before buying, “clean” products from ecological point of view, passing the whole responsibility on the producer in case of not being satisfied. Once with this reality appeared the consumers movement, as a reaction to the excesses of the operational marketing and the afferent practices of the wild marketing.

The consumers movement, social mevement in continuous change, regroupes non governmental organizations, syndicates and citizens groups, that fight for defending the consumers rights. As a matter of fact, the consumers movement is a direct consequence of the failure registered by certain measures afferent to the modern marketing, among the supporting arguments being found again: the organization searches the satisfaction of the consumers immediate needs, the products are conceived for generating profit and not as a solution at the individuals needs, existing profound discrepances between the consumers rights and those afferent to the organization, etc. Althought it encourage the „sindicalization” of the request, the consumers movement has merits that can’t be contested to moralize the organizational practices, consisting of a pressure group imposible to ignore it.

Through the actions carried on by the interested groups, the enterprise becomes a vector of the ethical activities, determining the making and the development of some specific markets, such as the market of the ethical investments or the equitable trade. In the same time, the organization must get through to a variable that can’t be controlled — *the economic criminality* - that makes her to be a victim at international level (George Henault and Martine Spence, 2004).

In regards to the *ethical investments market*, it exist significant differences between the world countries, because the social responsible investment is a concept in full evolution and perpetual motion, the precursor being the United States of America.

The ethics or the social responsibility has different significations: certain states are including at the level of the turnover the percentage of the “*unitive*” products while other nations are not paying attention to these ethical products, that’s why the numbers obtained at the level of the studied countries can’t be compared; still, these numbers are forming important indicators of tendency.

For example, in the United States, in 2001, the social responsible investment raised at 2,340 milliards of dollars, towards 2,160 milliards of dollars, invested in te previous year, recording a 8% increasement. In other words, more than 12% from the total capital of the american investments funds are capitalized depending on the ethical or durable values.

On 1st of June 2004, the total of the funds invested in the social responsible measures, at european level, raised at 19 milliards euros, registering a considerable increase of 58% towards the previous year. Unlike the United States, the forming of the funds is based on inclusion criteria, that’s why the social responsible investment represents only 0.5% from the disposal funds. More than that, this investment is concentrated at the level of four states – Great Britain, France, Sweden and Belgium – that covers 64.5% from the funds available in Europe.

The equitable trade has as objectiv the impel of the small producers, disadvantaged or of the workers that are in unfavorable positions, from the countries in process of development, by supporting them and assisting them, by creating ferm relations with te possible foreign purchasers, and, if necessary, the payment of some prices above the market’s level. Where the relation employee – employer is present, the motion of the “*correct*” trade has as objective the maintaining of the same work standards, as it is used in the ethical trade. Often, between the equitable trade and the ethical trade are making confusions. The ethical trade follows to ensure the compliance, by the international organizations, with the minimum work standards, with the human and environment rights, in the productive process. Created as a joint responsible trade, the equitable trade was strongly marked at its beginings by the humanism of the orthodox religious movements, such as by the Protestant movement of ethics. Of charitable essence, ulterior influenced by a political approach rather tiermondist, this joint responsible trade transforms in an act of opposition towards the capitalist system, becoming thus “*alternative*“. For example, Nestle launched a new product based on the principle of the equitable trade, the Swiss company beeing the first one of the biggest four players from the world-wide market of the coffee, besides Kraft, Sara Lee and Procter & Gamble.

“*The economic criminality*” detects those ethical pressures to which the enterprise must face them at the international level, such as: corruption, infringement of the intelectual property rights – counterfit and economic espionage. In all this situations, the international organization is affected by the non ethical behaviour of the pressure groups being obliged to develop and to implement strategies in order to counteract these actions.

In spite of the disastrous effects, these unloyal practices are yet, at world-wide level, difficult to be removed because the governments consider them as being a veritable source of social “*quiet*”, offering, in the same time, working places for many families.

The social responsibility is not anymore the prerogative of this organization in that, as a result of the social damages or related to the environment, as a consequence of the carrying out of the own activity, must have respond to the laws in force.

Conclusions

Currently, the social responsibility rather integrates at the level of the general strategy of the enterprise, the considerations of economic and political nature being the supporting arguments of this new measure. The organization can benefit of significant advantages as a result of applying the social responsible concept. Thus, the productivity of an organization can be the consequence of adopting a new technology, for the natural environment protection. In the same measure, the image or the notoriety of an organization, that must be considered as important intangible assets, can be protected and highlighted by the implementation and the carrying on of a social responsible activity.

The more visible demonstration of this relation is the proliferation and the generalisation of the codes of conduct; more than 85% from the big Canadian and American corporations have a code of conduct voluntarily integrated. The only problem, critical according to some specialists, remains the application of these codes of conduct. Although a big part of the *players* sustain that they took into consideration the ethical problems in the administration of the risk afferent to the international market, these act in a small measure in the direction of a profound and permanent methodical evaluation of their own performance. One of the supporting arguments of this paradox is undoubtedly the difficulty of the quantification of a qualitative factor as it is – *the social responsibility*.

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